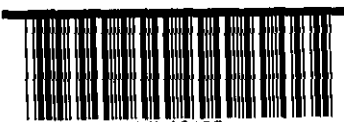


H P C Engineering Limited

Annual Report

for the year ended 31 August 2004

Registered in England no: 622352



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H P C Engineering Limited

Annual Report for the year ended 31 August 2004

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HPC Engineering Limited

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Directors' report for the year ended 31 August 2004

The directors present their report and the audited financial statements of the company for the year ended 31 August 2004.

Activities

During the year the company's business continued to be the production and sale of air compressors, ancillary equipment and sub-contract precision engineering.

Business review and future developments

	2004 £	2003 £
Turnover	25,714,679	28,089,637
Profit before tax	903,579	1,967,512

The weak state of UK manufacturing has contributed to the reduction in the company's turnover during the year. The directors anticipate increased turnover in the year ending 31 August 2005 as certain new engineering contracts come into production.

Results and dividends

The company's profit after tax for the financial year is £644,525 (2003: £1,370,061). The directors have recommended the following dividends in respect of the years ended 31 August 2004 and 31 August 2003:

	2004 £	2003 £
Preference dividend paid	34,506	44,000
Preference dividend payable	19,932	21,500
	<u>54,438</u>	<u>65,500</u>

After payment of the above dividends, £590,087 (2003: £1,304,561) retained profit for the financial year will be transferred to the company's reserves.

HPC Engineering Limited

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Directors' report (continued)

Directors and their interests

The directors of the company at 31 August 2004 are listed below:

I Curtis	(appointed 15 th July 2004)
G F Houlgate	
J Hunter	

Other directors during the year were:

Sir Gawaine Baillie, Bt	(died 21 st December 2003)
M D Boyce	(died 29 th June 2004)
Lady Baillie	(resigned 15 th July 2004)

In accordance with the company's articles of association, James Hunter retires and, being eligible, offers himself for re-election.

At 31 August 2004, the directors had no beneficial interests in the share capital of the company. Since 15 July 2004, the company has been a wholly-owned subsidiary of Lilac Limited, a company registered in England and Wales. The majority shareholder in Lilac Limited is Ian Curtis, who the directors consider to be the ultimate controlling party.

Charitable contributions

During the financial year, contributions to charitable bodies amounted to £ 1,294 (2003: £6,489).

Creditor payment policy

The company has no formal code or standard which deals specifically with the payment of suppliers. However, the company's policy on the payment of all creditors is to ensure that the terms of payment, as specified and agreed with the supplier, are not exceeded. The company's largest creditor supplies goods on credit terms of 60 to 90 days from the end of the month of the invoice.

The company's average creditor payment period at 31 August 2004 was 67 days (2003: 65 days).

Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to reappoint PricewaterhouseCoopers LLP, as auditors to the company, will be proposed at the annual general meeting.

HPC Engineering Limited

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Directors' report (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors confirm that suitable accounting policies have been used and applied consistently, and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 August 2004. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

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

The directors are responsible for the maintenance and integrity of the company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



By order of the board

D G Marchant

Secretary

31 January 2005

Independent auditors' report to the members of HPC Engineering Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

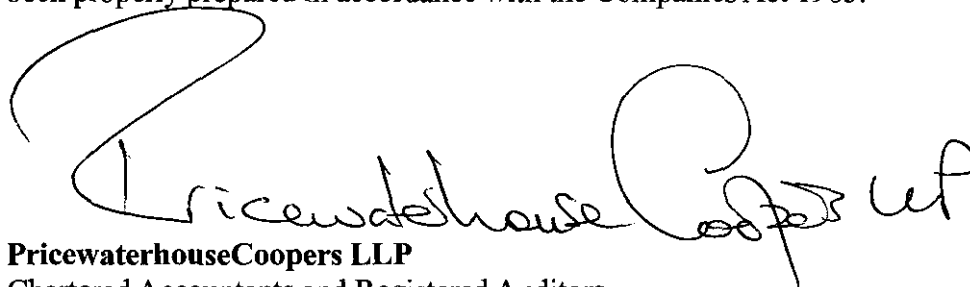
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent auditors' report to the members of
HPC Engineering Limited (continued)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 August 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A large, stylized handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over the printed name of the firm.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 January 2005

HPC Engineering Limited

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Profit and loss account for the year ended 31 August 2004

	Notes	2004 £	2003 As restated £
Turnover	1	25,714,679	28,089,637
Net expenses		(25,085,269)	(26,241,736)
Operating profit		629,410	1,847,901
Interest receivable		277,497	123,665
Interest payable and similar charges	3	(3,328)	(4,054)
Profit on ordinary activities before taxation		903,579	1,967,512
Tax on profit on ordinary activities	6	(259,054)	(597,451)
Profit for the financial year		644,525	1,370,061
Dividends – non equity	7	(54,438)	(65,500)
Retained profit for the financial year		590,087	1,304,561
Retained profit brought forward		15,978,943	14,674,382
Retained profit carried forward		16,569,030	15,978,943

All of the operations of the company are continuing.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 August 2004

	Notes	2004 £	2003 £
Profit for the financial year		644,525	1,370,061
Prior year adjustment	1	(146,929)	
Total gains and losses recognised since last annual report		497,596	

HPC Engineering Limited

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Balance sheet at 31 August 2004

	Notes	2004 £	2003 As restated £
Tangible fixed assets	8	6,410,840	7,891,748
Current assets			
Stocks and work in progress	9	2,945,880	2,586,711
Debtors	10	6,842,022	6,755,032
Cash at bank and in hand		7,070,745	6,066,072
		16,858,647	15,407,815
Creditors: amounts falling due within one year	11	(4,817,547)	(4,963,819)
Net current assets		12,041,100	10,443,996
Total assets less current liabilities		18,451,940	18,335,744
Creditors: amounts falling due after more than one year	12	(1,042,910)	(1,102,709)
Provisions for liabilities and charges	6	-	(124,092)
Net assets		17,409,030	17,108,943
Capital and reserves			
Called up share capital	14	540,000	830,000
Profit and loss account	15	16,279,030	15,978,943
Capital redemption reserve	15	590,000	300,000
Total shareholders' funds	15	17,409,030	17,108,943
Equity interests		16,969,030	16,378,943
Non-equity interests		440,000	730,000

The financial statements on pages 6 to 23 were approved by the Board of Directors on 31 January 2005 and were signed on its behalf by:



Ian Curtis - Director

HPC Engineering Limited

Cash flow statement for the year ended 31 August 2004

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	Notes	2004 £	2003 £
Net cash inflow from operating activities	(a)	<u>2,359,126</u>	<u>5,106,928</u>
Returns on investments and servicing of finance			
Interest received		277,497	123,665
Interest paid on bank overdraft		(3,328)	(4,054)
Non equity dividend paid to the shareholders		<u>(56,546)</u>	<u>(65,500)</u>
Net cash inflow from returns on investments and servicing of finance		<u>217,622</u>	<u>54,111</u>
Taxation			
Corporation tax		<u>(751,645)</u>	<u>(248,776)</u>
Capital expenditure			
Purchase of tangible fixed assets		(577,080)	(822,281)
Sale of tangible fixed assets		2,950	51,126
Net cash outflow from capital expenditure		<u>(574,130)</u>	<u>(771,155)</u>
Net cash inflow before use of liquid resources and financing		<u>1,250,973</u>	<u>4,141,108</u>
Management of liquid resources			
Increase in treasury call account		(1,273,724)	(3,500,000)
Financing			
Redemption of preference shares		(290,000)	-
Principal repayment under finance leases		-	(13,329)
Net cash outflow from financing		<u>(290,000)</u>	<u>(13,329)</u>
(Decrease)/increase in cash		<u>(312,751)</u>	<u>627,779</u>

HPC Engineering Limited includes as liquid resources term deposits of less than a year.

Notes to the cash flow statement for the year ended 31 August 2004

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£	£
Operating profit	629,410	1,847,901
Profit on sale of fixed assets	(2,950)	(31,895)
Depreciation – owned assets	2,057,988	2,216,172
(Increase) / decrease in stocks	(359,169)	1,281,459
(Increase) / decrease in debtors	(39,868)	107,090
Increase / (decrease) in creditors	73,715	(313,799)
Net cash inflow from operating activities	2,359,126	5,106,928

(b) Reconciliation of net cash flow to movement in net funds

	2004	2003
	£	£
(Decrease) / increase in cash in the year	(312,751)	627,779
Cash inflow from change in liquid resources	1,273,724	3,500,000
Cash outflow from decrease in lease financing	-	13,329
Movement in the year	960,973	4,141,108
Net funds at 1 September 2003	5,154,761	1,013,653
Net funds at 31 August 2004	6,115,734	5,154,761

Notes to the cash flow statement for the year ended 31 August 2004**(c) Analysis of net funds**

	1 Sept 2003	Cash Flow	31 August 2004
	£	£	£
Net cash			
Cash at bank and in hand	6,066,072	1,004,673	7,070,745
Less: deposits treated as liquid resources	(4,750,000)	(1,273,724)	(6,023,724)
	<u>1,316,072</u>	<u>(269,051)</u>	<u>1,047,021</u>
Bank overdraft	(9,998)	(43,700)	(53,698)
	<u>1,306,074</u>	<u>(312,751)</u>	<u>993,323</u>
Liquid resources:			
Deposits included in cash	<u>4,750,000</u>	<u>1,273,724</u>	<u>6,023,724</u>
Debt:			
Debts falling due after one year	<u>(901,313)</u>	<u>-</u>	<u>(901,313)</u>
Net funds	<u>5,154,761</u>	<u>960,973</u>	<u>6,115,734</u>

At the balance sheet date, £6 million of the company's cash deposits had been pledged as security over certain borrowings of the company's parent company.

Notes to the financial statements for the year ended 31 August 2004

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Turnover

Turnover represents the value of services and goods supplied to customers excluding value-added tax and trade discounts. Turnover is recognised either on delivery or in relation to the supply of services, on a pro rata basis over the period in which the services are performed.

Stocks and work in progress

Materials stocks have been valued at the lower of cost or net realisable value. Work in progress and finished goods have been stated at the lower of cost of materials, labour and works overhead and net realisable value. Provision is made for obsolete, slow-moving and defective stock.

Change of accounting policy in respect of consumable tools

During the year, the company has changed its accounting policy in respect of consumable tools. Previously, the company treated consumable tools as an item of stock that was charged to cost of sales as tools were utilised. Under the new policy, consumable tools are immediately written off through the profit and loss account. The directors believe that the new policy is more appropriate as it reflects the increasingly specialised nature of the tools involved, that are more appropriately expensed as a period cost than treated as a balance sheet asset. The effect of this change in policy has been to reduce current year operating profits by £20,442 (2003: £nil) and to reduce the company's opening reserves by £146,929 (2003: £146,929). Year end stock has been reduced by £230,340 (2003: £209,898).

Notes to the financial statements (continued)**Depreciation of tangible fixed assets**

The cost of tangible fixed assets is the purchase cost together with any incidental costs of acquisition. Depreciation is charged on a straight-line basis, to write off the cost of fixed assets over their estimated useful lives as follows:

Long leasehold buildings	-	Over the lease term or the life of the building if shorter
Short leasehold buildings	-	25 years or the lease term if less than 25 years
Plant & equipment	-	Between 5 and 10 years
Motor vehicles	-	4 years
Office equipment	-	Between 3 and 10 years

The cost of loose tools is written off at 50% in the year of purchase and 16 ²/₃% per annum on a straight-line basis thereafter.

No depreciation is charged on assets in the course of construction.

Deferred taxation

Provision is made for deferred taxation using the incremental liability approach and is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of the timing differences that have originated but not reversed by the balance sheet date subject to the following:

- (i) Deferred tax assets are recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.
- (ii) Deferred tax is not recognised on permanent differences.

Foreign currencies

Foreign currency assets and liabilities are translated at the rates of exchange ruling at the balance sheet date except for those assets and liabilities covered by forward or commercial foreign exchange arrangements where the relevant rate is used. Foreign currency transactions during the year are translated at the rate ruling on the date of the transaction or at the rate specified in the forward contract covering the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Notes to the financial statements (continued)**Pension costs**

The company operates a career average defined benefit pension scheme for its employees. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' estimated working lives with the company. Contributions to the scheme are in accordance with the recommendations of the actuary following the schemes triennial valuation performed by the actuary. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. Transitional disclosures, as required by FRS 17 Retirement Benefits, have been provided in addition to SSAP 24 disclosure.

2 Net expenses

	2004 £	2003 £
Change in stock of materials, finished goods and work in progress	(359,168)	1,281,459
Raw materials and consumables purchased	14,211,162	12,504,171
Other operating income	(84,043)	(87,551)
Other external charges	2,393,597	2,670,705
Staff costs - wages and salaries	5,466,214	5,706,346
- social security costs	535,838	623,845
- other pension costs	466,339	951,692
Depreciation of owned assets	2,057,988	2,216,172
Operating lease charges - land and buildings	375,292	375,292
Auditors' remuneration for audit services	25,000	31,500
Profit on sale of fixed assets	(2,950)	(31,895)
	<u>25,085,269</u>	<u>26,241,736</u>

Remuneration of the company's auditors for provision of non-audit services to the company was £17,500 (2003: £35,079).

3 Interest payable and similar charges

	2004 £	2003 £
Interest payable	<u>3,328</u>	<u>4,054</u>

All interest payable relates to bank overdrafts and other loans repayable within one year, not by instalment.

Notes to the financial statements (continued)**4 Directors' emoluments**

	2004	2003
	£	£
Aggregate emoluments:		
Salary payments (including benefits in kind)	<u>258,533</u>	<u>228,879</u>

Retirement benefits are accruing to two (2003: two) directors under a defined benefit scheme.

Emoluments payable to the highest paid director are as follows:

	2004	2003
	£	£
Salary payments (including bonus and benefits in kind)	97,953	96,680
Company pension contributions to defined benefits scheme		
Accrued pension at year end	27,874	25,379
Accrued lump sum at year end	18,126	14,304

5 Employees

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

Category of employees	Number of employees	
	2004	2003
Production	138	146
Administration	81	83
	<u>219</u>	<u>229</u>

Notes to the financial statements (continued)

6 Tax on profit on ordinary activities

	2004 £	2003 £
Profit and loss account		
United Kingdom tax based on the results for the year:		
UK Corporation tax on profits of the year	452,920	755,949
Adjustment in respect of previous periods	(22,652)	(47,320)
Total current tax	430,268	708,629
Deferred tax		
Origination and reversal of timing differences	(179,985)	(156,389)
Adjustment in respect of previous periods	8,771	45,211
Total deferred tax	(171,214)	(111,178)
Tax on profit on ordinary activities	259,054	597,451
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
Profit on ordinary activities before tax	903,579	1,967,512
Profit on ordinary activities multiplied by standard rate of tax in the UK 30% (2003: 30%)	271,074	590,253
Effects of:		
Expenses not deductible for tax purposes	15,522	9,307
Accelerated capital allowances and other timing differences	179,985	156,389
Group relief claimed	(13,661)	-
Adjustment to tax charge in respect of previous periods	(22,652)	(47,320)
Current tax charge for the year	430,268	708,629
Balance sheet	2004 £	2003 £
(a) (Asset) / provision for deferred taxation		
Deferred tax has been provided at 30% on all timing differences and comprises:		
Difference between tax allowances and depreciation	(47,122)	124,092
(b) The movements on the deferred taxation balance are as follows:		
Provision at start of year	124,092	235,270
Transfer to profit and loss account	(171,214)	(111,178)
(Asset) / provision at end of year	(47,122)	124,092

HPC Engineering Limited

Notes to the financial statements (continued)

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7 Dividends

	2004 £	2003 £
Dividends on non-equity shares:		
Preference dividends @ 10%		
1 September 2003 to 28 February 2004 paid	21,500	21,500
1 March 2004 to 8 March 2004 paid	364	-
1 March 2004 to 31 August 2004 payable	12,000	21,500
	33,864	43,000
Preference dividends @ 7 ½%		
1 September 2003 to 28 February 2004 paid	11,250	11,250
1 March 2004 to 15 July 2004 payable	7,392	-
16 July 2004 to 31 August 2004 paid	1,932	-
1 March 2003 to 31 August 2003 paid	-	11,250
	20,574	22,500

8 Tangible fixed assets

	Long Leasehold £	Short Leasehold £	Plant & Equipment £	Motor Vehicles £	Total £
Cost					
At beginning of year	4,100,094	31,740	15,322,575	579,283	20,033,692
Additions	-	-	577,080	-	577,080
Disposals	-	-	(41,859)	(26,126)	(67,985)
At end of year	4,100,094	31,740	15,857,796	553,157	20,542,787
Accumulated depreciation					
At beginning of year	1,438,197	31,740	10,293,373	378,634	12,141,944
Charge for the year	140,102	-	1,804,524	113,362	2,057,988
Eliminated in respect of disposals	-	-	(41,859)	(26,126)	(67,985)
At end of year	1,578,299	31,740	12,056,038	465,870	14,131,947
Net book value					
At 31 August 2004	2,521,795	-	3,801,758	87,287	6,410,840
Net book value					
At 31 August 2003	2,661,897	-	5,029,202	200,649	7,891,748

Assets in course of construction costing £428,784 (2003: £nil) are included within plant and equipment.

Notes to the financial statements (continued)

9 Stocks and work in progress

	2004	2003
	£	As restated £
Raw materials	1,117,997	929,943
Work in progress	561,739	659,434
Finished goods	1,266,144	997,334
	<u>2,945,880</u>	<u>2,586,711</u>

10 Debtors

	2004	2003
	£	£
Amounts falling due within one year:		
Trade debtors	6,404,839	6,334,201
Other debtors	137,056	128,762
Prepayments and accrued income	300,127	292,069
	<u>6,842,022</u>	<u>6,755,032</u>

11 Creditors: amounts falling due within one year

	2004	2003
	£	£
Bank overdraft	53,698	9,998
Trade creditors	3,036,245	2,640,999
Other creditors	189,251	287,770
Corporation tax	389,951	711,329
Other taxation and social security	552,483	813,471
Accruals and deferred income	576,527	478,752
Preference dividend payable	19,392	21,500
	<u>4,817,547</u>	<u>4,963,819</u>

Notes to the financial statements (continued)**12 Creditors: amounts falling due after more than one year**

	2004 £	2003 £
Other creditors	901,313	901,313
Accruals and deferred income	141,597	201,396
	<u>1,042,910</u>	<u>1,102,709</u>

Other creditors represents an interest-free loan of £901,313 (2003: £901,313) repayable in full after more than 5 years.

13 Financial commitments

The company has annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 £	2003 £
Expiring after 5 years	<u>378,500</u>	<u>378,500</u>

14 Called up share capital

	2004 £	2003 £
Authorised:		
Equity shares		
85,000 'A' Ordinary Shares of £1 each	85,000	85,000
15,000 'B' Ordinary Shares of £1 each	15,000	15,000
Non-equity shares		
430,000 10% Cumulative Redeemable Preference Shares of £1 each	430,000	430,000
1,000,000 7½% Cumulative Redeemable Preference Shares of £1 each	1,000,000	1,000,000
	<u>1,530,000</u>	<u>1,530,000</u>

HPC Engineering Limited

Notes to the financial statements (continued)

14 Called up share capital (continued)

Allotted, called up and fully paid	2004	2003
Equity shares	£	£
85,000 'A' Ordinary Shares of £1 each	85,000	85,000
15,000 'B' Ordinary Shares of £1 each	15,000	15,000
Non-equity shares		
240,000 10% Cumulative Redeemable Preference Shares of £1 each	240,000	
430,000 10% Cumulative Redeemable Preference Shares of £1 each		430,000
200,000 7½% Cumulative Redeemable Preference Shares of £1 each	200,000	
300,000 7½% Cumulative Redeemable Preference Shares of £1 each		300,000
	540,000	830,000

The 10% and 7½% cumulative redeemable preference shares can be redeemed at par subject only to the company giving seven days notice in respect of all or any of the shares or the shareholder giving two months notice in respect of all of the shares. They have no voting rights. In the event of winding up the company, they rank only ahead of Ordinary shares and would be paid 100 per cent of the original subscription price.

190,000 10% cumulative redeemable preference shares and 100,000 7.5% cumulative redeemable preference shares were redeemed during the year.

15 Reconciliation of movements in shareholders' funds

Movements in shareholders' funds	Share capital £	Profit and loss £	Capital redemption reserve £	Total shareholders' funds £
Balance at 1 September 2002	830,000	14,821,311	300,000	15,951,311
Prior year adjustment	-	(146,929)	-	(146,929)
Revised balance at 1 September 2002	830,000	14,674,382	300,000	15,804,382
Profit for the financial year	-	1,370,061	-	1,370,061
Dividends	-	(65,500)	-	(65,500)
Revised balance at 1 September 2003	830,000	15,978,943	300,000	17,108,943
Profit for the financial year	-	644,525	-	644,525
Dividends	-	(54,438)	-	(54,438)
Redemption of preference shares	(290,000)	-	-	(290,000)
Transfer(to)/from capital redemption reserve	-	(290,000)	290,000	-
Balance at 31 August 2004	540,000	16,279,030	590,000	17,409,030

Notes to the financial statements (continued)**16 Commitments**

At 31 August 2004, the company had forward foreign currency contracts to cover overseas transactions totalling £1,356,820 (2003: £986,277).

The company has a capital commitment totalling £1,013,186 (£2003: £nil) to complete the construction of an automated manufacturing and handling cell.

17 Pension scheme**SSAP 24 – Accounting for pension costs**

The company operates a pension scheme providing benefits based on each year's pensionable salary. The assets of the scheme are held separately from those of the company in trustee administered funds. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the unit method. The most recent valuation was at 6 April 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rates of mortality of members and the numbers leaving the fund. It was assumed that the investment returns would be 6.5% per annum compound, that rates of mortality would correspond to recognised mortality tables and that a proportion of members would leave each year.

At the date of the latest actuarial valuation, the market value of the assets of the plan was £6,918,000 and the market value of the assets was sufficient to cover 66% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The pension plan received special contributions of £490,000 in September 2002. From October 2003 the rate at which members will accrue future benefits has been reduced in response to the funding status of the plan.

The pension charge for the financial year was £466,339 (2003: £951,692).

FRS 17 - Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 6 April 2003 and updated by Scottish Widows to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 August 2004. Scheme assets are stated at their market value at 31 August 2004.

The main financial assumptions used to calculate scheme liabilities under FRS 17 are:

	At 31 August 2004	At 31 August 2003	At 31 August 2002
Discount rate	5.5%	5.4%	5.4%
Retail price inflation	2.9%	2.5%	2.3%
Pensions increases at Limited Price Indexation	2.9%	2.5%	2.3%

Notes to the financial statements (continued)

17 Pension Scheme (continued)

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 August 2004 %	Value at 31 August 2004 £'000	Long term rate of return expected at 31 August 2003 %	Value at 31 August 2003 £'000	Long-term rate of return expected at 31 August 2002 %	Value at 31 August 2002 £'000
Equities	7.9%	7,416	8.2%	6,564	8.1%	5,330
Bonds	5.0%	1,068	4.8%	1,110	4.8%	989
Other	5.0%	351	4.8%	331	4.8%	474
Total market value of assets		<u>8,835</u>		<u>8,005</u>		<u>6,793</u>
Present value of scheme liabilities		(13,448)		(12,469)		(11,759)
Related deferred tax asset		<u>1,384</u>		<u>1,339</u>		<u>1,490</u>
Net pension liability		<u>(3,229)</u>		<u>(3,125)</u>		<u>(3,476)</u>

If the above amounts had been recognised in the financial statements, the company's net assets and profit and loss reserve at 31 August 2003 and 31 August 2002 would be as follows:

	2004 £'000	2003 as restated £'000	2002 as restated £'000
Net assets			
Net assets excluding net pension liability	17,409	17,109	15,804
Net pension liability	<u>(3,229)</u>	<u>(3,125)</u>	<u>(3,476)</u>
Net assets including pension liability	<u>14,180</u>	<u>13,984</u>	<u>12,328</u>
Reserves			
Profit and loss reserve excluding net pension liability	16,279	15,979	14,674
Net pension liability	<u>(3,125)</u>	<u>(3,125)</u>	<u>(3,476)</u>
Net profit and loss reserve	<u>13,154</u>	<u>12,854</u>	<u>11,198</u>

The following amounts would have been recognised in the performance statements in the year to 31 August 2003 under the requirements of FRS17:

Analysis of amount charged to operating profit in respect of defined benefit schemes

	2004 £'000	2003 £'000
Current service	394	633
Past service cost	-	-
Total operating charge	<u>394</u>	<u>633</u>

Notes to the financial statements (continued)

17 Pension scheme (continued)

Analysis of the amount charged to other finance income

	2004 £'000	2003 £'000
Expected return on assets	616	529
Interest on liabilities	(673)	(635)
Net return	(57)	(106)

Analysis of amount recognised in statement of total recognised gains and losses

	2004 £'000	2003 £'000
Actual return less expected return on pension scheme assets	(17)	(56)
Experience gains and losses arising on the scheme liabilities	(47)	50
Changes in the assumptions underlying the present value of the scheme	(261)	133
Actuarial loss recognised in statement of total recognised gains and losses	(325)	127

Movement in surplus during the year

	2004 £'000	2003 £'000
Deficit in the scheme at the beginning of the year	(4,464)	(4,966)
Movement in the year:		
Current service cost	(394)	(633)
Contributions	627	1,114
Past service cost	-	-
Other finance income	(57)	(106)
Actuarial (loss) / gain	(325)	127
Deficit in the scheme at the end of the year	(4,613)	(4,464)

History of experience gains and losses

	2004	2003
Difference between the actual and expected return on scheme assets:		
Amount (£'000)	(17)	(56)
Percentage of scheme assets	(0.2)%	(1)%
Experience gains and losses on the scheme liabilities:		
Amount (£'000)	(47)	50
Percentage of the present value of share liabilities	(0.4)%	0.5%
Total amount recognised in statement of total recognised gains and losses		
Amount (£'000)	(325)	127
Percentage of the present value of share liabilities	(2)%	1%

Notes to the financial statements (continued)

18 Subsidiary Company

The company has one subsidiary, HPC Air Compressors Limited. The company does not trade and has aggregate share capital and reserves of £100 and an inter company debtor from HPC Engineering Limited of £100.

Consolidated financial statements are not prepared on the grounds of materiality.

19 Ultimate Parent Company

The company's ultimate parent company is Lilac Limited, a company incorporated in England and Wales.