

HPC plc

Annual Report

for the year ended 31 August 2018

Registered in England no: 622352



HPC plc

Annual Report for the year ended 31 August 2018

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Strategic report for the year ended 31 August 2018

HPC plc is a privately owned company whose business is predominantly the production, distribution and servicing of air compressors and ancillary equipment and the provision of sub-contract precision engineering services.

Business review

| | 2018 | 2017 |
|-------------------|--------|--------|
| | £'000 | £'000 |
| Turnover | 43,854 | 42,219 |
| Profit before tax | 5,605 | 3,699 |

The increase in turnover reflects a further period of steady activity, with the ongoing focus on operational efficiencies also resulting in improved profitability.

Future developments

HPC will continue to focus its precision engineering services on long term, mutually profitable relationships with blue-chip manufacturing companies in the UK and internationally. HPC Precision Engineering is now validating new business opportunities to complement its existing services and enhance future profits. HPC Compressed Air Systems continues to grow its nationwide business and its international partnership with Kaeser Kompressoren, who share the same philosophy of low life-cycle costs and reliable compressed air availability.

At the time of writing, there continues to be significant uncertainty as the decision by the UK to leave the European Union unfolds. We continue to research the implications of potential tariffs and quota restrictions and plan for the potential impact on European based supplies.

Key performance indicators

| | 2018 | 2017 |
|---------------------------------------|-------|-------|
| | £'000 | £'000 |
| Cash at hand and in bank | 8,069 | 7,599 |
| Cash inflow from operating activities | 3,824 | 5,619 |
| Return on capital employed | 51.4% | 46.6% |

Financial risk management

HPC is, to a large degree, naturally hedged in its exposure to foreign currency, although this will be kept under constant review, particularly as the implications of the UK's exit from the European Union become better understood.

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Strategic 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 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.

On behalf of the board



Ian Curtis
Director

26 February 2019

HPC plc

Directors' report for the year ended 31 August 2018

Registered in England no: 622352

The directors present their report and the audited financial statements of the company for the year ended 31 August 2018.

The business review, future developments and financial risk management of the company can be found in the Strategic Report on pages 2 to 3.

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 activities include 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. During the year, the company has invested in a number of exciting new research and development projects.

Results and dividends

The company's profit after tax for the financial year is £4,624,000 (2017: £2,881,000). The directors have recommended the following dividends in respect of the years ended 31 August 2018 and 31 August 2017:

| | 2018 | 2017 |
|-----------------------------|-------|-------|
| | £'000 | £'000 |
| 'A' ordinary dividends paid | 2,550 | 1,748 |

After payment of the above dividends, £1,990,000 for the financial year was transferred to the company's reserves (2017: £3,937,000 to 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
Jason Morgan
Ian Ratcliff
Trevor Stott

HPC plc

Directors' report (continued)

Registered in England no: 622352

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

At 31 August 2018, 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.

Independent 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 Strategic report, 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" 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, including FRS 102, 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.

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Directors' report (continued)

Registered in England no: 622352

Directors' indemnity statement

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Disclosure of information to auditors

Each person who was a director in office at the date this report was approved confirms, as required by Section 418 of the Companies Act 2006, that to the best of his knowledge and belief:

- there is no significant information known to the director relevant to the audit, of which the company's auditors are unaware; and
- each director has taken reasonable steps to make him aware of such information as a director and to establish that the company's auditors are aware of that information.

By order of the board



Nikki Crossley
Company Secretary

26 February 2019

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Independent auditors' report to the members of HPC plc

Report on the audit of the financial statements

Opinion

In our opinion, HPC plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2018 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 August 2018; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months, from the date when the financial statements are authorised for issue.

Independent auditors' report (continued)

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

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Independent auditors' report (continued)

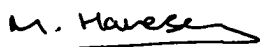
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Matthew Haverson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

26 February 2019

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Statement of comprehensive income for the year ended 31 August 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|------|---------------|---------------|
| Turnover | | 43,854 | 42,219 |
| Costs of sales | | (27,706) | (27,150) |
| Gross profit | | 16,148 | 15,069 |
| Distribution costs | | (896) | (833) |
| Administrative expenses | | (9,659) | (10,471) |
| Operating profit | 4 | 5,593 | 3,765 |
| Interest receivable and similar income | | 1 | 2 |
| Interest payable and similar charges | 5 | (1) | (1) |
| Other financial income/(expense) | | 12 | (67) |
| Profit on ordinary activities before taxation | | 5,605 | 3,699 |
| Tax on profit on ordinary activities | 8 | (981) | (818) |
| Profit for the financial year | | 4,624 | 2,881 |
| Actuarial (loss)/gain on pension scheme | 17 | (101) | 3,378 |
| Movement on deferred tax relating to pension scheme | | 17 | (574) |
| Total comprehensive income recognised since last Annual Report | | 4,540 | 5,685 |

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.

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Statement of financial position at 31 August 2018

| | Note | 2018 £'000 | 2017 £'000 |
|--|------|-----------------|-----------------|
| Tangible fixed assets | 10 | <u>3,740</u> | <u>4,221</u> |
| Current assets | | | |
| Stocks | 11 | 4,433 | 4,014 |
| Debtors: amounts falling due within 1 year | 12 | 7,657 | 7,573 |
| Debtors: amounts falling due after more than 1 year | 12 | 54 | 72 |
| Cash at bank and in hand | | 8,069 | 7,599 |
| | | <u>20,213</u> | <u>19,258</u> |
| Creditors: amounts falling due within one year | 13 | <u>(11,219)</u> | <u>(12,214)</u> |
| Net current assets | | <u>8,994</u> | <u>7,044</u> |
| Total assets excluding pension asset less current liabilities | | 12,734 | 11,265 |
| Creditors: amounts falling due after more than one year | 14 | <u>(1,435)</u> | <u>(1,574)</u> |
| Net assets excluding pension asset | | <u>11,299</u> | <u>9,691</u> |
| Pension asset | 17 | <u>588</u> | <u>206</u> |
| Net assets including pension asset | | <u>11,887</u> | <u>9,897</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 100 | 100 |
| Profit and loss account | | 11,197 | 9,207 |
| Capital redemption reserve | | 590 | 590 |
| Total shareholders' funds | | <u>11,887</u> | <u>9,897</u> |

The financial statements on pages 11 to 27 were approved by the Board of Directors on 26 February 2019 and were signed on its behalf by:



Ian Curtis – Director
HPC plc

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Statement of changes in equity for the year ended 31 August 2018

| Movements in shareholders' funds | Called up share capital £'000 | Profit and Loss account £'000 | Capital Redemption reserve £'000 | Total £'000 |
|---|--|--|---|----------------|
| Balance as at 1 September 2016 | 100 | 5,270 | 590 | 5,960 |
| Total comprehensive income for the financial year | - | 5,685 | - | 5,685 |
| Dividends paid | - | (1,748) | - | (1,748) |
| Balance as at 31 August 2017 | 100 | 9,207 | 590 | 9,897 |
| Total comprehensive income for the financial year | - | 4,540 | - | 4,540 |
| Dividends paid | - | (2,550) | - | (2,550) |
| Balance as at 31 August 2018 | 100 | 11,197 | 590 | 11,887 |

Statement of cash flows for the year ended 31 August 2018

| | Note | 2018 £'000 | 2017 £'000 |
|--|------|----------------|----------------|
| Net cash inflow from operating activities | (a) | 3,824 | 5,619 |
| Cash flow from financing activities | | | |
| Interest received | | 1 | 2 |
| Interest paid | | (1) | (1) |
| Equity dividends paid | | (2,550) | (1,748) |
| Net cash outflow on financing activities | | (2,550) | (1,747) |
| Taxation | | | |
| Corporation tax paid | | (678) | (423) |
| Cash flow from investing activities | | | |
| Purchase of tangible fixed assets | | (143) | - |
| Sale of tangible fixed assets | | 17 | 17 |
| Net cash (outflow) / inflow from investing activities | | (126) | 17 |
| Net cash inflow before use of liquid resources | | 470 | 3,466 |
| Increase in cash | | 470 | 3,466 |

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

HPC plc

Notes to the statement of cash flows for the year ended 31 August 2018

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

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Operating profit | 5,593 | 3,765 |
| Profit on sale of fixed assets | (17) | (15) |
| Depreciation – owned assets | 624 | 966 |
| Difference between pension charge and cash contributions | (549) | (626) |
| Increase in stocks | (419) | (344) |
| (Increase)/ decrease in debtors | (66) | 153 |
| (Decrease)/ increase in creditors | (1,342) | 1,720 |
| Net cash inflow from operating activities | 3,824 | 5,619 |

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

| | 2018 £'000 | 2017 £'000 |
|-------------------------------|---------------|---------------|
| Increase in cash in the year | 470 | 3,466 |
| Movement in the year | 470 | 3,466 |
| Net funds at 1 September | 6,698 | 3,232 |
| Net funds at 31 August | 7,168 | 6,698 |

c) Analysis of net funds

| | 31 August 2017 £'000 | Cash Flow £'000 | 31 August 2018 £'000 |
|--|----------------------------|--------------------|----------------------------|
| Net cash | | | |
| Cash at bank and in hand | 7,599 | 470 | 8,069 |
| Less: debts falling due after one year | (901) | - | (901) |
| Net funds | 6,698 | 470 | 7,168 |

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Notes to the financial statements for the year ended 31 August 2018

1 General information

HPC plc (“the company”) is a privately owned company whose business is predominantly the production, distribution and servicing of air compressors and ancillary equipment and the provision of sub-contract precision engineering services.

The company is a public limited company and is incorporated in England. The address of its registered office is Victoria Gardens, Burgess Hill, West Sussex, RH15 9RQ.

2 Statement of compliance

The financial statements of HPC plc have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS102”) and the Companies Act 2006.

3 Principal accounting policies

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 when risks and rewards are transferred to the customer based on agreement terms (either on despatch or delivery). In relation to the supply of services, turnover is recognised 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.

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Notes to the financial statements (continued)

3 Principal accounting policies (continued)

Operating leases

Rentals paid under operating leases are charged to the statement of comprehensive income 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 statement of comprehensive income in the year in which it is incurred.

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:

| | | |
|-----------------------------|---|--|
| Freehold land and buildings | - | Not depreciated |
| 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 |
| Building improvements | - | 20 years or the lease term if less than 20 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.

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Notes to the financial statements (continued)

3 Principal accounting policies (continued)

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 statement of comprehensive income in the year in which they arise.

Pension costs

The company operates a career average defined benefit pension scheme, which is closed to new hires, 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.

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 changes in net value of the scheme's assets and liabilities, arising from the passage of time, are included in other financial (expense) / income. At present, the defined benefit scheme is fully funded on an FRS102 basis. Actuarial gains and losses are recognised in the statement of comprehensive income.

The company also operates a defined contribution pension scheme.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Cash at bank and in hand

Cash and cash equivalents includes cash in hand and deposits held on call with banks. The company does not operate a bank overdraft.

Called up share capital

Ordinary shares are classified as equity. No new shares have been issued.

Notes to the financial statements (continued)

3 Principal accounting policies (continued)

Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Defined benefit pension scheme (note 17)

The company has obligations to pay pension benefits to certain present and former employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension position in the balance sheet. The assumptions reflect historical experience and current trends.

4 Operating profit

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Profit on ordinary activities before taxation is stated after charging/(crediting): | | |
| Staff costs - wages and salaries | 6,435 | 6,523 |
| - social security costs | 661 | 682 |
| - CSC of defined benefit pension (note 17) | 291 | 364 |
| - other pension costs | 209 | 231 |
| Total staff costs | <u>7,596</u> | <u>7,800</u> |
| Depreciation of owned assets | 624 | 966 |
| Operating lease charges – land and buildings | 728 | 450 |
| Operating lease charges – other | 156 | 156 |
| Profit on sale of fixed assets | (17) | (15) |
| Services provided by the company's auditor | | |
| Fees payable for the audit | 37 | 36 |
| Fees payable for other services – tax compliance | 7 | 7 |

Included within administration expenses is research and development totalling £ 345,000 (2017: £114,000).

Other pension costs include [£95,000] (2017: £96,000) in respect of company contributions to the defined contribution scheme, [£82,000] (2017: £66,000) for regulatory and administrative costs and [£70,000] (2017: £68,000) for permanent health insurance costs related to the defined benefit scheme.

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Notes to the financial statements (continued)

5 Interest payable/(receivable) and similar charges/(income)

| | 2018 £'000 | 2017 £'000 |
|-----------------------|---------------|---------------|
| Interest payable | <u>1</u> | <u>1</u> |
| Interest (receivable) | <u>(1)</u> | <u>(2)</u> |

6 Directors' emoluments

| | 2018 £'000 | 2017 £'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | <u>609</u> | <u>838</u> |

Retirement benefits are accruing to two directors (2017: two) under a defined contribution scheme.

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Emoluments payable to the highest paid director are as follows: | | |
| Aggregate emoluments | <u>265</u> | <u>267</u> |

The highest paid director is a member of the defined contribution pension scheme.

7 Employees

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

| Category of employees | Number of employees | |
|-----------------------|---------------------|------------|
| | 2018 | 2017 |
| Production | 110 | 121 |
| Administration | <u>88</u> | <u>86</u> |
| | <u>198</u> | <u>207</u> |

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Notes to the financial statements (continued)

8 Tax on profit on ordinary activities

| | 2018 £'000 | 2017 £'000 |
|--|-----------------------|-----------------------|
| Current tax | | |
| United Kingdom tax based on the results for the year: | | |
| UK corporation tax on profits of the year | 875 | 667 |
| Adjustments in respect of prior years | - | - |
| Total current tax | 875 | 667 |
| Deferred tax | | |
| Rate change | - | 74 |
| Adjustment in relation to defined benefit pension contributions | 95 | 95 |
| Adjustments in respect of prior years | - | 42 |
| Origination and reversal of timing differences | 11 | (60) |
| Total deferred tax | 106 | 151 |
| Tax on profit on ordinary activities | 981 | 818 |
| Reconciliation of tax charge | | |
| Tax assessed for the year is lower than (2017: higher) the standard rate of corporation tax in the UK for the year ended 31 August 2018 of 19 % (2017: 19.58%). The differences are explained below: | | |
| Profit before tax | 5,605 | 3,699 |
| Profit multiplied by standard rate of tax in the UK 19 % (2017: 19.58%) | 1,065 | 724 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 1 | 6 |
| Research and development tax credits | (85) | (28) |
| Re-measurement of deferred tax – change in UK tax rate | - | 74 |
| Adjustments to tax charge in respect of prior years | - | 42 |
| Total tax charge for the year | 981 | 818 |
| Balance sheet | 2018 £'000 | 2017 £'000 |
| Asset for deferred taxation | | |
| Opening deferred tax liability/(asset) | 55 | (671) |
| Comprised of: | | |
| Deferred tax liability at start of year recognised in creditors | 13 | 30 |
| Deferred tax liability/(asset) at start of year recognised in pension liability | 42 | (701) |
| | 55 | (671) |
| Defined benefit pension adjustment to income statement | 95 | 95 |
| Defined benefit pension adjustment to OCI | (17) | 574 |
| Origination and reversal of timing differences | 11 | (17) |
| Rate change | - | 74 |
| | 144 | 55 |
| Deferred tax liability at end of year recognised in creditors | 24 | 13 |
| Deferred tax liability at end of year recognised in pension asset | 120 | 42 |
| | 144 | 55 |

HPC plc

Notes to the financial statements (continued)

8 Tax on profit on ordinary activities (continued)

Tax rate changes

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9 Dividends

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Dividends on equity shares: | | |
| Ordinary dividends paid of £25.50 per share (2017: £17.48) | <u>2,550</u> | <u>1,748</u> |

10 Tangible fixed assets

| | Freehold land and buildings £'000 | Long leasehold £'000 | Short leasehold £'000 | Building improvements £'000 | Plant and equipment £'000 | Motor vehicles £'000 | Total £'000 |
|-----------------------|--|----------------------------|-----------------------------|-----------------------------------|---------------------------------|----------------------------|----------------|
| Cost | | | | | | | |
| At beginning of year | 806 | 4,100 | 32 | 2,508 | 20,875 | 775 | 29,096 |
| Additions | - | - | - | 4 | 139 | - | 143 |
| Disposals | - | - | - | - | (2) | (208) | (210) |
| At end of year | <u>806</u> | <u>4,100</u> | <u>32</u> | <u>2,512</u> | <u>21,012</u> | <u>567</u> | <u>29,029</u> |
| Depreciation | | | | | | | |
| At beginning of year | - | 3,411 | 32 | 1,065 | 19,633 | 734 | 24,875 |
| Charge for the year | - | 54 | - | 92 | 447 | 31 | 624 |
| Disposals | - | - | - | - | (2) | (208) | (210) |
| At end of year | <u>-</u> | <u>3,465</u> | <u>32</u> | <u>1,157</u> | <u>20,078</u> | <u>557</u> | <u>25,289</u> |
| Net book value | | | | | | | |
| At 31 August 2018 | <u>806</u> | <u>635</u> | <u>-</u> | <u>1,355</u> | <u>934</u> | <u>10</u> | <u>3,740</u> |
| Net book value | | | | | | | |
| At 31 August 2017 | <u>806</u> | <u>689</u> | <u>-</u> | <u>1,443</u> | <u>1,242</u> | <u>41</u> | <u>4,221</u> |

HPC plc

Notes to the financial statements (continued)

11 Stocks

| | 2018 £'000 | 2017 £'000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables | 1,899 | 1,631 |
| Work in progress | 673 | 708 |
| Finished goods and goods for resale | 1,861 | 1,675 |
| | <u>4,433</u> | <u>4,014</u> |

12 Debtors

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 7,389 | 7,287 |
| Other debtors | 101 | 160 |
| Prepayments and accrued income | 167 | 126 |
| | <u>7,657</u> | <u>7,573</u> |

Amounts falling due after more than one year represents amounts receivable under finance lease arrangements of [£54,000] (2017: £72,000).

13 Creditors: amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|------------------------------------|---------------|---------------|
| Trade creditors | 7,572 | 8,299 |
| Other creditors | 126 | 42 |
| Deferred tax | 24 | 13 |
| Corporation tax | 364 | 168 |
| Other taxation and social security | 1,028 | 1,252 |
| Accruals and deferred income | 2,105 | 2,440 |
| | <u>11,219</u> | <u>12,214</u> |

HPC plc

Notes to the financial statements (continued)

14 Creditors: amounts falling due after more than one year

| | 2018 £'000 | 2017 £'000 |
|------------------------------|---------------|---------------|
| Other creditors | 901 | 901 |
| Accruals and deferred income | 534 | 673 |
| | <u>1,435</u> | <u>1,574</u> |

Other creditors include an unsecured, interest-free, non-instalment loan of £901,000 (2017: £901,000) repayable in full after more than 5 years.

15 Financial commitments

The company has annual commitments under non-cancellable operating leases as follows:

| | 2018 | | 2017 | |
|------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Land & buildings £'000 | Other £'000 | Land & buildings £'000 | Other £'000 |
| Expiring in less than 1 year | 522 | 152 | 451 | 156 |
| Expiring in 2 to 5 years | 1,114 | 213 | 1,308 | 257 |
| Expiring after 5 years | 374 | 13 | 318 | - |
| | <u>2,010</u> | <u>378</u> | <u>2,077</u> | <u>413</u> |

16 Called up share capital

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Authorised, allotted, called up and fully paid: | | |
| Equity shares | | |
| 85,000 (2017: 85,000) 'A' ordinary shares of £1 each | 85 | 85 |
| 15,000 (2017: 15,000) 'B' ordinary shares of £1 each | 15 | 15 |
| | <u>100</u> | <u>100</u> |

HPC plc

Notes to the financial statements (continued)

17 Pension scheme

The valuation used for FRS 102 disclosures has been based on the most recent actuarial valuation at 6 April 2016 and updated by Scottish Widows to take account of the requirements of FRS 102 in order to assess the liabilities of the scheme at 31 August 2018. The plan assets are held in equity investments and bonds, which are quoted and are valued at the current bid price.

The main financial assumptions used to calculate scheme liabilities under FRS 102 are:

| Mortality assumptions | 2018 Years | 2017 Years |
|--|------------------------------|------------------------------|
| Longevity at age 65 for current pensioners | | |
| - Men | 21.6 | 20.6 |
| - Women | 23.4 | 21.8 |
| Longevity at age 65 for future pensioners | | |
| - Men | 22.7 | 22.8 |
| - Women | 24.7 | 24.1 |
| Valuation assumptions | At 31 August 2018 | At 31 August 2017 |
| Discount rate | 2.6% | 2.4% |
| Retail price inflation | 3.1% | 3.1% |
| Pensions increases at Limited Price Indexation | 3.1% | 2.1% |

Reconciliation of present value of scheme liabilities

| | 2018 £'000 | 2017 £'000 |
|------------------------------------|-----------------------|-----------------------|
| Opening defined benefit obligation | 25,710 | 27,992 |
| Current service cost | 291 | 364 |
| Interest on obligation | 605 | 569 |
| Actuarial loss / (gain) | 468 | (1,461) |
| Benefits paid | (1,326) | (1,754) |
| Closing defined benefit obligation | <u>25,748</u> | <u>25,710</u> |

HPC plc

Notes to the financial statements (continued)

17 Pension scheme (continued)

Reconciliation of fair value of scheme assets

| | 2018 £'000 | 2017 £'000 |
|-----------------------------------|---------------|---------------|
| Opening fair value of plan assets | 25,958 | 24,303 |
| Interest income | 617 | 502 |
| Actuarial gain | 367 | 1,917 |
| Contributions | 840 | 990 |
| Benefits paid | (1,326) | (1,754) |
| Closing fair value of plan assets | <u>26,456</u> | <u>25,958</u> |

The company expects to contribute £751,000 to this pension plan in the year to 31 August 2019.

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

| | 2018 £'000 | 2017 £'000 |
|----------------------------------|---------------|---------------|
| Current service cost | 291 | 364 |
| Other financial (income)/expense | (12) | 67 |
| Total operating charge | <u>279</u> | <u>431</u> |

Analysis of the amount charged to other financial expense

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Interest income / (cost) on pension scheme liabilities | 605 | (569) |
| Interest (expense) / income on pension scheme assets | (617) | 502 |
| Net expense | <u>(12)</u> | <u>(67)</u> |

Analysis of amount recognised in statement of comprehensive income

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Actual return less interest income recognised in profit | 367 | 1,917 |
| Experience (losses)/gains arising on the scheme liabilities | (161) | 35 |
| Changes in assumptions underlying the present value of the scheme | (307) | 1,426 |
| Actuarial (loss) / gain recognised in statement of comprehensive income | <u>(101)</u> | <u>3,378</u> |

HPC plc

Notes to the financial statements (continued)

17 Pension scheme (continued)

Movement in surplus / (deficit) during the year

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Surplus / (deficit) in the scheme at the beginning of the year | 248 | (3,689) |
| Movement in the year: | | |
| Current service cost | (291) | (364) |
| Other financial income/(expense) | 12 | (67) |
| Contributions | 840 | 990 |
| Actuarial (loss)/gain | (101) | 3,378 |
| Surplus in the scheme at the end of the year | 708 | 248 |
| Related deferred tax liability | (120) | (42) |
| Net pension asset | 588 | 206 |

History of experience gains and losses

| | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|---------------|---------------|---------------|
| Total market value of plan assets | 26,456 | 25,958 | 24,303 | 21,213 | 21,134 |
| Present value of scheme liabilities | (25,748) | (25,710) | (27,992) | (21,814) | (22,535) |
| Surplus / (deficit) in the scheme | 708 | 248 | (3,689) | (601) | (1,401) |
| Experience adjustments on plan assets | 367 | 1,917 | 2,267 | (559) | 727 |
| Experience adjustments on plan liabilities | (161) | 35 | 61 | 370 | (230) |
| Amounts recognised in statement of comprehensive income | 206 | 1,952 | 2,328 | (189) | 497 |

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of comprehensive income is £6,047,000 (2017: £5,946,000).

18 Related party transactions

Lease payments totalling £91,241 (2017: £82,300) were made to the pension plan of Ian Curtis and £144,000 (2017: £144,000) were paid to a trust of which certain family members of Ian Curtis are beneficiaries. These were arm's length transactions made in respect of properties used in the trade of HPC plc.

HPC plc

Notes to the financial statements (continued)

19 Subsidiary companies

The company has three subsidiaries, HPC Engineering Limited, HPC Air Compressors Limited and Kaeser Compressors Ltd, all of which are classified dormant and registered in the UK at the same registered address as the company, being 2 Victoria Gardens, Burgess Hill, West Sussex, RH15 9RQ. They have an aggregate share capital and reserves of £103 and an inter-company receivable from HPC plc of £103.

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 undertakings 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.

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.