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Hargreaves Services PLC
28 July 2021

For immediate release

28 July 2021

HARGREAVES SERVICES PLC
(the "Group" or "Hargreaves")

Results for the year ended 31 May 2021

Hargreaves Services plc (AIM: HSP), a diversified group delivering key services to the industrial and property sectors, announces its results for the year ended 31 May 2021, a transformational year for the Group. The Group has delivered very strong results, eliminated all bank debt and developed a strong platform from which to create, deliver and realise value for shareholders.

KEY FINANCIAL RESULTS

Year ended 31 May	**2021**	**2020**
Revenue	**£204.8m**	£222.2m
Underlying Profit Before Tax*	**£21.2m**	£4.9m
Profit from joint ventures	**£17.7m**	£2.1m
Profit Before Tax	**£14.4m**	£2.2m
Basic earnings per share	**50.8p**	13.4p
Underlying basic EPS*	**70.7p**	19.9p
Proposed Final Dividend	**4.5p**	4.5p
Proposed Additional Dividend	**12.0p**	-
Net Cash/(Debt)	**£16.5m**	(£28.1m)
Net Assets	**£144.3m**	£130.1m
Net Assets per Share	**447p**	403p

** Underlying Profit Before Tax and underlying basic EPS is stated prior to exceptional items, fair value adjustments and impairment of intangible assets.*

HIGHLIGHTS

- PBT improved materially including £17.7m (2020: £2.1m) contribution from joint ventures
  - German joint venture contributed £13.6m (2020: £2.1m)
    - Benefitting from very strong commodity market conditions
    - Carbon Pulverisation Plant at break even
    - DK Recycling returned to profitability
  - Unity joint venture contributed £4.1m (2020: £nil)
- First two sales completed at Blindwells residential development site
- Final dividend of 4.5p (2020: 4.5p) proposed
- Additional dividend of 12p (2020: nil) proposed funded by dividend to be received from HRMS
- Bank debt eliminated, strong net cash position achieved and refinanced without bank debenture
- All material coal related revenue activities ceased
- Nicholas Mills appointed as Non-executive Director on 9 September 2020

Commenting on the preliminary results, Chairman Roger McDowell said: "The Board has established a strong platform and a clear, strategic investment proposition from which to create, deliver and realise shareholder value based on the three pillars of our Services business, Hargreaves Land and the HRMS joint venture in Germany. The Group is now delivering good financial returns and the Board looks forward to the future with confidence."

Analyst meeting
An online meeting for analysts will be held at 9.30am this morning, 28 July 2021. Please contact Walbrook PR on 020 7933 8780 or at hargreavesservices@walbrookpr.com for further information.

A presentation recording on the financial results and business outlook will be delivered by Gordon Banham, Group Chief Executive, John Samuel, Group Finance Director and David Anderson, Group Property Director and will be made available on the Company's website later today, here: https://www.hsgplc.co.uk/investors.aspx.

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Chairman's Statement

Roger McDowell, Group Chairman

Preface

Throughout the last financial year, the Covid-19 pandemic has continued to impact all of our lives, both in our home and our business environments. The Board has continued to prioritise the health and safety of our employees above all else throughout the year. Our business operations, both on site and within our offices, have complied with strict protocols including social distancing, the wearing of face coverings, the frequent washing of hands and the provision of hand sanitiser. Many of our office based staff have worked predominately from home for well over a year now and, whilst this has some disadvantages in terms of a lack of personal interaction, I have been and continue to be most impressed and grateful for the way in which our people have delivered tremendous service to all of our stakeholders in these challenging circumstances. Sadly, two of our colleagues have died from Covid-19 since the pandemic began and our thoughts are with their families in their time of grief.

Introduction

I am very pleased to be reporting a very strong set of results which have been delivered against the backdrop of the Covid-19 pandemic through the efforts and dedication of our employees and those of our joint venture colleagues.

Results

Revenue was £204.8m (2020: £222.2m). This reduction was expected following the delays to the full mobilisation of the HS2 project.

Underlying* profit before tax for the year was £21.2m, some £16.3m higher than the prior year (2020: £4.9m). This increase is predominantly due to the performance of the Group's German joint venture Hargreaves Raw Materials Services GmbH (HRMS) contributing £13.6m (2020: £1.6m) and that of the Hargreaves Waystone Land LLP joint venture (Unity JV) which contributed £4.1m (2020: £nil) to the Group's underlying profit before tax. Further information on the trading performance of the Group's businesses is given in the Chief Executive's Group Business Review.

The profit after tax for the year was £16.4m (2020: £4.3m). Basic underlying earnings per share were 70.7p (2020: 19.9p) and 50.8p (2020: 13.4p) on a reported basis.

Impairment of Goodwill and Exceptional Items

Total non-recurring costs of £6.8m have been recognised in the year, all of which are non-cash items. On 24 December 2020, we announced the sale of our speciality coal inventory to HRMS which followed on from our cessation of mining activities in July 2020. As a result, the Board has impaired £3.0m of goodwill associated with the traditional coal business and additionally has impaired £1.6m of goodwill related to the Maxibrite smokeless briquette business. I am also pleased to note that all legacy civil engineering contracts have now been settled which has resulted in a £2.2m exceptional charge.

Net Cash

Net cash including all leasing debt was £16.5m (2020: net debt of £28.1m). The Group had £28.3m of cash at bank at 31 May 2021 compared with net bank borrowings of £13.5m at 31 May 2020. All of the Group's debt is now comprised of leases with no net bank borrowings. The sale of our speciality coal inventory combined with lower capital expenditure and working capital reductions have put the Group on a very strong financial footing. The Board expects the Group's net cash position to reduce steadily throughout the year ending 31 May 2022 as capital expenditure for the HS2 project, which will be leased equipment in the main, increases.

Refinancing

The Board has terminated the Group's previous asset based lending banking facility and has put in place an Invoice Discounting Facility which has a maximum level of £12.0m and is secured by a charge over some of the Group's debtors. This facility is seen as useful in managing any unforeseen working capital fluctuations, however none of the Group's forecasts indicate that the facility will be utilised. The Group has changed banks to Santander UK, and the Board thanks it for its innovation and support in putting our new banking arrangements in place. These new arrangements mean that the Group has no standard bank debenture over its assets and no banking covenants.

Following the refinancing of the Group as outlined above, the Group's financing is no longer dependent on bank borrowings. Notwithstanding that, a rigorous review of cash flow forecasts including testing for a range of challenging downside sensitivities has been undertaken. These sensitivities include testing without utilising the invoice discounting facility. Mitigating strategies to these sensitivities considered by the Board exclude any remedies which are not entirely within the Group's control. As a result, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that both the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

Dividend

On 27 January 2021, the Board announced an interim dividend of 2.7p per share, which was equivalent to the interim paid in 2019. The interim due to be paid in April 2020 was cancelled as the Board was unsure then of the potential impact of the Covid-19 pandemic. The Board is now proposing a final dividend of 4.5p (2020: 4.5p) together with an additional dividend of 12p (2020: nil) which it plans to pay following the receipt of an equivalent sum from HRMS, making a total dividend of 19.2p per ordinary share for the year ended 31 May 2021.

If approved at the Annual General Meeting, these dividends will be paid on 29 October 2021 to all shareholders on the register at the close of business on 17 September 2021. The shares will become ex-dividend on 16 September 2021. Subject to HRMS maintaining the requirements of its borrowing arrangements, the Board intends to continue to pass through an additional 12p per share dividend from HRMS to Hargreaves' shareholders annually for the next few years as previously undistributed profits are repatriated to the Company.

Hargreaves Raw Material Services GmbH

As can be seen from these results, HRMS, together with its subsidiary, DK Recycling und Roheisen GmbH ("DK"), has performed very strongly, contributing £13.6m (2020: £1.6m) to the Group's underlying profit before tax. Whilst favourable market conditions have benefitted the business, the Board wishes to congratulate the management of both HRMS and DK on their ability to capitalise on those conditions and on delivering the improvements to operational efficiency and the cost reductions which they have been able to achieve. It remains unclear how long these beneficial trading conditions will endure but HRMS has started the new financial year strongly and the Board has already indicated that HRMS' contribution to market expectations for the financial year ending 31 May 2022 is likely to be much greater than previously expected.

Board Changes

During the year, Nicholas Mills was appointed to the Board as a Non-executive Director. Nicholas is employed by Harwood Capital LLP, our largest shareholder, and his perspective and broader financial and business experience is providing valuable insight.

Covid-19

The Group has traded resiliently throughout the Covid-19 pandemic and the Board does not currently consider it to be a material threat to its operations.

Brexit

Following the UK's exit from the single market on 1 January 2021, the Board has not identified and does not foresee any material impact on the Group's trading activities.

Strategy

The Board has developed three strong pillars on which to create, deliver and realise shareholder value.

First, it intends to continue to deliver reliable and growing profits in its Services businesses, focussing on growing the proportion of revenue which is derived from term contracts and frameworks. This approach should lead to improved visibility of future revenue and sustainable margins with growth coming organically by expanding the service provision to both new and existing customers and through a focus on contract selectivity. Other than the leasing of plant, the Services business does not require the allocation of substantial capital.

Secondly, the Hargreaves Land business is focussed on realising the inherent value of the Group's existing property portfolio. The Board intends to complement that with partnering and option arrangements to take advantage of both residential and commercial development opportunities in the North of England and Scotland where Hargreaves has strong local relationships and an established presence. Results are already beginning to benefit from this approach which does not require substantial additional capital to be allocated.

Thirdly, the Board believes that its investment in the HRMS joint venture has the potential to deliver substantial shareholder value in the next few years. The Board considers it likely that HRMS would benefit in due course from being part of a larger, more specialised business and it plans to explore strategic options for HRMS with its professional advisors over the course of the next several months.

Outlook

I believe that the Board has developed a clear strategic approach which both simplifies and clarifies the value proposition for investors. The Group's balance sheet, which carries no net bank debt and which is essentially free from third party security, provides a strong and resilient platform from which to create, deliver and realise that value. The Board looks forward to the year ending 31 May 2022 with confidence.

Roger McDowell
Chairman

27 July 2021

**Underlying Profit before Tax is defined by the Board as Profit before Tax prior to exceptional items, impairment of intangible assets and fair value adjustments. The Board uses this measure as a Key Indicator in assessing the financial performance of the Group throughout the year and believes that its disclosure benefits readers of the financial statements.*

Group Business Review

Gordon Banham, Group Chief Executive

Chief Executive's Review

Services

The Services business recorded revenue of £193.0m (2020: £216.0m). The decrease in revenue was expected due to the impact of delays to the full mobilisation of the HS2 project which also impacted underlying profit before tax which reduced to £5.1m (2020: £6.9m). The performance of the business units within Services is set out below.

HELM

The business unit formerly known as Production & Distribution has been reorganised following the cessation of coal mining and the sale of the speciality coal inventory to HRMS for £24m in December 2020. The business unit has been rebranded as Hargreaves Environmental, Logistics and Minerals (HELM). Underlying profit before tax reduced to £3.3m (2020: £3.8m) largely due to the cessation of coal related activities. Logistics contributed £2.2m (2020: £2.3m) to that result. Following the cessation of the coal business, revenue is expected to decline in the year ending 31 May 2022.

Industrial Services

Revenue was lower at £77.4m (2020: £86.4m) but profit before tax increased by 14% to £4.2m (2020: £3.7m), a margin of 5.4% (2020: 4.3%). The reduction in revenue resulted primarily from the UK business transitioning away from mainly supporting coal fired power stations and the decision by British Steel to take the services provided by Hargreaves inhouse. The Asian business experienced a modest reduction in activity levels due to Covid-19 but most significantly secured an appointment to a three year Power Distribution contract with CLP Power Services, extending the range of services provided to this client. Margins improved through further contract selectivity which will continue to be a key area of focus. During the year, the Industrial Services business secured a number of other framework and term contract positions and currently has visibility of over 70% of its budgeted revenue for the year ending 31 May 2022.

Specialist Earthworks

The Specialist Earthworks business recorded revenue of just £3.5m (2020: £20.3m) and a loss before tax prior to exceptional items of £2.4m (2020: loss of £0.9m). The reduction in revenue was caused by the delay to the full mobilisation of the HS2 project following the completion of the successful A14 project in the prior year. In March 2021, the business was appointed by the Kier/Eiffage/Bam/Ferrovial joint venture to carry out a £120m earthmoving contract on the C2 section of the HS2 rail project centred around Aylesbury, providing strong visibility of revenue for the next four years. Although works on site have now commenced, the programme of activity is likely to be weighted to the second half of the year ending 31 May 2022 with full run rate not being reached until the following financial year.

I am pleased to report that all of the legacy civils contracts inherited with the acquisition of C.A. Blackwell have now been settled. This resulted in a £2.2m (2020: £1.4m) non-cash charge in the year, which is recorded as exceptional. The contracts are now in their defects periods with appropriate accruals being held to meet any liabilities. The business is attending to these matters with its supply chain to enable the collection of retentions.

Hargreaves Land

Hargreaves Land contributed £11.8m (2020: £6.2m) of revenue and a profit before tax of £6.3m (2020: loss of £0.3m). This includes £4.1m (2020: £nil), being the Group's share of the profits from the Unity joint venture.

At the major Blindwells site near Edinburgh, completion of the first sales of fully serviced plots to Bellway and Cruden Homes were achieved and a further conditional sale to Persimmon was exchanged which is expected to complete in the year ending 31 May 2022. £6.3m (2020: £8.0m) of gross infrastructure cost has been invested in the site during the year, which is included in Inventory in the Group Balance Sheet.

In April 2021, we announced that the Unity joint venture had completed the £25m sale of the first major logistics contract at its mixed use development site located at Hatfield, South Yorkshire several months earlier than originally expected. The transaction was accelerated at the client's request. Unity is a 50:50 joint venture with regional developer Waystone Limited and consists of 250 hectares of land of which 60 hectares is allocated for employment and commercial uses with the remainder having planning consent for 3,100 residential properties. The construction of a new spur road which provides access to the logistics site has been started with completion expected in the year ending 31 May 2022.

Hargreaves Land's strategic goal is that of a property developer rather than as a long-term owner of investment properties. It looks to exploit appropriate opportunities whilst restricting the amount of capital to be invested. An example of this type of project is a scheme at Bridlington which commenced construction in December 2020. With a Gross Development Value of £9.5m, it comprises 44,000 sq. ft. of pre-let retail warehousing on a site of around four acres. The scheme is now under construction and is due for completion by the end of 2021.

Central Costs

As noted last year, after allocating finance costs to the business segments of £0.7m (2020: £0.5m), Central costs have risen to £3.8m (2020: £3.3m) as a result of increased insurance costs in a hardening market. These costs are expected to reduce in the year ending 31 May 2022 but not by enough to revert to 2020 levels.

Hargreaves Raw Material Services GmbH

The Group's German joint venture, HRMS, contributed £13.6m (2020: £1.6m) to underlying profit before tax. The second half of the financial year in particular has benefitted from strong pricing in certain commodity markets and the HRMS trading team, which has always been adept at taking advantage of market conditions, has produced outstanding results. This is in conjunction with the improvements at DK which has returned to profitability after several loss making years prior to the acquisition by HRMS in December 2019.

The turnaround at DK has been realised through a combination of management change, cost reduction and improvements to operating processes. These changes have brought benefit to the Group more quickly than anticipated. DK has also benefitted from strong demand and pricing in certain markets, particularly for pig iron and zinc.

HRMS' Carbon Pulverisation Plant ("CPP") is now commissioned and is producing product for DK as well as supplying quantities of trial material to other potential customers. A total of 70kt of material was processed in the year ended 31 May 2021. The CPP made no profit contribution in the financial year.

Looking to the year ending 31 May 2022, there can be no certainty that the favourable market conditions will endure, although as announced on 22 July 2022, forward trading positions have been taken out which give confidence to the Board that HRMS can continue to benefit from these market conditions throughout the first six months of the year ending 31 May 2022 at least. After a year of great progress, HRMS is well on the way to becoming a more stable and consistent provider of material profits to the Group.

Summary

The decision to cease coal mining last July and subsequently to terminate all direct coal related revenue generation in December 2020 was a significant step in the transition of Hargreaves away from its traditional business roots. The Group has made substantial progress this year in positioning each of its businesses for the future and that progress has been made against the backdrop of the Covid-19 pandemic. It has only been achieved through the commitment and efforts of our employees and my thanks go to each of them. Great opportunities lie ahead for the Group and I look forward to further progress in the coming year.

Gordon Banham
Group Chief Executive

27 July 2021

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 May 2021

Continuing operations	Note	2021 £000	2020 £000
Revenue	2	**204,796**	222,242
Cost of sales		**(181,453)**	(199,385)
Gross profit		**23,343**	22,857
Other operating income		**3,821**	5,288
Administrative expenses		**(29,234)**	(26,840)
Operating (loss)/profit		**(2,070)**	1,305
Analysed as:			
Operating profit (before exceptional items and impairment)		**4,751**	4,563
Exceptional items	3	**(2,186)**	(1,683)
Impairment of intangible assets	2	**(4,635)**	(1,575)
Operating (loss)/profit		**(2,070)**	1,305
Finance income		**646**	845
Finance expenses		**(1,882)**	(2,134)
Share of profit in joint ventures (net of tax)		**17,680**	2,135
Profit before tax		**14,374**	2,151
Taxation	4	**2,032**	2,119
Profit for the year		**16,406**	4,270
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes		**1,956**	(1,129)
Tax recognised on items that will not be reclassified to profit or loss		**(319)**	283
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**(1,806)**	366
Equity adjustment relating to adoption of IFRS 16		**-**	(161)
Effective portion of changes in fair value of cash flow hedges		**136**	83
Tax recognised on items that are or may be reclassified subsequently to profit or loss		**(25)**	(11)
Other comprehensive expense for the year, net of tax		**(58)**	(569)
Total comprehensive income for the year		**16,348**	3,701

	Note	2021 £000	2020 £000
Profit attributable to:			
Equity holders of the Company		**16,426**	4,315
Non-controlling interest		**(20)**	(45)
Profit for the year		**16,406**	4,270
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**16,368**	3,746
Non-controlling interest		**(20)**	(45)
Total comprehensive income for the year		**16,348**	3,701
Basic earnings per share (pence)	5	**50.84**	13.40
Diluted earnings per share (pence)	5	**49.38**	13.11
Non-GAAP Measures			
Basic underlying earnings per share (pence)*	5	**70.66**	19.87
Diluted underlying earnings per share (pence)*	5	**68.64**	19.44

**See note 6 for explanation of Alternative Performance Measures Glossary*

Balance Sheet
at 31 May

	Group	
	2021 £000	2020 £000
Non-current assets		
Property, plant and equipment	**13,806**	15,561
Right of use assets	**13,776**	15,845
Investment property	**7,607**	9,216
Intangible assets including goodwill	**4,824**	9,418
Investments in associates and joint ventures	**31,187**	14,093
Deferred tax assets	**10,084**	8,332
Retirement benefit surplus	**2,911**	-
	84,195	72,465
Current assets		
Other financial assets	**2**	65
Inventories	**27,168**	64,009
Trade and other receivables	**78,260**	71,316
Income tax asset	**59**	8
Contract assets	**1,720**	11,456
Cash and cash equivalents	**28,303**	18,499
	135,512	165,353
Total assets	**219,707**	237,818

Non-current liabilities		
Other interest-bearing loans and borrowings	**(8,586)**	(9,437)
Retirement benefit obligations	**(2,867)**	(3,768)
Provisions	**(2,495)**	(1,679)
	(13,948)	(14,884)

Current liabilities		
Other interest-bearing loans and borrowings	**(3,179)**	(37,186)
Trade and other payables	**(53,334)**	(43,362)
Provisions	**(4,907)**	(12,088)
Other financial liabilities	**(43)**	(243)
	(61,463)	(92,879)

Total liabilities	**(75,411)**	(107,763)
Net assets	**144,296**	130,055

	Group	
	2021 £000	2020 £000
Equity attributable to equity holders of the parent		
Share capital	**3,314**	3,314
Share premium	**73,955**	73,955
Other reserves	**211**	211
Translation reserve	**(2,132)**	(326)
Merger reserve	**1,022**	1,022
Hedging reserve	**285**	174
Capital redemption reserve	**1,530**	1,530
Share based payment reserve	**1,680**	1,462
Retained earnings	**64,441**	48,703
	144,306	130,045
Non-controlling interest	**(10)**	10
Total equity	**144,296**	130,055

Consolidated Statement of Changes in Equity

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity £000
At 1 June 2019	3,314	73,955	(692)	102	211	1,530	1,022	1,139	46,841	127,422	55	127,477
Total comprehensive income for the year												
Profit/ for the year	-	-	-	-	-	-	-	-	4,315	4,315	(45)	4,270

Other comprehensive income/(expense)												
Foreign exchange translation differences	-	-	366	-	-	-	-	-	-	366	-	366
Effective portion of changes in fair value of cash flow hedges	-	-	-	83	-	-	-	-	-	83	-	83
Equity adjustment relating to adoption of IFRS 16	-	-	-	-	-	-	-	-	(161)	(161)	-	(161)
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	(1,129)	(1,129)	-	(1,129)
Tax recognised on other comprehensive income	-	-	-	(11)	-	-	-	-	283	272	-	272
Total other comprehensive income/(expense)	-	-	366	72	-	-	-	-	(1,007)	(569)	-	(569)
Total comprehensive income for the year	-	-	366	72	-	-	-	-	3,308	3,746	(45)	3,701
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	323	-	323	-	323
Dividends paid	-	-	-	-	-	-	-	-	(1,446)	(1,446)	-	(1,446)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	323	(1,446)	(1,123)	-	(1,123)
At 31 May 2020	**3,314**	**73,955**	**(326)**	**174**	**211**	**1,530**	**1,022**	**1,462**	**48,703**	**130,045**	**10**	**130,055**

Group	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity £000
At 1 June 2020	3,314	73,955	(326)	174	211	1,530	1,022	1,462	48,703	130,045	10	130,055
Total comprehensive income for the year												
Profit/(loss) for the year	-	-	-	-	-	-	-	-	16,426	16,426	(20)	16,406
Other comprehensive income/(expense)												
Foreign exchange translation differences	-	-	(1,806)	-	-	-	-	-	-	(1,806)	-	(1,806)
Effective portion of changes in fair value of cash flow hedges	-	-	-	136	-	-	-	-	-	136	-	136
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	1,956	1,956	-	1,956
Tax recognised on other												

comprehensive income	-	-	-	(25)	-	-	-	-	(319)	(344)	-	(344)
Total other comprehensive income/(expense)	-	-	(1,806)	111	-	-	-	-	1,637	(58)	-	(58)
Total comprehensive income/(expense) for the year	-	-	(1,806)	111	-	-	-	-	18,063	16,368	(20)	16,348
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	-	-	-	-	-	-	-	218	-	218	-	218
Dividends paid	-	-	-	-	-	-	-	-	(2,325)	(2,325)	-	(2,325)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	218	(2,325)	(2,107)	-	(2,107)
At 31 May 2021	**3,314**	**73,955**	**(2,132)**	**285**	**211**	**1,530**	**1,022**	**1,680**	**64,441**	**144,306**	**(10)**	**144,296**

Cash Flow Statement
for year ended 31 May 2021

	Group	
	2021 £000	2020 £000
Cash flows from operating activities		
Profit for the year from continuing operations	**16,406**	4,270
Adjustments for:		
Depreciation and impairment of property, plant and equipment and right-of-use assets	**6,562**	19,305
Impairment of goodwill and intangible assets	**4,635**	1,575
Net finance expense	**1,236**	1,289
Share of profit in joint ventures (net of tax)	**(17,680)**	(2,135)
Profit on sale of property, plant and equipment, investment property and right-of-use assets	**(3,667)**	(2,851)
Equity settled share-based payment expenses	**218**	323
Income tax credit	**(2,032)**	(2,119)
Contributions to defined benefit pension schemes	**(2,039)**	(1,858)
	3,639	17,799
Change in inventories	**36,841**	(15,969)
Change in trade and other receivables	**2,012**	12,611
Change in trade and other payables	**9,268**	(22,863)
Change in provisions and employee benefits	**(5,212)**	2,740
	46,548	(5,682)
Net interest paid	**(1,194)**	(1,104)
Income tax paid	**(127)**	(272)
Net cash inflow/(outflow) from operating activities	**45,227**	(7,058)

Cash flows from investing activities

Proceeds from sale of property, plant and equipment	**3,125**	8,717
Proceeds from sale of investment property	**5,040**	2,045
Proceeds from sale of right of use assets	**753**	1,410
Acquisition of property, plant and equipment	**(2,727)**	(2,728)
Acquisition of investment property	**(390)**	(324)
Net cash inflow from investing activities	**5,801**	9,120

Cash flows from financing activities

Principal elements of lease payments (2019 Payment of finance lease liabilities)	**(6,085)**	(8,769)
Dividends paid	**(2,325)**	(1,446)
(Repayment of)/proceeds from Group banking facilities	**(32,000)**	5,000
Net cash outflow from financing activities	**(40,410)**	(5,215)

Net increase/(decrease) in cash and cash equivalents	**10,618**	(3,153)
Cash and cash equivalents at 1 June	**18,499**	21,583
Effect of exchange rate fluctuations on cash held	**(814)**	69
Cash and cash equivalents at 31 May	**28,303**	18,499

The line items for 'Proceeds from sale of property, plant and equipment', 'Proceeds from sale of investment property', 'Proceeds from sale of right of use assets', 'Acquisition of property, plant and equipment' and 'Acquisition of investment property' within cash flows from investing activities have been represented for 2020 in order to present the cash flows on a gross basis as is required by IAS 7. This has no impact on the net cash inflow from investing activities.

1 Basis of preparation and status of financial information

The financial information set out above has been prepared and approved by the Directors in accordance with the recognition and measurement criteria of international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 May 2021 or 31 May 2020. Statutory accounts for 2020 have been delivered to the Registrar of Companies, and those for 2021 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Going concern
The Group's financing is no longer dependent on bank borrowings. Notwithstanding that, a rigorous review of cash flow forecasts including testing for a range of challenging downside sensitivities has been undertaken. These sensitivities include testing without utilising the invoice discounting facility. Mitigating strategies to these sensitivities considered by the Board exclude any remedies which are not entirely within the Group's control. As a result, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that both the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the Annual Report and Accounts.

These results were approved by the Board of Directors on 27 July 2021.

2 Segmental Information
The following analysis by industry segment is presented in accordance with IFRS 8 on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to assess performance and make strategic decisions about allocation of resources.

The sectors distinguished as operating segments are Services, Hargreaves Land, Unallocated and HSEL.

- **Services:** Provides materials handling, mechanical and electrical engineering logistics and bulk earthmoving into the energy, environmental, infrastructure and industrial sectors.
- **Hargreaves Land:** The development and realisation of value from the land portfolio including rental income from investment properties and the share of profit of the Unity joint venture.
- **Unallocated:** The corporate overhead contains the central functions that are not devolved to the individual business units.
- **Hargreaves Services Europe ("HSEL"):** The Group's share of its German joint venture.

These segments are combinations of subsidiaries and joint ventures. They have separate management teams and provide different products and services. The four operating segments are also reportable segments.

The segment results, as reported to the Board of Directors, are calculated under the principles of IFRS. Performance is measured on the basis of underlying profit/(loss) before tax, which is reconciled to profit/(loss) before tax in the tables below:

	Services 2021 £000	Hargreaves Land 2021 £000	Unallocated 2021 £000	HSEL 2021 £000	Total 2021 £000

Revenue					
Total revenue	194,600	11,800	-	-	206,400
Intra-segment revenue	(1,604)	-	-	-	(1,604)
Revenue from external customers	192,996	11,800	-	-	204,796
Operating profit/(loss) (before exceptional items and impairment)	**6,691**	**2,530**	**(4,470)**	-	**4,751**
Share of profit in joint ventures (net of tax)	-	4,069	-	13,611	17,680
Net financing costs	(1,614)	(338)	716	-	(1,236)
Impairment of intangibles	(4,635)	-	-	-	(4,635)
Exceptional items	(2,186)	-	-	-	(2,186)
Profit/(loss) before taxation	**(1,744)**	**6,261**	**(3,754)**	**13,611**	**14,374**
Taxation	591	(114)	1,555	-	2,032
Profit/(loss) after taxation	**(1,153)**	**6,147**	**(2,199)**	**13,611**	**16,406**
Depreciation charge	(6,135)	(103)	(323)	-	(6.561)
Capital expenditure	(3,381)	(23)	(216)	-	(3,620)
Net assets/(liabilities)					
Segment assets	77,900	55,820	54,800	-	188,520
Segment liabilities	(60,078)	(6,990)	(8,343)	-	(75,411)
Segment net assets	**17,822**	**48,830**	**46,457**	**-**	**113,109**
Joint ventures	-	4,051	-	27,136	31,187
Total net assets	**17,822**	**52,881**	**46,458**	**27,136**	**144,296**

Unallocated net assets of £46.5m include cash and cash equivalents of £28.3m, deferred tax asset of £10.1m, amounts due from Jointly Controlled Entities of £14.5m, VAT liability of £3.8m and other corporate items (£2.6m liability).

	Services 2020 £000	Hargreaves Land 2020 £000	Unallocated 2020 £000	HSEL 2020 £000	Total 2020 £000
Revenue					
Total revenue	216,283	6,217	-	-	222,500
Intra-segment revenue	(258)	-	-	-	(258)
Revenue from external customers	216,025	6,217	-	-	222,242
Operating profit/(loss) (before exceptional items and impairment)	8,496	(194)	(3,739)	-	4,563
Share of profit in joint ventures (net of tax)*	-	-	-	2,135	2,135
Net financing costs	(1,641)	(115)	467	-	(1,289)
Impairment of intangibles	(1,575)	-	-	-	(1,575)
Exceptional items	(4,120)	-	2,437	-	(1,683)
Profit/(loss) before taxation	1,160	(309)	(835)	2,135	2,151
Taxation	603	979	537	-	2,119
Profit/(loss) after taxation	1,763	670	(298)	2,135	4,270
Depreciation charge	(18,666)	(116)	(523)	-	(19,305)
Capital expenditure	(2,578)	(94)	(129)	-	(2,801)
Net assets/(liabilities)					
Segment assets	161,859	58,635	3,231	-	223,725
Segment liabilities	(65,172)	(2,423)	(40,168)	-	(107,763)
Segment net assets/(liabilities)	96,687	56,212	(36,937)	-	115,962
Joint ventures	-	-	-	14,093	14,093
Total net assets/(liabilities)	96,687	56,212	(36,937)	14,093	130,055

*Share of profit in joint ventures includes £0.6m of fair value gain on an acquisition by a joint venture.

Unallocated net liabilities of £36.9m include the Group banking facilities liability (£32.0m), cash and cash equivalents (£6.3m liability), derivative financial instruments (£0.2m liability), VAT liability (£1.9m) and deferred tax asset (£8.3m), retirement benefit obligations (£3.8m) and other corporate items (£1.0m liability).

3 Exceptional items

The Group incurred a number of exceptional items in the year as follows:

	2021 £000	2020 £000
Exceptional items in Revenue		
Reduction in value of legacy contracts in C.A. Blackwell (Contracts) Limited	**-**	(933)
Total exceptional items in Revenue	**-**	(933)
Exceptional items in Cost of sales		
Losses on legacy contracts in C.A. Blackwell (Contracts) Limited	**(2,186)**	(487)
Cessation of coal mining activities	**-**	(4,108)
Movement in provision in respect of the insolvency of British Steel	**-**	1,408
Total exceptional items in Cost of sales	**(2,186)**	(3,187)

Exceptional items in Other operating income		
Gain on disposal of Drakelands Restoration Limited	-	2,437
Total exceptional items in Other operating income	-	2,437

Total	**(2,186)**	(1,683)

Further losses have been recognised on the legacy contracts within C.A. Blackwell (Contracts) Limited resulting in costs of £2,186,000. For the year ended 31 May 2020, this resulted in the reversal of previously recognised revenue of £933,000 and further costs of £487,000. These contracts have now been concluded and final accounts agreed. The contracts are now in defects periods with appropriate accruals held to cover all anticipated costs of rectification.

Following the decision to cease all coal mining operations the Group incurred an exceptional charge for the year ended 31 May 2020 of £4,108,000, reflecting employment related liabilities of £1,421,000, associated asset write-downs of £1,746,000 and restoration liabilities of £941,000.

On 2 December 2019 the Group disposed of its shareholding in Drakelands Restoration Limited ("DRL") for proceeds of £2,800,000, the total assets and net assets of DRL at the date of disposal were nil and directly attributable costs totalled £363,000 resulting in a profit on disposal of £2,437,000 for the year ended 31 May 2020, reported within the unallocated reportable segment.

Following the insolvency of British Steel, a cost of £7,964,000 was recognised in the year ended 31 May 2019 with £1,681,000 relating to employment liabilities and the remainder relating to debtor, WIP and associated plant impairments. Following the acquisition by Jingye of British Steel in the year ended 31 May 2020 there was no longer any need for the remaining employment related provision, and the balance of £1,408,000 was subsequently released in the year ending 31 May 2020.

4 Taxation

Recognised in the Income Statement

	2021 £000	2020 £000
Current tax		
Current year	**57**	89
Adjustments for prior years	**8**	(377)
Current tax expense/(credit)	**65**	(288)
Deferred tax		
Origination and reversal of temporary timing differences	**764**	(381)
Change in tax rate	**(2,736)**	(885)
Adjustments for prior years	**(125)**	(565)
Deferred tax credit	**(2,097)**	(1,831)
Tax credit in Income Statement (excluding share of tax of equity accounted investees)	**(2,032)**	(2,119)

The deferred tax adjustment in respect of prior years of £125,000 relates to losses assumed to be utilised in previous year, which were ultimately retained.

Recognised in Other Comprehensive Income

	2021 £000	2020 £000
Deferred tax (expense)/income		
Effective portion of changes in fair value of cash flow hedges	**(25)**	(11)
Remeasurements of defined benefit pension schemes	**(319)**	283
	(344)	272

Reconciliation of Effective Tax Rate

	2021 £000	2020 £000
Profit for the year from continuing operations	**16,406**	4,270
Total tax credit	**(2,032)**	(2,119)
Profit excluding taxation from continuing operations	**14,374**	2,151
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	**2,731**	409
Effect of tax rates in foreign jurisdictions	**(143)**	(13)
Tax effect of joint ventures	**(2,586)**	(405)
Previously unrecognised tax losses	**(92)**	(678)
Non-deductible expenses	**894**	395
Impact of change in tax rates	**(2,736)**	(885)
Other temporary trading differences	**17**	-

Adjustment in respect of previous periods	**(117)**	(942)
Effective total tax credit	**(2,032)**	(2,119)

The UK corporation tax rate has been 19.00% for the duration of the financial year (2020: 19.00%).

Factors That May Affect Future Current and Total Tax Charges
Following the March 2021 budget, the corporate tax rate will increase from 19% to 25% with effect from 1 April 2025. The deferred tax balances at 31 May 2021 and 31 May 2020 have been calculated based on the rate substantively enacted at the balance sheet date of 25% and 19% respectively.

5 Earnings per share
The calculation of earnings per share ("EPS") is based on the profit for the year attributable to equity holders and on the weighted average number of shares in issue and ranking for dividend in the year.

	2021			2020		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share	**22,832**	**70.66**	**68.64**	6,399	19.87	19.44
Exceptional items, fair value adjustments and impairment (net of tax)	**(6,406)**	**(19.82)**	**(19.26)**	(2,084)	(6.47)	(6.33)
Basic earnings per share	**16,426**	**50.84**	**49.38**	4,315	13.40	13.11
Weighted average number of shares		**32,312**	**33,262**		32,199	32,913

The calculation of weighted average number of shares includes the effect of own shares held of 827,150 (2020: 856,410).

The calculation of diluted earnings per share ("DEPS") is based on the profit for the year and the weighted average number of ordinary shares in issue in the year the potentially dilutive effect of the share options outstanding (effect on weighted average number of shares) is 950,750 (2020: 714,075); effect of basic earnings per ordinary share in the current year is 1.46p (2020: 0.43p). Effect on underlying earnings per ordinary share is 2.02p (2020: 0.29p).

6 Alternative Performance Measures Glossary

This report provides alternative performance measures ("APMs"), which are not defined or specified under the requirements of International Financial Reporting Standards. The Board believes that these APMs provide readers with important additional information on the business.

Alternative Performance Measure	Definition and Purpose
Underlying profit before tax	Represents the profit before tax prior to exceptional items, fair value adjustments and impairment of intangible assets, and, in accordance with International Accounting Standards, includes the Group's share of the post-tax profit of its German joint venture. This measure is consistent with how the business measures performance and is reported to the Board.

	2021 £'000	2020 £'000
Profit before tax	**14,374**	2,151
Exceptional items (see Note 3)	**2,186**	1,683
Impairment of intangible assets and goodwill	**4,635**	1,575
Fair value gain on acquisition by a joint venture	**-**	(555)
Underlying Profit before Tax	**21,195**	4,854

Basic underlying earnings per share	Profit attributable to the equity holders of the Company prior to exceptional items and impairment of intangible assets and fair value gains on acquisition after tax divided by the weighted average number of ordinary shares during the financial year adjusted for the effects of any potentially dilutive options. See Note 5.
Net cash/(debt)	Represents the net position of the Group's cash and loan balances including leases. Calculated as follows:

	2021 £'000	2020 £'000
Cash and cash equivalents	**28,303**	18,499
Non-current interest-bearing loans and borrowings	**(8,586)**	(9,347)
Current interest bearings loans and borrowings	**(3,179)**	(37,186)
Net Cash/(debt)	**16,538**	(28,124)

Net Asset Value per share	Represents the Net Asset Value of the Group divided by the number of shares in issue less those shares held in treasury. Calculated as follows:

	2021 £'000	2020 £'000
Total shares in issue	**33,138,756**	33,138,756
Less shares in treasury	**(827,150)**	(856,410)
Shares for calculation	**32,311,606**	32,282,346
Net Asset Value per Balance Sheet	**£144,296,000**	£130,055,000
Net Asset Value per share	**£4.47**	£4.03

7 Posting of Report & Accounts

The Group confirms that the annual report and accounts for the year ended 31 May 2021 will be posted to shareholders as soon as practicable and a copy will be made available on the Group's website:

www.hsgplc.co.uk