

Registration number: 02079614

H E Group Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 May 2016

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H E Group Limited

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H E Group Limited
Company Information

| | |
|--------------------------|--|
| Directors | H R Edeleanu P A Durey C J Luscombe |
| Company secretary | C J Luscombe |
| Registered office | Whitewall Road Strood Rochester Kent ME2 4DZ |
| Solicitors | Ford Little 14 Park Road Sittingbourne Kent ME10 1DR |
| Bankers | HSBC Bank plc Lakeview West Crossways Business Park Dartford Kent DA2 6QE |
| Auditors | McBrides Accountants LLP Nexus House Cray Road Sidcup Kent DA14 5DA |

H E Group Limited

Strategic Report for the Year Ended 31 May 2016

The directors present their strategic report for the year ended 31 May 2016.

Principal activity

The principal activity of the company is the hire of plant.

The company's trading subsidiaries at the year end were H E Services (Plant Hire) Limited, which hires plant and machinery and Masterhitch Europe Limited which sells and manufactures excavator quick hitches, buckets and wearparts. The company has further subsidiaries, all of which are dormant.

Fair review of the business

Plant hire revenues have fallen on the previous year helping to bring overall turnover down to £18.6 million (2015: £19.5 million). The UK plant hire market continues to be extremely competitive with hire rates being squeezed. Throughout 2015/16 there continued to be an abundance of plant in the UK market, the reasons for that were two-fold. Firstly competitors within the industry had purchased machines in larger quantities than had previously been the case following the increased levels of activity within the construction market during 2014/15. Secondly the strength of sterling prior to Brexit meant that second hand machines were not leaving the UK market. The abundance of plant resulted in an increase in competition in what was already an extremely competitive market driving down hire rates across the industry. We believe that the balance is now redressing as plant begins to move again.

In response to the market pressures outlined above, we oversaw a small contraction in the size of our fleet during the year through our normal programme of investment and renewal, including some £18 million of new acquisitions and £20 million of disposals (at cost). The sale of second hand machines has once again resulted in a profit on disposal of around £1.9 million as exacting buyers from around the world continue to recognise that ex-hire plant from the H E fleet is amongst the best available. Whilst the weakness in the Euro prior to Brexit made second hand sales to EU customers more challenging, buyers from outside the Eurozone have remained keen to acquire the last of our Tier 3 machines which in certain parts of the world afford greater flexibility and lower operating costs than their Tier 4 successors.

We therefore enter 2016/17 with a more streamlined fleet resulting in lower depreciation charges which hampered the bottom line considerably during 2015/16. Depreciation during 2015/16 stood at £9m, an increase of 11% on the previous year.

H E Group Limited

Strategic Report for the Year Ended 31 May 2016

Principal risks and uncertainties

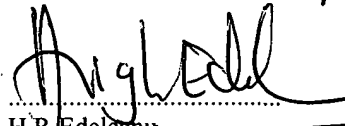
The company operates in the construction industry, which is inherently uncertain and subject to a number of uncontrollable factors including:-

- Government policy and levels of public spending
- Economic conditions, and interest rates in particular
- Investor and consumer confidence

These factors are inextricably linked and, whilst the outlook appears good at the moment, even the most respected industry commentators can rarely predict the future in construction with any reliability. H E Group's success over the years is predicated on a business model that enables it to generate cash quickly from the sale of second hand plant - this model has proven itself over the last three decades, not least during the recent financial crisis, from which we emerged healthy and intact where many of our competitors did not.

For this reason, the directors consider the liquidity of the company to be much stronger than is suggested by the simple liquidity ratio drawn from its balance sheet. We expect to continue managing the size of the company's fleet to meet changing market conditions and the requirements of our customer base.

Approved by the Board on 2/12/16 and signed on its behalf by:



H R Edeleanu
Director

H E Group Limited

Directors' Report for the Year Ended 31 May 2016

The directors present their report and the consolidated financial statements for the year ended 31 May 2016.

Directors of the company

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

H R Edeleanu

P A Durey

C J Luscombe (appointed 21 March 2016)

Dividends

The directors are not recommending the payment of a final dividend.

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.

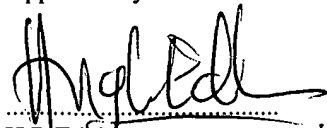
Investments of cash surpluses and borrowings are made through banks and institutions which must fulfil credit rating criteria approved by the Board. All customers who wish to trade on credit terms are subject to credit verification procedures and trade debtors are reviewed on a regular basis and provision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

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.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Approved by the Board on 2/12/16 and signed on its behalf by:



H R Edeleanu
Director

H E Group Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

H E Group Limited

Independent Auditor's Report

We have audited the financial statements of H E Group Limited for the year ended 31 May 2016, set out on pages 8 to 33. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), 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 and express an opinion on 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 (APB's) Ethical Standards for Auditors to the financial statements.

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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the company's affairs as at 31 May 2016 and of the group's loss 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

H E Group Limited

Independent Auditor's Report

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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, Statutory Auditor

Nexus House
Cray Road
Sidcup
Kent
DA14 5DA

Date: 7/12/16

H E Group Limited

Consolidated Profit and Loss Account for the Year Ended 31 May 2016

| | Note | 2016 £ | 2015 £ |
|--|------|-------------------------|-------------------------|
| Turnover | 3 | 18,610,449 | 19,472,576 |
| Cost of sales | | <u>(16,151,179)</u> | <u>(15,356,466)</u> |
| Gross profit | | 2,459,270 | 4,116,110 |
| Administrative expenses | | (4,289,457) | (4,062,853) |
| Profit on disposal of fixed assets | | 1,851,780 | 1,904,708 |
| Other operating income | 4 | <u>683,688</u> | <u>719,243</u> |
| Operating profit | | 705,281 | 2,677,208 |
| Other interest receivable and similar income | 6 | 59,207 | 52,859 |
| Interest payable and similar charges | 7 | <u>(1,496,383)</u> | <u>(1,424,857)</u> |
| (Loss)/profit before tax | | (731,895) | 1,305,210 |
| Taxation | 11 | <u>184,454</u> | <u>(260,425)</u> |
| (Loss)/profit for the financial year | | <u><u>(547,441)</u></u> | <u><u>1,044,785</u></u> |

The above results were derived from continuing operations.

H E Group Limited

Consolidated Statement of Comprehensive Income for the Year Ended 31 May 2016

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| | £ | £ |
| (Loss)/profit for the year | <u>(547,441)</u> | <u>1,044,785</u> |
| Total comprehensive income for the year | <u><u>(547,441)</u></u> | <u><u>1,044,785</u></u> |

The notes on pages 15 to 33 form an integral part of these financial statements.

H E Group Limited

(Registration number: 02079614)
Consolidated Balance Sheet as at 31 May 2016

| | Note | 2016 £ | 2015 £ |
|---|------|--------------------------|--------------------------|
| Fixed assets | | | |
| Tangible assets | 12 | 48,655,803 | 50,138,030 |
| Current assets | | | |
| Stocks | 14 | 702,086 | 882,400 |
| Debtors | 15 | 3,230,965 | 3,854,491 |
| Cash at bank and in hand | | <u>511,473</u> | <u>28,994</u> |
| | | 4,444,524 | 4,765,885 |
| Creditors: Amounts falling due within one year | 17 | <u>(20,325,807)</u> | <u>(20,895,352)</u> |
| Net current liabilities | | <u>(15,881,283)</u> | <u>(16,129,467)</u> |
| Total assets less current liabilities | | 32,774,520 | 34,008,563 |
| Creditors: Amounts falling due after more than one year | 17 | (17,076,668) | (17,608,270) |
| Provisions for liabilities | | <u>(3,041,829)</u> | <u>(3,191,829)</u> |
| Net assets | | <u><u>12,656,023</u></u> | <u><u>13,208,464</u></u> |
| Capital and reserves | | | |
| Called up share capital | 19 | 100 | 100 |
| Retained earnings | | <u>12,655,923</u> | <u>13,208,364</u> |
| Total equity | | <u><u>12,656,023</u></u> | <u><u>13,208,464</u></u> |

Under the Companies Act 2006, s454, on a voluntary basis, the directors can amend these financial statements if they subsequently prove to be defective.

Approved and authorised by the Board on 2/12/16 and signed on its behalf by:



H R Edeleanu

Director

The notes on pages 15 to 33 form an integral part of these financial statements.

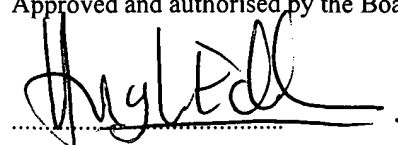
H E Group Limited

(Registration number: 02079614)
Balance Sheet as at 31 May 2016

| | Note | 2016 £ | 2015 £ |
|---|------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 12 | 48,643,492 | 50,121,615 |
| Investments | 13 | <u>25</u> | <u>25</u> |
| | | <u>48,643,517</u> | <u>50,121,640</u> |
| Current assets | | | |
| Stocks | 14 | 12,000 | - |
| Debtors | 15 | 854,400 | 1,406,057 |
| Cash at bank and in hand | | <u>179,706</u> | <u>28,980</u> |
| | | 1,046,106 | 1,435,037 |
| Creditors: Amounts falling due within one year | 17 | <u>(19,851,631)</u> | <u>(20,231,150)</u> |
| Net current liabilities | | <u>(18,805,525)</u> | <u>(18,796,113)</u> |
| Total assets less current liabilities | | 29,837,992 | 31,325,527 |
| Creditors: Amounts falling due after more than one year | 17 | (17,076,668) | (17,608,270) |
| Provisions for liabilities | | <u>(3,041,829)</u> | <u>(3,191,829)</u> |
| Net assets | | <u>9,719,495</u> | <u>10,525,428</u> |
| Capital and reserves | | | |
| Called up share capital | | 100 | 100 |
| Retained earnings | | <u>9,719,395</u> | <u>10,525,328</u> |
| Total equity | | <u>9,719,495</u> | <u>10,525,428</u> |

Under the Companies Act 2006, s454, on a voluntary basis, the directors can amend these financial statements if they subsequently prove to be defective.

Approved and authorised by the Board on 2/12/16 and signed on its behalf by:



H R Edeleanu

Director

The notes on pages 15 to 33 form an integral part of these financial statements.

H E Group Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 May 2016

| | Share capital £ | Retained earnings £ | Total £ | Total equity £ |
|----------------------------|--------------------|---------------------------|------------|-------------------|
| At 1 June 2015 | 100 | 13,208,364 | 13,208,464 | 13,208,464 |
| Loss for the year | - | (547,441) | (547,441) | (547,441) |
| Total comprehensive income | - | (547,441) | (547,441) | (547,441) |
| Dividends | - | (5,000) | (5,000) | (5,000) |
| At 31 May 2016 | 100 | 12,655,923 | 12,656,023 | 12,656,023 |

| | Share capital £ | Retained earnings £ | Total £ | Total equity £ |
|----------------------------|--------------------|---------------------------|------------|-------------------|
| At 1 June 2014 | 100 | 12,163,579 | 12,163,679 | 12,163,679 |
| Profit for the year | - | 1,044,785 | 1,044,785 | 1,044,785 |
| Total comprehensive income | - | 1,044,785 | 1,044,785 | 1,044,785 |
| At 31 May 2015 | 100 | 13,208,364 | 13,208,464 | 13,208,464 |

The notes on pages 15 to 33 form an integral part of these financial statements.

H E Group Limited

Statement of Changes in Equity for the Year Ended 31 May 2016

| | Share capital £ | Retained earnings £ | Total £ |
|----------------------------|--------------------|---------------------------|------------|
| At 1 June 2015 | 100 | 10,525,328 | 10,525,428 |
| Loss for the year | - | (800,933) | (800,933) |
| Total comprehensive income | - | (800,933) | (800,933) |
| Dividends | - | (5,000) | (5,000) |
| At 31 May 2016 | 100 | 9,719,395 | 9,719,495 |

| | Share capital £ | Retained earnings £ | Total £ |
|----------------------------|--------------------|---------------------------|------------|
| At 1 June 2014 | 100 | 9,715,892 | 9,715,992 |
| Profit for the year | - | 809,436 | 809,436 |
| Total comprehensive income | - | 809,436 | 809,436 |
| At 31 May 2015 | 100 | 10,525,328 | 10,525,428 |

The notes on pages 15 to 33 form an integral part of these financial statements.

H E Group Limited

Consolidated Statement of Cash Flows for the Year Ended 31 May 2016

| | Note | 2016 £ | 2015 £ |
|--|------|-----------------------|---------------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit for the year | | (547,441) | 1,044,785 |
| Adjustments to cash flows from non-cash items | | | |
| Depreciation and amortisation | 5 | 8,984,056 | 8,111,910 |
| Profit on disposal of property plant and equipment | | (1,851,780) | (1,904,708) |
| Finance income | 6 | (59,207) | (52,859) |
| Finance costs | 7 | 1,496,383 | 1,424,857 |
| Corporation tax | 11 | (184,454) | 260,425 |
| | | <u>7,837,557</u> | <u>8,884,410</u> |
| Working capital adjustments | | | |
| Decrease in stock | 14 | 180,314 | 117,056 |
| Decrease in trade and other debtors | 15 | 584,468 | 367,320 |
| Increase in trade and other payables | 17 | 43,471 | 1,193,897 |
| Cash generated from operations | | 8,645,810 | 10,562,683 |
| Corporation tax received/(paid) | 11 | 73,512 | (125,951) |
| Net cash flow from operating activities | | <u>8,719,322</u> | <u>10,436,732</u> |
| Cash flows from investing activities | | | |
| Interest received | | 59,207 | 52,859 |
| Acquisitions of tangible fixed assets | | (35,071) | (77,385) |
| Proceeds from sale of tangible fixed assets | | <u>12,567,830</u> | <u>7,791,288</u> |
| Net cash flows from investing activities | | <u>12,591,966</u> | <u>7,766,762</u> |
| Cash flows from financing activities | | | |
| Interest paid | 7 | (1,496,383) | (1,424,857) |
| Proceeds from bank borrowing draw downs | | - | 1,885,000 |
| Repayment of bank borrowing | | (906,129) | (750,986) |
| Payments to hire purchase creditors | | (16,624,555) | (17,503,963) |
| Dividends paid | | (5,000) | - |
| Net cash flows from financing activities | | <u>(19,032,067)</u> | <u>(17,794,806)</u> |
| Net increase in cash and cash equivalents | | 2,279,221 | 408,688 |
| Cash and cash equivalents at 1 June | | <u>(1,767,748)</u> | <u>(2,176,436)</u> |
| Cash and cash equivalents at 31 May | | <u><u>511,473</u></u> | <u><u>(1,767,748)</u></u> |

The notes on pages 15 to 33 form an integral part of these financial statements.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

1 General information

The company is a incorporated and domiciled in England.

The address of its registered office and principal place of business is:
Whitewall Road
Strood
Rochester
Kent
ME2 4DZ

These financial statements were authorised for issue by the Board on 2 December 2016.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 - 'The Financial Reporting standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

This is the first year in which the financial statements have been prepared under FRS 102. Refer to Note 27 for an explanation of the transition.

The financial statements are presented in Sterling, which is also the functional currency of the group.

The financial statements are presented to the nearest £1.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 May 2016.

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 was formed from a reconstruction whereby the ultimate shareholding and control of each entity was not changed as a result.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

No profit and loss account is presented for the company as permitted by Section 408 of the Companies Act 2006. Its (loss)/profit for the financial year was £(800,933) (2015: £809,436).

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its financial statements.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historic experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the group's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when:

The amount of revenue can be reliably measured;
it is probable that future economic benefits will flow to the entity;
and specific criteria have been met for each of the group's activities.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the rates prevailing on the reporting period date. All differences are taken to the profit and loss account.

Tax

The current corporation tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the group. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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.

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

| Asset class | Depreciation method and rate |
|-----------------------|--|
| Freehold property | See below |
| Plant and machinery | 17.5% or 30% written down value or 10% straight line |
| Fixtures and fittings | 25% written down value |
| Motor vehicles | 30% written down value |

Freehold property comprises predominantly the group's freehold land and buildings at its Strood headquarters together with smaller sites at Castleford, Droitwich and Okehampton. Land is not depreciated, 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.

Investments

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade and other debtors

Trade and other debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment, except where the effect of discounting would be immaterial. In such cases debtors are stated at transaction price less impairment losses. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the transaction.

Stock

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade and other creditors

Trade and other creditors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, except where the effect of discounting would be immaterial. In such cases creditors are stated at transaction price.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Hire purchase contracts are treated the same as finance leases.

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 'rule of 78' basis.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined contribution pension obligation

Contributions to defined contribution plans are recognised as an employee benefit expense in the period when they are due. The assets of such plans are held separately from those of the group.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Financial instruments

Classification

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets are classified as financial assets at fair value through profit or loss, loans and debtors, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial assets at initial recognition.

Financial liabilities are classified as financial liabilities at fair value through profit and loss, loans and borrowings, trade and other creditors, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition.

Recognition and measurement

All financial instruments are recognised initially at fair value plus transaction costs. Thereafter financial instruments are stated at amortised cost using the effective interest rate method (less impairment where appropriate) unless the effect of discounting would be immaterial in which case they are stated at cost (less impairment where appropriate). The exception to this are those financial instruments where it is a requirement to continue recording them at fair value through profit and loss.

Impairment

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

Related parties

For the purposes of these financial statements, a party is considered to be related to the company if:

- (i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the company or exercise significant influence over the company in making financial and operating policy decisions, or has joint control over the company;
- (ii) the party and the company are subject to common control;
- (iii) the party is an associate of the company or a joint venture in which the company is a venturer;
- (iv) the party is a member of key management personnel of the company or the company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals;
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by that individual in their dealings with the entity.

Exceptional items

Exceptional items are transactions of a size or nature that require separate identification in the accounts in order to provide a true and fair view. Exceptional items are charged to the profit and loss account either before or after operating profit depending on whether they affect the group's operating activities.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

3 Revenue

The analysis of the group's revenue for the year from continuing operations is as follows:

| | 2016 £ | 2015 £ |
|-----------------------|-------------------|-------------------|
| Sale of goods | 245,586 | 184,061 |
| Rendering of services | 18,319,863 | 19,253,098 |
| Grants received | 45,000 | 35,417 |
| | <u>18,610,449</u> | <u>19,472,576</u> |

Turnover has not been analysed by class of business and geographical market since the markets in which the group operate are extremely competitive and the directors consider disclosure would seriously prejudice the group's dealings in those areas.

4 Other operating income

The analysis of the group's other operating income for the year is as follows:

| | 2016 £ | 2015 £ |
|---------------|----------------|----------------|
| Rental income | <u>683,688</u> | <u>719,243</u> |

5 Operating profit

Arrived at after charging/(crediting)

| | 2016 £ | 2015 £ |
|---|--------------------|--------------------|
| Depreciation expense | 8,984,056 | 8,111,910 |
| Foreign exchange (losses)/gains | (48,641) | 30,764 |
| Profit on disposal of property, plant and equipment | <u>(1,851,780)</u> | <u>(1,904,708)</u> |

6 Other interest receivable and similar income

| | 2016 £ | 2015 £ |
|----------------------|---------------|---------------|
| Other finance income | <u>59,207</u> | <u>52,859</u> |

7 Interest payable and similar charges

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Hire purchase interest | 1,313,581 | 1,227,028 |
| Interest expense on other finance liabilities | 182,802 | 197,829 |
| | <u>1,496,383</u> | <u>1,424,857</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Wages and salaries | 4,779,829 | 5,167,334 |
| Social security costs | 303,581 | 305,676 |
| Pension costs, defined contribution scheme | 20,872 | 19,430 |
| | <u>5,104,282</u> | <u>5,492,440</u> |

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

| | 2016 No. | 2015 No. |
|----------------------------|-------------|-------------|
| Production | 102 | 103 |
| Administration and support | 88 | 85 |
| Other departments | 5 | 5 |
| | <u>195</u> | <u>193</u> |

9 Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2016 £ | 2015 £ |
|--|---------------|----------------|
| Remuneration | 56,340 | 108,381 |
| Contributions paid to money purchase schemes | 1,583 | 19,430 |
| | <u>57,923</u> | <u>127,811</u> |

During the year the number of directors who were receiving benefits and share incentives was as follows:

| | 2016 No. | 2015 No. |
|---|-------------|-------------|
| Accruing benefits under money purchase pension scheme | <u>2</u> | <u>2</u> |

10 Auditors' remuneration

| | 2016 £ | 2015 £ |
|-----------------------------------|---------------|---------------|
| Audit of the financial statements | <u>17,495</u> | <u>16,975</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

11 Taxation

Tax charged/(credited) in the income statement

| | 2016 £ | 2015 £ |
|---|-----------|-----------|
| Current taxation | | |
| UK corporation tax | - | (73,512) |
| UK corporation tax adjustment to prior periods | (34,454) | - |
| | (34,454) | (73,512) |
| Deferred taxation | | |
| Arising from origination and reversal of timing differences | (150,000) | 333,937 |
| Tax (receipt)/expense in the income statement | (184,454) | 260,425 |

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015 - lower than the standard rate of corporation tax in the UK) of 20% (2015 - 21%).

The differences are reconciled below:

| | 2016 £ | 2015 £ |
|--|-----------|-----------|
| (Loss)/profit before tax | (731,895) | 1,305,210 |
| Corporation tax at standard rate | (146,379) | 274,094 |
| Effect of expense not deductible in determining taxable profit (tax loss) | 5,882 | 6,855 |
| Deferred tax movement for the year | (150,000) | 333,937 |
| Change in tax rates | - | (5,462) |
| Adjustment for prior periods | (34,454) | - |
| Tax increase (decrease) from effect of capital allowances and depreciation | 142,124 | (352,191) |
| Other adjustments | (1,627) | - |
| Chargeable gains | - | 3,192 |
| Total tax (credit)/charge | (184,454) | 260,425 |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Deferred tax

Group

Deferred tax assets and liabilities

| | Liability £ |
|---|------------------------|
| 2016 | |
| Difference between accumulated depreciation and amortisation and capital allowances | <u>3,041,829</u> |

| | Liability £ |
|---|------------------------|
| 2015 | |
| Difference between accumulated depreciation and amortisation and capital allowances | <u>3,191,829</u> |

Company

Deferred tax assets and liabilities

| | Liability £ |
|---|------------------------|
| 2016 | |
| Difference between accumulated depreciation and amortisation and capital allowances | <u>3,041,829</u> |

| | Liability £ |
|---|------------------------|
| 2015 | |
| Difference between accumulated depreciation and amortisation and capital allowances | <u>3,191,829</u> |

In March 2015 the UK Corporation tax rate was changed from 21% to 20%, effective from 1 April 2015. The deferred tax balance at both 31 May 2015 and 31 May 2016 is measured at the revised rate of 20%.

Based on current capital investment plans the company expects future timing differences between depreciation and capital allowances to remain at a similar level to the current year.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

12 Tangible assets

Group

| | Freehold land and buildings £ | Furniture, fittings and equipment £ | Motor vehicles £ | Plant and machinery £ | Total £ |
|--------------------------|--|--|------------------------|-----------------------------|-------------------|
| Cost or valuation | | | | | |
| At 1 June 2015 | 6,810,476 | 1,297,879 | 869,943 | 62,431,464 | 71,409,762 |
| Additions | - | 18,771 | 157,925 | 18,041,183 | 18,217,879 |
| Disposals | - | - | (71,951) | (20,511,161) | (20,583,112) |
| At 31 May 2016 | <u>6,810,476</u> | <u>1,316,650</u> | <u>955,917</u> | <u>59,961,486</u> | <u>69,044,529</u> |
| Depreciation | | | | | |
| At 1 June 2015 | 50,546 | 1,199,293 | 275,242 | 19,746,651 | 21,271,732 |
| Charge for the year | 4,870 | 26,912 | 206,442 | 8,745,832 | 8,984,056 |
| Eliminated on disposal | - | - | (51,961) | (9,815,101) | (9,867,062) |
| At 31 May 2016 | <u>55,416</u> | <u>1,226,205</u> | <u>429,723</u> | <u>18,677,382</u> | <u>20,388,726</u> |
| Carrying amount | | | | | |
| At 31 May 2016 | <u>6,755,060</u> | <u>90,445</u> | <u>526,194</u> | <u>41,284,104</u> | <u>48,655,803</u> |
| At 31 May 2015 | <u>6,759,930</u> | <u>98,586</u> | <u>594,701</u> | <u>42,684,813</u> | <u>50,138,030</u> |

Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

| | 2016 £ | 2015 £ |
|---------------------|-------------------|-------------------|
| Plant and machinery | 34,892,620 | 36,882,925 |
| Motor vehicles | <u>507,602</u> | <u>544,660</u> |
| | <u>35,400,222</u> | <u>37,427,585</u> |

The company has pledged two of its properties at Droitwich and Okehampton as security in relation to personal debts of key management and personnel.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Company

| | Freehold land and buildings £ | Furniture, fittings and equipment £ | Motor vehicles £ | Plant and machinery £ | Total £ |
|--------------------------|--|--|------------------------|-----------------------------|-------------------|
| Cost or valuation | | | | | |
| At 1 June 2015 | 6,810,476 | 1,259,036 | 869,943 | 61,903,882 | 70,843,337 |
| Additions | - | 18,771 | 157,925 | 18,041,183 | 18,217,879 |
| Disposals | - | - | (71,951) | (20,511,161) | (20,583,112) |
| At 31 May 2016 | <u>6,810,476</u> | <u>1,277,807</u> | <u>955,917</u> | <u>59,433,904</u> | <u>68,478,104</u> |
| Depreciation | | | | | |
| At 1 June 2015 | 50,546 | 1,164,215 | 275,242 | 19,231,719 | 20,721,722 |
| Charge for the year | 4,870 | 25,971 | 206,442 | 8,742,669 | 8,979,952 |
| Eliminated on disposal | - | - | (51,961) | (9,815,101) | (9,867,062) |
| At 31 May 2016 | <u>55,416</u> | <u>1,190,186</u> | <u>429,723</u> | <u>18,159,287</u> | <u>19,834,612</u> |
| Carrying amount | | | | | |
| At 31 May 2016 | <u>6,755,060</u> | <u>87,621</u> | <u>526,194</u> | <u>41,274,617</u> | <u>48,643,492</u> |
| At 31 May 2015 | <u>6,759,930</u> | <u>94,821</u> | <u>594,701</u> | <u>42,672,163</u> | <u>50,121,615</u> |

Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

| | 2016 £ | 2015 £ |
|---------------------|-------------------|-------------------|
| Plant and machinery | 34,892,620 | 36,882,925 |
| Motor vehicles | <u>507,602</u> | <u>544,660</u> |
| | <u>35,400,222</u> | <u>37,427,585</u> |

13 Investments

Company

| | 2016 £ | 2015 £ |
|-----------------------------|-----------|------------|
| Investments in subsidiaries | <u>25</u> | <u>25</u> |
| Subsidiaries | | <u>£ -</u> |
| Cost or valuation | | |
| At 1 June 2015 | | <u>25</u> |
| Carrying amount | | |
| At 31 May 2016 | | <u>25</u> |
| At 31 May 2015 | | <u>25</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

| Undertaking | Country of incorporation | Holding | Proportion of voting rights and shares held | |
|-----------------------------------|-----------------------------|----------|--|------|
| | | | 2016 | 2015 |
| Subsidiary undertakings | | | | |
| H E Services (Plant Hire) Limited | England | Ordinary | 100% | 100% |
| Masterhitch Europe Limited | England | Ordinary | 100% | 100% |
| H E Construction Services Limited | England | Ordinary | 100% | 100% |
| Diggers Direct Limited | England | Ordinary | 100% | 100% |
| Diggerworld Limited | England | Ordinary | 100% | 100% |
| H E Services Limited | England | Ordinary | 100% | 100% |
| Hy-Tools Limited | England | Ordinary | 100% | 100% |
| Diggerland Limited | England | Ordinary | 100% | 100% |
| Buyadigger Limited | England | Ordinary | 100% | 100% |

14 Stock

| | Group | | Company | |
|------------------|----------------|----------------|---------------|-----------|
| | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Work in progress | 127,745 | 189,752 | - | - |
| Finished goods | 202,001 | 159,669 | 12,000 | - |
| Raw materials | 372,340 | 532,979 | - | - |
| | <u>702,086</u> | <u>882,400</u> | <u>12,000</u> | <u>-</u> |

Group

The cost of stocks recognised as an expense in the year amounted to £868,307 (2015 - £1,648,312).

Company

The cost of stocks recognised as an expense in the year amounted to £255,267 (2015 - £816,663).

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

15 Debtors

| | Group | | Company | |
|---------------------------------------|------------------|------------------|----------------|------------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £ | £ | £ | £ |
| Trade debtors | 2,942,108 | 3,369,018 | 107,064 | 302,135 |
| Amounts due from group undertakings | - | - | 504,486 | 704,062 |
| Other debtors | 146,556 | 349,372 | 109,269 | 271,697 |
| Prepayments | <u>142,301</u> | <u>136,101</u> | <u>133,581</u> | <u>128,163</u> |
| Total current trade and other debtors | <u>3,230,965</u> | <u>3,854,491</u> | <u>854,400</u> | <u>1,406,057</u> |

An impairment loss of £40,173 (2015: £27,262 gain) was recognised against trade debtors.

16 Cash and cash equivalents

| | Group | | Company | |
|--|----------------|--------------------|----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | £ | £ | £ | £ |
| Cash at bank | 511,473 | 28,994 | 179,706 | 28,980 |
| Bank overdrafts | <u>-</u> | <u>(1,796,742)</u> | <u>-</u> | <u>(35,173)</u> |
| Cash and cash equivalents in statement of cash flows | <u>511,473</u> | <u>(1,767,748)</u> | <u>179,706</u> | <u>(6,193)</u> |

17 Creditors

| | | Group | | Company | |
|-----------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | Note | 2016 | 2015 | 2016 | 2015 |
| | | £ | £ | £ | £ |
| Due within one year | | | | | |
| Loans and borrowings | 18 | 16,046,182 | 16,659,198 | 16,046,182 | 14,897,629 |
| Trade creditors | | 368,927 | 608,822 | 160,922 | 279,540 |
| Amounts due to group undertakings | | - | - | 348,659 | 2,203,735 |
| Social security and other taxes | | 1,357,163 | 832,453 | 868,707 | 356,122 |
| Other creditors | | 2,033,134 | 2,119,224 | 2,010,663 | 2,088,667 |
| Accrued expenses | | <u>520,401</u> | <u>675,655</u> | <u>416,498</u> | <u>405,457</u> |
| | | <u>20,325,807</u> | <u>20,895,352</u> | <u>19,851,631</u> | <u>20,231,150</u> |
| Due after one year | | | | | |
| Loans and borrowings | 18 | <u>17,076,668</u> | <u>17,608,270</u> | <u>17,076,668</u> | <u>17,608,270</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

18 Loans and borrowings

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Non-current loans and borrowings | | | | |
| Bank borrowings | 2,192,590 | 2,966,461 | 2,192,590 | 2,966,461 |
| Hire purchase liabilities | 14,484,078 | 14,241,809 | 14,484,078 | 14,241,809 |
| Preference shares classified as liabilities | 400,000 | 400,000 | 400,000 | 400,000 |
| | <u>17,076,668</u> | <u>17,608,270</u> | <u>17,076,668</u> | <u>17,608,270</u> |

| | Group | | Company | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2016 £ | 2015 £ | 2016 £ | 2015 £ |
| Current loans and borrowings | | | | |
| Bank borrowings | 773,994 | 906,252 | 773,994 | 906,252 |
| Bank overdrafts | - | 1,796,742 | - | 35,173 |
| Hire purchase liabilities | <u>15,272,188</u> | <u>13,956,204</u> | <u>15,272,188</u> | <u>13,956,204</u> |
| | <u>16,046,182</u> | <u>16,659,198</u> | <u>16,046,182</u> | <u>14,897,629</u> |

Group and Company

Bank borrowings

Bank loans and overdrafts include bank loans of £1,617,091 (2015 - £2,178,383) 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 either base rate plus 1% or base rate plus 2.3% per annum. The security given by the group is:

- a) First legal charge over the company's headquarters at Whitewall Road, Strood.
- b) First legal mortgage over the freehold property lying adjacent to the company's headquarters.
- c) Unlimited multilateral guarantee given by Masterhitch Europe Limited and H E Services (Plant Hire) Limited.
- d) Fixed and floating charges over certain other assets of the company, and those of H E Services (Plant Hire) Limited and Masterhitch Europe Limited.
- e) Parallel charge over a property owned by H R Edeleanu.

Bank loans and overdrafts also include asset backed loans of £1,349,493 (2015 - £1,694,330) due to Lombard (including short term elements), and terms of repayment are monthly instalments representing principal and interest at a fixed rate of 5.752%.

Bank loans and overdrafts of the group also include an overdraft of £Nil (2015: £1,754,984) which is secured by a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Other borrowings

Hire purchase and finance lease agreements are secured against the assets concerned.

At the balance sheet date the group owed £3,072,425 (2015 - £7,426,165) 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 £3,072,425 (2015 - £7,426,165) has been allocated to short term and long term hire purchase liabilities in the proportions of £1,024,142 (2015 - £2,475,388) and £2,048,283 (2015 - £4,950,777) respectively.

Preference shares classified as financial liabilities

There 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 group's interest charge for the year.

Included in the loans and borrowings are the following amounts due after more than five years:

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| After more than five years by instalments | <u>551,226</u> | <u>640,239</u> |

19 Share capital

Allotted, called up and fully paid shares

| | 2016 | | 2015 | |
|----------------------------|------------|------------|------------|------------|
| | No. | £ | No. | £ |
| Ordinary shares of £1 each | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All Ordinary shares rank equally with regard to the company's residual assets.

20 Obligations under leases and hire purchase contracts

Group

Hire purchase contracts

The total of future minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Not later than one year | 15,272,188 | 13,956,204 |
| Later than one year and not later than five years | <u>14,484,078</u> | <u>14,241,809</u> |
| | <u>29,756,266</u> | <u>28,198,013</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Operating leases

The total of future minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Not later than one year | 196,065 | 209,149 |
| Later than one year and not later than five years | 1,396,993 | 1,281,943 |
| Later than five years | 35,000 | 70,000 |
| | <u>1,628,058</u> | <u>1,561,092</u> |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £549,175 (2015 - £540,757).

Company

Hire purchase contracts

The total of future minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Not later than one year | 15,272,188 | 13,956,204 |
| Later than one year and not later than five years | 14,484,078 | 14,241,809 |
| | <u>29,756,266</u> | <u>28,198,013</u> |

Operating leases

The total of future minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| Not later than one year | 55,000 | 46,667 |
| Later than one year and not later than five years | 171,667 | 140,000 |
| Later than five years | 35,000 | 70,000 |
| | <u>261,667</u> | <u>256,667</u> |

The amount of non-cancellable operating lease payments recognised as an expense during the year was £55,000 (2015 - £52,367).

Operating leases - receivable

The total of future minimum lease payments is as follows:

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| Not later than one year | 360,488 | 340,151 |
| Later than one year and not later than five years | 415,587 | 612,219 |
| Later than five years | 18,500 | 22,500 |
| | <u>794,575</u> | <u>974,870</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

21 Dividends

| | 2016 £ | 2015 £ |
|---|--------------|-----------|
| Interim dividend of £50.00 (2015 - £Nil) per ordinary share | <u>5,000</u> | <u>-</u> |

22 Related party transactions

Group

Key management compensation

| | 2016 £ |
|----------------------------------|--------------|
| Dividends paid to key management | <u>5,000</u> |

Income and receivables from related parties

| | Key management £ | Other related parties £ |
|-----------------------|------------------------|-------------------------------|
| 2016 | | |
| Rendering of services | <u>33,997</u> | <u>737,088</u> |

| | | |
|---------------------------------------|------------|---------------|
| Amounts receivable from related party | <u>485</u> | <u>28,000</u> |
|---------------------------------------|------------|---------------|

| | Key management £ | Other related parties £ |
|-----------------------|------------------------|-------------------------------|
| 2015 | | |
| Rendering of services | <u>32,813</u> | <u>693,325</u> |

| | | |
|---------------------------------------|---------------|----------------|
| Amounts receivable from related party | <u>32,400</u> | <u>187,728</u> |
|---------------------------------------|---------------|----------------|

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

Expenditure with and payables to related parties

| | Key management £ | Other related parties £ |
|---------------------|---------------------------------|--|
| 2016 | | |
| Receipt of services | - | 35,000 |
| Leases | - | 61,167 |
| | <u>-</u> | <u>96,167</u> |

| | | |
|----------------------------------|----------|---------------|
| Amounts payable to related party | <u>-</u> | <u>49,707</u> |
|----------------------------------|----------|---------------|

| | Key management £ | Other related parties £ |
|---------------------|---------------------------------|--|
| 2015 | | |
| Receipt of services | - | 35,000 |
| Leases | 35,977 | 91,000 |
| | <u>35,977</u> | <u>126,000</u> |

| | | |
|----------------------------------|----------|---------------|
| Amounts payable to related party | <u>-</u> | <u>58,500</u> |
|----------------------------------|----------|---------------|

Loans to related parties

| | Other related parties £ |
|--------------------|--|
| 2016 | |
| At start of period | 4,866 |
| Advanced | 34,320 |
| Repaid | <u>(4,866)</u> |
| At end of period | <u>34,320</u> |

| | Other related parties £ |
|--------------------|--|
| 2015 | |
| At start of period | 13,114 |
| Advanced | 4,866 |
| Repaid | <u>(13,114)</u> |
| At end of period | <u>4,866</u> |

Loans from related parties

| | Key management £ | Other related parties £ |
|--------------------|---------------------------------|--|
| 2016 | | |
| At start of period | 1,755,664 | 58,378 |
| Advanced | - | 34,500 |
| Repaid | (325,729) | (5,000) |
| Interest charged | <u>-</u> | <u>33,077</u> |
| At end of period | <u>1,429,935</u> | <u>120,955</u> |

H E Group Limited

Notes to the Financial Statements for the Year Ended 31 May 2016

| 2015 | Key management £ | Other related parties £ |
|--------------------|---------------------------------|--|
| At start of period | 1,111,460 | 30,378 |
| Advanced | 644,204 | - |
| Interest charged | - | 28,000 |
| At end of period | <u>1,755,664</u> | <u>58,378</u> |

23 Financial instruments

Group

Categorisation of financial instruments

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Financial assets that are debt instruments measured at amortised cost | <u>3,004,428</u> | <u>3,527,638</u> |
| Financial liabilities measured at amortised cost | <u>35,386,797</u> | <u>36,914,853</u> |

Company

Categorisation of financial instruments

| | 2016 £ | 2015 £ |
|---|-------------------|-------------------|
| Financial assets that are debt instruments measured at amortised cost | <u>673,870</u> | <u>1,164,817</u> |
| Financial liabilities measured at amortised cost | <u>35,424,048</u> | <u>36,764,623</u> |

24 Control

The ultimate controlling party is H R Edeleanu.

25 Transition to FRS 102

The group has adopted FRS102 for the first time. This has resulted in no transitional adjustments.