HPC plc

Annual Report

for the year ended 31 August 2013

Registered in England no: 622352

HPC plc

Annual Report for the year ended 31 August 2013

Contents

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Directors' report for the year ended 31 August 2013

Company number: 622352

The directors present their report and the audited financial statements of the company for the year ended 31 August 2013

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

	2013	2012
	£'000	£'000
Turnover	44,871	46,734
Profit before tax	3,512	3,167

Turnover for the financial year ended 31 August 2013 was slightly down on the prior year, although profitability has remained at a satisfactory level and £3 million of profits have been transferred to reserves The Company balance sheet has also been strengthened by an improvement in the funding position of the HPC Pension Plan, which reflects both the improvement in equity asset values and the continuation of recovery contributions Total shareholders' funds have increased by £4 million year on year and now stand at £10 5 million

During the year, the Company spent £3 3 million on capital expenditure, including more than £2 million on new high-speed machining centres allied to a flexible manufacturing system In addition a further £0 8 million of investment was made immediately after the balance sheet date to acquire new freehold premises that will increase productive manufacturing space

The year ended 31 August 2013 saw a record performance from the Company's Authorised Distributors and the directors would like to thank them for their continued partnership and excellence In addition, the year benefited from the first full year of our new operation in the centre of Birmingham The Company's manufacturing operations benefited as projects with new customers in the aerospace and industrial application industries came into full production To a large extent, these new customers offset reduced volume from the lower margin automotive sector

In the post balance sheet period, two new directors were appointed to the Board of the Company The two new appointments, both made from outside of our industry, represent the first new directors in nearly a decade and they have joined to participate in the next stage of the Company's development

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Directors' report (continued)

Financial risk management

The company enters into short term forward currency contracts to match its supplier payments with rates of exchange agreed with customers Two with a total value of £273,000 (2012 one, £67,000) were in place at 31 August 2013

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 £2,960,000 (2012 £2,548,000) The directors have recommended the following dividends in respect of the years ended 31 August 2013 and 31 August 2012

	2013	2012
	£'000	£'000
'A' ordinary dividend paid	**446**	168

After payment of the above dividends, £2,514,000 (2012 £2,380,000), for the financial year was transferred to the company's reserves

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Directors report (continued)

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
Neil Hunter (appointed 27 December 2013)
Jason Morgan (appointed 27 December 2013)
Trevor Stott

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

At 31 August 2013, 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 £41,350 (2012 £21,759)

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 2013 was 64 days (2012 64 days)

Auditors

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

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

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Directors' report (continued)

Statement of directors' responsibilities (continued)

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

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

24 FEBRUARY 2014
Chris Kerby
Company Secretary

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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 2013 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 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 Statement of Directors' Responsibilities set out on pages 4 to 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's 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

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

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 2013 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
- 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
24 February 2014

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Profit and loss account for the year ended 31 August 2013

	Note	2013 £'000	2012 £'000
Turnover	1	44,871	46,734
Costs of sales		31,054	33,863
Gross profit		13,817	12,871
Distribution costs		835	650
Administrative expenses		9,568	9,105
Operating profit	2	3,414	3,116
Interest receivable		6	10
Interest payable and similar charges	3	(9)	(16)
Other financial income	17	101	57
Profit on ordinary activities before taxation		3,512	3,167
Tax on profit on ordinary activity	6	(552)	(619)
Profit for the financial year		2,960	2,548

All of the operations of the company are continuing

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

Statement of total recognised gains and losses for the year ended 31 August 2013

	Note	2013 £'000	2012 £'000
Profit for the financial year		2,960	2,548
Actuarial gain / (loss) on pension scheme	17	2,266	(2,655)
Movement on deferred tax relating to pension liability		(682)	552
Total gains and losses recognised since last annual report		4,544	445

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Balance sheet at 31 August 2013

	Note	2013 £'000	2012 £'000
Tangible fixed assets	8	**4,784**	2,374
Current assets			
Stocks	9	**4,703**	4,834
Debtors	10	**10,665**	10,092
Debtors amounts falling due after more than 1 year	10	**293**	399
Cash at bank and in hand		**3,956**	3,664
		19,617	18,989
Creditors: amounts falling due within one year	11	**(12,640)**	(11,250)
Net current assets		**6,977**	7,739
Total assets less current liabilities		**11,761**	10,113
Creditors: amounts falling due after more than one year	12	**(1,248)**	(1,374)
Net assets excluding pension liability		**10,513**	8,739
Pension asset / (liability)	17	**243**	(2,081)
Net assets including pension asset / (liability)		**10,756**	6,658
Capital and reserves			
Called up share capital	14	**100**	100
Profit and loss account	15	**10,066**	5,968
Capital redemption reserve	15	**590**	590
Total shareholders' funds	15	**10,756**	6,658

The financial statements on pages 8 to 24 were approved by the Board of Directors on 24 February 2014 and were signed on its behalf by

Ian Curtis – Director

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Cash flow statement for the year ended 31 August 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	(a)	**4,630**	1,009
Returns on investments and servicing of finance			
Interest received		**6**	10
Interest paid		**(9)**	(16)
Net cash outflow from returns on investments and servicing of finance		**(3)**	(6)
Taxation			
Corporation tax		**(667)**	(1,008)
Capital expenditure			
Purchase of tangible fixed assets		**(3,261)**	(486)
Sale of tangible fixed assets		**41**	40
Net cash outflow from capital expenditure		**(3,220)**	(446)
Cash outflows from acquisitions and disposals			
Purchase of business		**-**	(331)
Equity dividends paid		**(446)**	(168)
Net cash inflow / (outflow) before use of liquid resources		**294**	(950)
Management of liquid resources			
(Decrease) / increase in treasury call account		**(1,394)**	2,501
(Decrease) / increase in cash		**(1,100)**	1,551

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 2013

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

	2013 £'000	2012 £'000
Operating profit	3,414	3,116
Amortization of purchased goodwill	-	331
Profit on sale of fixed assets	(41)	(18)
Depreciation – owned assets	851	798
Difference between pension charge and cash contributions	(640)	(837)
Decrease / (increase) in stocks	130	(637)
Increase in debtors	(410)	(396)
Increase / (decrease) / in creditors	1,326	(1,348)
Net cash inflow from operating activities	4,630	1,009

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

	2013 £'000	2012 £'000
(Decrease) / increase in cash in the year	(1,100)	1,551
Cash inflow / (outflow) from change in liquid resources	1,392	(2,501)
Movement in borrowings	118	189
Movement in the year	410	(761)
Net funds at 1 September	2,604	3,365
Net funds at 31 August	3,014	2,604

c) Analysis of net funds

	31 August 2013 £'000	Cash Flow £'000	31 August 2012 £'000
Net cash			
Cash at bank and in hand	3,956	292	3,664
Less deposits treated as liquid resources	(3,124)	(1,392)	(1,732)
	832	(1,100)	1,932
Liquid resources			
Deposits included in cash	3,124	1,392	1,732
Debt			
Debts falling due after one year	(942)	118	(1,060)
Net funds	3,014	410	2,604

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Notes to the financial statements for the year ended 31 August 2013

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

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the year, are set out below

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

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Notes to the financial statements (continued)

1 Principal accounting policies (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

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 for the year ended 31 August 2013 (continued)

1 Principal accounting policies (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 profit

		2013	2012
		£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting)			
Staff costs	- wages and salaries	**6,561**	6,417
	- Social security costs	**711**	711
	- Other pension costs (note 17)	**337**	311
Total staff costs		**7,609**	7,439
Depreciation of owned assets		**851**	798
Goodwill write off		**-**	331
Operating lease charges – land and buildings		**397**	474
(Profit) on sale of fixed assets		**(41)**	(18)
Services provided by the company's auditor			
Fees payable for the audit		**33**	33
Fees payable for other services – tax compliance		**9**	21

Included within costs of sales and administration expenses is research and development totalling £408,000 (2012 £428,000)

3 Interest payable and similar charges

	2013	2012
	£'000	£'000
Interest payable	**9**	16

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

	2013	2012
	£	£
Aggregate emoluments	589	453
	589	453

Retirement benefits are accruing to two (2012 two) directors under a defined benefit scheme

Emoluments payable to the highest paid director are as follows	2013 £	2012 £
Aggregate emoluments	265	197
	265	197

5 Employees

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

Category of employees	Number of employees	
	2013	2012
Production	137	132
Administration	90	89
	227	221

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Notes to the financial statements (continued)

6 Tax on profit on ordinary activities

	2013 £'000	2012 £'000
Profit and loss account		
United Kingdom tax based on the results for the year		
UK Corporation tax on profits of the year	**375**	489
Adjustment in respect of previous periods	**(32)**	(97)
Total current tax	**343**	392
Deferred tax		
Rate change	**8**	(5)
Origination and reversal of timing differences	**201**	26
Pension cost relief in excess of pension cost charge	**-**	206
Total deferred tax	**209**	227
Tax on profit on ordinary activities	**552**	619
Profit on ordinary activities before tax	**3,512**	3,167
Factors affecting the tax charge for the year		
The tax assessed for the period is lower (2012 lower) than the standard effective rate of corporation tax in the UK for the year ended 31 August 2013 of 23 58 % (2012 25 16%) The differences are explained below		
Profit on ordinary activities multiplied by standard rate of tax in the UK 23 58 % (2012 25 16%)	**828**	797
Effects of		
Expenses not allowable	**4**	3
Research and development tax credits	**(104)**	(110)
Accelerated capital allowances and other timing differences	**(178)**	24
Adjustments in respect of FRS17 pension treatment	**(175)**	(225)
Adjustment to tax charge in respect of previous periods	**(32)**	(97)
Current tax charge for the year	**343**	392

Balance sheet	**2013 £'000**	2012 £'000
(a) Assets for deferred taxation		
Deferred tax has been provided at 20% (2012 23%) on all timing differences and comprises		
Difference between tax allowances and depreciation	**(52)**	(261)
Asset at end of year	**(52)**	(261)
Asset at start of year	**(261)**	(313)
Rate change	**8**	26
Origination and reversal of timing differences	**201**	26
Asset at end of year	**(52)**	(261)

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Notes to the financial statements (continued)

6 Tax on profit on ordinary activities (continued)

Factors affecting current and future tax charges

Durıng the year, as a result of the changes ın the UK corporatıon tax rate to 23%, whıch was substantıally enacted on 3 July 2012 and was effectıve from 1 Aprıl 2013 and to 20%, whıch was substantıally enacted on 2 July 2013 and wıll be effectıve from 1 Aprıl 2015, the relevant deferred tax balances have been remeasured

7 Dividends

	2013 £'000	2012 £'000
Dıvıdends on equıty shares:		
'A' ordınary dıvıdend paıd £5 25 per share (2012 £1 98)	**446**	168

8 Tangible fixed assets

	Long Leasehold £'000	Short Leasehold £'000	Plant & Equıpment £'000	Motor Vehıcles £'000	Total £'000
Cost					
At begınnıng of year	4,100	32	19,629	1,013	24,774
Addıtıons	-	-	3,081	180	3,261
Dısposals	-	-	(457)	(146)	(603)
At end of year	**4,100**	**32**	**22,253**	**1,047**	**27,432**
Accumulated depreciatıon					
At begınnıng of year	2,737	32	19,026	605	22,400
Charge for the year	145	-	526	180	851
Dısposals	-	-	(457)	(146)	(603)
At end of year	**2,882**	**32**	**19,095**	**639**	**22,648**
Net book value					
At 31 August 2013	**1,217**	**-**	**3,158**	**408**	**4,784**
Net book value					
At 31 August 2012	1,363	-	603	408	2,374

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Notes to the financial statements (continued)

9 Stocks

	2013 £'000	2012 £'000
Raw materials and consumables	**2,538**	2,068
Work in progress	**716**	1,178
Finished goods and goods for resale	**1,449**	1,588
	4,703	4,834

10 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Trade debtors	**7,973**	7,336
Other debtors	**2,488**	2,317
Deferred tax	**52**	261
Prepayments and accrued income	**152**	178
	10,665	10,092

Amounts falling due after more than one year represents amounts due under finance lease arrangements of £293,000 (2012 £399,000)

11 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	**8,101**	7,610
Other creditors	**331**	496
Corporation tax	**127**	189
Other taxation and social security	**1,127**	1,085
Accruals and deferred income	**2,954**	1,870
	12,640	11,250

12 Creditors: amounts falling due after more than one year

	2013 £'000	2012 £'000
Other creditors	**942**	1,060
Accruals and deferred income	**306**	314
	1,248	1,374

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Notes to the financial statements (continued)

12 Creditors: amounts falling due after more than one year (continued)

Other creditors include an unsecured, interest-free, non-instalment loan of £901,000 (2012 £901,000) 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

	2013	2012
	£'000	£'000
Expiring in less than 1 year	**-**	63
Expiring in 2 to 5 years	**186**	200
Expiring after 5 years	**211**	211
	397	474

14 Called up share capital

	2013	2012
	£'000	£'000
Authorised:		
Equity shares		
85,000 (2012 85,000) 'A' ordinary shares of £1 each	**85**	85
15,000 (2012 15,000) 'B' ordinary shares of £1 each	**15**	15
	100	100
Allotted, called up and fully paid		
Equity shares		
85,000 (2012 85,000) 'A' ordinary shares of £1 each	**85**	85
15,000 (2012 15,000) 'B' ordinary shares of £1 each	**15**	15
	100	100

Notes to the financial statements (continued)

15 Reconciliation of movement in shareholders' funds

Movements in shareholders' funds	Share capital £'000	Profit & loss account £'000	Capital redemption reserve £'000	Total shareholders' funds £'000
Balance at 1 September 2011	100	5,691	590	6,381
Profit for the financial year	-	2,548	-	2,548
Dividends	-	(168)	-	(168)
Actuarial loss on pension scheme		(2,655)		(2,655)
Movement on deferred tax relating to pension scheme	-	552	-	552
Balance at 1 September 2012	100	5,968	590	6,658
Profit for the financial year	-	2,960	-	2,960
Dividends	-	(446)	-	(446)
Actuarial gain on pension scheme	-	2,266	-	2,266
Movement on deferred tax relating to pension scheme	-	(682)	-	(682)
Balance at 31 August 2013	100	10,066	590	10,756
Pension scheme asset	-	(243)	-	(243)
Profit and loss reserve excluding pension asset	100	9,823	590	10,513

16 Commitments

At 31 August 2013, the company had capital commitments totalling £861,000 (2012 £1,800,000)

At 31 August 2013, the company had options on forward foreign currency contracts to cover overseas transactions totalling £273,000 (2012 £67,000)

17 Pension scheme

FRS 17 - Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 6 April 2012 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 2013 The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price

Notes to the financial statements (continued)

17 Pension scheme (continued)

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

Mortality assumptions	2013	2012
	Years	Years
Longevity at age 65 for current pensioners		
- Men	21.1	21 0
- Women	22.8	22 9
Longevity at age 65 for future pensioners		
- Men	23.4	24 3
- Women	25.3	26 3

Valuation assumptions	At 31 August 2013	At 31 August 2012
Discount rate	4.9%	4 4%
Retail price inflation	3 0%	2 4%
Pensions increases at Limited Price Indexation	2.0%	1 7%

Reconciliation of present value of scheme liabilities

	2013 £'000	2012 £'000
Opening defined benefit obligation	19,843	16,559
Current service cost	290	270
Interest on obligation	873	977
Actuarial (gain) / loss	(1,100)	3,176
Benefits paid	(938)	(1,139)
Closing defined benefit obligation	18,968	19,843

Reconciliation of fair value of scheme assets

	2013 £'000	2012 £'000
Opening fair value of plan assets	17,140	15,617
Expected return on assets	974	1,034
Actuarial gain	1,166	521
Contributions	930	1,107
Benefits paid	(938)	(1,139)
Closing fair value of plan assets	19,272	17,140

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

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Notes to the financial statements (continued)

17 Pension scheme (continued)

The actual return on scheme assets in the year was £2,140,000 (2011 £1,555,000) Management expects to contribute £800,000, to this pension plan in the year to 31 August 2014

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

	2013 £'000	2012 £'000
Current service cost	290	270
Total operating charge	290	270

Analysis of the amount charged to other finance expense

	2013 £'000	2012 £'000
Expected return on pension scheme assets	974	1,034
Interest on pension scheme liabilities	(873)	(977)
Net return	101	57

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

	2013 £'000	2012 £'000
Actual return less expected return on pension scheme assets	1,166	521
Experience losses arising on the scheme liabilities	(117)	(46)
Changes in the assumptions underlying the present value of the scheme	1,217	(3,130)
Actuarial gain / (loss) recognised in statement of total recognised gains and losses	2,266	(2,655)

Movement in deficit during the year

	2013 £'000	2012 £'000
Deficit in the scheme at the beginning of the year	(2,703)	(942)
Movement in the year		
Current service cost	(290)	(270)
Contributions	930	1,107
Other finance income	101	57
Actuarial gain / (loss)	2,266	(2,655)
Surplus / (deficit) in the scheme at the end of the year	304	(2,703)
Related deferred tax (liability) / asset	(67)	622
Net pension asset / (liability)	237	(2,081)

Notes to the financial statements (continued)

17 Pension scheme (continued)

History of experience gains and losses

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Total market value of plan assets	**19,272**	17,140	15,617	14,723	13,359
Present value of scheme liabilities	**(18,968)**	(19,843)	(16,559)	(18,244)	(16,476)
Surplus / (deficit) in the scheme	**304**	(2,703)	(942)	(3,521)	(3,117)
Experience adjustments on plan assets	**1,166**	521	(126)	517	(1,214)
Experience adjustments on plan liabilities	**(117)**	(46)	(152)	305	91
Amounts recognised in statement of total recognised gains and losses	**1,049**	475	(278)	822	(1,123)

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £2,369,000 (2012 £4,635,000)

18 Related party transactions

During the year, the company made an interest free loan to Ian Curtis, a director and ultimate controlling party of the group At 31 August, £1,750,000 (2012 £1,650,000) was outstanding and is included within other debtors

Lease payments totalling £76,500 (2012 £58,025) were made to the pension plan of Ian Curtis These were arms length transactions made in respect of properties used in the trade of HPC plc

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 undertaking, Lilac Limited The consolidated financial statements of Lilac Limited can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ

HPC plc

Notes to the financial statements (continued)

20 Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking is Lilac Limited, a company incorporated in England and Wales. Lilac Limited is the smallest and largest group to consolidate the company's financial statements. Ian Curtis, a director of the company, is considered to be the ultimate controlling party