

HPC plc

Annual Report

for the year ended 31 August 2010

Registered in England no: 622352

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HPC plc

Annual Report for the year ended 31 August 2010

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HPC plc

Company number: 622352

Directors' report for the year ended 31 August 2010

The directors present their report and the audited financial statements of the company for the year ended 31 August 2010

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

	2010	2009
	£'000	£'000
Turnover	36,532	31,681
Profit before tax	1,440	338

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. During the financial year ended 31 August 2010, the company experienced gradual improvements following the effects of the global recession that had had a negative impact on reported financial performance in 2009. During 2010, both of HPC's trading divisions drew benefits from the restocking of inventories by Original Equipment Manufacturers ("OEMs") and from the release of suspended capital equipment replacement programmes.

HPC Compressed Air Systems continued to experience an improving share of the industrial compressed air market. HPC's market share was driven by the performance of our industrial distributor network and it was pleasing to see the appointment of new authorised distributors during the year. The year also saw the opening of new sales and service operations in both Devon and Norfolk. These new businesses, which are designed to complement our nationwide network of authorised distributors, both strengthen our after sales service offering and bring us closer to our customers.

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). Precision Engineering customers have recovered strongly from the unprecedented declines seen during 2009. Factory outputs in the UK, the Eurozone and the US have all rebounded more strongly than initially anticipated and activity levels in HPC's manufacturing facilities have mirrored this. The most significant challenge now facing the company comes from the rapidly rising prices of raw materials and the inflationary pressure that this places on OEM customers.

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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

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 £1,050,810 (2009 £370,733). The directors have recommended the following dividends in respect of the years ended 31 August 2010 and 31 August 2009

	2010	2009
	£'000	£'000
'A' ordinary dividend paid	<u>2,700</u>	<u>565</u>

After payment of the above dividends, £(1,649,190) (2009 £(194,267)) for the financial year will be transferred from the company's reserves

Directors and their interests

The directors of the company at 31 August 2010 are listed below

I Curtis
J Hunter
T 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 2010, 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 £4,200 (2009 £3,282).

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 2010 was 65 days (2009 62 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.

Statement of directors' responsibilities

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

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

- select suitable accounting policies and 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 and 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



Secretary
25 February 2011

HPC plc

Independent auditors' report to the members of HPC plc

We have audited the financial statements of HPC plc for the year ended 31 August 2010 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 Generally Accepted Accounting Practice.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 and 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 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.

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 2010 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.

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Independent auditors' report (continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' 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



Christopher Maidment
Senior Statutory Auditor
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick, 28 February 2011

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Profit and loss account for the year ended 31 August 2010

	Notes	2010 £	2009 £
Turnover	1	36,531,719	31,681,049
Net expenses	2	(34,936,656)	(31,313,841)
Operating profit		1,595,063	367,208
Interest receivable		3,287	14,177
Interest payable and similar charges	3	(29,066)	(25,504)
Other finance income	17	(129,000)	(18,000)
Profit on ordinary activities before taxation		1,440,284	337,881
Tax on profit on ordinary activities	6	(389,474)	32,852
Profit for the financial year		1,050,810	370,733

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 2010

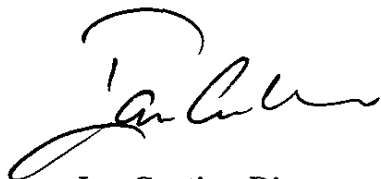
	Notes	2010 £	2009 £
Profit for the financial year		1,050,810	370,733
Actuarial (loss) / gain on pension scheme	17	(955,000)	(1,103,000)
Movement on deferred tax relating to pension liability		113,156	184,008
Total gains and losses recognised since last annual report		208,966	(548,259)

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Balance sheet at 31 August 2010

	Notes	2010 £	2009 £
Tangible fixed assets	8	3,517,056	4,263,575
Current assets			
Stocks and work in progress	9	4,343,779	3,725,111
Debtors	10	7,386,293	5,971,100
Debtors amounts falling due after more than 1 year	10	211,428	276,150
Cash at bank and in hand		1,684,799	2,467,011
		13,626,299	12,439,372
Creditors: amounts falling due within one year	11	(10,658,637)	(7,550,658)
Net current assets		2,967,662	4,888,714
Total assets less current liabilities		6,484,718	9,152,289
Creditors amounts falling due after more than one year	12	(1,690,994)	(2,158,502)
Net assets excluding pension liability		4,793,724	6,993,787
Pension liability	17	(2,535,099)	(2,244,128)
Net assets including pension liability		2,258,625	4,749,659
Capital and reserves			
Called up share capital	14	100,000	100,000
Profit and loss account	15	1,568,625	4,059,659
Capital redemption reserve	15	590,000	590,000
Total shareholders' funds	15	2,258,625	4,749,659

The financial statements on pages 7 to 23 were approved by the Board of Directors on 25th February 2011 and were signed on its behalf by



Ian Curtis – Director

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Cash flow statement for the year ended 31 August 2010

	Notes	2010 £	2009 £
Net cash inflow from operating activities	(a)	2,315,913	1,629,227
Returns on investments and servicing of finance			
Interest received		3,287	14,177
Interest paid		(29,066)	(25,504)
Net cash (outflow) / inflow from returns on investments and servicing of finance		(25,779)	(11,327)
Taxation			
Corporation tax		131,560	(182,646)
Capital expenditure			
Purchase of tangible fixed assets		(487,718)	(319,939)
Sale of tangible fixed assets		39,879	18,865
Net cash outflow from capital expenditure		(447,839)	(301,074)
Cash outflows from acquisitions and disposals			
Purchase of business		(56,067)	-
Equity dividends paid		(2,700,000)	(565,000)
Net cash (outflow) / inflow before use of liquid resources		(782,212)	569,180
Management of liquid resources			
Decrease / (increase) in treasury call account		1,203,680	(412,606)
Increase / (decrease) in cash		421,468	156,574

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 2010

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

	2010 £	2009 £
Operating profit	1,595,063	367,208
Amortization of purchased goodwill	56,067	-
(Profit) / loss on sale of fixed assets	(37,761)	4,565
Depreciation – owned assets	1,232,119	1,403,512
Difference between pension charge and cash contributions	(679,873)	(463,827)
(Increase) / decrease in stocks	(618,668)	856,834
(Increase) / decrease in debtors	(1,489,742)	1,775,869
Increase / (decrease) in creditors	2,258,708	(2,314,934)
Net cash inflow from operating activities	2,315,913	1,629,227

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

	2010 £	2009 £
Increase / (decrease) in cash in the year	421,468	156,574
Cash (outflow) / inflow from change in liquid resources	(1,203,680)	412,606
Movement in borrowings	343,180	(772,154)
Movement in the year	(439,032)	202,974
Net funds at 1 September	793,544	996,518
Net funds at 31 August	354,512	793,544

c) Analysis of net funds

	31 August 2009 £	Cash Flow £	31 August 2010 £
Net cash			
Cash at bank and in hand	2,467,011	(782,212)	1,684,799
Less deposits treated as liquid resources	(2,347,000)	1,203,680	(1,143,320)
	120,011	421,468	541,479
Liquid resources			
Deposits included in cash	2,347,000	(1,203,680)	1,143,320
Debt			
Debts falling due after one year	(1,673,467)	343,180	(1,330,287)
Net funds	793,544	(439,032)	354,512

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Notes to the financial statements for the year ended 31 August 2010

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.

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)

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

- 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 period is charged to operating profit. The expected return on the scheme's assets and the increase during the period 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 Net expenses

	2010 £	2009 £
Other operating income	157,568	(127,617)
Change in stock of materials, finished goods and work in progress	(618,667)	856,834
Raw materials and consumables purchased	22,702,410	18,817,259
Other external charges	4,156,120	2,939,815
Staff costs - wages and salaries	5,988,687	5,891,520
- social security costs	640,694	608,611
- other pension costs	306,486	507,476
Depreciation of owned assets	1,232,119	1,406,378
Operating lease charges – land and buildings	378,500	378,500
Auditors' remuneration for audit services	30,500	30,500
(Profit) / loss on sale of fixed assets	(37,761)	4,565
	<u>34,936,656</u>	<u>31,313,841</u>

Remuneration of the company's auditors for provision of non-audit services to the company was £8,450 (2009 £15,750). This relates to taxation services provided.

The expenses above include £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

	2010 £	2009 £
Interest payable	<u>29,066</u>	<u>25,504</u>

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

HPC plc

Notes to the financial statements (continued)

4 Directors' emoluments

	2010 £	2009 £
Aggregate Emoluments:		
Salary payments (including benefits in kind)	629,879	402,561
Pension	-	30,000
	<u>629,879</u>	<u>432,561</u>

Retirement benefits are accruing to two (2009 two) directors under a defined benefit scheme

Emoluments payable to the highest paid director are as follows	2010 £	2009 £
Salary payments (including bonus and benefits in kind)	402,037	230,529
Pension	-	30,000
	<u>402,037</u>	<u>260,529</u>

5 Employees

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

Category of employees	Number of employees	
	2010	2009
Production	125	127
Administration	87	92
	<u>212</u>	<u>219</u>

HPC plc

Notes to the financial statements (continued)

6 Tax on profit on ordinary activities

	2010 £	2009 £
Profit and loss account		
United Kingdom tax based on the results for the year		
UK Corporation tax on profits of the year	211,304	(131,660)
Adjustment in respect of previous periods	6,908	19,674
Total current tax	<u>218,212</u>	<u>(111,986)</u>
Deferred tax		
Origination and reversal of timing differences	39,056	(55,778)
Pension cost relief in excess of pension cost charge	132,206	134,912
Total deferred tax	<u>171,262</u>	<u>79,134</u>
Tax on profit on ordinary activities	<u>389,474</u>	<u>(32,852)</u>
 Profit on ordinary activities before tax	 <u>1,440,284</u>	 <u>337,881</u>
Profit on ordinary activities multiplied by standard rate of tax in the UK 28% (2009 28%)	403,280	94,607
Effects of		
Marginal relief	(12,276)	-
Expenses not deductible for tax purposes	(11,807)	3,135
Research and development tax credits	(79,585)	(150,268)
Accelerated capital allowances and other timing differences	65,936	55,778
Adjustments in respect of FRS17 pension treatment	(154,244)	(134,912)
Adjustment to tax charge in respect of previous periods	6,908	19,674
Current tax charge / (credit) for the year	<u>218,212</u>	<u>(111,986)</u>
 Balance sheet	 2010 £	 2009 £
(a) Liability/(asset) for deferred taxation		
Deferred tax has been provided at 27% (2009 28%) on all timing differences and comprises		
Pension cost relief in excess of pension cost charge	595,026	462,820
Difference between tax allowances and depreciation	(378,902)	(417,958)
Liability/(asset) at end of year	<u>216,124</u>	<u>44,862</u>
 Liability / (asset) at start of year	 44,862	 (34,272)
Transfer from profit and loss account	171,262	79,134
Liability/(asset) at end of year	<u>216,124</u>	<u>44,862</u>

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Notes to the financial statements (continued)

7 Dividends

	2010 £	2009 £
Dividends on equity shares		
'A' ordinary dividend paid (31 76p per share (2009 6 65p))	<u>2,700,000</u>	<u>565,000</u>

8 Tangible fixed assets

	Long Leasehold £	Short Leasehold £	Plant & Equipment £	Motor Vehicles £	Total £
Cost					
At beginning of year	4,100,094	31,740	19,862,845	894,298	24,888,977
Additions	-	-	315,854	171,864	487,718
Disposals	-	-	(313,264)	(119,050)	(432,314)
At end of year	<u>4,100,094</u>	<u>31,740</u>	<u>19,865,435</u>	<u>947,112</u>	<u>24,944,381</u>
Accumulated depreciation					
At beginning of year	2,300,779	31,740	17,679,584	613,299	20,625,402
Charge for the year	145,440	-	952,005	134,674	1,232,119
Eliminated in respect of disposals	-	-	(311,146)	(119,050)	(430,196)
At end of year	<u>2,446,219</u>	<u>31,740</u>	<u>18,320,443</u>	<u>628,923</u>	<u>21,427,325</u>
Net book value					
At 31 August 2010	<u>1,653,875</u>	<u>-</u>	<u>1,544,992</u>	<u>318,189</u>	<u>3,517,056</u>
Net book value					
At 31 August 2009	<u>1,799,315</u>	<u>-</u>	<u>2,183,261</u>	<u>280,999</u>	<u>4,263,575</u>

9 Stocks and work in progress

	2010 £	2009 £
Raw materials	1,876,608	1,312,735
Work in progress	938,283	1,022,447
Finished goods	1,528,888	1,389,929
	<u>4,343,779</u>	<u>3,725,111</u>

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Notes to the financial statements (continued)

10 Debtors

	2010 £	2009 £
Amounts falling due within one year:		
Trade debtors	7,140,569	5,144,568
Other debtors	120,705	534,072
Corporation tax	-	138,468
Prepayments and accrued income	125,019	153,992
	<u>7,386,293</u>	<u>5,971,100</u>

Debtors amounts falling due after more than one year represents amounts due under finance lease arrangements

11 Creditors: amounts falling due within one year

	2010 £	2009 £
Trade creditors	7,717,555	5,442,999
Other creditors	670,158	178,996
Corporation tax	210,502	-
Deferred tax	216,124	44,862
Other taxation and social security	375,838	529,720
Accruals and deferred income	1,468,460	1,354,081
	<u>10,658,637</u>	<u>7,550,658</u>

12 Creditors: amounts falling due after more than one year

	2010 £	2009 £
Other creditors	1,330,287	1,673,467
Accruals and deferred income	360,707	485,035
	<u>1,690,994</u>	<u>2,158,502</u>

Other creditors represents an unsecured interest-free loan of £901,313 (2009 £901,313) repayable in full after more than 5 years and a bank loan of £428,975 (2009 £772,154) 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.

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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

	2010 £	2009 £
Expiring after 5 years	<u>390,250</u>	<u>390,250</u>

14 Called up share capital

	2010 £	2009 £
Authorised		
Equity shares		
85,000 'A' ordinary shares of £1 each	85,000	85,000
15,000 'B' ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
	<u>100,000</u>	<u>100,000</u>
		2008 £
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	<u>15,000</u>	<u>15,000</u>
	<u>100,000</u>	<u>100,000</u>

15 Reconciliation of movement in shareholders' funds

Movements in shareholders' funds	Share capital £	Profit and loss £	Capital redemption reserve £	Total Share- holders' funds £
Balance at 31 August 2009	100,000	4,059,659	590,000	4,749,659
Profit for the financial year	-	1,050,810	-	1,050,810
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	<u>100,000</u>	<u>1,568,625</u>	<u>590,000</u>	<u>2,258,625</u>
Pension scheme liability	-	2,535,099	-	2,535,099
Profit and loss reserve excluding pension liability	<u>100,000</u>	<u>4,103,724</u>	<u>590,000</u>	<u>4,793,724</u>

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Notes to the financial statements (continued)

16 Commitments

At 31 August 2010, the company had options on forward foreign currency contracts to cover overseas transactions totalling £222,020 (2009 £96,093)

The company has no capital commitments (2009 £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 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 2010 was £170,008 (2009 £341,563)

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 6 April 2006 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 2010. 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.

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

Mortality assumptions	2010	2009
	Years	Years
Longevity at age 65 for current pensioners		
- Men	20.9	20.8
- Women	22.7	22.6
Longevity at age 65 for future pensioners		
- Men	24.1	24.0
- Women	26.1	26.0

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Notes to the financial statements (continued)

17 Pension Scheme (continued)

Valuation assumptions	At 31 August 2010	At 31 August 2009
Discount rate	5.2%	6.0%
Retail price inflation	2.8%	2.7%
Pensions increases at Limited Price Indexation	2.8%	2.7%

	Long term rate of return expected at 31 Aug 2010 %	Value at 31 Aug 2010 £'000	Long term rate of return expected at 31 Aug 2009 %	Value at 31 Aug 2009 £'000	Long term rate of return expected at 31 Aug 2008 %	Value at 31 Aug 2008 £'000	Long term rate of return expected at 31 Aug 2007 %	Value at 31 Aug 2007 £'000	Long term rate of return expected at 31 Aug 2006 %	Value at 31 Aug 2006 £'000
Equities	7.1	9,581	7.3	8,644	7.9	8,908	7.9	11,685	7.4	10,490
Bonds	4.8	4,612	5.5	4,071	6.0	3,761	6.0	2,086	4.6	1,817
Other	0.5	530	0.5	644	6.0	1,136	6.0	541	4.6	507
Total market value of assets		<u>14,723</u>		<u>13,359</u>		<u>13,805</u>		<u>14,312</u>		<u>12,814</u>
Present value of scheme liabilities		(18,244)		(16,476)		(16,265)		(16,734)		(16,664)
Related deferred tax assets		<u>986</u>		<u>873</u>		<u>689</u>		<u>727</u>		<u>1,155</u>
Net pension liability		<u>(2,535)</u>		<u>(2,244)</u>		<u>(1,771)</u>		<u>(1,695)</u>		<u>(2,695)</u>

Reconciliation of present value of scheme liabilities

	2010 £'000	2009 £'000
Opening defined benefit obligation	16,476	16,265
Current service cost	254	319
Interest on obligation	989	1,008
Actuarial losses	1,472	(111)
Benefits paid	(947)	(1,005)
Closing defined benefit obligation	<u>18,244</u>	<u>16,476</u>

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Notes to the financial statements (continued)

17 Pension Scheme (continued)

Reconciliation of fair value of scheme assets

	2010 £'000	2009 £'000
Opening fair value of plan assets	13,359	13,805
Expected return on assets	860	990
Actuarial gain / (loss)	517	(1,214)
Contributions	934	783
Benefits paid	(947)	(1,005)
Closing fair value of plan assets	<u>14,723</u>	<u>13,359</u>

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 £1,377,000 (2009 £(224,000))

Management expects to contribute £552,000 to this pension plan in the year to 31 August 2011

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

	2010 £'000	2009 £'000
Current service cost	254	319
Total operating charge	<u>254</u>	<u>319</u>

Analysis of the amount charged to other finance income

	2010 £'000	2009 £'000
Expected return on pension scheme assets	860	990
Interest on pension scheme liabilities	(989)	(1,008)
Net return	<u>(129)</u>	<u>(18)</u>

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Notes to the financial statements (continued)

17 Pension Scheme (continued)

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

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	517	(1,214)
Experience gains and losses arising on the scheme liabilities	305	91
Changes in the assumptions underlying the present value of the scheme	(1,777)	20
Actuarial loss recognised in statement of total recognised gains and losses	<u>(955)</u>	<u>(1,103)</u>

Movement in deficit during the year

	2010 £'000	2009 £'000
Deficit in the scheme at the beginning of the year	(3,117)	(2,460)
Movement in the year		
Current service cost	(254)	(319)
Contributions	934	783
Other finance (expense) / income	(129)	(18)
Actuarial loss	(955)	(1,103)
Deficit in the scheme at the end of the year	<u>(3,521)</u>	<u>(3,117)</u>
Related deferred tax asset	986	873
Net pension liability	<u>(2,535)</u>	<u>(2,244)</u>

History of experience gains and losses

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Total market value of plan assets	14,723	13,359	13,805	14,312	12,814
Present value of scheme liabilities	(18,244)	(16,476)	(16,265)	(16,734)	(16,664)
Deficit in the scheme	<u>(3,521)</u>	<u>(3,117)</u>	<u>(2,460)</u>	<u>(2,422)</u>	<u>(3,850)</u>
Experience adjustments on plan assets	517	(1,214)	(1,614)	306	563
Experience adjustments on plan liabilities	305	91	105	331	(2)
Amounts recognised in statement of total recognised gains and losses	<u>822</u>	<u>(1,123)</u>	<u>(1,509)</u>	<u>637</u>	<u>561</u>

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Notes to the financial statements (continued)

18 Related Party Transactions

Ian Curtis, a director made an interest free loan to the company during the year. At 31st August, £400,000 was outstanding and this was repaid to him following the year end.

The interest free £500,000 loan to its ultimate parent company was repaid on 1st September 2009.

19 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 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 Company

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