H P C Engineering PLC

Annual Report

for the year ended 31 August 2006

Registered in England no: 622352

HPC Engineering PLC

Annual Report
for the year ended 31 August 2006

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HPC Engineering PLC

Directors' report for the year ended 31 August 2006

The dırectors present theır report and the audıted financıal statements of the company for the year ended 31 August 2006

Activities

Durıng the year the company's business contınued to be the production and sale of aır compressors, ancillary equıpment and sub-contract precision engineering

Business review and future developments

	2006	2005
		As restated
	£	£
Turnover	34,229,296	30,864,394
Profit before tax	1,177,524	498,903

The company's busıness performance contınues to be closely lınked to the output of the manufacturing sector of the UK economy Durıng 2007, the company wıll contınue to ınvest in new machine tools that will ıncrease the overall production capacıty of the busıness This investment wıll enable the pursuıt of new business opportunıtıes that wıll ensure the continued sales growth required to mıtigate ıncreasing manufacturıng costs, in partıcular the costs of energy and productıon labour

Results and dividends

The company's profit after tax for the financial year ıs £802,510 (2005 as restated £343,429) The dırectors have recommended the followıng dıvıdends ın respect of the years ended 31 August 2006 and 31 August 2005·

	2006	2005
	£	£
'A' ordınary dıvıdend paıd	443,586	6,274,250
'A' ordınary dıvıdend payable	-	71,793
	443,586	6,346,043

After payment of the above dividends, £358,924 (2005 as restated £(6,002,614) for the financıal year will be transferred to / (from) the company's reserves

HPC Engineering PLC

Directors' report (continued)

Directors and their interests

The directors of the company at 31 August 2006 are listed below

I Curtis
J Hunter
G Power
T Stott

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

At 31 August 2006, the directors had no beneficial interests in the share capital of the company The company is 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 £1,458 (2005 £1,785)

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 2006 was 73 days (2005 74 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 PLC

Directors' report (continued)

Statement of directors' responsibilities

The dırectors are responsible for preparing the Annual Report and the financıal statements ın accordance wıth applıcable law and United Kingdom Accounting Standards (Unıted Kıngdom Generally Accepted Accounting Practıce)

The dırectors are responsıble for preparıng financıal statements for each financıal year whıch give a true and faır view, ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce, of the state of affaırs of the company and of the profit or loss of the company for that perıod. In preparıng those financial statements, the dırectors are requıred to

- select suıtable accountıng polıcies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subȷect to any material departures disclosed and explaıned in the financial statements ; and
- prepare the financıal statements on the going concern basis unless it ıs ınappropriate to presume that the company wıll contınue ın busıness

The directors confirm that they have complıed wıth the above requırements ın preparıng the financıal statements

The dırectors are responsıble for keepıng proper accounting records that disclose wıth reasonable accuracy at any time the financıal posıtıon of the company and enable them to ensure that the financıal statements comply wıth the Companıes Act 1985 They are also responsıble for safeguardıng the assets of the company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

The dırectors are responsible for the maıntenance and integrity of the corporate and financial information ıncluded on the company's website. Legıslation in the United Kıngdom governıng the preparatıon and dıssemınation of financial statements may dıffer from legıslatıon ın other ȷurisdıctions

By order of the board
D G Marchant
Secretary
22 January 2007

Independent auditors' report to the members of HPC Engineering PLC

We have audited the financial statements of HPC Engineering PLC for the year ended 31 August 2006 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 These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland) 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 into 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments 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

HPC Engineering PLC

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 August 2006 and of its profit and cash flows for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Gatwick
22 January 2007

HPC Engineering PLC

Profit and loss account for the year ended 31 August 2006

	Notes	2006	2005 As restated
		£	£
Turnover	1	34,229,296	30,864,394
Net expenses	2	(33,098,179)	(30,338,294)
Operating profit		1,131,117	526,100
Interest receivable		92,577	94,069
Interest payable and similar charges	3	(41,170)	(48,266)
Other finance expenses	17	(5,000)	(73,000)
Profit on ordinary activities before taxation		1,177,524	498,903
Tax on profit on ordinary activities	6	(375,014)	(155,474)
Profit for the financial year		802,510	343,429

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 2006

	Notes	2006	2005 As restated
		£	£
Profit for the financial year		802,510	343,429
Actuarial gain / (loss) on pension scheme	17	211,000	(48,000)
Movement on deferred tax relating to pension liability		(63,300)	14,400
Total recognised gains and losses relating to the year		950,210	309,829
Prior year adjustment – FRS 17	1,15	(3,229,100)	
Total gains and losses recognised since last annual report		(2,278,890)	

HPC Engineering PLC

Balance sheet at 31 August 2006

	Notes	2006 £	2005 As restated £
Tangible fixed assets	8	**4,879,079**	6,274,387
Current assets			
Stocks and work in progress	9	**3,297,298**	3,991,566
Debtors	10	**8,398,278**	7,399,595
Cash at bank and in hand		**3,757,234**	2,006,771
		15,452,810	13,397,932
Creditors: amounts falling due within one year	11	**(7,877,464)**	(7,679,174)
Net current assets		**7,575,346**	5,718,758
Total assets less current liabilities		**12,454,425**	11,993,145
Creditors: amounts falling due after more than one year	12	**(1,129,085)**	(1,078,131)
Net assets excluding pension liability		**11,325,340**	10,915,014
Pension liability	17	**(2,695,000)**	(3,143,700)
Net assets including pension liability		**8,630,340**	7,771,314
Capital and reserves			
Called up share capital	14	**100,000**	100,000
Profit and loss account	15	**7,940,340**	7,081,314
Capital redemption reserve	15	**590,000**	590,000
Total shareholders' funds	15	**8,630,340**	7,771,314

The financial statements on pages 6 to 21 were approved by the Board of Directors on 22 January 2007 and were signed on its behalf by

Ian Curtis - Director

HPC Engineering PLC

Cash flow statement for the year ended 31 August 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities	(a)	**2,681,566**	3,464,149
Returns on investments and servicing of finance			
Interest received		**92,577**	94,069
Interest paid		**(46,170)**	(55,658)
Net cash inflow from returns on investments and servicing of finance		**46,407**	38,411
Taxation			
Corporation tax		**(118,120)**	(550,527)
Capital expenditure			
Purchase of tangible fixed assets		**(384,925)**	(1,771,339)
Sale of tangible fixed assets		**39,113**	49,503
Net cash outflow from capital expenditure		**(345,812)**	(1,721,836)
Equity dividends paid		**(515,379)**	(6,274,250)
Net cash inflow / (outflow) before use of liquid resources		**1,748,662**	(5,044,053)
Management of liquid resources			
(Increase) / decrease in treasury call account		**(3,500,000)**	6,023,724
(Decrease) / increase in cash		**(1,751,338)**	979,671

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

Notes to the cash flow statement for the year ended 31 August 2006

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

	2006 £	2005 As restated £
Operating profit	1,131,117	526,100
Profit on sale of fixed assets	(17,368)	(36,029)
Depreciation – owned assets	1,758,489	1,894,317
Decrease / (increase) in stocks	694,268	(1,045,686)
Increase in debtors	(884,335)	(492,362)
(Decrease) / increase in creditors	(605)	2,617,809
Net cash inflow from operating activities	2,681,566	3,464,149

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

	2006 £	2005 £
(Decrease) / increase in cash in the year	(1,751,338)	979,671
Cash inflow / (outflow) from change in liquid resources	3,500,000	(6,023,724)
Movement in the year	1,748,662	(5,044,053)
Net funds at 1 September 2005	1,071,681	6,115,734
Net funds at 31 August 2006	2,820,343	1,071,681

(c) Analysis of net funds

	31 August 2005 £	Cash Flow	31 August 2006 £
Net cash			
Cash at bank and in hand	2,006,771	1,750,463	3,757,234
Less deposits treated as liquid resources	-	(3,500,000)	(3,500,000)
	2,006,771	(1,749,537)	257,234
Bank overdraft	(33,777)	(1,801)	(35,578)
	1,972,994	(1,751,338)	221,656
Liquid resources			
Deposits included in cash	-	3,500,000	3,500,000
Debt			
Debts falling due after one year	(901,313)	-	(901,313)
Net funds	1,071,681	1,748,662	2,820,343

Notes to the financial statements for the year ended 31 August 2006

1 Principal accounting policies

The financial statements have been prepared ın accordance wıth applıcable Accountıng Standards ın the Unıted Kıngdom

Changes in accounting policies

The Company has adopted 'FRS 17 'Retırement Benefits' and 'FRS 21 Events after the Balance Sheet Date' The adoptıon of these standards represents a change ın accountıng polıcy and the comparative figures have been restated accordingly The effect of adoptıng FRS17 was to decrease staff costs by £286,893 (2005 £80,883), ıncrease other finance expense by £5,000 (2005 £73,000) and deferred taxatıon by £128,700 (2005 £51,400), ıncrease profit for the year by £281,893 (2005 ıncrease by £7,883) and to increase the total recognised gains and losses by £429,593 (2005 decrease by £67,082) Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensıons over employees' estimated working lives wıth the company Contributions to the scheme are ın accordance wıth the recommendations of the actuary

The net FRS 17 pensıon lıabılıty has been ıncorporated onto the balance sheet by means of a prıor year adjustment.

A summary of the more ımportant accounting policıes, whıch have been applıed consıstently, is set out below

Basis of accounting

The financıal statements are prepared ın accordance wıth the hıstorıcal cost conventıon

Turnover

Turnover represents the value of servıces and goods supplıed to customers excludıng value-added tax and trade dıscounts Turnover ıs recognısed eıther on delıvery or, in relatıon to the supply of services, on a pro rata basıs over the period ın whıch the services are performed

Stocks and work in progress

Materials stocks have been valued at the lower of cost or net realısable value Work ın progress and fınıshed goods have been stated at the lower of cost of materıals, labour and works overhead and net realısable value Provısıon ıs made for obsolete, slow-movıng and defective stock.

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

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

HPC Engineering PLC

Notes to the financial statements (continued)

Principle accounting policies (continued)

Pension costs

The company operates a career average defined benefit pension scheme for its employees

The adoption of FRS17 represents a change in accounting policy and the comparative figures have been restated accordingly

2 Net expenses

	2006 £	2005 £
Change in stock of materials, finished goods and work in progress	**694,268**	(1,045,680)
Raw materials and consumables purchased	**19,105,858**	18,829,658
Other operating income	**(176,699)**	(150,234)
Other external charges	**3,856,348**	3,803,004
Staff costs - wages and salaries	**6,131,202**	5,673,086
- social security costs	**685,871**	619,380
- other pension costs	**657,893**	349,000
Depreciation of owned assets	**1,758,514**	1,894,317
Operating lease charges – land and buildings	**375,292**	375,292
Auditors' remuneration for audit services	**27,000**	26,500
Profit on sale of fixed assets	**(17,368)**	(36,029)
	33,098,179	30,338,294

Remuneration of the company's auditors for provision of non-audit services to the company was £62,800 (2005. £65,750)

3 Interest payable and similar charges

	2006 £	2005 £
Interest payable	**41,170**	48,266

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

	2006	2005
	£	£
Aggregate Emoluments:		
Salary payments (including benefits in kind)	951,451	477,259

Retirement benefits are accruing to two (2005 two) directors under a defined benefit scheme

Emoluments payable to the highest paid director are as follows	2006	2005
	£	£
Salary payments (including bonus and benefits in kind)	717,262	221,062

5 Employees

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

Category of employees	Number of employees	
	2006	2005
Production	130	131
Administration	79	79
	209	210

HPC Engineering PLC

Notes to the financial statements (continued)

6 Tax on profit on ordinary activities

	2006	2005 As restated
	£	£
Profit and loss account		
United Kingdom tax based on the results for the year		
UK Corporation tax on profits of the year	431,349	256,689
Adjustment in respect of previous periods	6,610	15,397
Total current tax	437,959	272,086
Deferred tax		
Origination and reversal of timing differences	(147,513)	(118,977)
Pension cost relief in excess of pension cost charge	84,568	2,365
Total deferred tax	(62,945)	(116,612)
Tax on profit on ordinary activities	375,014	155,474

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006	2005
Profit on ordinary activities before tax	1,177,524	498,903
Profit on ordinary activities multiplied by standard rate of tax in the UK 30% (2005 30%)	353,257	149,671
Effects of		
Expenses not deductible for tax purposes	15,147	(9,594)
Accelerated capital allowances and other timing differences	147,513	118,977
Adjustments in respect of FRS17 pension treatment	(84,568)	(2,365)
Adjustment to tax charge in respect of previous periods	6,610	15,397
Current tax charge for the year	437,959	272,086

Balance sheet	2006	2005
	£	£
(a) Asset for deferred taxation		
Deferred tax has been provided at 30% on all timing differences and comprises		
Pension cost relief in excess of pension cost charge	86,933	2,365
Difference between tax allowances and depreciation	(313,612)	(166,099)
Asset at end of year	(226,679)	(163,734)
(b) The movements in the asset for deferred taxation are as follows		
Asset at start of year	(163,734)	(47,122)
Transfer to profit and loss account	(62,945)	(116,612)
Asset at end of year	(226,679)	(163,734)

Notes to the financial statements (continued)

7 Dividends

	2006 £	2005 £
Dividends on equity shares:		
'A' ordinary dividend paid	**443,586**	6,274,250
'A' ordinary dividend payable	**-**	71,793
	443,586	6,346,043

8 Tangible fixed assets

	Long Leasehold £	Short Leasehold £	Plant & Equipment £	Motor Vehicles £	Total £
Cost					
At beginning of year	4,100,094	31,740	17,188,751	664,606	21,985,191
Additions	-	-	200,710	184,215	384,925
Disposals	-	-	(249,547)	(166,990)	(416,537)
At end of year	4,100,094	31,740	17,139,914	681,831	21,953,579
Accumulated depreciation					
At beginning of year	1,718,401	31,740	13,509,825	450,838	15,710,804
Charge for the year	147,966	-	1,499,560	110,963	1,758,489
Eliminated in respect of disposals	-	-	(246,047)	(148,746)	(394,793)
At end of year	1,866,367	31,740	14,763,338	413,055	17,074,500
Net book value					
At 31 August 2006	2,233,727	-	2,376,576	268,776	4,879,079
Net book value					
At 31 August 2005	2,381,693	-	3,678,926	213,768	6,274,387

9 Stocks and work in progress

	2006 £	2005 £
Raw materials	**1,273,931**	1,592,111
Work in progress	**708,389**	732,686
Finished goods	**1,314,978**	1,666,769
	3,297,298	3,991,566

Notes to the financial statements (continued)

10 Debtors

	2006	2005 As restated
	£	£
Amounts falling due within one year:		
Trade debtors	7,400,836	6,790,107
Other debtors	735,417	362,765
Prepayments and accrued income	262,025	246,723
	8,398,278	7,399,595

11 Creditors: amounts falling due within one year

	2006	2005 As restated
	£	£
Bank overdraft	35,578	33,777
Trade creditors	4,792,057	5,430,682
Other creditors	151,029	345,810
Corporation tax	431,351	111,510
Other taxation and social security	894,300	633,658
Accruals and deferred income	1,121,149	599,944
Ordinary dividend payable	-	71,793
Preference dividend payable	12,000	12,000
Preference shares	440,000	440,000
	7,877,464	7,679,174

12 Creditors: amounts falling due after more than one year

	2006	2005
	£	£
Other creditors	901,313	901,313
Accruals and deferred income	227,772	176,818
	1,129,085	1,078,131

Other creditors represents an interest-free loan of £901,313 (2005. £901,313) repayable in full after more than 5 years.

Notes to the financial statements (continued)

13 Financial Commitments

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

	2006	2005
	£	£
Expiring after 5 years	**378,500**	378,500

14 Called up share capital

	2006	2005
	£	£
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
	100,000	100,000

	2006	2005
	£	£
Allotted, called up and fully paid		
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
	100,000	100,000

Notes to the financial statements (continued)

15 Reconciliation of movement in shareholders' funds

Movements in shareholders' funds	Share capital	Profit and loss	Capital redemption reserve	Total Shareholders' funds
	£	£	£	£
Balance at 1 September 2005 as previously reported	100,000	10,270,898	590,000	10,960,898
FRS17 adjustments in respect of 2005		5,518		5,518
Movement in pension scheme deficit		85,400		85,400
Prior year adjustment – FRS17		(3,229,100)		(3,229,100)
Balance at 1 September 2005 as restated	100,000	7,132,716	590,000	7,822,716
Profit for the financial year		802,510		802,510
Dividends		(443,586)		(443,586)
Actuarial gain on pension scheme		211,000		211,000
Movement on deferred tax relating to pension scheme		(63,300)		(63,300)
Other movements in pension scheme deficit		301,000		301,000
Balance at 31 August 2006	**100,000**	**7,940,340**	**590,000**	**8,630,340**
Pension scheme liability		2,695,000		2,695,000
Profit and loss reserve excluding pension liability	100,000	10,635,340	590,000	11,325,340

16 Commitments

At 31 August 2006, the company had forward foreign currency contracts to cover overseas transactions in the range between £2,501,347 and £3,919,861 (2005· £3,345,709)

The company has no capital commitments (2005 £nil)

17 Pension scheme

FRS 17 - Retirement Benefits

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. 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 50% per annum compound, that rates of mortality would correspond to recognised mortality tables and that a proportion of members would leave each year

Notes to the financial statements (continued)

17 Pension scheme (continued)

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 2006 was £657,893 (2005 £429,883)

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 2006 Scheme assets are stated at their market value at 31 August 2006

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

Valuation method	**At 31 August 2006**	**At 31 August 2005**	**At 31 August 2004**
Discount rate	4 9%	4 9%	5 5%
Retail price inflation	3 0%	2 5%	2 9%
Pensions increases at Limited Price Indexation	3 0%	2 5%	2 9%

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

	Long-term rate of return expected at 31 August 2006 %	**Value at 31 August 2006 £'000**	Long-term rate of return expected at 31 August 2005 %	Value at 31 August 2005 £'000	Long-term rate of return expected at 31 August 2004 %	Value at 31 August 2004 £'000
Equities	**7.4**	**10,490**	7 2	9,140	7 9	7,416
Bonds	**4.6**	**1,817**	4 3	1,389	5 0	1,068
Other	**4.6**	**507**	4 3	490	5 0	351
Total market value of assets		**12,814**		11,019		8,835
Present value of scheme liabilities		**(16,664)**		(15,510)		(13,448)
Related deferred tax asset		**1,155**		1,347		1,384
Net pension liability		**(2,695)**		(3,144)		(3,229)

Notes to the financial statements (continued)

17 Pension scheme (continued)

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

	2006 £'000	2005 £'000
Current service cost	371	349
Past service cost	-	-
Total operating charge	371	349

Analysis of the amount charged to other finance expense

	2006 £'000	2005 £'000
Expected return on pension scheme assets	755	667
Interest on pension scheme liabilities	(760)	(740)
Net return	(5)	(73)

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

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	563	1,240
Experience gains and losses arising on the scheme liabilities	(2)	(38)
Changes in the assumptions underlying the present value of the scheme	(350)	(1,250)
Actuarial gain / (loss) recognised in statement of total recognised gains and losses	211	(48)

Movement in surplus during the year

	2006 £'000	2005 £'000
Deficit in the scheme at the beginning of the year	(4,491)	(4,613)
Movement in the year		
Current service cost	(371)	(349)
Contributions	806	592
Past service cost	-	-
Other finance expense	(5)	(73)
Actuarial gain / (loss)	211	(48)
Deficit in the scheme at the end of the year	(3,850)	(4,491)

Notes to the financial statements (continued)

17 Pension scheme (continued)

History of experience gains and losses

	2006	2005
Difference between the actual and expected return on scheme assets:		
Amount (£'000)	563	1,240
Percentage of scheme assets	4%	11%
Experience gains and losses on the scheme liabilities.		
Amount (£'000)	(2)	(38)
Percentage of the present value of share liabilities	-%	-%
Total amount recognised in statement of total recognised gains and losses		
Amount (£'000)	211	(48)
Percentage of the present value of share liabilities	1%	-%

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 PLC 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