

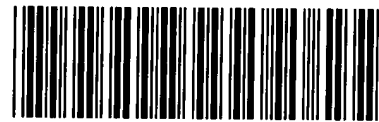
HPC plc

Annual Report

for the year ended 31 August 2021

Registered in England and Wales no: 00622352

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HPC plc

Annual Report for the year ended 31 August 2021

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HPC plc

Strategic report for the year ended 31 August 2021

HPC plc is a privately owned company, limited by shares, whose business is predominantly the production, distribution and servicing of industrial air compressors and ancillary equipment.

Business review

	2021 £'000	2020 £'000
Turnover	33,061	30,977
Profit before tax	5,360	4,266

Turnover in the year ended 31 August 2021 represented a 6.7% increase over the prior year. In previous years, HPC communicated its strategic decision to withdraw from sub-contract engineering services. While HPC plc retains a full precision engineering service capability it focused solely on the manufacture of components incorporated into compressed air equipment and the Directors now consider all turnover to be derived from a single business segment.

Turnover in both of the two most recent accounting periods have been adversely impacted by a reduction in business activity as a consequence of the temporary inability to install compressed air systems and to attend to routine maintenance at many customer facilities during the Covid-19 pandemic-related shutdowns.

On 24 December 2020, the UK government and the European Union announced a Trade and Cooperation Agreement. The Directors are pleased that the Agreement confirms that there will be no tariffs or quotas on goods traded between the UK and the EU and that Rules of Origin Requirements will continue to be preferential.

Future developments

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.

In the period between the balance sheet date and the date of this report, business activity levels have gradually returned to pre-pandemic levels with delayed projects reactivated. While the outcome remains uncertain, the Directors expect business performance to closely track the recovery in UK manufacturing output and other industrial indicators.

Key performance indicators

	2021 £'000	2020 £'000
Cash at hand and in bank	5,814	6,017
Cash inflow / (outflow) from operating activities	4,722	(2,820)

HPC plc

Strategic report (continued)

Financial risk management

HPC plc is, to a large degree, naturally hedged in its exposure to foreign currency as its main supply chain transactions are in GBP, although this will be kept under constant review, particularly as the markets continue to react to the global pandemic and the UK's post-Brexit trade status.

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. Exposure to credit risk is monitored on a real time basis and a credit referencing agency is used to assess new and existing customers. Credit limits are agreed by the relevant Director. These are monitored regularly in light of trading experience. Any such risk is also mitigated by the company's extensive and diverse customer base. At balance sheet date, there were no areas of significant risk.

Price risk

We continuously monitor market pricing in order to remain competitive.

On behalf of the board



Ian Curtis
Director

25 February 2022

HPC plc

Directors' report for the year ended 31 August 2021

Registered in England and Wales no: 00622352

The directors present their report and the audited financial statements of the company for the year ended 31 August 2021.

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

No segmental information has been presented as the Directors consider all activities to be in the UK and focused on the generation of industrial compressed air.

Research and development

The company's technical development activities include work required to develop new and enhanced products and processes, normally centred on resolving technical challenges. The work involved advancing HPC plc's, the suppliers' and the customers' knowledge and capability. During the year, the company has continued to invest in research and development activities that are designed to lead to innovations in the production and delivery of compressed industrial gases.

Results and dividends

The company's profit after tax for the financial year is £4,299,000 (2020: £3,485,000). The directors have recommended the following dividends in respect of the years ended 31 August 2021 and 31 August 2020:

	2021 £'000	2020 £'000
'A' ordinary dividends paid	128	77
'B' ordinary dividends paid	22	13

In addition to the above dividend payments, £12,180,000 (2020: £ Nil) was distributed during the year in the form of gifts to the Lilac Trust. After dividends and gifts, £6,470,000 for the financial year was transferred from the company's reserves (2020: £1,960,000 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
Liza Katharine Curtis
James Hunter
Jason Morgan
Trevor Stott

HPC plc

Directors' report (continued)

Registered in England and Wales no: 00622352

Directors and their interests (continued)

In accordance with the company's Articles of Association, Jason Morgan retired and, being eligible, offers himself for re-election.

At 31 August 2021, 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 ultimate controlling party of Lilac Limited is the Trustee of the Lilac Trust.

Independent Auditors

On 19 July 2021, PricewaterhouseCoopers LLP, resigned as auditors of HPC plc. Their last audited financial statements were for the year ended 31 August 2020. There were no matters connected with the auditor's resignation that the company considers needs to be brought to the attention of its members.

BDO LLP has indicated their willingness to accept the engagement as auditors and a resolution to appoint BDO LLP as auditors of the company was proposed at the annual general meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

HPC plc

Directors' report (continued)

Registered in England and Wales no: 00622352

Statement of directors' responsibilities (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.

Disclosures made in the Strategic Report

The following Directors' Report disclosures have been made in the Strategic Report:

- financial risk management objectives and policies;
- information on exposure to price risk, credit risk, and liquidity risk; and
- likely future developments in the business of the Company.

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.

Post balance sheet events

The Company declared a final dividend of £100,000 for the year ended August 2021, details of which can be found in Note 9 to the Financial Statements.

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/her 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 himself/herself aware of such information as a director and to establish that their company's auditors are aware of that information.

By order of the board


Nikki Crossley

Company Secretary

Feb 25 2022

HPC plc

Independent Auditors Report to the members of HPC plc

Opinion on the 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 2021 and of its profit 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.

We have audited the financial statements of HPC plc ("the Company") for the year ended 31 August 2021 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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Independent Auditors Report to the members of HPC plc (continued)

Opinion on the financial statements (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

HPC plc

Independent Auditors Report to the members of HPC plc (continued)

Opinion on the financial statements (continued)

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities within the Directors' report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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.

Auditor's 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 auditor's 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risks to be management override of controls and revenue recognition.
- Our tests included, but were not limited to, agreement of the financial statements disclosures to underlying supporting documentation, review of correspondence with regulators and legal advisors, enquiries of management and those charged with governance, review of board minutes and review of internal audit reports.
- We also addressed the risk of management override of internal controls, including testing of journals exhibiting unusual pairings, value or descriptions and evaluating whether there was evidence of bias in estimates (i.e. accruals and prepayments) or judgements by the Directors that represented a risk of material misstatement due to

HPC plc

Independent Auditors Report to the members of HPC plc (continued)

Opinion on the financial statements (continued)

Extent to which the audit was capable of detecting irregularities, including fraud (continued)

fraud. To address the risk of fraud due to revenue recognition through our journals testing we agreed material manual journal entries to revenue to supporting documentation. Other testing of fraud due to revenue recognition included the testing of cut-off.

- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Owen Pettifor

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Owen Pettifor (Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Gatwick, UK

Date 25 February 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

HPC plc

Statement of comprehensive income for the year ended 31 August 2021

	Note	2021 £'000	2020 £'000
Turnover		33,061	30,977
Costs of sales		(21,050)	(19,247)
Gross profit		12,011	11,730
Distribution costs		(736)	(705)
Administrative expenses		(6,776)	(7,174)
Other operating income		846	365
Operating profit	4	5,345	4,216
Net interest receivable and similar income	5	-	14
Other financial income		15	36
Profit before taxation		5,360	4,266
Tax on profit	8	(1,061)	(781)
Profit for the financial year		4,299	3,485
Actuarial gain / (loss) on pension scheme	17	2,081	(1,729)
Movement on deferred tax relating to pension scheme		(520)	294
Total comprehensive income recognised since last Annual Report		5,860	2,050

All of the operations of the company are continuing.

The notes on pages 15 to 28 form part of these financial statements.

HPC plc

Statement of financial position at 31 August 2021

Registered in England and Wales no: 00622352

	Note	2021 £'000	2020 £'000
Tangible fixed assets	10	<u>2,724</u>	<u>2,863</u>
Current assets			
Stocks	11	2,681	3,749
Debtors	12	6,408	14,041
Defined benefit pension asset	17	3,262	595
Cash at bank and in hand		<u>5,814</u>	<u>6,017</u>
		<u>18,165</u>	<u>24,402</u>
Creditors: amounts falling due within one year	13	<u>(9,810)</u>	<u>(10,380)</u>
Net current assets		<u>8,355</u>	<u>14,022</u>
Total assets less current liabilities		11,079	16,885
Creditors: amounts falling due after more than one year	14	<u>(2,060)</u>	<u>(1,396)</u>
Net assets		<u>9,019</u>	<u>15,489</u>
Capital and reserves			
Called up share capital	16	100	100
Profit and loss account		8,329	14,799
Capital redemption reserve		<u>590</u>	<u>590</u>
Total shareholder's funds		<u>9,019</u>	<u>15,489</u>

The financial statements on pages 11 to 28 were approved by the Board of Directors on 25 February 2022 and were signed on its behalf by:



Ian Curtis – Director
HPC plc

The notes on pages 15 to 28 form part of these financial statements.

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Statement of changes in equity for the year ended 31 August 2021

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 2019	100	12,839	590	13,529
Profit for the year	-	3,485	-	3,485
Other comprehensive expense for the year	-	(1,435)	-	(1,435)
Dividends paid	-	(90)	-	(90)
Balance as at 31 August 2020	100	14,799	590	15,489
Profit for the year	-	4,299	-	4,299
Other comprehensive income for the year	-	1,561	-	1,561
Dividends paid	-	(150)	-	(150)
Gifts to the Lilac Trust	-	(12,180)	-	(12,180)
Balance as at 31 August 2021	100	8,329	590	9,019

Statement of cash flows for the year ended 31 August 2021

	Note	2021 £'000	2020 £'000
Net cash inflow / (outflow) from operating activities	(a)	4,722	(2,820)
Taxation paid		(759)	(583)
Net cash inflow / (outflow) generated from/(used in) operating activities		<u>3,963</u>	<u>(3,403)</u>
Cash flow from investing activities			
Disposal of subsidiary		445	-
Purchase of tangible fixed assets		(348)	(124)
Sale of tangible fixed assets		67	158
Net cash inflow from investing activities		<u>164</u>	<u>34</u>
Cash flow from financing activities			
Interest received		-	16
Interest paid		-	(2)
Equity dividends paid		(150)	(90)
Gifts to Lilac Trust		(4,180)	-
Net cash outflow on financing activities		<u>(4,330)</u>	<u>(76)</u>
Net cash outflow before use of liquid resources		(203)	(3,445)
Decrease in cash		<u>(203)</u>	<u>(3,445)</u>

The notes on pages 15 to 28 form part of these financial statements.

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Notes to the statement of cash flows for the year ended 31 August 2021

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

	2021 £'000	2020 £'000
Operating profit	5,345	4,216
Proceeds on sale of subsidiary	(445)	-
Loss / (profit) on sale of fixed assets	125	(77)
Depreciation – owned assets	296	318
Difference between pension charge and cash contributions	(571)	(583)
Decrease in stocks	1,068	732
Increase in debtors	(367)	(5,958)
Decrease in creditors	(729)	(1,468)
Net cash inflow / (outflow) from operating activities	<u>4,722</u>	<u>(2,820)</u>

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

	2021 £'000	2020 £'000
Decrease in cash in the year	(203)	(3,445)
Movement in the year	<u>(203)</u>	<u>(3,445)</u>
Net funds at 1 September	5,116	8,561
Net funds at 31 August	<u>4,913</u>	<u>5,116</u>

c) Analysis of net funds

	31 August 2020 £'000	Cash Flow £'000	31 August 2021 £'000
Net cash			
Cash at bank and in hand	6,017	(203)	5,814
Less: debts falling due after one year	(901)	-	(901)
Net funds	<u>5,116</u>	<u>(203)</u>	<u>4,913</u>

The notes on pages 15 to 28 form part of these financial statements.

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Notes to the financial statements for the year ended 31 August 2021

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 and Wales. The address of its registered office is 2 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 International Accounting Standards in conformity with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The functional and presentational currency of the Company is GBP and values are presented to the nearest £1,000. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Going concern

The Company meets its day-to-day working capital requirements through a combination of cash reserves and its bank facilities. The Company’s forecasts and projections, taking account of reasonably possible changing in trading performance, show that the Company should be able to operate within the level of the current facilities. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

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

HPC plc

Notes to the financial statements for the year ended 31 August 2021 (continued)

3 Principal accounting policies (continued)

Turnover (continued)

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.

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.

Financial assets

Other financial assets, other than investments and derivatives, are initially measured at the transaction price (including transaction costs) and subsequently held at amortised cost, less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (after deducting transaction costs) and subsequently held at amortised cost.

Research and development

Research and development expenditure is charged to the statement of comprehensive income in the year in which it is incurred.

HPC plc

Notes to the financial statements for the year ended 31 August 2021 (continued)

3 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:

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 and 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 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.

HPC plc

Notes to the financial statements for the year ended 31 August 2021 (continued)

3 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 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 include 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.

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. The Directors consider there to be no critical accounting judgements.

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. The impact of any reasonable change in assumptions is noted in Note 17.

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Notes to the financial statements for the year ended 31 August 2021 (continued)

4 Operating profit

	2021 £'000	2020 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Staff costs - wages and salaries	3,813	4,365
- social security costs	412	465
- CSC of defined benefit pension (note 17)	269	257
- other pension costs	267	240
Total staff costs	4,761	5,327
Gain on disposal of subsidiary	405	-
Depreciation of owned assets	296	318
Operating lease charges – land and buildings	426	506
Operating lease charges – other	241	146
Loss / (profit) on sale of fixed assets	125	(77)
Services provided by the company's auditor:		
Fees payable for the audit	47	50
Fees payable for other services – tax compliance	-	7

Included within administration expenses is research and development expenditure totalling £ Nil (2020: £20,000).

Other pension costs include £89,000 (2020: £98,000) in respect of company contributions to the defined contribution scheme, £89,000 (2020: £110,000) for regulatory and administrative costs and £47,000 (2020: £52,000) for permanent health insurance costs related to the defined benefit scheme.

5 Net interest receivable

	2021 £'000	2020 £'000
Interest payable	-	(2)
Interest receivable	-	16
	-	14

6 Directors' emoluments

	2021 £'000	2020 £'000
Aggregate emoluments	269	551

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Notes to the financial statements for the year ended 31 August 2021 (continued)

6 Directors' emoluments (continued)

Retirement benefits are accruing to one director (2020: one) under a defined contribution scheme. No directors (2020: none) were members of a defined benefit pension scheme.

The aggregate amount of compensation paid to a director for loss of office was £ Nil. (2020: £38,000).

	2021 £'000	2020 £'000
Emoluments payable to the highest paid director are as follows:		
Aggregate emoluments	<u>221</u>	<u>215</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	
	2021	2020
Production	48	66
Administration	66	67
	<u>114</u>	<u>133</u>

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Notes to the financial statements for the year ended 31 August 2021 (continued)

8 Tax on profit

	2021 £'000	2020 £'000
Current tax		
United Kingdom tax based on the results for the year:		
UK corporation tax on profits of the year	801	648
Adjustments in respect of prior years	19	(15)
Total current tax	820	633
Deferred tax		
Deferred tax rate change	94	-
Adjustment in relation to defined benefit pension contributions	100	(189)
Origination and reversal of timing differences	47	337
Total deferred tax	241	148
Tax on profit	1,061	781
Reconciliation of tax charge		
Tax assessed for the year at the standard rate of corporation tax in the UK for the year ended 31 August 2021 of 19 % (2020: 19%). The differences are explained below:		
Profit before tax	5,360	4,266
Profit multiplied by standard rate of tax in the UK 19 %	1,018	810
Effects of:		
Deferred tax rate change	94	-
Adjustments in respect of prior years	19	(15)
Non-deductible for tax purposes	(70)	(9)
Research and development tax credit	-	(5)
Total tax charge for the year	1,061	781
Balance sheet	2021 £'000	2020 £'000
Liability for deferred taxation		
Opening deferred tax liability	165	354
Comprised of:		
Deferred tax liability at start of year recognised in creditors	64	64
Deferred tax liability at start of year recognised in pension liability	101	290
	165	354
Movement in the year		
Defined benefit pension adjustment to income statement	100	(189)
Defined benefit pension adjustment to OCI	520	(337)
Deferred tax rate change	94	-
Origination and reversal of timing differences	90	337
	969	165
Deferred tax liability at end of year recognised in creditors	153	64
Deferred tax liability at end of year recognised in pension asset	816	101
	969	165

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Notes to the financial statements (continued)

9 Dividends

	2021 £'000	2020 £'000
Dividends on equity shares:		
Ordinary dividends paid of £ 1.50 per share (2020: £0.90)	<u>150</u>	<u>90</u>

A final dividend for £100,000 for the year ended 31 August 2021 was proposed and paid in October 2021.

10 Tangible assets

	Freehold land and buildings £'000	Long leasehold buildings £'000	Short leasehold buildings £'000	Building improvements £'000	Plant and equipment £'000	Motor Vehicles £'000	Total £'000
Cost							
At beginning of year	806	4,100	32	2,542	7,716	257	15,453
Additions	-	81	-	5	261	-	347
Disposals	-	-	-	(524)	(2,239)	(175)	(2,938)
At end of year	<u>806</u>	<u>4,181</u>	<u>32</u>	<u>2,023</u>	<u>5,738</u>	<u>82</u>	<u>12,862</u>
Depreciation							
At beginning of year	-	3,573	32	1,346	7,382	257	12,590
Charge for the year	-	54	-	94	147	-	295
Disposals	-	-	-	(372)	(2,200)	(175)	(2,747)
At end of year	<u>-</u>	<u>3,627</u>	<u>32</u>	<u>1,068</u>	<u>5,329</u>	<u>82</u>	<u>10,138</u>
Net book value							
At 31 August 2021	<u>806</u>	<u>554</u>	<u>-</u>	<u>955</u>	<u>409</u>	<u>-</u>	<u>2,724</u>
Net book value At 31 August 2020	<u>806</u>	<u>527</u>	<u>-</u>	<u>1,196</u>	<u>334</u>	<u>-</u>	<u>2,863</u>

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Notes to the financial statements (continued)

11 Stocks

	2021 £'000	2020 £'000
Raw materials and consumables	994	961
Work in progress	164	299
Finished goods and goods for resale	1,523	2,489
	<u>2,681</u>	<u>3,749</u>

12 Debtors

	2021 £'000	2020 £'000
Trade debtors	5,979	5,232
Other debtors: amounts falling due within one year	88	112
Other debtors: amounts falling due after one year	34	84
Prepayments and accrued income	307	713
Loan to a director	-	7,900
	<u>6,408</u>	<u>14,041</u>

The short term, non-interest-bearing loan to a director was repaid in full on 9 December 2020.

13 Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	5,601	5,446
Other creditors	18	13
Deferred tax	153	107
Corporation tax	295	234
Other taxation and social security	1,922	2,583
Accruals and deferred income	1,821	1,997
	<u>9,810</u>	<u>10,380</u>

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Notes to the financial statements (continued)

14 Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Other creditors	901	901
Deferred tax on pension asset	816	101
Accruals and deferred income	343	394
	<u>2,060</u>	<u>1,396</u>

Other creditors include an unsecured, interest-free, non-instalment loan of £901,000 (2020: £901,000) repayable in full within five years.

15 Financial commitments

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

	2021		2020	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Expiring in less than 1 year	401	205	505	137
Expiring in 2 to 5 years	665	320	1,173	94
Expiring after 5 years	83	-	88	-
	<u>1,149</u>	<u>525</u>	<u>1,766</u>	<u>231</u>

16 Called up share capital

	2021 £'000	2020 £'000
Authorised, allotted, called up and fully paid:		
Equity shares		
85,000 (2020: 85,000) 'A' ordinary shares of £1 each	85	85
15,000 (2020: 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 2021. 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	2021 Years	2020 Years
Longevity at age 65 for current pensioners		
- Men	21.2	21.2
- Women	23.1	23.1
Longevity at age 65 for future pensioners		
- Men	22.3	22.3
- Women	24.4	24.4
Valuation assumptions	At 31 August 2021	At 31 August 2020
Discount rate	1.6%	1.6%
Retail price inflation	3.3%	3.0%
Pensions increases at Limited Price Indexation	2.7%	3.0%

Reconciliation of present value of scheme liabilities

	2021 £'000	2020 £'000
Opening defined benefit obligation	27,370	27,151
Current service cost	269	257
Interest on obligation	430	478
Actuarial losses	614	893
Benefits paid	(1,263)	(1,409)
Closing defined benefit obligation	<u>27,420</u>	<u>27,370</u>

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Notes to the financial statements (continued)

17 Pension scheme (continued)

Reconciliation of fair value of scheme assets

	2021 £'000	2020 £'000
Opening fair value of plan assets	27,965	28,856
Interest income	445	514
Actuarial gain/(loss)	2,695	(836)
Contributions	840	840
Benefits paid	(1,263)	(1,409)
Closing fair value of plan assets	<u>30,682</u>	<u>27,965</u>

The company expects to contribute voluntarily £840,000 to this pension plan in the year to 31 August 2022.

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

	2021 £'000	2020 £'000
Current service cost	269	257
Other financial income	(15)	(36)
Total operating charge	<u>254</u>	<u>221</u>

Analysis of the amount charged to other financial expense

	2021 £'000	2020 £'000
Interest expense on pension scheme liabilities	430	478
Interest income on pension scheme assets	(445)	(514)
Net income	<u>(15)</u>	<u>(36)</u>

Analysis of amount recognised in statement of comprehensive income

	2021 £'000	2020 £'000
Actual return/(loss) interest income recognised in profit	2,695	(836)
Experience gains/(losses) arising on the scheme liabilities	126	(8)
Changes in assumptions underlying the present value of the scheme	(740)	(885)
Actuarial gain/(loss) recognised in statement of comprehensive income	<u>2,081</u>	<u>(1,729)</u>

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Notes to the financial statements (continued)

17 Pension scheme (continued)

Movement in surplus during the year

	2021 £'000	2020 £'000
Surplus in the scheme at the beginning of the year	595	1,705
Movement in the year:		
Current service cost	(269)	(257)
Other financial income	15	36
Contributions	840	840
Actuarial gain/(loss)	2,081	(1,729)
Surplus in the scheme at the end of the year	3,262	595
Related deferred tax liability	(815)	(101)
Net pension asset	2,447	494

History of experience gains and losses

	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Total market value of plan assets	30,682	27,965	28,856	26,456	25,958
Present value of scheme liabilities	(27,420)	(27,370)	(27,151)	(25,748)	(25,710)
Surplus/(deficit) in the scheme	3,262	595	1,705	708	248
Experience adjustments on plan assets	2,695	(836)	2,359	367	1,917
Experience adjustments on plan liabilities	126	(8)	302	(161)	35
Impact of changes in assumptions	(740)	(885)	(2,265)	(307)	1,426
Amounts recognised in statement of comprehensive income	2,081	(1,729)	396	(101)	3,378

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of comprehensive income is £5,299,000 (2020: £7,380,000).

18 Related party transactions

Lease payments in 2021 totalling £91,400, (2020: £91,900) were made to the pension plan of Ian Curtis and £144,000, (2020: £144,000) were made 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.

An interest free loan of £7,900,000 to Liza Curtis by HPC plc was repaid in full on 9 December 2020.

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Notes to the financial statements (continued)

18 Related party transactions (continued)

Gifts to the value of £12,180,000 were paid during 2021 (2020; £ Nil) to the Lilac Trust, of which Ian Curtis and Liza Curtis are potential beneficiaries.

19 Subsidiary companies

The company has three subsidiaries, HPC Engineering Limited, H P C 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 of £3 and an inter-company receivable from HPC plc of £3.

HPC plc disposed of its wholly owned subsidiary, HPC South West Limited, in April 2021. Details of this are set out in Note 4.

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. The ultimate controlling party of Lilac Limited is the Trustee of the Lilac Trust.