HPC plc

Annual Report

for the year ended 31 August 2011

Registered in England no: 622352

HPC plc
Company number: 622352

Directors' report for the year ended 31 August 2011

The directors present their report and the audited financial statements of the company for the year ended 31 August 2011

Principal activities

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

Business review and future developments

	2011	2010
	£'000	£'000
Turnover	**47,032**	36,532
Profit before tax	**3,390**	1,440

The Company operates through two trading businesses, HPC Precision Engineering and HPC Compressed Air Systems, with both operations closely aligned to trends in UK manufacturing output The Company's profitability for the financial year was pleasing following two years of reduced profitability in the aftermath of the financial crisis of 2008. However, as we enter 2012 the outlook for the global economy and UK manufacturing output is once again characterised by uncertainty

Once again, HPC Compressed Air Systems continued to increase its share of the industrial compressed air market HPC's performance in the year was driven by the efforts of our outstanding national network of authorised distributors HPC's national distributor network is supported by HPC's own sales and after-sales service operations based in Nottingham, Norwich, Harlow and Plymouth Approximately half of HPC Compressed Air Systems' turnover is now derived from after capital sale service activities

HPC Precision Engineering has a diverse customer base across both automotive (on and off highway, agricultural and construction equipment) and non-automotive sectors (aerospace, medical, power generation and semi-conductor) HPC Precision Engineering continues to face the significant challenge of rapidly rising prices of raw materials and the inflationary pressure that this places on Original Equipment Manufacturer (OEM) customers The most satisfactory development during the financial year has been the creation of new customer partnerships in the aerospace, medical and industrial valve industries that will begin to contribute to our financial performance in the current financial year

Financial risk management

The company enters into short term forward currency contracts to match its supplier payments with rates of exchange agreed with customers However, none were in place at the year end

Directors' report (continued)

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks as well as exposures to customers, including outstanding receivables and committed transactions The company only uses banks with a minimum 'A' rating A credit referencing agency is used to assess new and existing customers and limits are agreed by the company secretary and relevant divisional managing director These are kept under review in light of trading experience Any such risk is also mitigated by the company's extensive and diverse customer base

Segmental information

In the opinion of the directors, the disclosure of segmental information would be seriously prejudicial to the interests of the company and has therefore not been provided

Research and development

The company's Precision Engineering division undertakes work required to develop new and enhanced products and processes, normally centred on resolving technical challenges The work involved advances HPC's, the suppliers' and the customers' knowledge and capability

Results and dividends

The company's profit after tax for the financial year is £2,913,109 (2010 £1,050,810) The directors have recommended the following dividends in respect of the years ended 31 August 2011 and 31 August 2010

	2011	2010
	£'000	£'000
'A' ordinary dividend paid	**160**	2,700

After payment of the above dividends, £2,753,109, (2010 (£1,649,190)) for the financial year will be transferred to / (from) the company's reserves

Directors and their interests

The directors who were in office during the year and up to the date of signing the financial statements were

Ian Curtis
James Hunter
Trevor Stott

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

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Directors' report (continued)

At 31 August 2011, 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 £1,047 (2010 £4,200).

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 2011 was 66 days (2010 65 days)

Statement of directors' responsibilities

The directors are responsible for preparing the Director's 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 prepared 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 then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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Directors' report (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 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.

Disclosure of information to auditors

This information is given and should be interpreted in accordance with the provisions of s418(2) of the Companies Act 2006 So far as each director is aware, there is no relevant audit information of which the company's auditor is unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

Chris Kerby

Chris Kerby

Company Secretary
15 February 2012

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Annual Report
for the year ended 31 August 2011

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Independent auditors' report to the members of HPC plc

We have audited the financial statements of HPC plc for the year ended 31 August 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 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)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1 to 4 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 Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 August 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and

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Independent auditors' report (continued)

- 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 Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements

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, or returns adequate for our audit have not been received from branches not visited by us, or

- the 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

Stephen Wootten (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
15 February 2012

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Profit and loss account for the year ended 31 August 2011

	Note	2011	2010
		£	£
Turnover	1	**47,032,274**	36,531,719
Operating costs	2	**(43,580,111)**	(34,936,656)
Operating profit		**3,452,163**	1,595,063
Interest receivable		**5,762**	3,287
Interest payable and similar charges	3	**(22,189)**	(29,066)
Other financial expense	17	**(45,000)**	(129,000)
Profit on ordinary activities before taxation		**3,390,736**	1,440,284
Tax on profit on ordinary activities	6	**(477,627)**	(389,474)
Profit for the financial year		**2,913,109**	1,050,810

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 2011

	Note	2011	2010
		£	£
Profit for the financial year		**2,913,109**	1,050,810
Actuarial gain / (loss) on pension scheme	17	**1,935,000**	(955,000)
Movement on deferred tax relating to pension liability		**(566,042)**	113,156
Total gains and losses recognised since last annual report		**4,282,067**	208,966

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Balance sheet at 31 August 2011

	Note	2011 £	2010 £
Tangible fixed assets	8	**2,708,813**	3,517,056
Current assets			
Stocks and work in progress	9	**4,197,492**	4,343,779
Debtors	10	**9,900,625**	7,386,293
Debtors amounts falling due after more than 1 year	10	**245,864**	211,428
Cash at bank and in hand		**4,613,895**	1,684,799
		18,957,876	13,626,299
Creditors: amounts falling due within one year	11	**(12,941,652)**	(10,658,637)
Net current assets		**6,016,224**	2,967,662
Total assets less current liabilities		**8,725,037**	6,484,718
Creditors: amounts falling due after more than one year	12	**(1,647,294)**	(1,690,994)
Net assets excluding pension liability		**7,077,743**	4,793,724
Pension liability	17	**(697,051)**	(2,535,099)
Net assets including pension liability		**6,380,692**	2,258,625
Capital and reserves			
Called up share capital	14	**100,000**	100,000
Profit and loss account	15	**5,690,692**	1,568,625
Capital redemption reserve	15	**590,000**	590,000
Total shareholders' funds	15	**6,380,692**	2,258,625

The financial statements on pages 7 to 23 were approved by the Board of Directors on 15 February 2012 and were signed on its behalf by·

Ian Curtis – Director

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Cash flow statement for the year ended 31 August 2011

	Note	2011 £	2010 £
Net cash inflow from operating activities	(a)	**3,524,256**	2,315,913
Returns on investments and servicing of finance			
Interest received		**5,762**	3,287
Interest paid		**(22,189)**	(29,066)
Net cash (outflow) / inflow from returns on investments and servicing of finance		**(16,427)**	(25,779)
Taxation			
Corporation tax		**(236,150)**	131,560
Capital expenditure			
Purchase of tangible fixed assets		**(186,480)**	(487,718)
Sale of tangible fixed assets		**3,897**	39,879
Net cash outflow from capital expenditure		**(182,583)**	(447,839)
Cash outflows from acquisitions and disposals			
Purchase of business		**-**	(56,067)
Equity dividends paid		**(160,000)**	(2,700,000)
Net cash inflow / (outflow) before use of liquid resources		**2,929,096**	(782,212)
Management of liquid resources			
(Increase) / decrease in treasury call account		**(3,089,772)**	1,203,680
(Decrease) / increase in cash		**(160,676)**	421,468

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

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Notes to the cash flow statement for the year ended 31 August 2011

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

	2011	2010
	£	£
Operating profit	**3,452,163**	1,595,063
Amortization of purchased goodwill	**-**	56,067
Profit on sale of fixed assets	**(3,897)**	(37,761)
Depreciation – owned assets	**994,723**	1,232,119
Difference between pension charge and cash contributions	**(689,000)**	(679,873)
Decrease / (increase) in stocks	**146,287**	(618,668)
Increase in debtors	**(2,236,262)**	(1,489,742)
Increase in creditors	**1,860,242**	2,258,708
Net cash inflow from operating activities	**3,524,256**	2,315,913

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

	2011	2010
	£	£
(Decrease) / increase in cash in the year	**(160,676)**	421,468
Cash inflow / (outflow) from change in liquid resources	**3,089,772**	(1,203,680)
Movement in borrowings	**81,125**	343,180
Movement in the year	**3,010,221**	(439,032)
Net funds at 1 September	**354,512**	793,544
Net funds at 31 August	**3,364,733**	354,512

c) Analysis of net funds

	31August 2010	Cash Flow	**31 August 2011**
	£	£	**£**
Net cash			
Cash at bank and in hand	1,684,799	2,929,096	**4,613,895**
Less deposits treated as liquid resources	(1,143,320)	(3,089,772)	**(4,233,092)**
	541,479	(160,676)	**380,803**
Liquid resources			
Deposits included in cash	1,143,320	3,089,772	**4,233,092**
Debt			
Debts falling due after one year	(1,330,287)	81,125	**(1,249,162)**
Net funds	354,512	3,010,221	**3,364,733**

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Notes to the financial statements for the year ended 31 August 2011

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 and on the going concern basis The directors consider this basis to be appropriate as the company entered into the recent recession with a strong balance sheet, unencumbered by debt. The company has returned to a more acceptable level of profitability during the year as a result of the steps taken to control costs in the previous year.

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 For equipment leased to customers under finance leases, the revenue is recognised immediately, together with the cost of the equipment and treated as a finance lease arrangement Finance lease interest is recognised over the primary period of the lease so as to produce a constant rate of return on the net cash investment Any amounts invoiced to customers in advance of delivery of goods or the provision of a service are included within deferred income and recognised as turnover when the goods or the service are provided to the customer.

Operating leases

Rentals paid under operating leases are charged to the profit and loss account as incurred

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

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred

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 3 and 10 years
Motor vehicles	-	4 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

a) 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
b) Deferred tax is not recognised on permanent differences

Foreign currencies

Foreign currency monetary 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

Pension costs

The company operates a career average defined benefit pension scheme with assets held in a separately administered fund. The scheme assets are measured using closing market values Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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Notes to the financial statements (continued)

Pension costs (continued)

The increase in the present value of the liabilities of the defined benefit scheme expected to arise from employee service in the year is charged to operating profit The expected return on the scheme's assets and the increase during the year in the present value of the scheme's liabilities, arising from the passage of time are included in interest payable and similar charges At present, the defined benefit scheme is partially funded.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses

2 Operating costs

	2011	2010
	£	£
Other operating income	**(209,232)**	(157,568)
Change in stock of materials, finished goods and work in progress	**146,287**	(618,667)
Raw materials and consumables purchased	**29,514,307**	22,702,410
Other external charges	**5,171,950**	4,471,256
Staff costs - wages and salaries	**6,286,926**	5,988,687
- social security costs	**683,287**	640,694
- other pension costs	**512,010**	306,486
Total staff costs	**7,482,223**	6,935,867
Depreciation of owned assets	**994,723**	1,232,119
Operating lease charges – land and buildings	**453,250**	378,500
Auditors' remuneration for audit services	**30,500**	30,500
(Profit) / loss on sale of fixed assets	**(3,897)**	(37,761)
	43,580,111	34,936,656

Remuneration of the company's auditors for provision of non-audit services to the company was £17,120, (2010 £8,450) This relates to taxation services provided

The expenses above include nil (2010 £56,067) in respect of the write-off of goodwill, being the difference between the price paid for the assets of a business acquired in the year and the value of those assets

3 Interest payable and similar charges

	2011	2010
	£	£
Interest payable	**22,189**	29,066

Interest payable relates to bank overdrafts and other loans repayable within five years

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Notes to the financial statements (continued)

4 Directors' emoluments

	2011 £	2010 £
Aggregate Emoluments:		
Salary payments (including benefits in kind)	**449,060**	629,879
	449,060	629,879

Retirement benefits are accruing to two (2010 two) directors under a defined benefit scheme

Emoluments payable to the highest paid director are as follows	2011 £	2010 £
Salary payments (including bonus and benefits in kind)	**195,832**	402,037
	195,832	402,037

5 Employees

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

Category of employees	**Number of employees** 2011	2010
Production	**128**	125
Administration	**89**	87
	217	212

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Notes to the financial statements (continued)

6 Tax on profit on ordinary activities

	2011 £	2010 £
Profit and loss account		
United Kingdom tax based on the results for the year		
UK Corporation tax on profits of the year	**807,557**	211,304
Adjustment in respect of previous periods	**23,790**	6,908
Total current tax	**831,347**	218,212
Deferred tax		
Rate change	**25,000**	-
Origination and reversal of timing differences	**(553,630)**	39,056
Pension cost relief in excess of pension cost charge	**174,910**	132,206
Total deferred tax	**(353,720)**	171,262
Tax on profit on ordinary activities	**477,627**	389,474
Profit on ordinary activities before tax	**3,390,736**	1,440,284
Factors affecting the tax charge for the year		
The tax assessed for the period is lower (2010 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 July 2011 of 27 34% (2010 28%) The differences are explained below		
Profit on ordinary activities multiplied by standard rate of tax in the UK 27 16% (2010 28%)	**920,924**	403,280
Effects of		
Marginal relief	**-**	(12,276)
Income not taxable	**(6,626)**	(11,807)
Research and development tax credits	**-**	(79,585)
Accelerated capital allowances and other timing differences	**68,169**	65,936
Adjustments in respect of FRS17 pension treatment	**(174,910)**	(154,244)
Adjustment to tax charge in respect of previous periods	**23,790**	6,908
Current tax charge for the year	**831,347**	218,212

Balance sheet	2011 £	2010 £
(a) Liability for deferred taxation		
Deferred tax has been provided at 25% (2010 27%) on all timing differences and comprises		
Pension cost relief in excess of pension cost charge	**-**	595,026
Difference between tax allowances and depreciation	**(312,506)**	(378,902)
(Asset) / liability at end of year	**(312,506)**	216,124
Liability at start of year	**216,124**	44,862
Rate change	**25,000**	-
Transfer from profit and loss account	**(553,630)**	171,262
(Asset) / liability at end of year	**(312,506)**	216,124

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Notes to the financial statements (continued)

Deferred tax

A number of changes to the UK corporation tax system were announced in the March 2011 Budget Statement The Finance (No.3) Act 2011, which was substantively enacted on 5 July 2011, includes legislation reducing the main rate of corporation tax from 28% to 26% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014

The effect of the changes enacted in Finance (No.3) Act 2011 was to reduce the deferred tax asset at 31 August 2011 by £23,895 This decrease in the deferred tax asset increased profit in the year by £23,895. The deferred tax asset was further decreased due to the reduction in the corporation tax rate from 28% to 25% with effect from 1 April 2012 The overall effect of the further changes to the main rate of corporation tax from 26% to 23%, if applied to the deferred tax balance at 31 August 2011, would be to reduce the deferred tax asset by approximately £30,019

7 Dividends

	2011	2010
	£	£
Dividends on equity shares:		
'A' ordinary dividend paid (1 88p per share (2010 31 76p))	160,000	2,700,000

8 Tangible fixed assets

	Long Leasehold	Short Leasehold	Plant & Equipment	Motor Vehicles	Total
	£	£	£	£	£
Cost					
At beginning of year	4,100,094	31,740	19,865,435	947,112	24,944,381
Additions	-	-	89,885	96,595	186,480
Disposals	-	-	(127,982)	(13,500)	(141,482)
At end of year	**4,100,094**	**31,740**	**19,827,338**	**1,030,207**	**24,989,379**
Accumulated depreciation					
At beginning of year	2,446,219	31,740	18,320,443	628,923	21,427,325
Charge for the year	145,452	-	703,828	145,443	994,723
Eliminated in respect of disposals	-	-	(127,982)	(13,500)	(141,482)
At end of year	**2,591,671**	**31,740**	**18,896,289**	**760,866**	**22,280,566**
Net book value					
At 31 August 2011	**1,508,423**	**-**	**931,049**	**269,341**	**2,708,813**
Net book value					
At 31 August 2010	1,653,875	-	1,544,992	318,189	3,517,056

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Notes to the financial statements (continued)

9 Stocks and work in progress

	2011 £	2010 £
Raw materials and consumables	**1,790,188**	1,876,608
Work in progress	**1,027,483**	938,283
Finished goods and goods for resale	**1,379,821**	1,528,888
	4,197,492	4,343,779

10 Debtors

	2011 £	2010 £
Amounts falling due within one year:		
Trade debtors	**8,499,902**	7,140,569
Other debtors	**935,921**	120,705
Deferred tax	**312,506**	-
Prepayments and accrued income	**152,296**	125,019
	9,900,625	7,386,293

Debtors: amounts falling due after more than one year represents amounts due under finance lease arrangements, £245,864, (2010 £211,428)

11 Creditors: amounts falling due within one year

	2011 £	2010 £
Trade creditors	**8,988,622**	7,717,555
Other creditors	**716,432**	670,158
Corporation tax	**805,699**	210,502
Deferred tax	**-**	216,124
Other taxation and social security	**938,436**	375,838
Accruals and deferred income	**1,492,463**	1,468,460
	12,941,652	10,658,637

12 Creditors: amounts falling due after more than one year

	2011 £	2010 £
Other creditors	**1,249,162**	1,330,287
Accruals and deferred income	**398,132**	360,707
	1,647,294	1,690,994

Notes to the financial statements (continued)

Other creditors represents an unsecured interest-free loan of £901,313 (2010 £901,313) repayable in full after more than 5 years and a bank loan of £257,385, (2010 £428,975) repayable over 5 years The bank loan is secured against one item of plant and interest on it is payable at 2 95% above Barclays Bank base rate

13 Financial commitments

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

	2011	2010
	£	£
Expiring in 2 to 5 years	**63,000**	-
Expiring after 5 years	**390,250**	390,250
	453,250	390,250

14 Called up share capital

	2011	2010
	£	£
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
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

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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 31 August 2009	100,000	4,059,659	590,000	4,749,659
Profit for the financial year	-	1,050,810	-	1,050,850
Dividends	-	(2,700,000)	-	(2,700,000)
Actuarial loss on pension scheme	-	(955,000)	-	(955,000)
Movement on deferred tax relating to pension scheme	-	113,156	-	113,156
Balance at 31 August 2010	100,000	1,568,625	590,000	2,258,625
Profit for the financial year	-	2,913,109	-	2,913,109
Dividends	-	(160,000)	-	(160,000)
Actuarial gain on pension scheme	-	1,935,000	-	1,935,000
Movement on deferred tax relating to pension scheme	-	(566,042)	-	(566,042)
Balance at 31 August 2011	100,000	5,690,692	590,000	6,380,692
Pension scheme liability	-	697,051	-	697,051
Profit and loss reserve excluding pension liability	100,000	6,387,743	590,000	7,077,743

16 Commitments

At 31 August 2011, the company had options on forward foreign currency contracts to cover overseas transactions totalling nil, (2010: £222,020)

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 2009 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 7.4% per annum compound in service and 4 2%, post retirement, 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 £11,125,000 and the market value of the assets was sufficient to cover 61% of the technical provision which had accrued to members, after allowing for expected future increases in earnings

The pension charge for the financial year 2011 was £373,000 (2010 £383,000)

Notes to the financial statements (continued)

17 Pension scheme (continued)

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 6 April 2009 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 2011 The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price following the adoption of the amendment to FRS 17 Prior year comparatives have not been restated as the effect of a change to current bid price is not material

In July 2010, the UK government announced its intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits. These plans were finalised in December 2010. The move from RPI to CPI resulted in a decrease to retirement benefit obligations of £595,000 HPC has adopted this change at the year end as the pension scheme rules permit inflation to be based upon the 'statutory equivalent' which is now CPI. The change is considered to be a change in assumption rather than a change in obligation and has therefore been recognised as an actuarial gain in the Statement of Recognised Gains and Losses as part of the £1,935,000

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

Mortality assumptions	**2011**	2010
	Years	Years
Longevity at age 65 for current pensioners		
- Men	**20.9**	20 9
- Women	**22.8**	22 7
Longevity at age 65 for future pensioners		
- Men	**24 2**	24 1
- Women	**26.2**	26 1

Valuation assumptions	**At 31 August 2011**	At 31 August 2010
Discount rate	**5.9%**	5 2%
Retail price inflation	**3 0%**	2 8%
Pensions increases at Limited Price Indexation	**2.3%**	2 8%

Notes to the financial statements (continued)

Reconciliation of present value of scheme liabilities

	2011	2010
	£'000	£'000
Opening defined benefit obligation	18,244	16,476
Current service cost	328	254
Interest on obligation	949	989
Actuarial (gains) / losses	(2,061)	1,472
Benefits paid	(901)	(947)
Closing defined benefit obligation	16,559	18,244

Reconciliation of fair value of scheme assets

	2011	2010
	£'000	£'000
Opening fair value of plan assets	14,723	13,359
Expected return on assets	904	860
Actuarial (loss) / gain	(126)	517
Contributions	1,017	934
Benefits paid	(901)	(947)
Closing fair value of plan assets	15,617	14,723

The overall expected long term return on plan assets is a weighted average of the expected long term returns for equity securities, debt securities and other assets

The actual return on scheme assets in the year was £778,000, (2010 £1,377,000)

Management expects to contribute £782,000 to this pension plan in the year to 31 August 2012

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

	2011	2010
	£'000	£'000
Current service cost	328	254
Total operating charge	328	254

Analysis of the amount charged to other finance expense

	2011	2010
	£'000	£'000
Expected return on pension scheme assets	904	860
Interest on pension scheme liabilities	(949)	(989)
Net return	(45)	(129)

HPC plc

Notes to the financial statements (continued)

17 Pension scheme (continued)

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

	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	**(126)**	517
Experience gains and losses arising on the scheme liabilities	**(152)**	305
Changes in the assumptions underlying the present value of the scheme	**2,213**	(1,777)
Actuarial loss recognised in statement of total recognised gains and losses	**1,935**	(955)

Movement in deficit during the year

	2011 £'000	2010 £'000
Deficit in the scheme at the beginning of the year	**(3,521)**	(3,117)
Movement in the year		
Current service cost	**(328)**	(254)
Contributions	**1,017**	934
Other finance (expense) / income	**(45)**	(129)
Actuarial gain / (loss)	**1,935**	(955)
Deficit in the scheme at the end of the year	**(942)**	(3,521)
Related deferred tax asset	**245**	986
Net pension liability	**(697)**	(2,535)

History of experience gains and losses

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Total market value of plan assets	**15,617**	14,723	13,359	13,805	14,312
Present value of scheme liabilities	**(16,559)**	(18,244)	(16,476)	(16,265)	(16,734)
Deficit in the scheme	**(942)**	(3,521)	(3,117)	(2,460)	(2,422)
Experience adjustments on plan assets	**(126)**	517	(1,214)	(1,614)	306
Experience adjustments on plan liabilities	**(152)**	305	91	105	331
Amounts recognised in statement of total recognised gains and losses	**(278)**	822	(1,123)	(1,509)	637

Actuarial gains and losses

The cumulative amount of actuarial gains recognised in the statement of recognised gains and losses is £592,000

HPC plc

Notes to the financial statements (continued)

18 Related party transactions

The Company made an interest free loan to Ian Curtis, a director of the company during the year At 31 August, £700,000 was outstanding, is included within other debtors and is repayable within 5 years

The interest free £400,000 loan made by Ian Curtis and included within other creditors due within one year, was repaid on 27 January 2011

19 Subsidiary company

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

The financial statements contain information about HPC plc as an individual company and do not contain consolidated financial information as the parent of the group. The company is exempt under s400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent company Lilac Limited. The consolidated financial statements of Lilac Limited can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ

20 Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking and controlling party is Lilac Limited, a company incorporated in England and Wales