Hargreaves

Annual Report and Accounts 2019

Hargreaves Services plc

About us

Hargreaves Services plc delivers key services to the industrial and property sectors.

Strategic Report

Directors' Report

Financial Statements

Highlights of the Year

The underlying performance of the Group has been satisfactory.

Trading

Revenue of £302.6m (2018: £297.1m)

Underlying Operating Profit of £10.0m (2018: £9.4m)

Operating Profit from Continuing Operations prior to exceptional items of £6.4m (2018: £2.1m)

Reported operating loss of £9.7m (2018: £1.4m)

Exceptional Items

£16.1m of provisions made against the insolvencies of British Steel & Wolf Minerals

Energy

Disposal of Brockwell Energy, treated as a Discontinued Operation, realising £5.2m pre-tax profit

Distribution & Services

Revenue up by 4.7% to £293.8m (2018: £280.7m)

Construction of Carbon Pulverisation Plant by German associate nearing completion

Property

Conditional sales of first plots achieved at Blindwells

Legacy Assets

£13m left to realise down from £60m three years ago

Board

Roger McDowell appointed as Chairman on 1 August 2018

David Anderson recruited as Group Property Director in November 2018

Balance Sheet

Net Debt down to £17.9m (2018: £30.8m)

Net Asset Value per share as at 31 May 2019 of £3.97 per share (2018: £4.24)

Strategy for Shareholder Value

To convert non-core assets, including Legacy assets, into cash for investment and distribution

To deliver improving profits in Distribution & Services and to release capital

To optimise investment in Hargreaves Land for growth and value creation

Final dividend of 4.5p maintained bringing proposed full-year dividend to 7.2p (2018: 7.2p)

To enhance shareholder returns through an extra annual dividend of 12p per share to be declared commencing in FY21 from repatriated German associate profits

Notes:

(1) Underlying Operating Profit is stated prior to exceptional items, the amortisation and impairment of intangible assets and including the Group's share of operating profit in associates and joint ventures. See Alternative Performance Measure Glossary, page 84.

(2) Operating Profit from Continuing Operations prior to exceptional items is stated before exceptional items of £16.1m (2018: £3.5m).

(3) Net Debt comprises cash and cash equivalents, bank overdrafts and other interest-bearing loans and borrowings.

Chairman's Statement

Roger McDowell, Group Chairman

The Board is focused on delivering reliable and growing profits in and unlocking capital from its Distribution & Services businesses enabling strong cash returns to shareholders alongside investment in the growth of Hargreaves land.

Introduction

In my first full year report as the Chairman of Hargreaves, it is very disappointing to have to report a loss for the year. The Group has been impacted by the insolvency of two notable customers, Wolf Minerals Limited and British Steel Limited. These events caused the Group to make substantial provisions totalling £16.1m against unrecoverable debtor and work in progress balances and equipment values and also against employment related liabilities, including redundancies.

Putting those setbacks to one side, the underlying performance of the Group has been satisfactory and progress on non-core asset realisation and cash generation has continued including the successful disposal of Brockwell Energy Limited in October 2018 for a profit after tax of £4.5m.

Results

Revenue from continuing operations was £302.6m (2018: £297.1m), an increase of 1.9%, despite the loss of revenue arising from the Wolf Minerals contract. The insolvency of British Steel had no material impact on revenue in the financial year.

Underlying Operating Profit from continuing operations for the year was £0.6m higher than the prior year at £10.0m (2018: £9.4m). Underlying Operating Profit is defined by the Board as Operating Profit prior to exceptional items, amortisation and impairment of intangible assets and includes the Group's share of the operating profit of its German associate. 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. Further information on the trading performance of the businesses is given in the Chief Executive's Review.

Operating profit prior to exceptional items trebled to £6.4m (2018: £2.1m). After accounting for the provisions in respect of Wolf Minerals and British Steel of £16.1m (2018: £3.5m) as exceptional items, the operating loss under IFRS was £9.7m (2018: loss of £1.4m). After net finance expenses of £1.7m (2018: £1.3m) and accounting for the Group's share of post-tax profits of the German associate of £1.5m (2018: £3.2m), the consolidated loss before tax was £9.9m (2018: profit of £0.5m). After a tax credit of £1.7m (2018: £0.7m), the profit from discontinued operations of £3.5m (2018: loss of £1.0m) reduced the loss for the year to £4.7m (2018: profit of £0.2m). Basic underlying earnings per share from continuing operations were 15.3p (2018: 14.9p) and a loss per share of 25.7p (2018: earnings of 3.8p) on a reported basis.

Net Debt

As previously reported, Net Debt at the year end was £17.9m (2018: £30.8m). The decrease of £12.9m largely relates to the successful disposal of Brockwell Energy. Additionally, cash generation from the continuing unwind of Legacy assets has been offset by a planned increase in inventory. Although Net Debt is likely to increase again in the first half of this financial year, due to planned increases in working capital including at Blindwells, Net Debt is expected to return to similar levels by 31 May 2020 as working capital unwinds. Further reductions in working capital are expected to contribute to a material reduction in Net Debt by the end of the year ending 31 May 2021.

Dividend

The Board is recommending an unchanged final dividend of 4.5p (2018: 4.5p) per ordinary share thus maintaining the full-year dividend at 7.2p (2018: 7.2p). This will be paid on 1 November 2019 to all shareholders on the register at the close of business on 20 September 2019. The shares will become ex-dividend on 19 September 2019.

In my Interim Report, I stated that the Board intended to return with immediate effect to a more conventional dividend payment policy, distributing approximately one third of the anticipated full-year dividend at the interim stage and more generally that it would seek to increase dividends progressively, balancing this objective with continuing to reduce Net Debt. Despite the losses incurred this year, the Board believes it is appropriate to maintain the dividend, reflecting the Board's confidence in both the strength of the Balance Sheet and the trading prospects of the underlying business, and will look to increase it appropriately in due course.

People

Over 2,000 people are employed by the Group across its operations and their efforts and commitment are vital in delivering value to our shareholders. The Board would like to take this opportunity to thank them all publicly and to encourage them to carry on their good work as the Group continues the process of repositioning itself for new opportunities.

Board Changes

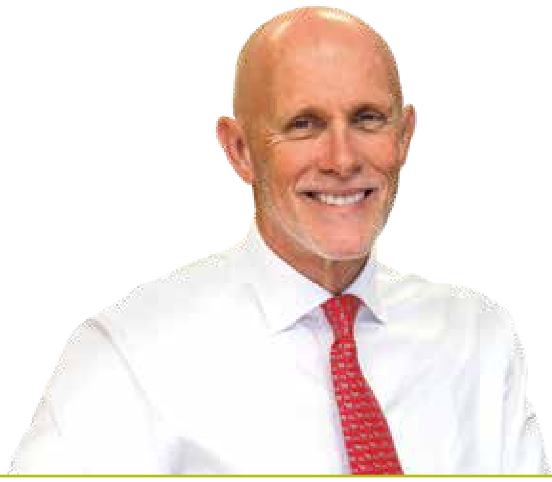
I am delighted that we were able to secure the services of David Anderson who joined the Board on 14 November 2018 as Group Property Director. David is driving forward with the growth of Hargreaves Land, the Group's property development business, as demonstrated by the announcements of the conditional disposal of plots at Blindwells.

Following both David Morgan and Peter Jones leaving the Board during the year, the Board is undertaking a process to appoint a further Non-Executive Director.

Brexit

The uncertainty of the final outcome to the Brexit discussions continues. Hargreaves has very little trading activity with any country within the EU. Consequently, the Board expects no material direct impact on the Group's trading activities whatever the final Brexit outcome may be. The Group's German specialist raw material trading associate business, Hargreaves Raw Materials Services GmbH ("HRMS"), trades almost exclusively within the EU but imports much of its trading stock from outside the EU. The Board

An additional dividend of 12p per share will be declared in FY21 out of profits repatriated from our German associate.



cannot meaningfully assess any wider macro-economic impact of Brexit which may affect business sentiment in trading and financial markets leading to a material change in the economic or financial environment within the UK and Europe for the Group or its customers.

Strategy
I reported at the interim stage that following my appointment as Chairman, the Board had conducted an initial review of strategy. Three key areas of focus were identified. First, the realisation of cash from the disposal of surplus assets and non-core activities, including the Legacy assets. Secondly, a focus to increase returns from the Distribution & Services business. Thirdly, the development of the Group's Property business, Hargreaves Land, which the Board regards as an important area to generate greater medium and longer-term value. The Board considers that progress is being made in all three areas.

Asset Realisation
Legacy assets have reduced from over £60m in 2016 to £12.8m as at 31 May 2019, including a realisation of £15.7m during the year. A further reduction is expected during the new financial year as a result of the disposal of surplus plant and equipment in the Tower joint venture.

UK Distribution & Services
Following the failure of both British Steel and Wolf Minerals, the prospects for growth in the Distribution & Services business have been impacted. Both the Industrial Services and Specialist Earthworks business units have been adversely affected by these events although the UK Production & Distribution business remains stable. The emphasis across all revenue streams is on improving profits and generating cash, mainly from reductions in working capital.

HRMS
The investment by HRMS in a Carbon Pulverisation Plant ("CPP") to provide both improved resilience for the existing European specialty minerals trading business and additional growth opportunities is almost completed. The CPP is expected to begin trial production in the autumn with initial shipments of material expected in the second half of the financial year to a contracted customer.

Hargreaves Land
The Board regards the property development business, Hargreaves Land, as an important area for future growth. Cash generated from the evolution of our UK mining operations is expected to be invested into property development opportunities. This investment is expected to gain further momentum in the financial year ending 31 May 2021. Typically, the return on investment in property developments can take approximately three years.

Overhead Costs
The programme of reducing operational and overhead costs is ongoing at both Group level and within the business units and remains a key area of focus for the Board. During the last financial year, over 70 employees left the Group providing almost £4m of annualised overhead salary savings. Corporate overhead reduced by over 21% to £4.4m (2018: £5.6m). Over the last four years, some 300 people have left the business with annualised salary costs totalling £14m. Further cost reductions will take place through the new financial year.

Shareholder Value
As part of the Board's plans to create shareholder value, it is working with its German associate business, HRMS, to enhance the value of its investment whilst releasing capital where possible. HRMS is now an integrated business, including both the speciality trading activity, which has inherent market-driven volatility and the CPP, which as a production asset should provide more predictable earnings. HRMS is working to increase further the overall visibility of future earnings without committing further substantial capital.

Over the last three financial years and continuing until the financial year ending 31 May 2021, HRMS is not permitted to pay dividends as a condition of its borrowing arrangements in connection with funding the construction of the CPP. Dividends, including the payment of previously undistributed reserves, should recommence in the financial year ending 31 May 2021, with cash being repatriated to the UK in the following financial year.

The Board has decided that the dividends from HRMS will be passed through to shareholders in the form of an extra dividend in addition to any normal final dividend which would be declared in accordance with the dividend policy outlined above. The Board anticipates that this extra dividend would be in the region of 12p per share and would be maintained at that level for the foreseeable future. The first such extra dividend would be declared along with the final dividend for the year ending 31 May 2021 and paid in the following financial year.

Outlook
2019 has been a challenging financial year for the Group and although progress has been made in several areas, following the setbacks that have arisen, much remains to be achieved. The Board is focused on delivering reliable and growing profits in and unlocking capital from its Distribution & Services businesses enabling strong cash returns to shareholders alongside investment in the growth of Hargreaves Land.

Roger McDowell
Chairman
30 July 2019

Evolution of the Group's mining strategy will release £20m of cash over the next three years.

Distribution & Services
The Distribution & Services business recorded revenue up 4.7% at £293.8m (2018: £280.7m). The increase in revenue was due to growth in Industrial Services and in Specialist Earthworks, partially offset by lower revenue in Production & Distribution. £2.8m (2018: £5.5m) of Specialist Earthworks revenue was attributable to legacy contracts which are recorded as exceptional.

Underlying Operating Profit was £12.1m (2018: £12.9m). The slight fall in Underlying Operating Profit was primarily due to a £3.2m reduction in the contribution from HRMS, as a result of weaker German economic activity, partially offset by improved results from Industrial Services and Specialist Earthworks. On an IFRS basis, this business segment recorded an operating loss of £8.1m (2018: profit of £2.0m), with the loss being due to the charge for exceptional items which are set out below.

Exceptional Items
Wolf Minerals Limited
As previously announced, in October 2018, one of the Group's customers, Wolf Minerals Limited, announced that it had ceased trading and subsequently it went into liquidation. As a result, the Group incurred an exceptional charge of £8.1m. The Group continues to have a small presence at the Hemerdon mine site where it is carrying out minor maintenance and asset safeguarding activities. The future of the site remains unclear, but Hargreaves is well positioned to secure any restoration or other work which may arise in due course. Hargreaves is not considering operating the mine.

British Steel Limited
In late May 2019, British Steel Limited announced that it was being placed into liquidation. Currently the business is being operated under the aegis of the Official Receiver and the Group is continuing to provide services under similar commercial terms as prior to the insolvency. Until the future of British Steel is clarified, the final financial impact on the Group cannot be fully determined, however, the Board has made a provision of £4.5m against trade debt and work-in-progress balances which are unlikely to be recovered. Additionally, a further expense of £3.5m has been recognised in respect of redundancy and other associated employment costs and equipment write downs, resulting in a total exceptional charge of £8.0m.

Further information on the performance of each business within Distribution & Services is given below.

Production & Distribution
UK
Revenue was £119.4m (2018: £137.4m), primarily due to reduced volumes of low margin thermal coal being traded and so Underlying Operating Profit fell slightly to £3.2m (2018: £3.5m) although margins improved to 2.7% (2018: 2.5%). Mining operations have been conducted very efficiently through the financial year and as a result the business is carrying higher levels of inventory than is usual. It is more cost-effective to mine out coal whilst favourable conditions exist than to suffer the costs of poor output during spells of bad weather.

Our mining operational strategy continues to evolve to meet the future demand for coal through focus on the speciality markets. This will lead to a release of cash from working capital and the sale of surplus assets of approximately £20m. This cash should be released through financial years ending 31 May 2021 and 2022. The Transport business has delivered a much improved result in the period, returning profit to acceptable levels as we continue to focus on core markets and margin improvement.

HRMS
HRMS contributed £3.3m (2018: £6.5m) to Underlying Operating Profit as economic activity in Germany weakened. As a speciality commodity trading business, the results of HRMS are subject to fluctuations depending upon market conditions. As previously reported, HRMS is constructing a Carbon Pulverisation Plant in Duisburg, Germany, to add resilience and greater predictability to future trading prospects. Construction work is almost completed. Initial trial product is expected to be supplied during the autumn with the first sales to a contracted customer by the start of calendar year 2020. The Board of HRMS is focused on securing further contracts for the CPP so that meaningful contribution to profit is expected in the financial year ending 31 May 2021.

Industrial Services
Revenue increased by 25% to £87.4m (2018: £70.0m) with Underlying Operating Profit up by 58% to £3.8m (2018: £2.4m), a margin of 4.3% (2018: 3.4%).

UK
In the UK, revenue grew by 22% to £57.9m (2018: £47.5m) with Underlying Operating Profit improving to £2.7m (2018: £1.7m), increasing margins to 4.7% from 3.6%.

The UK business is focused on margin improvement as it transitions gradually from mainly supporting coal fired power stations and broadens its customer base. The main area of activity is in materials handling but increasingly the business is developing its skills in mechanical and electrical engineering within industrial complexes and is positioned to secure further work of that type. The forward order book and term contract positions held by the Industrial Services business mean that its budget revenue for the next financial year is almost fully secured.

The insolvency of British Steel has caused a setback to this business' growth plans and as a result both revenue and Underlying Operating Profit are likely to be materially lower in the financial year ending 31 May 2020. British Steel contributed approximately £1m of revenue each month. The exceptional charge of £8m, which is £1m lower than announced on 22 May 2019, assumes that British Steel operations cease as at 31 July 2019 as, at the date of signing these accounts, the Board has no better information upon which to base its judgement.

£10m of conditional sales have been achieved at the major Blindwells residential development site.

International
In the International business, which is primarily based in Hong Kong, revenue grew by 31% to £29.5m (2018: £22.5m) with an Underlying Operating Profit of £1.1m (2018: £0.7m), a margin of 4.1% (2018: 3.1%).

The Hong Kong business continues to broaden both the range of services it provides to its clients and its customer base. The South African business broke even as it did in 2018.

The Hong Kong business has been appointed to a new five-year NEC4 Term Service Contract by its principal customer, CLP Power Hong Kong Ltd ("CLP"). This contract has a wider scope than its predecessor, which Hargreaves has delivered over the past five years, and extends to CLP's operations at both Castle Peak and Black Point power stations. Hargreaves will be providing a range of mechanical and electrical engineering services in annual planned and reactive maintenance operations. The successful award of this contract is seen as critical to the ongoing development within Hong Kong and the wider Asia region. It both secures Hargreaves position as a leading vendor to CLP and continues to develop this key and valued relationship whilst providing an enhanced platform for further diversified growth in the region.

Specialist Earthworks
The Specialist Earthworks business recorded revenue of £87.0m (2018: £78.8m) and an Underlying Operating Profit of £1.8m (2018: £0.5m). Most of the growth in revenue is as a result of increased sales of plant and equipment.

The business has continued to manage to completion three legacy civils contracts inherited from the acquisition of C.A. Blackwell. These contracts reported £2.8m (2018: £5.5m) of revenue and incurred operating losses of £0.7m in the year (2018: £3.4m), which are recorded as exceptional and which have been offset by the recovery of £0.6m after legal costs from a claim against the vendors of C.A. Blackwell for breach of warranty. These contracts are now completed on site with only small demobilisation or defects corrections activities remaining. Final accounts remain to be agreed with a total of £9.2m contract assets outstanding in respect of these legacy contracts.

Following the insolvency of Wolf Minerals, the business has only a small level of activity currently at the Hemerdon tungsten mine site. Over the last several months, Hargreaves has sought to position itself to take advantage of whatever the future holds for the site. This would include carrying out the site restoration, the costs of which will be met by a fund which has already been set aside for that purpose during Wolf's tenure as mine operators.

The Specialist Earthworks business is focused on major earthworks projects. The principal current contract is the A14 bulk earthworks project which is expected to be completed in the new financial year. Future business opportunities with similar operational and contractual characteristics are being pursued and, as previously reported, C.A. Blackwell has been selected as a strategic partner to one of the major contractor consortia for two sections of earthworks on the HS2 rail project. Currently the business is engaged in early stage enabling works on the site.

The business is also providing early contractor involvement consultancy advice on other major planned infrastructure projects in the south of England. The timing of many of these projects is uncertain and some are subject to political influence, but the business is well placed to provide what is a specialist capability in a market with a small number of potential suppliers.

As a result of the above events, both revenue and Underlying Operating Profit in this business are likely to be materially lower in the financial year ending 31 May 2020.

Hargreaves Land
Hargreaves Land, the Group's Property business, contributed £2.8m (2018: £11.7m) of revenue and an Operating Profit of £2.2m (2018: £2.1m). Property revenue was principally derived from the sale of non-strategic land. Additionally, Hargreaves Land sold £6.8m of land at the old Maltby colliery and Monckton coke works. This land was previously classified within fixed assets and so is excluded from the measurement of revenue. There remains approximately £5m of non-strategic land to be sold.

In last year's Annual Report, an independent valuation was carried out which supported the values given by a similar independent exercise in 2017. As the land portfolio develops, it becomes increasingly difficult to make a meaningful comparison with historic valuations and so the Board has decided not to carry out a similar exercise this year. The Board continues to hold the view that the market value of its property portfolio is materially greater than its book value. Where appropriate levels of return can be generated, Hargreaves Land will seek to deliver greater development value if that can be extracted through additional investment or by enhancing planning conditions.

At the major Blindwells site near Edinburgh, conditional sales of fully serviced plots to both Cruden Homes and Bellway have already been announced. These sales are expected to complete in the next financial year with a value in excess of £10m. £7.0m (2018: £1.6m) of infrastructure cost has been invested in the site during the year, which is included in Inventory in the Group Balance Sheet. Further investment of over £9m is planned in the next financial year with a further fifteen acres being brought to market in the autumn of this year. It is unlikely that sales of those plots will complete until the year ending 31 May 2021.

The site development plan for phase one will take approximately ten years and provides an ongoing stream of revenue and profit which will underpin the Property business, including the sale of land for around 1,600 homes. The second phase, known as Greater Blindwells, now has approval in principle to be allocated through the local development plan.

Hargreaves Land continued
This phase would result in an additional 900 homes to be built on land owned by the Group.

During the year, the business identified several other development opportunities in Scotland and the North of England which it plans to exploit either through joint venture arrangements or in other partnerships. One such opportunity is at Hatfield in Yorkshire. After the year end, Hargreaves Land entered into a joint venture there to develop a six hundred acre site with planning permission for 3,100 residential properties and 1.5 million square feet for a mixture of industrial, commercial and logistics use. Lead times on such developments can be unpredictable and as a result initial profits are not expected to arise on this scheme until 2021.

Hargreaves Land's strategic goal is that of a property developer rather than a long-term owner of investment properties and it will seek to exploit appropriate opportunities whilst restricting the amount of capital to be invested as much as possible.

Brockwell Energy Limited
The Board was pleased to complete the sale of the entire share capital of Brockwell Energy Limited ("Brockwell") in October 2018. The initial gross proceeds of the disposal, including the reimbursement of certain costs, were £21.7m. An after-tax profit on the disposal of Brockwell of £4.5m, excluding the contingent consideration, has been recorded within discontinued operations.

Brockwell's new owners are specialist renewable energy investors and they have plans to develop a number of such assets, some of which will be on land which is owned by Hargreaves. As these assets are developed, they will provide the Group with long-term high-quality rental income streams. Currently, Brockwell is pursuing financial close to construct an Energy from Waste plant at the Hargreaves site at Westfield in Scotland and a further £2m in cash is receivable by Hargreaves should that financing be successful. At that point, Brockwell will also enter into a long-term lease at commercial rates. The availability of low cost energy at the site should provide a strong incentive to enable Hargreaves Land to attract other potential industrial and warehouse operators to this 100 acre site.

Legacy Assets
During the period, sales of Legacy Assets amounted to £6.1m (2018: £4.7m) with no Operating Profit being recorded (2018: £nil). £12.8m of Legacy Assets remain in the form of loans due from the Tower Joint Venture which are supported by underlying land and equipment. Further sales of joint venture equipment are expected to take place in the new financial year.

Summary
The insolvencies of both Wolf Minerals and British Steel have cast a shadow over the Distribution & Services business which has otherwise traded well. The Board is resolved to derive value and cash from the component businesses as the Group transitions to a model which requires less capital to be employed.

HRMS, the German associate, is also transitioning to a more consistent business model as the CPP comes into production. This will add value to Hargreaves' investment in that business.

The Board has identified Hargreaves Land as a key area for growth given suitable investment into both existing assets and new opportunities, primarily utilising cash to be derived from the cessation of mining activities.

Gordon Banham
Group Chief Executive
30 July 2019

Operating Review

At our German associate the Carbon Pulverisation Plant is due to commence production in the autumn.

The Operating Review should be read in conjunction with both the Chief Executive's Review and the Financial Review.

Distribution & Services
The Distribution & Services segment comprises three business units: Production & Distribution, Industrial Services and Specialist Earthworks.

Production & Distribution
The activities of this business unit include: coal mining, distribution and trading activities in the UK, the transport logistics business and the Group's share of the results of HRMS, the associate German specialist raw materials trading business. The UK operation also includes the Maxibrite coal briquetting operation. Following successful investment to improve the efficiency of Maxibrite's production capabilities with a new manufacturing process, the unit cost of production for both bulk and pre-packed briquettes sales has been reduced.

The business retains a strong position in the supply chain for domestic, industrial and export speciality coal markets. Demand in these markets is expected to continue for the next several years. The UK trading team continues to protect strong market share positions within all strategic markets and has increased penetration into targeted high-margin sectors.

Revenue is likely to remain broadly stable within the UK operations for the next two years. As a result, the near-term focus in this business unit is on producing stable profits and cash generation.

Logistics
The transport logistics business improved profitability in the year, recording Underlying Operating Profit of £1.1m (2018: £0.5m) on revenues down slightly to £38.1m (2018: £39.2m). In particular, the business performed strongly in the second half of the financial year as it focused on servicing term contract work in sectors, such as waste, where sustainable demand delivers appropriate margins.

Hargreaves Raw Material Services Gmbh ("HRMS")
HRMS is based in Duisburg, Germany and is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. HRMS is an associate company and therefore its assets and liabilities are not consolidated into the Group's results. The business' trading operations are funded by a €10m interest bearing loan and working capital facilities which are provided by local banking relationships in Germany supported by a €5m guarantee from Hargreaves Services plc.

As a specialist commodity trading business, HRMS' financial performance can experience periodic fluctuations due to changing market conditions. Despite this it has reported profitable trading every year for more than 10 years. The management team adopts a low-risk trading model, with the flexibility to take advantage of market opportunities (as demonstrated by the particularly strong results in both 2017 and 2018) combined with the ability to reduce activity rapidly should adverse market conditions prevail. The vast majority of trading is supported by back to back contracts and residual commodity risk is limited. The business trades coke, minerals, ferroalloys and pig iron and employs eight specialist commodity traders.

To balance the reliance on short-term trading opportunities which, by their nature, offer limited forward trading visibility, in 2017 HRMS management determined to invest in the construction of a Carbon Pulverisation Plant. The rationale was to establish a strategic production asset to improve forward trading visibility. The plant has been constructed close to the HRMS offices in Duisburg, Germany, a key hub for Central Europe which enjoys numerous logistical advantages. It will process carbon-based raw materials, including coal and coke, into a pulverised carbon product which will offer customers logistical, technical and cost advantages over alternative materials. The plant will have a capacity of about 400,000 tonnes per annum.

Construction is nearing completion. Initial production supplies are due to commence in the autumn with the plant expected to build towards full production over the next two to three years. Funding has been provided by a ten-year loan from a German bank (€15m) together with a €3m loan from Hargreaves Services plc over the same period. The additional funds required have been provided from retained profits in HRMS.

Industrial Services
The Industrial Services business has operations in the UK, Hong Kong and South Africa, although each of these is very different in its business focus. There are growth opportunities in Hong Kong and in the UK, although the latter business is also continuing to manage the gradual reduction in activity at coal fired power stations.

UK
The business is focused on materials handling operations at a range of industrial complexes. As a result of uncertainty following the insolvency of British Steel, which contributed approximately £12m of annual revenue, the outlook for further growth in the year ending 31 May 2020 is diminished. The business has been developing its capabilities in mechanical and electrical engineering services to add to its core operations and aims to grow its activities in that area.

International
Overseas operations, which are focused on Hong Kong, are principally concerned with supporting the power generating operations of China Light & Power and Hong Kong Electric with a range of engineering services, including mechanical, electrical, minor civils and access solutions. The business' growth plans include penetrating new customers and markets in addition to broadening the range of services provided to its existing key customers.

Specialist Earthworks
The Specialist Earthworks business comprises civil engineering which is now wholly focused on major bulk earthworks projects. During the last financial year, the business also had activity in more general civil engineering and soil stabilisation. The Board decided to withdraw from general civil engineering in 2017 but it has taken time to complete contractual obligations. Soil stabilisation will continue but only as part of a total solution offered in major earthworks projects.

Future opportunities in the major earthworks market include the HS2 rail project where C.A. Blackwell has secured a position as a strategic earthworks partner with one of the major construction consortia, together with a number of planned major road and infrastructure projects in the South of England.

Hargreaves Land
The Board believes that the Group has the potential to unlock substantial shareholder value through its existing property portfolio and that it can use this portfolio as a platform upon which to build a successful property development business, Hargreaves Land. David Anderson, an experienced and successful property developer, joined the Board as Group Property Director in November 2018 to spearhead this initiative.

The strategy of Hargreaves Land is to identify and develop opportunities, either in its own right or in joint venture or partnership. Where possible, Hargreaves Land will seek independent funding to reduce the amount of capital to be invested. As a general principle, the business does not intend to own developments for investment purposes although there are certain sites in the historic portfolio, including Westfield, which are likely to be retained as investment properties at least in the medium term.

Gordon Banham
Group Chief Executive
30 July 2019

Financial Review
John Samuel, Group Finance Director

Underlying Operating Profit grew by over 6% on Revenue which increased by almost 2%.

Results
Group Revenue from continuing activities was £302.6m (2018: £297.1m) with Underlying Operating Profit of £10.0m (2018: £9.4m). Reported Underlying Operating Profit is defined by the Board as Operating Profit prior to exceptional items, amortisation and impairment of intangible assets and includes the Group's share of the operating profit of its German associate. This is a key performance indicator for the Board in measuring the Group's financial performance throughout the year.

Net finance expenses increased by £0.4m to £1.7m (2018: £1.3m), primarily due to an £0.2m reduction in finance income. Finance expenses were £2.2m (2018: £1.9m).

After adjusting for exceptional items of £16.1m (2018: £3.5m), amortisation and impairment of goodwill and intangibles of £0.1m (2018: £0.9m) and adjusting for £1.8m (2018: £3.3m) which represents the Group's share of tax and interest in associates, the Group's reported Loss before Tax was £9.9m (2018: profit of £0.5m). A taxation credit of £1.7m (2018: £0.7m) and the Profit after Tax from discontinued operations of £3.5m (2018: loss of £1.0m) bring the loss for the year to £4.7m (2018: profit of £0.2m).

Taxation
The income tax credit for the year from continuing operations is £1.7m (2018: £0.7m). When the Group's share of the tax charge on the profit of associates and joint ventures of £0.9m (2018: £1.6m) is included, this results in a total tax credit for continuing operations of £0.8m (2018: charge of £0.9m). The taxation credit is materially affected by the impact of HRMS as the German corporate tax rate is 33.5%.

After taking professional advice, the Group engaged in a disclosable tax planning scheme relating to leasing which was implemented in 2011, the legality of which has been challenged by HMRC. In previous years, the Group has paid all cash payment obligations in relation to the scheme to HMRC. The Board has been advised that the scheme was lawful. The matter was heard by the tribunal in June 2019 and the determination of the judge is awaited. The Board has been advised that this may take a year or more.

Pensions
The Group has the obligation to fund two industry-wide defined benefit pension schemes and an unfunded concessionary fuel scheme, all of which are closed to new members and are related to the former mining operations at Maltby Colliery. The combined IAS 19 liability of these schemes as at 31 May 2019 is £4.2m (2018: £4.4m). Contributions in the year of £1.7m (2018: £1.8m) have been offset by interest and expenses of £0.3m (2018: £0.3m) and net changes in actuarial measurements of £1.2m (2018: £0.9m). The actuarial movement is accounted for through the Statement of Other Comprehensive Income. The triennial valuation of the schemes which is due as at 31 December 2018 is underway. In due course, the Board expects to engage in discussions with the Trustees to agree a future recovery plan, including setting levels of future employer contributions.

Cash Flow
The loss for the year from continuing operations of £8.2m (2018: profit of £1.2m) generated net cash from continuing operating activities of £7.5m (2018: £17.9m) after adjusting for depreciation of £16.1m (2018: £12.9m) and other items. The movement in working capital for this year was a cash inflow of £6.4m (2018: £7.6m), with the prior year figure including an £11m reduction in inventories, which reversed in the year. Following the disposal of Brockwell Energy Limited, discontinued operations contributed a net £15.6m of cash from operating activities (2018: £1.0m outflow).

Investing activities contributed £3.8m of cash following the sale of £12.2m of property, plant & equipment and investment property (2018: £24.5m outflow). After a net outflow of £19.1m (2018: £1.7m) in finance facilities and the payment of £2.3m (2018: £2.3m) in dividends, there was a net increase of £5.5m (2018: £11.7m decrease) in cash balances to £21.6m (2018: £16.1m). After deducting debt of £39.5m (2018: £46.9m), the Group's Net Debt was £17.9m (2018: £30.8m). Net Debt included £12.6m (2018: £7.6m) of finance lease obligations.

Capital Expenditure
The net capital expenditure on continuing operations was an inflow of £3.8m (2018: £20.2m outflow), including £0.2m (2018: £0.5m) on investment properties. Depreciation and impairment for the year was £16.1m (2018: £13.6m), including £5.7m (2018: £2.6m) in relation to mining assets and mineral reserves.

Banking Facilities
In July 2018, the Group renegotiated its banking facilities and put a two-year agreement in place with its bankers which provides appropriate operational headroom without committing the Group to unnecessary excess facilities and associated non-utilisation costs. The facilities are committed through to 31 August 2020. Additionally, the Group has a small overdraft facility for short-term working capital purposes. Management has already commenced discussions with both prospective and existing lenders to replace the Group's existing facilities well in advance of their expiry. This will enable management to plan the Group's investment strategy and allocation of capital for the next few years.

IFRS 15 And 16

IFRS 15, Revenue from Contracts with Customers, is applicable to the Group's results for the year ended 31 May 2019 but its adoption has had no material impact on the reported revenue of the Group and has required no changes to the Group's accounting procedures.

Regarding IFRS 16, Leases, which comes into effect for the year ending 31 May 2020, the Board assesses that the net impact to the Income Statement will be immaterial. Both assets and liabilities on the Balance Sheet are expected to increase by corresponding amounts, which as at 31 May 2019 would have been approximately £6m.

Distributable Profits

The distributable profits of Hargreaves Services plc are £23.6m (2018: £20.2m). The Board is recommending an unchanged final dividend of 4.5p (2018: 4.5p) per share bringing the total for the year to 7.2p (2018: 7.2p). The proposed final dividend would cost approximately £1.4m and as a result, the Board can confirm that it has suitable levels of distributable profits to cover the dividend.

Share Capital

There are 33,138,756 (2018: 33,138,756) ordinary shares of 10p each in issue of which the Company holds 1,013,502 (2018: 1,069,904) in treasury. During the year, 56,402 shares were released from treasury to satisfy the exercise of share options.

Going Concern

The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. Committed banking facilities are in place until 31 August 2020 and the Board is confident that suitable new facilities will be secured to replace them. Therefore, and after making appropriate enquiries, including reviewing budgets and strategic plans, the Directors have a reasonable expectation that 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.

John Samuel
Group Finance Director
30 July 2019

Audit & Risk Committee Report

Nigel Halkes FCA, Chair of the Audit & Risk Committee

The Audit & Risk Committee is responsible for reviewing financial reporting matters, monitoring internal controls and key corporate risks.

On behalf of the Audit & Risk Committee I am pleased to present the Committee's Report for the year ended 31 May 2019.

Membership of the Committee

The Committee consists of both Non-Executive Directors and is chaired by me as the Senior Independent Non-Executive Director. The composition of the Committee has changed during this financial year following both David Morgan and Peter Jones leaving the Company. The Board is in a process to recruit and appoint a further Non-Executive Director who will join the Committee in due course. The Board believes that the current members have the skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference and have appropriate knowledge and experience in the sectors within which the Group operates.

The Committee met on three occasions during the year with both members in attendance. The Group Finance Director attends committee meetings by invitation to ensure that the Committee is fully informed of material matters within the Group. The external auditor attended two of the meetings and, for part of one of those meetings, the external auditor met with the Committee without any of the Executive Directors being present.

For the financial year ending 31 May 2020, the Committee has set out a programme of four meetings to be held during the year so that the work of the Committee is more evenly spread, particularly with respect to Risk Management and internal audit.

Terms of Reference of the Committee

The Committee is established by and is responsible to the Board. It has written terms of reference, which are available for review at: **www.hsgplc.co.uk**.

The Committee is responsible for reviewing a wide range of financial reporting and related matters including the half-year and annual accounts before their submission to the Board. In particular, the Committee is required to consider all critical accounting policies and practices adopted by the Group, and any significant areas of judgment that could materially impact reported results. The Committee provides a forum for reporting by the Group's external auditors, and advises the Board on the appointment, independence and objectivity of the external auditors and on their remuneration both for statutory audit and non-audit work. It also discusses and agrees the nature, scope, planning and timing of the statutory audit with the external auditors.

The Committee is also responsible for monitoring the internal controls that are operated by management to ensure the integrity of the information reported to the shareholders. An internal audit function, which reports directly to the Chair of the Audit & Risk Committee, supports the Committee in this process. The Committee reviews the appropriateness of the annual internal audit programme for the Group and ensures that the internal audit function is adequately sponsored and resourced.

Additionally, the Committee receives reports on, and is responsible for, reviewing the Group's arrangements and processes which exist for employees and others to raise concerns over possible wrongdoing in financial reporting or other matters. This work includes reviewing the Group's systems for the prevention and detection of fraud and bribery and considering any matters arising under the General Data Protection Regulations. The Committee also receives reports on all litigation which the Group is engaged with either as plaintiff or defendant and recommends actions in respect of such to the Board.

Internal Audit

Before the start of each financial year, the Committee agrees a programme of work for the internal audit function. The programme is designed to test the effectiveness of the internal control systems and covers key financial and other controls which the Committee recognises are important in ensuring the integrity of the Group's operations as well as its financial reporting. The programme includes self-assessment questionnaires, detailed testing of processes and the review of appropriate documentation. The Committee receives each full internal audit report, including any comments by management and any recommendations for improvement made by the internal audit function. The potential use of computer aided audit techniques, which could be applied using the Group's existing management information systems, to improve the efficiency, scope and effectiveness of the function, is currently under consideration by the internal audit function.

Risk Management

The internal audit function reports quarterly to the Committee on the key risks identified by the Board as being so material that they need to be regularly monitored as to whether those risks have increased or decreased during the period and what remedial actions may need to be taken to counter them. The Risk Management Report which follows this report sets out those risks and the steps the Group has taken to mitigate them.

External Auditor

KPMG was reappointed external auditor in 2016 following a robust competitive tender process. The external auditor provides the Audit & Risk Committee with information about its internal procedures for maintaining independence and the rotation of personnel engaged on the audit, including the audit partner. After considering this information, the Committee is satisfied that the external auditor is independent.

External Auditor continued
All non-audit services to be provided by the external auditor which exceed £10,000 in cost must be approved by the Committee in advance. During the financial year, £191,000 of non-audit services were provided by KPMG, £132,000 of which related to tax advisory matters principally in relation to the long running dispute with HMRC over the tax treatment of leases. £50,000 is in respect of matters related to the discontinued operation of Brockwell Energy and the remaining £9,000 to miscellaneous assurance services. The Committee is satisfied that the provision of these services, which did not involve any of the audit engagement personnel, did not compromise the external auditor's independence.

After due and careful enquiry and after reviewing the external auditor's Audit & Risk Committee Memorandum and discussing the findings with the auditor, the Committee was satisfied that the scope of the audit was appropriate and that all significant accounting judgements exercised by management had been suitably challenged and tested including, but not limited to, the matters referred to in the long form Audit Report. The Committee recommended to the Board that in their opinion the audit had been carried out effectively and that the report of the external auditor be accepted.

The Committee has recommended to the Board that KPMG be proposed for re-election as auditor at the forthcoming Annual General Meeting.

The Audit & Risk Committee Report was approved by the Board on 30 July 2019 and signed on its behalf by:

Nigel Halkes FCA
Chairman of the Audit & Risk Committee
30 July 2019

Risk Management

The Board retains overall responsibility for the identification, assessment and mitigation of risk throughout the Group.

The Group is exposed to a number of risks, which it must assess, manage and control in the ordinary course of business to deliver shareholder value. It is accepted that some risks may never be entirely eliminated. However, the Board recognises that it is essential that management have good risk management systems and practices in place to identify, assess and prioritise the mitigation of risks affecting the Group.

Safety, Health and the Environment
The Board has identified that the risk of a material incident in the areas of Safety, Health and the Environment ("SHE") is a particularly significant area and, as such, the Board receives a detailed monthly report from the Group Head of Health & Safety. The Group's approach to SHE is set out below.

The Board's vision is to maintain an environment where all its employees, contractors and third parties experience zero harm as a result of its activities. To achieve this, the Group takes a proactive approach and is committed to achieving the highest standards of safety and health management and the minimisation of any adverse environmental impacts.

The Board ensures that Health and Safety issues for employees, customers and the public are at the forefront of all Group activities. The Group Chief Executive, supported by both internal and external competent advice, is charged with overall responsibility. All divisions have formulated and implemented SHE management plans consisting of policies, procedures and objectives to meet both legislative and best practice requirements. SHE performance and delivery is ingrained in the operational delivery and day-to-day activities and not seen as a bolt on to the business. Where appropriate the management procedures are externally certificated to internationally recognised standards.

Alongside management systems and legal compliance, the Group recognises the benefits that effective leadership and setting of clear expectations has upon workplace behaviour. Therefore, the Group has visible performance metrics, which are communicated at all levels throughout the organisation and are designed to enable the early identification of adverse trends and the development of suitable intervention and improvement measures. The Board carries out at least two site visits each year to see SHE processes at first hand and to emphasise to employees the importance the Board places on SHE activities.

During the last 12 months its pleasing to note that the Group's safety performance improved significantly, with a particularly pleasing reduction in both the Lost Time Incident Frequency Rate ("LTIFR") and the severity of incidents. Key safety objectives for next year have been agreed with the aim of further improving this year's performance.

Corporate Risks
The Board undertake a full annual review of the Group's risk profile and strategic approach to risk in light of the ongoing substantial changes to the Group's operations. A condensed high-level Risk Register, which identifies nine areas of corporate risk which the Board has determined are the most critical, was introduced last year and has been reviewed and deemed to remain appropriate. These areas were selected on the basis that a material adverse event in any one of them could potentially:

- prevent the Group from achieving its financial or operational objectives;
- cause material loss or damage to the Group's assets or reputation.

The identified areas of risk are monitored, reviewed and investigated as necessary by the internal audit function. The Audit & Risk Committee receives a written report on these risks every quarter, including a commentary which notes any material changes which have been identified. This report assesses whether each area has increased or decreased in the level of risk.

The areas of critical corporate risk which have been identified are as follows:

- Contractual Risk
- Recruitment & Retention of Key Individuals
- Regulatory & Legislative Compliance
- Sudden Decline in Markets (particularly coal)
- Environmental Risk
- Fraud
- IT Security
- Liquidity & Credit Risk
- Failure of a Material Business Unit

A table describing these risks and the mitigations in place throughout the Group to protect against them is set out on pages 14 and 15.

Risk Management continued

Key risks	Description	Mitigation
Contractual Risk	Multiple divisions of the Group enter into and manage diverse and complex contracts as part of their core operations. Bad planning, agreement to onerous terms, ineffective management and delivering services outside of the Group's core competencies could all erode the value of the contract and increase the risk exposure to the Group. Attached to the risk surrounding contracts are the potential financial and reputational impacts on the resolution of defective works and warranty claims following contract completion.	• Delegated Authority Mandates in place throughout the Group requiring appropriate levels of senior personnel to approve contracts. • Requirement for legal review of all potential contracts which meet the agreed criteria, detailed within the Delegated Authority Mandates. • Recruitment and employment of suitably qualified and competent personnel at all levels to undertake works to minimise risk relating to defective works and associated warranty claims. • Targeting of contracts where scope of work fits core competency of available resources.
Recruitment and Retention of Key Executives and Skilled Employees	Key executives, senior management and skilled employees possess the industry knowledge and experience, without which, our strategic objectives may not be achieved. If the Group is unable to recruit or retain both key executives and skilled employees, this could adversely affect the Group both operationally and financially.	• The provision of remuneration and terms of employment that are competitive in the market. • Identification of key strategic roles across the Group. • Succession planning for these identified key strategic roles.
Regulatory and Legislative Compliance	Failure of the Group or an element of the Group to comply with its applicable regulatory and legislative obligations, resulting in financial reputational, and potentially criminal implications for the Group or its responsible employees.	• Appropriate and specialist management systems are in place across the Group to ensure compliance with our obligations. • Competent and appropriately skilled individuals hold key roles in assuring our compliance to our regulatory and legislative obligations. • Memberships to various trade bodies to highlight any issues, allowing for early planning and appropriate representation.
Sudden Decline in Markets (particularly coal)	Early decline of markets in which the Group participates, in particular the coal market, could negatively impact the Production & Distribution division's ability to achieve its strategic objectives resulting in a material financial impact to the Group.	• The Board has implemented a strategic plan to lessen dependency on the coal market and to diversify the Group's activities into other industries.
Environmental	There are inherent environmental risks within elements of the Group's operations. If not properly managed, these risks could result in environmental contamination with disruption of business, financial costs and loss of reputation. In particular, the processes used in the mining of coal present environmental risks which may affect not only the Group's property but also property belonging to third parties.	• Provision of clear guidance on the environmental standards which the Group's operations must adhere to. • Compliance with laws, regulations and industry best practice is a priority across the business. • Environmental management strategies are in place at all applicable sites.
Fraud	In the course of its operations, the Group is exposed to fraud risks from a number of internal and external sources.	• Fraud risk management policy is in place across the Group.
IT Security	There is an increasing reliance on the stability and security of the IT network for delivering day-to-day operations, whilst the volume and types of data held within it increases. This reliance on IT increases the potential for sophisticated cyber-attacks to target the Group's computer systems, infrastructure, networks and personal devices with the intention of paralysing operations for an immeasurable amount of time, carrying material financial and reputational implications for the Group.	• The Group has a dedicated IT function, with a high degree of skill and experience in maintaining and monitoring the IT infrastructure. • Business data is regularly backed up and stored in a secure location. • Email and internet filtering technology and firewall software is in place to restrict the impact of cyber-attacks. • Regular notifications are sent to all staff regarding the importance of remaining vigilant of phishing emails. • A risk-based IT strategy is in place focusing on four strategic initiatives: security, resilience, digital transformation and delivery.

Key risks	Description	Mitigation
Liquidity and Credit Risk	The Group's capital structure requires the ongoing provision of liquid credit provision from banks and asset funding institutions. The Group's trading relationships require contract and credit exposures to specific customers that are material to the results of the Group, sometimes over a long period. Credit risk arises from the possibility that customers may not be able to pay their debts. The failure of the Group to maintain access to liquidity or the failure of a material customer to meet its liabilities could result in a material adverse financial impact for the Group.	• The Group maintains strong relationships with its lenders and seeks to put in place appropriate finance facilities aligned to both the short and medium-term requirements of the business with sufficient flexibility to manage liquidity fluctuations within reasonable parameters. • Short and medium-term cash flow forecasting is in place across the Group. • The Group periodically assesses the financial reliability of customers. • The Credit Control function closely monitors and chases any overdue debts and the majority of the Group's trade receivables are due for payment within 45 days. • The Group remains vigilant to monitoring and controlling counterparty exposures that are material to the results of the Group. All such exposures are carefully considered before contractual commitments are made to take account of the risks presented by the contract or relationship, the returns available and the opportunities that are, or are not, available to mitigate that exposure. • Authorisation of credit limits is restricted to a limited number of individuals, with the input of third-party credit scoring. • A robust capital expenditure procedure is in place Group-wide to control investment in illiquid assets.
Failure of a Material Business Unit	The Board assesses that the failure of HRMS in particular would create a material risk to the Group. HRMS is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. The Group's share of HRMS profits represents a material contribution to the Group profit before tax.	• The Group's investment in HRMS is governed by a shareholders' agreement which provides a series of rights to the Group including controls over the approval of budgets, the granting of security and business activities. • The agreement provides step in rights to the Group in the event of a material breach of the agreement. • The Group Chief Executive is a member of the Board of HRMS which meets each month. • Monthly financial information is submitted to the Group.

Nigel Halkes
Chairman of the Audit & Risk Committee
30 July 2019

Board of Directors

Roger McDowell (aged 64)

Non-Executive Chairman

Roger was appointed Chairman of the Company and the Nominations Committee on 1 August 2018 after joining the Board in May 2018. He is also a member of the Remuneration and Audit & Risk Committees. Roger spent his executive career working in his family's business, pipeline products distributor Oliver Ashworth. He was Managing Director for eighteen years, leading the business through dramatic growth (from £1m to £100m turnover), main market listing and ultimate sale to St Gobain. Thereafter he has taken on Chairman or non-executive roles in private-equity backed and listed businesses in a variety of sectors including; engineering, manufacturing, waste management, renewable energy, financial services, IT and telecoms. Roger currently serves as Chairman of Avingtrans plc. He is also a Non-Executive Director of Tribal Group plc, Swallowfield plc, Proteome Sciences plc, ThinkSmart plc, British Smaller Companies VCT2 PLC and Augean plc. As can be seen from the above, Roger has extensive business management experience in both executive and non-executive roles which provides the Board with relevant commercial and governance experience. He also has strong relationships with many of the Company's major shareholders, built up over several years with a number of companies.

Gordon Banham (aged 55)

Group Chief Executive

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels and was appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, he was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive. He led the management buyout of the Company in 2004 and its subsequent flotation on the London Stock Exchange the following year. Gordon's knowledge of the Group and its various business interests is unrivalled, and he continues to have a detailed involvement in all material matters with which the Group is engaged.

John Samuel (aged 63)

Group Finance Director

John is a Chartered Accountant and qualified with Deloitte & Co in 1981. He became a partner with Baker Tilly in 1986, leaving that firm to join Filtronic plc in 1991, leading its flotation in 1994 and serving as finance director until 2004. He then served as Chief Financial Officer of Zetex plc for two years, before serving as Group Finance Director of Renew Holdings plc for twelve years from 2006, prior to joining the Company in January 2018. John's many years of experience as the senior financial officer in a number of public companies, including those which have experienced substantial growth through business change, is particularly relevant to the Group.

David Anderson (aged 52)

Group Property Director

David joined the Board as Group Property Director in November 2018. David joined from Henry Boot Developments Limited, the principal property development subsidiary of Henry Boot PLC, where he had served as a Director since 1996 and as Managing Director since 2005. He led the growth in revenue of that business from less than £10m in 2005 to over £220m in 2017. David's 25 years of experience and success in the field of property development brings the appropriate knowledge and understanding of that market necessary to assist the Group's growth in that business area.

Nigel Halkes (aged 63)

Non-Executive Director

Nigel was appointed to the Board in August 2015 and serves as Chairman of both the Audit & Risk Committee and the Remuneration Committee. He is also a member of the Nominations Committee. He is a Chartered Accountant and was a partner at Ernst & Young for 25 years, rising to become Managing Partner of Markets for the UK and Ireland, responsible for the firm's growth strategy, relationships with major clients and the business development function. He served some of the firm's largest clients, including auditing British Coal in the period up to privatisation. He served three years as an elected member of the CBI London Council. He retired from Ernst & Young at the end of 2013 to pursue a portfolio non-executive career spanning the public, private and charitable sectors. Nigel currently sits on the board of Visit England and is a Non-Executive Director of i-nexus Global plc. Nigel's extensive professional experience brings rigour and insight to the Board particularly with regard to financial accounting and risk management.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2019.

Principal Activities
The principal activities of the Group are the provision of haulage services, waste transportation, mineral import, mining and processing, mechanical and electrical engineering and materials handling, dealing in plant and machinery, the development and sale of land, civil engineering, soil stabilisation and specialist earthworks.

Results and Proposed Dividend
The Group loss for the year after accounting for discontinued operations was £4,667,000 (2018: profit of £181,000). Following the payment of an interim dividend of 2.7p per share on 8 April 2019, the Directors recommend a final dividend for the year ended 31 May 2019 of 4.5p per share to be paid on 1 November 2019 to shareholders on the register on 20 September 2019. The shares will be ex-dividend on 19 September 2019. The proposed dividend has not been provided for in these financial statements as it was not declared and approved before the year end.

Financial Instruments
The financial risks faced by the Group and its policy in respect of these risks are set out in Note 29 of the accounts.

Policy and Practice on Payment of Creditors
The Group does not operate a defined code of practice regarding payment to suppliers. The Group determines conditions of payment for its own supply of goods and services. It is the Group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice.

Directors
The Directors who held office during the year and to date are as follows:

Roger McDowell
Nigel Halkes
Gordon Banham
John Samuel
David Anderson (appointed 12 November 2018)
David Morgan (resigned 1 August 2018)
Peter Jones (resigned 30 October 2018)

The names and biographical details of the Directors at the date of this Directors' Report are given in the Board of Directors section of this Annual Report.

All Directors are required to retire by rotation every three years, in line with the Articles of Association. An evaluation of the performance of each Director and of the Board is carried out and the performance of each continues to be effective and demonstrates commitment to the role. The Directors required to retire by rotation at this year's AGM are noted on page 18.

The Company provides indemnities to each of its Directors in accordance with the provisions of the Company's Articles of Association. Additional information relating to Directors' remuneration, service contracts and interests in the Company's shares is given in the Remuneration Report.

The Directors who held office at the end of the financial year had the following interests in the shares of the Company according to the register of Directors' interests:

	Class of share	Interest at end of year	Interest at beginning of year
Gordon Banham	Ordinary	2,632,575	2,559,575
Roger McDowell	Ordinary	300,000	–
Nigel Halkes	Ordinary	5,000	5,000
John Samuel	Ordinary	28,000	28,000
David Anderson	Ordinary	32,775	–

Details of Directors' emoluments are set out in the Remuneration Report. All the Directors benefited from qualifying third-party indemnity provisions in place during the year and at the date of this Directors' Report. Except as listed below, according to the register of Directors' interests, no rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families during the financial year and up to the date of this Directors' Report. None of the awards listed below may be exercised prior to 30 January 2022. No Director exercised any awards during the year.

Director	Exercise price per share	Date of share award	Number of shares awarded
Gordon Banham	Nil	30 January 2019	75,250
Roger McDowell	Nil	30 January 2019	285,144
John Samuel	Nil	30 January 2019	75,250
David Anderson	Nil	30 January 2019	64,157

These options were granted on 30 January 2019 under the Hargreaves Services plc Share Option Scheme 2019 which was approved by shareholders in General Meeting on 22 January 2019.

Retirement of Directors
In accordance with the Articles of Association one-third of Directors retire by rotation each year. The Directors retiring by rotation are Roger McDowell and John Samuel, who being eligible, offer themselves for re-election. Additionally, David Anderson, who was appointed to the Board during the year, also offers himself for re-election.

Disclosable Interests
At 26 July 2019 the Company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the Company:

Shareholder	Number of ordinary shares	% of issued share capital
Schroder Investment Management Ltd	6,801,281	21.17%
Harwood Capital	4,271,000	13.29%
Artemis Investment Management LLP	3,519,551	10.96%
Shareholder Value Management AG	3,020,327	9.40%
Gordon Banham	2,632,575	8.19%
Downing	2,249,927	7.00%
The NFU Mutual Insurance Society Limited	1,360,000	4.23%

Employees
Applications for employment by disabled persons are always fully considered. Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex, sexual orientation or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the Group continues.

The Directors recognise the importance of good communications and good relations with employees. Regular meetings are held between the Chief Executive and senior managers who cascade relevant information through their reporting systems. The Group intranet also provides regular information to employees to inform them of developments within the Group.

Purchase of Own Shares
The Directors are authorised to make market purchases of the Company's own shares under an authority granted at the Annual General Meeting held on 30 October 2018. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2019 Annual General Meeting (full details are available in the 2019 Notice of Annual General Meeting).

Approval to Issue Shares
The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,070,842 at the 2019 Annual General Meeting (full details are available in the 2019 Notice of Annual General Meeting).

Disclosure of Information to Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor
The Board proposes to reappoint KPMG LLP as auditor. Resolutions concerning their continued appointment and to authorise the Audit & Risk Committee of the Board of Directors to agree their remuneration will be put to the forthcoming Annual General Meeting of the Company (full details are available in the 2019 Notice of Annual General Meeting).

By order of the Board

Andrew Robertson
Company Secretary
30 July 2019

Corporate Governance

The Company is committed to maintaining high standards of corporate governance. Following the changes made to AIM Rule 26 in 2018, the Board decided that the Company would adopt the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Company's approach in relation to complying with each of the ten principles of the QCA Code is set out below. Where the Company departs from the QCA Code, the reasons for such departure are also set out below.

Deliver Growth

Principle 1: Establish a strategy and business model which promote the long-term value for shareholders

The Board has established a strategy and business model which seeks to promote long-term value for shareholders. This is set out in the Strategic Report section of this Annual Report.

Principle 2: Seek to understand and meet shareholder needs and expectations

An important role of the Board is to represent and promote the interests of the Company's shareholders as well as being accountable to them for the performance and activities of the Group. The Board believes it is important to engage with its shareholders and aims to do this through presentations, conference calls, face-to-face meetings and the Annual General Meeting. Following the announcement of the Group's half-year and year-end results, presentations are made to analysts and major shareholders to update them on progress and invite them to ask questions. The Board is updated on the latest shareholder information by the receipt of shareholder register movements, analyst reports and feedback from the Company's brokers following investor road shows after half-year and year-end results. All Directors attend the Annual General Meeting and engage in discussion with shareholders present. The Company provides contact details on the investor relations page of its website which investors can use to contact the Company.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the Group's customers, suppliers and employees are crucial to its success. The Group has established long-term relationships with key customers and suppliers and the Board encourages feedback from employees to improve the culture and working environment of the Group. The Group Chief Executive holds regular meetings with senior managers both to keep them informed of Board decisions and shareholder feedback but also to gather views and input from the business units. The senior managers then cascade that information down through the businesses through their reporting channels. Additionally, the Group's intranet carries a range of statements and information updates which employees can access. There are specific information channels in respect of health & safety matters. The Group has a proactive approach to safety, health and the environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts (as further detailed below at "Principle 8: Promote a corporate culture that is based on ethical values and behaviours").

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company's approach to risk is set out within the Risk Management section of this Annual Report. The Board has devolved considerable levels of autonomy to management to run and develop the business of the Group. The Board believes that a well-designed system of internal reporting and control is necessary. The Board therefore continues to have overall responsibility to develop and strengthen internal controls. The Audit & Risk Committee, on behalf of the Board, has the responsibility for reviewing internal controls. The system is designed to provide reasonable, but not absolute, assurance that the assets of the Group are safeguarded, that proper accounting records are maintained, and that reliable financial information is produced. All subsidiary undertakings are required to adhere to specified internal control procedures. The Audit & Risk Committee receives regular reports on internal control. Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and the internal audit function. This is reinforced by the role fulfilled by the Audit & Risk Committee (as further detailed below at "Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board").

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair

The Board

The Group is headed by an effective Board, which controls and leads the Group. The Board meets at least ten times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary to enable it to fully discharge its duties.

The Directors attended the following meetings in the year ended 31 May 2019:

Attendance at meetings	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	3	3	1
David Morgan (resigned 1 August 2018)	2 attended	2 attended	1 attended	1 attended
Gordon Banham	10 attended	n/a	n/a	n/a
Peter Jones (resigned 30 October 2018)	4 attended	2 attended	1 attended	1 attended
Nigel Halkes	10 attended	3 attended	3 attended	1 attended
John Samuel	10 attended	n/a	n/a	n/a
Roger McDowell	10 attended	3 attended	3 attended	1 attended
David Anderson (appointed 12 November 2018)	6 attended	n/a	n/a	n/a

Deliver Growth continued

Principle 5: Maintain the Board as a well-functioning, balanced team led by the Chair continued

The Board continued

The Board is collectively responsible for the long-term success of the Group and has ultimate responsibility for the management, direction and performance of the Group and its businesses. The Board is required to exercise objective judgment on all corporate matters and is accountable to shareholders for the proper conduct of the business. All Directors have access to the advice and services of the Company Secretary, who is a solicitor. The Company Secretary is responsible to the Board for ensuring that procedures are followed and for compliance with applicable rules and regulations. There is a clearly defined division of responsibilities between the Chairman and the Group Chief Executive. The Chairman is primarily responsible for the leadership and effective working of the Board. This is achieved by:

- chairing Board meetings, setting the agendas in consultation with the Group Chief Executive and Company Secretary and encouraging the Directors to participate actively in Board discussions;
- leading the performance evaluation of the Board, its Committees and individual Directors;
- promoting high standards of corporate governance;
- ensuring timely and accurate distribution of information to the Directors and effective communication with shareholders;
- periodically holding meetings with the Non-Executive Directors without the Executive Directors present; and
- establishing an effective working relationship with the Group Chief Executive by providing support and advice whilst respecting executive responsibility.

The Group Chief Executive is responsible for the executive management of the Group and for ensuring the implementation of Board strategy and policy within approved business plans, budgets and timescales. Further details of the composition of the Board and Director's attendance at Board and Committee meetings are set out in this Annual Report.

Non-Executive Directors

Non-Executive Directors bring a wide range of experience to the Group. The QCA Code states that the Board should have at least two independent Non-Executive Directors and that, since independence can easily be compromised, Non-Executive Directors should not normally participate in performance-related remuneration schemes. The Board currently has two Non-Executive Directors including the Non-Executive Chairman. The Non-Executive Chairman is a participant in the Company's Long-Term Incentive Plan scheme entitled the Hargreaves Services plc Share Option Scheme 2019, which was approved by shareholders at a general meeting of the Company on 22 January 2019. The Board considers that the Non-Executive Chairman is independent, save for his participation in the Hargreaves Services plc Share Option Scheme 2019. In any event, the Board is undertaking a process to appoint a new Non-Executive Director.

Conflicts of Interest

The Articles of Association enable the Directors to authorise any situation in which a Director has an interest that conflicts or has the potential to conflict with the Company's and Group's interests and which would otherwise be a breach of the Director's duty under section 175 of the Companies Act 2006. The Board has a formal system in place for Directors to declare such situations to be considered for authorisation by those Directors who have no interest in the matter being considered. The Nominations Committee reviews conflicts of interests when considering new Board appointments.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

Details of the Directors' skills and experience are set out in Directors' biography page within this Annual Report. The Directors bring a wide range of expertise on issues related to operations, strategy and governance. The Board is satisfied that, between the Directors, it has an effective and appropriate mix of skills and experience.

All newly appointed Directors receive a full, formal and tailored induction on joining the Board, including meetings with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics throughout the year and are given the opportunity to visit sites and discuss aspects of the business with employees. The Board recognises that the Directors have a diverse range of experience and encourages them to attend external seminars and briefings that will assist them individually. Directors have access to independent professional advice at the Group's expense where they judge this to be necessary to discharge their responsibilities as Directors. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring compliance with Board procedures.

Whilst there have been no significant matters during the year on which the Board or any Committee has sought external advice, the Board is advised by its nominated adviser N+1 Singer.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

To further strengthen Group compliance, the Board undertakes an annual performance review that reviews and measures its effectiveness and that of its Committees. Each Board/Committee member completes an assessment, which provides numeric scoring against specific categories. Each Board/Committee member also provides recommendations for improvement of the effectiveness of the Board/Committee. The assessments provide an effective platform for reviewing performance and, over time, a greater focus has developed on particular recommendations, which has prompted fruitful discussions among the Board and influenced its operation.

The criteria for effectiveness include assessing:

- Key Board/Committee functions;
- Board/Committee composition (including succession planning);
- external reporting and information flows;
- Board/Committee culture;
- Board/Committee information for meetings and the meetings themselves; and
- Board development.

Following this year's annual performance review, the Board debated categories that achieved scores outside of the minimum average range. In particular, the Board noted that a further Non-Executive Director was required in order to provide further balance and experience to the Board. As a result, the Board is undertaking a process to appoint a new Non-Executive Director.

Alongside the annual performance review, each Director receives an appraisal. The Chairman conducts appraisals in respect of the Group Chief Executive and Non-Executive Directors; the Non-Executive Directors (following discussions with the other Directors) conducts the Chairman's appraisal; and the Group Chief Executive conducts appraisals in respect of the other Executive Directors. For details regarding succession planning and the process for senior management appointments, please refer to the section entitled "Nominations Committee" (under the heading "Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board") below.

Principle 8: Promote a corporate culture that is based on ethical values

Culture
The Company has a strong ethical culture based upon its Code of Ethics which can be found on the Company's website. The Company's reputation is built on its values as a company, the values of its employees, and the collective commitment to acting at all times with integrity. Part of the work of the Audit & Risk Committee involves reviewing the Group Whistle-Blowing Policy by which employees of the Group may, in confidence, raise concerns about possible financial or other improprieties. The appropriateness of the Board's corporate governance structures is reviewed as part of the Board and Committee effectiveness process described above.

Compliance with Laws
The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice. Compliance with the Bribery Act 2010 involves an Anti-Corruption Policy and a Group Whistle-blowing Policy. Training is given to all appropriate employees through the use of online tools to ensure that there is full understanding of the Bribery Act 2010 and awareness of the consequences of not adhering to Group policies. The Group has taken the appropriate steps to comply with the provisions of the Market Abuse Regulation and the Modern Slavery Act. The Group has also taken appropriate steps to comply with the General Data Protection Regulation ("GDPR") and has a Data Protection Officer who is responsible for managing information governance and implementing the requirements of GDPR.

Safety, Health and Environment
The Group has a proactive approach to safety, health and the environment and is committed to the highest practicable standards of safety and health management and the minimisation of adverse environmental impacts. The Board ensures that health and safety issues for employees, customers and the public are of foremost concern in all Group activities and ingrained in day-to-day activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full-time officers and Health and Safety nominated "champions" at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented. All divisions have formulated safety management systems.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board
Please see details above at "Principle 5. Maintain the Board as a well-functioning, balanced team led by the Chair". The Board has a schedule of matters which are specifically reserved for its decision which can be viewed on the Company's website.

Board Committees
The Board has three Committees that assist in the discharge of its responsibilities:
- Remuneration;
- Audit & Risk; and
- Nominations.

Remuneration Committee
The Remuneration Committee, which is chaired by Nigel Halkes and comprises the Non-Executive Directors, is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors. The Remuneration Committee comprises the Non-Executive Directors. Further details on the composition and work of the Remuneration Committee are set out in the Remuneration Committee Report within this Annual Report. The Terms of Reference of the Remuneration Committee can be viewed on the Company's website.

Audit & Risk Committee
The Audit & Risk Committee, which is chaired by Nigel Halkes and comprises the Non-Executive Directors, is responsible for reviewing a wide range of financial reporting and related matters including the half-year and annual accounts before their submission to the Board. The Committee is required to focus in particular on critical accounting policies and practices adopted by the Group, and any significant areas of judgment that materially impact reported results. It is also responsible for monitoring the internal controls that are operated by management to ensure the integrity of the information reported to the shareholders. An internal audit function, which reports directly to the Chair of the Audit & Risk Committee, supports the Audit & Risk Committee in this process. The Committee provides a forum for reporting by the Group's external auditors, and advises the Board on the appointment, independence and objectivity of the external auditors and on their remuneration both for statutory audit and non-audit work. It also discusses the nature, scope and timing of the statutory audit with the external auditors. The Committee also reviews the appropriateness of the annual internal audit programme for the Group and ensures that the business risk management and internal audit functions are adequately sponsored and resourced. The Committee meetings are also attended, by invitation, by the Chief Executive and Group Finance Director. The Committee meets not less than three times annually. Further details on the composition and work of the Audit & Risk Committee are set out in the Audit & Risk Committee Report within this Annual Report. The Terms of Reference of the Audit & Risk Committee can be viewed on the Company's website.

Deliver Growth continued

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board continued

Nominations Committee

The Nominations Committee, which is chaired by Roger McDowell and comprises the Non-Executive Directors, is responsible for reviewing the structure, size and composition required of the Board when compared to its current position. It makes recommendations to the Board with regard to any changes and considers and reviews succession planning for Board Directors, taking into account the challenges and opportunities facing the Group. It identifies and nominates for Board approval suitable candidates to fill Board vacancies as and when they arise, and it keeps under review both the Executive and Non-Executive leadership needs of the Company to enable the Group to compete effectively in the marketplace. The Nominations Committee also has responsibility for evaluating the performance of Non-Executive Directors, recommending as appropriate re-appointment of Non-Executive Directors at the end of their specified terms of office, and overseeing the re-election by shareholders of any Director under the "retirement by rotation" provisions in the Company's articles of association. The Terms of Reference of the Nominations Committee can be viewed on the Company's website.

During the year the Nominations Committee reviewed the composition of the Board, leadership requirements and succession planning, together with a performance evaluation of Non-Executive time commitment. The Committee also reviews its own effectiveness.

All Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Report.

The Committee recognises the benefits to the Group of diversity in the workforce and in the composition of the Board itself. While the Company will continue to make all appointments based on the best candidate for the role and without prejudicing its policy of appointing the most suitable applicant for any role, it is aware of the desirability of female representation.

The Nominations Committee is undertaking a process to appoint a new Non-Executive Director to provide further balance and experience to the Board.

Evolution of Governance Framework

The Board continuously monitors its composition and governance framework taking into account effectiveness and the Group's strategy.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and relevant stakeholders

In addition to this Annual Report, the Company's website contains full information on the governance, management and activities of the Group and features all presentations given by the Executive Directors to shareholders.

Approval

The Board approved the Corporate Governance Report on 30 July 2019.

Roger McDowell
Chairman
30 July 2019

Remuneration Report

Nigel Halkes, Chairman of the Remuneration Committee

Responsibilities and Role of the Remuneration Committee

The Committee's principal function is to review the remuneration of the Executive Directors. It also monitors the remuneration of the Group's senior managers. The remuneration strategy, policy and approach for all staff, is also reviewed annually by the Committee. The full Terms of Reference of the Committee are available on the website.

The policy for the current and future financial years for the remuneration and incentivisation of the Executive Directors is as follows:

- ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders;
- ensure that performance-related elements of remuneration constitute a significant proportion of an executive's remuneration package; and
- maintain a competitive remuneration package which enables the Company to attract, retain and motivate high-calibre executives.

The Committee reviews the Company's executive remuneration arrangements and implements incentive arrangements to support the objective of rewarding those individuals who deliver real and genuine shareholder value. In developing the arrangements, the Committee and its advisers consider current market practice.

Membership of the Committee

The members of the Committee, which met on three occasions during the year, were:

Peter Jones (Chair resigned 30 October 2018)
Nigel Halkes (Chair from 30 October 2018)
Roger McDowell

All members of the Committee are Non-Executive Directors and are recognised by the Board as capable of bringing independent judgement to bear. The Board is in a process to recruit and appoint a further Non-Executive Director who will join the Committee in due course. The Group Chief Executive is consulted and invited to attend meetings, when appropriate, but no Director can be present when his own remuneration is discussed. The Group Finance Director also attended meetings as required and provided relevant information to the Committee to ensure that the Committee's decisions are informed and take account of pay and conditions across the Group.

During the year the Committee reviewed and considered annual pay rises and conditions of service for employees earning over £100,000; bonus scheme arrangements; the vesting and granting of Long-Term Incentive Plans; the Group's annual pay review; and the effectiveness of the Committee.

Components of Remuneration

Basic Salary

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Remuneration Committee in the light of individual performance, experience in the role and market comparisons. At the annual salary review, which was carried out with effect from 1 June 2019, Gordon Banham's salary was not increased. John Samuel received an increase of 6.1%, which was greater than the general increase of 2% given to the majority of employees in the Group at that date. The Committee considered that Mr Samuel's basic salary should be increased to reflect his responsibilities and contribution to the Group. There have been no changes to the benefits which the Executive Directors receive.

Annual Bonus

Executive Directors participate in an annual incentive bonus scheme linked to the actual achievement of a Group profit before tax target set by the Committee. Additionally, should that target be achieved, a deduction of 10% is made if the Group Health & Safety target is not achieved. For the year ended 31 May 2020, the Committee has also set some specific cash targets for the Group which will result in a further deduction of 10% of any bonus earned should they not be achieved. The total bonus which can be earned is capped at 100% of salary. No bonus counts in the calculation of pension entitlement. The bonus target for the financial year ended 31 May 2019 was not achieved and accordingly no bonuses have been earned in respect of either the financial year ended 31 May 2019 or that ended 31 May 2018.

Long-Term Incentives

From time to time, the Executive Directors and other senior employees have been invited to participate in Long-Term Incentive Plans ("LTIPs"), whereby shares in the Group are awarded subject to performance criteria. The Board believes that such plans are an important element of overall executive remuneration and assist in aligning the financial interests of Executive Directors and other senior employees with those of the shareholders.

Following the appointment of Roger McDowell to the Board, a new LTIP, the Hargreaves Services plc Share Option Scheme 2019, was proposed at a general meeting of shareholders held on 22 January 2019 and approved. Details of awards made under that plan are set out below. Additionally, the Board is proposing a new LTIP, details of which are set out below, which will be put to shareholders for approval at the Annual General Meeting to be held on 30 October 2019.

Benefits in Kind and Pensions

In addition to basic salary, Executive Directors are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance, private medical insurance and permanent health insurance. No Director has benefits under any of the Group's defined benefit pension schemes.

Non-Executive Directors' Remuneration

The Non-Executive Chairman's basic salary is £80,000 per annum and other Non-Executive Directors receive a basic salary of £35,000 per annum. Additionally, Non-Executive Directors receive £3,000 for chairing each Board Committee.

Directors' Remuneration for the Year to 31 May 2019 (Audited)

	Salary/Fees		Share options exercised		Benefits		Total		Pension	
	2019 £000	**2018 £000**	**2019 £000**	**2018 £000**	**2019 £000**	**2018 £000**	**2019 £000**	**2018 £000**	**2019 £000**	**2018 £000**
Gordon Banham	**470**	463	**–**	108	**53**	42	**523**	613	**118**	116
John Samuel	**264**	108	**–**	–	**19**	10	**283**	118	**40**	16
David Anderson	**125**	–	**–**	–	**13**	–	**138**	–	**25**	–
Iain Cockburn	**–**	188	**–**	–	**–**	8	**–**	196	**–**	45
Kevin Dougan	**–**	368	**–**	–	**–**	21	**–**	389	**–**	–
Roger McDowell	**76**	2	**–**	–	**–**	–	**76**	2	**–**	–
Nigel Halkes	**43**	40	**–**	–	**–**	–	**43**	40	**–**	–
David Morgan	**46**	100	**–**	–	**–**	–	**46**	100	**–**	–
Peter Jones	**23**	40	**–**	–	**–**	–	**23**	40	**–**	–
Total	**1,047**	1,309	**–**	108	**85**	81	**1,132**	1,498	**183**	177

Notes:

John Samuel's emoluments in 2018 represent the period from 2 January 2018 to 31 May 2018.

David Anderson's emoluments represent the period from 14 November 2018 to 31 May 2019.

Iain Cockburn's emoluments in 2018 represent the period from 1 June 2017 to 2 January 2018. Included within the 2018 figures were £15,000 salary/fees and £4,000 pension in relation to the discontinued operation.

Kevin Dougan's emoluments in 2018 represent the period from 1 June 2017 to 1 December 2017 and include £241,000 payment in lieu of notice.

Roger McDowell's emoluments in 2018 represent the period from 11 May 2018 to 31 May 2018.

David Morgan's emoluments in 2019 represent the period from 1 June 2018 to 31 July 2018 and include £29,000 payment in lieu of notice.

Peter Jones emoluments in 2019 represent the period from 1 June 2018 to 30 October 2018.

Directors' Service Contracts and Letters of Appointment

The Directors have entered into service agreements and letters of appointment with the Company and the principal terms are as follows:

Date of latest agreement	Name	Position	Commencement of period of office	2018/19 annual salary (£)	Notice period
3 September 2013	Gordon Banham	Group Chief Executive	1 October 2001	470,442	12 months
2 January 2018	John Samuel	Group Finance Director	2 January 2018	263,900	6 months
14 November 2018	David Anderson	Group Property Director	14 November 2018	225,000	6 months
11 May 2018	Roger McDowell	Non-Executive Chairman	11 May 2018	80,000	1 month
21 August 2015	Nigel Halkes	Non-Executive Director	21 August 2015	40,000	n/a

Non-Executive Directors are not generally eligible to participate in any incentive plans, share option schemes or Company pension arrangements and are not entitled to any payment in compensation for any early termination of their appointment although, as a condition of Roger McDowell's appointment, he was granted LTIPs as set out below.

Directors' Share Options

No rights to subscribe for shares in Group companies were granted to any of the Directors or their immediate families, or exercised by them, during the financial year and up to the date of this Directors' Report except as indicated below. In the financial year ended 31 May 2018, Gordon Banham exercised his right to acquire 31,109 shares at nil cost on 10 October 2017. These options were granted under Deferred Bonus Scheme A. At 31 May 2019, no Director holds any rights to subscribe for shares in Group companies.

Long-Term Incentive Plan ("LTIP") (Audited)

On 22 January 2019, shareholders in general meeting approved a new LTIP scheme, the Hargreaves Services plc Share Option Scheme 2019 ("the Share Option Scheme 2019"). The following awards were granted in the year ended 31 May 2019:

Director	Date of grant	Exercise price	No. of options granted	Exercise period
Roger McDowell	30 January 2019	10p per share	285,144	31 Jan 2022-30 Jan 2024
Gordon Banham	30 January 2019	10p per share	75,250	31 Jan 2022-30 Jan 2024
John Samuel	30 January 2019	10p per share	75,250	31 Jan 2022-30 Jan 2024
David Anderson	30 January 2019	10p per share	64,157	31 Jan 2022-30 Jan 2024

The Share Option Scheme 2019 was created as a condition of the recruitment of Roger McDowell as Non-Executive Chairman. The Share Option Scheme 2019 requires a minimum 35% Total Shareholder Return to be achieved over the three-year period ending on 31 July 2021 ("the Vesting Period") from a base value of £3.515 ("Base Value") before vesting can commence. 100% vesting would occur at an 85% Total Shareholder Return over the above period from the Base Value. The rules of the Share Option Scheme 2019 allow participants to exercise options, to the extent they have satisfied the performance conditions, after the expiry of the Vesting Period. An option will lapse five years after the date of the grant, except if the participant dies, in which case the option will lapse 12 months following death, whichever date is earlier. No disposal may be made of any shares arising from the exercise of an option until five years after the date of grant other than to satisfy any tax liability arising on exercise. The options under the Share Option Scheme 2019 will lapse if the minimum performance criterion is not met. It is not anticipated that any further options will be granted under this Share Option Scheme 2019. No Director has any other outstanding options.

No option shall be granted under the Share Option Scheme 2019 on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the Share Option Scheme 2019 and any other employee share scheme established by the Company on or after Admission, would exceed 10% of the issued ordinary share capital of the Company on the date of grant.

Ordinary shares issued pursuant to the Share Option Scheme 2019 scheme shall rank pari passu in all respects with the ordinary shares already in issue.

Additionally, the Board will propose that shareholders approve the creation of a further LTIP scheme at the Annual General Meeting to be held on 30 October 2019. The proposed scheme, to be known as the Hargreaves Services plc Executive Share Option Scheme ("the Executive Share Option Scheme"), will contain performance criteria which will measure both the Company's own Total Shareholder Return over a three-year period but will also measure its comparative performance against a basket of other listed companies. It is envisaged that awards with a value up to 50% of a recipient's base salary would be made annually under the Executive Share Option Scheme to Executive Directors and other senior management as determined by the Committee. Full details of the Executive Share Option Scheme are included in the notes to the notice of the Annual General Meeting.

Deferred Bonus Scheme
A Deferred Bonus Scheme ("the Deferred Bonus Scheme") was implemented in December 2014. Deferred Bonus Scheme F was granted on 31 July 2018. Details are set out in Note 26 to the financial statements.

The Deferred Bonus Scheme was designed to allow awards to be made to Executive Directors and eligible employees in order to attract and retain key members of staff. The awards under the Scheme are based on a percentage of salary. This figure in turn is converted into a number of shares using the mid-closing price of a Hargreaves Services plc share on the day preceding the award. Other than serving a retention period, the Deferred Bonus Scheme has no performance criteria.

The Remuneration Committee Report was approved by the Board on 30 July 2019 and signed on its behalf by:

Nigel Halkes
Chair of the Remuneration Committee
30 July 2019

Statement of Directors' Responsibilities
in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law and they have elected to prepare the Parent Company financial statements on the same basis.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report
to the Members of Hargreaves Services plc

1 Our Opinion is Unmodified

We have audited the financial statements of Hargreaves Services plc ("the Company") for the year ended 31 May 2019 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Group Statement of Changes in Equity, Group Balance Sheet, Group Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity, Company Cash Flow Statement and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2019 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Key Audit Matters: Including Our Assessment of Risks of Material Misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters were as follows:

The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 2 (Chairman's statement).* Risk vs 2018: New risk	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the going concern key audit matter below, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** we considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** when addressing going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** as well as assessing individual disclosures as part of our procedures on going concern, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2 Key Audit Matters: Including Our Assessment of Risks of Material Misstatement continued

Going concern *Refer to page 9 (Financial Review) and pages 43 and 44 (Accounting Policies).* Risk vs 2018: New risk	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • the ongoing availability of the Group's borrowing base facility which matures on 31 August 2020, including the impact of Brexit; and • the potential impacts of Brexit on the Group's supply chain and customer base. There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Funding assessment:** assessing the current and available committed facilities to understand the financial resources available to the Group during the forecast period from the balance sheet date and the potential refinancing risks to the Group's and Company's business model. In this context we considered the mitigating actions available to the Group in the event that existing facilities are not renewed, and considered any related covenants requirements and the evidence available regarding whether they will be met; • **Market analysis:** we performed inquiries with key management personnel to better understand the implications of the Company's share price performance and implied market expectations on the Company's going concern assessment; • **Historical comparisons:** assessing historical forecasting accuracy, by comparing forecast cash flows to those actually achieved by the Group; • **Sensitivity analysis:** considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from through a lack of refinancing, and risks individually and collectively resulting from Brexit; • **Benchmarking assumptions:** comparing the Group's assumptions used in the cash flow projections to externally derived data and post year end trading results in respect of key inputs such as projected growth and cost inflation; • **Evaluating directors' intent:** Evaluating the intent of the directors and the achievability of the actions they would take to improve the position should certain risks materialise; and • **Assessing transparency:** assessing the completeness and accuracy of the Going concern disclosures in the Annual Report and considering whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern.

Contract risk in C.A. Blackwell (Contracts) – including contract revenue, profit recognition and recoverability of contract assets

Refer to page 14 (Risk Management) and page 42 (Accounting Estimates involving Judgments), page 49 (Accounting Policies) and pages 53, 69 and 75 (Financial Disclosures).

Risk vs 2018: ◀▶

Subjective estimate

For long term contracts in C.A. Blackwell (Contracts), the recognition of contract revenue over time, profit/loss and contract assets rely on estimates in relation to forecast total revenues and costs of each contract. Contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract.

Contract revenue may also include variations involving estimates. These are recognised on a contract-by-contract basis when evidence supports the assessment that it is highly probably that a significant reversal in the amount of revenue recognised will not occur.

The effect of these matters is that, as part of our risk assessment, we determined that contract revenue, profit recognition and the recoverability of contract assets involve a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Using a variety of quantitative and qualitative criteria, we assessed and challenged the most significant and complex contract estimates. Our audit procedures included:

- **Site visits:** completing site visits subsequent to the balance sheet date to certain higher risk or larger value contracts, physically inspecting the progress on site for individual projects and identifying areas of complexity through observation and discussion with key site personnel;
- **Challenge key judgements:** for selected higher risk or larger value contracts, obtaining the detailed project review papers and challenging the Group's judgements in respect of contract forecasts, contingencies, and the recoverability of contract assets via agreement to third-party certifications and confirmations, challenge of senior operational, commercial and financial management and with reference to our own expertise. We also performed corroborative inquiries of the Group's in-house legal counsel;
- **Involvement of specialists:** involving our own quantity surveyor specialists to challenge the Group's estimates of variations and to challenge the underlying judgements compared to our knowledge of the business and industry norms;
- **Our sector experience:** using our sector experience to assess forecast contract outturns by challenging the Group's judgements in this area with reference to our own assessments of the reasonably possible range of outcomes for each selected contract based on our understanding of contract work performed, issues encountered and relevant contract terms.
- **Contract clauses scrutiny:** inspecting selected higher risk or larger value contracts for key clauses; identifying relevant contractual mechanisms such as pain/gain shares and liquidated damages and assessing how these have been reflected in the amounts recognised in the financial statements; and
- **Assessing transparency:** considering the adequacy of the Group's contract related disclosures including those around the nature of estimates and judgements in respect of contract revenues.

2 Key Audit Matters: Including Our Assessment of Risks of Material Misstatement continued

Recoverability of parent company's investment in subsidiaries (£31.7m; 2018: £33.4m) and recoverability of parent's debt due from group entities (£100.9m; 2018: £121.8m) *Refer to page 43 (Accounting Policies) and page 66 and 68 (Financial Disclosures).* Risk vs 2018: ◀▶	**Low risk, high value** The carrying amount of the intra-group debtor balance represents 67% (2018: 70%) of the parent company's total assets. The carrying amount of the parent company's investments in subsidiaries represents 21% (2018: 19%) of the company's total assets. The recoverability of the intra-group debtor balances and the carrying amount of the parent company's investments in subsidiaries are not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, these are considered to be the areas that had the greatest effect on our overall parent company audit.	Our procedures included: • **Tests of detail:** assessing all investments, and selected higher value group debtors representing 100% (2018: 100%) of the total group debtors balance to identify, with reference to the relevant draft balance sheets of those subsidiaries, whether their net assets, being an approximation of their minimum recoverable amount, were in excess of the carrying amount of the cost of investment and debtor balances, as well as assessing whether those subsidiaries have historically been profit-making; • **Assessing subsidiary audits:** assessing the work performed by the subsidiary audit teams on the sample of subsidiaries noted above, and considering the results of that work, on the profit/loss and net assets of those subsidiaries, including, for those subsidiaries the company has receivables due from, assessing the liquidity of the assets and therefore the ability of the subsidiary to fund the repayment of the receivable; • **Benchmarking assumptions:** where recoverable amounts are not supported by the net assets of the subsidiary but are instead supported by discounted cash flows, we challenged the cash flow forecast assumptions included in the budgets based on our knowledge of the Group and the markets in which the subsidiaries operate; and • **Historical comparison:** assessing historical forecasting accuracy, by comparing forecast cash flows to those actually achieved.

We continue to perform procedures over property carrying amounts and related disclosures. However, the risk was considered to be higher in 2018 due to the repositioning of the Group's strategy in that year which resulted in an increased focus on the property related balances and disclosures. We have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3 Our Application of Materiality and an Overview of the Scope of Our Audit
Materiality for the Group financial statements as a whole was set at £2.0m (2018: £1.85m), determined with reference to a benchmark of total revenue of £302.6m (2018: £297.1m) of which it represents 0.66% (2018: 0.62%).

We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax. Materiality for the parent company financial statements as a whole was set at £1.2m (2018: £1.2m), determined with reference to a benchmark of total assets of £151.1m (2018: £173.1m) of which it represents 0.8% (2018: 0.7%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £100k (2018: £92.5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 90 (2018: 98) reporting components, we subjected 45 (2018: 40) to full scope audits for group purposes. We conducted reviews of financial information (including enquiry) at a further 4 (2018: 4) non-significant components which were not individually significant but were included in the scope of our group reporting work in order to provide further coverage over the group's results.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The components within the scope of our work accounted for the percentages illustrated below.

	Number of components	Group revenue	Group profit before tax	Group total assets
Audits for group reporting purposes	45	99%	94%	99%
Reviews of financial information (including enquiry)	4	1%	5%	1%
Total	49	100%	99%	100%
Total (2018)	44	99%	97%	91%

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team performed the audit work over 44 of the 45 (2018: 37 of the 40) reporting components subject to full scope audits for group purposes, including the audit of the parent company, and 4 of the 4 (2018: 4 of the 4) components subject to reviews of financial information (including inquiry). The remaining component that was subject to full scope audit for group purposes was in Germany (2018: 1 significant component in Germany and 2 non-significant components in Wales). The Group Audit Team participated in the component audit clearance meeting and inspected the working papers prepared by the component audit team, (2018: in addition telephone meetings were held in respect of both non-significant reporting components), during which the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The Group team approved the component materiality levels, which ranged from £0.01m to £1.3m (2018: £0.02m to £1.7m) for the full scope audits for group purposes, having regard to the mix of size and risk profile of the Group across the components.

4 We Have Nothing to Report on Going Concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5 We Have Nothing to Report on the Other Information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We Have Nothing to Report on the Other Matters on Which We Are Required to Report by Exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

We have nothing to report in these respects.

7 Respective Responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 26, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent 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 they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

8 The Purpose of Our Audit Work and to Whom We Owe Our Responsibilities

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.

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne

30 July 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 31 May 2019

Continuing operations	Note	2019 £000	2018 £000
Revenue	2	**302,613**	297,119
Cost of sales		**(285,902)**	(266,746)
Gross profit		**16,711**	30,373
Other operating income/(expense)	3	**4,291**	(185)
Administrative expenses		**(30,690)**	(31,564)
Operating loss		**(9,688)**	(1,376)
Analysed as:			
Operating profit (before exceptional items)		**6,448**	2,108
Exceptional items – Cost of sales		**(12,645)**	(3,025)
Exceptional items – Administrative expenses		**(3,491)**	(459)
Exceptional items	5	**(16,136)**	(3,484)
Operating loss (after exceptional items)		**(9,688)**	(1,376)
Finance income	8	**450**	626
Finance expenses	8	**(2,154)**	(1,937)
Share of profit in associates and joint ventures (net of tax)	15	**1,534**	3,175
(Loss)/profit before tax		**(9,858)**	488
Taxation	9	**1,665**	693
(Loss)/profit for the year from continuing operations		**(8,193)**	1,181
Discontinued operations			
Profit/(loss) for the year from discontinued operations	10	**3,526**	(1,000)
(Loss)/profit for the year		**(4,667)**	181
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	25	**(1,197)**	(857)
Tax recognised on items that will not be reclassified to profit or loss	9	**203**	120
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**318**	(22)
Effective portion of changes in fair value of cash flow hedges		**(1,269)**	1,123
Tax recognised on items that are or may be reclassified subsequently to profit or loss	9	**216**	(192)
Other comprehensive (expense)/income for the year, net of tax		**(1,729)**	172
Total comprehensive (expense)/income for the year		**(6,396)**	353

	Note	2019 £000	2018 £000
Profit attributable to:			
Equity holders of the Company		**(4,741)**	229
Non-controlling interest		**74**	(48)
(Loss)/profit for the year		**(4,667)**	181
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		**(6,470)**	401
Non-controlling interest		**74**	(48)
Total comprehensive (expense)/income for the year		**(6,396)**	353
Basic (loss)/earnings per share (pence)	11	**(14.75)**	0.72
Diluted (loss)/earnings per share (pence)	11	**(14.75)**	0.71
Basic (loss)/earnings per share from continuing operations (pence)	11	**(25.71)**	3.84
Diluted (loss)/earnings per share from continuing operations (pence)	11	**(25.71)**	3.82
Non-GAAP Measures			
Basic underlying earnings per share from continuing operations (pence)	11	**15.30**	14.90
Diluted underlying earnings per share from continuing operations (pence)	11	**15.30**	14.79

Balance Sheet
at 31 May 2019

		Group		Company	
	Note	2019 £000	Represented 2018 (See Note 1) £000	2019 £000	2018 £000
Non-current assets					
Property, plant and equipment	12	**45,528**	53,777	**–**	–
Investment property	13	**10,067**	11,909	**–**	–
Intangible assets including goodwill	14	**10,983**	11,121	**–**	–
Investments in associates and joint ventures	15	**11,744**	10,116	**4,984**	4,984
Investments in subsidiary undertakings	15	**–**	–	**31,688**	33,406
Deferred tax assets	18	**6,229**	3,814	**–**	–
		84,551	90,737	**36,672**	38,390
Current assets					
Assets held for sale	10	**–**	16,660	**–**	–
Inventories	19	**48,040**	34,652	**–**	–
Other financial assets	16	**25**	1,044	**–**	–
Trade and other receivables	20	**75,562**	103,245	**114,102**	134,716
Contract assets	21	**17,596**	18,970	**–**	–
Cash and cash equivalents	22	**21,583**	16,110	**312**	–
		162,806	190,681	**114,414**	134,716
Total assets		**247,357**	281,418	**151,086**	173,106
Non-current liabilities					
Other interest-bearing loans and borrowings	23	**(35,222)**	(4,434)	**(26,924)**	–
Retirement benefit obligations	25	**(4,184)**	(4,395)	**–**	–
Provisions	27	**(3,718)**	(2,947)	**–**	–
Other financial liabilities	17	**(137)**	(30)	**–**	–
		(43,261)	(11,806)	**(26,924)**	–
Current liabilities					
Other interest-bearing loans and borrowings	23	**(4,289)**	(42,460)	**–**	(39,522)
Trade and other payables	24	**(69,259)**	(88,425)	**(18,962)**	(32,546)
Provisions	27	**(2,327)**	(2,633)	**–**	–
Income tax liability		**(594)**	–	**(613)**	–
Other financial liabilities	17	**(150)**	(7)	**–**	–
		(76,619)	(133,525)	**(19,575)**	(72,068)
Total liabilities		**(119,880)**	(145,331)	**(46,499)**	(72,068)
Net assets		**127,477**	136,087	**104,587**	101,038

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Equity attributable to equity holders of the Parent					
Share capital	28	**3,314**	3,314	**3,314**	3,314
Share premium	28	**73,955**	73,955	**73,955**	73,955
Other reserves	28	**211**	211	**–**	–
Translation reserve	28	**(692)**	(1,010)	**–**	–
Merger reserve	28	**1,022**	1,022	**1,022**	1,022
Hedging reserve	28	**102**	1,155	**–**	–
Capital redemption reserve	28	**1,530**	1,530	**1,530**	1,530
Share-based payment reserve	28	**1,139**	1,043	**1,139**	1,043
Retained earnings		**46,841**	54,886	**23,627**	20,174
		127,422	136,106	**104,587**	101,038
Non-controlling interest		**55**	(19)	**–**	–
Total equity		**127,477**	136,087	**104,587**	101,038

These financial statements were approved by the Board of Directors on 30 July 2019 and were signed on its behalf by:

Gordon Banham
Director

Registered number: 4952865

Statement of Changes in Equity
for year ended 31 May 2019

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 2017	3,314	73,955	(988)	224	211	1,530	1,022	936	57,694	137,898	29	137,927
Total comprehensive income for the year												
Profit/(loss) for the year	–	–	–	–	–	–	–	–	229	229	(48)	181
Other comprehensive income/ (expense)												
Foreign exchange translation differences	–	–	(22)	–	–	–	–	–	–	(22)	–	(22)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1,123	–	–	–	–	–	1,123	–	1,123
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(857)	(857)	–	(857)
Tax recognised on other comprehensive income	–	–	–	(192)	–	–	–	–	120	(72)	–	(72)
Total other comprehensive income/(expense)	–	–	(22)	931	–	–	–	–	(737)	172	–	172
Total comprehensive income/ (expense) for the year	–	–	(22)	931	–	–	–	–	(508)	401	(48)	353
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	107	–	107	–	107
Dividends paid	–	–	–	–	–	–	–	–	(2,300)	(2,300)	–	(2,300)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	107	(2,300)	(2,193)	–	(2,193)
At 31 May 2018	3,314	73,955	(1,010)	1,155	211	1,530	1,022	1,043	54,886	136,106	(19)	136,087

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 2018	3,314	73,955	(1,010)	1,155	211	1,530	1,022	1,043	54,886	136,106	(19)	136,087
Total comprehensive income for the year												
(Loss)/profit for the year	–	–	–	–	–	–	–	–	(4,741)	(4,741)	74	(4,667)
Other comprehensive income/ (expense)												
Foreign exchange translation differences	–	–	318	–	–	–	–	–	–	318	–	318
Effective portion of changes in fair value of cash flow hedges	–	–	–	(1,269)	–	–	–	–	–	(1,269)	–	(1,269)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(1,197)	(1,197)	–	(1,197)
Tax recognised on other comprehensive income	–	–	–	216	–	–	–	–	203	419	–	419
Total other comprehensive income/(expense)	–	–	318	(1,053)	–	–	–	–	(994)	(1,729)	–	(1,729)
Total comprehensive income/ (expense) for the year	–	–	318	(1,053)	–	–	–	–	(5,735)	(6,470)	74	(6,396)
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	96	–	96	–	96
Dividends paid	–	–	–	–	–	–	–	–	(2,310)	(2,310)	–	(2,310)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	96	(2,310)	(2,214)	–	(2,214)
At 31 May 2019	**3,314**	**73,955**	**(692)**	**102**	**211**	**1,530**	**1,022**	**1,139**	**46,841**	**127,422**	**55**	**127,477**

Statement of Changes in Equity
for year ended 31 May 2019 continued

Company	Share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000
At 1 June 2017	3,314	73,955	1,530	1,022	936	21,900	102,657
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	574	574
Total comprehensive income for the year	–	–	–	–	–	574	574
Transactions with owners recorded directly in equity							
Equity-settled share-based payment transactions	–	–	–	–	107	–	107
Dividends paid	–	–	–	–	–	(2,300)	(2,300)
Total contributions by and distributions to owners	–	–	–	–	107	(2,300)	(2,193)
At 31 May 2018 and 1 June 2018	3,314	73,955	1,530	1,022	1,043	20,174	101,038
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	5,763	5,763
Total comprehensive income for the year	–	–	–	–	–	5,763	5,763
Transactions with owners recorded directly in equity							
Equity-settled share-based payment transactions	–	–	–	–	96	–	96
Dividends paid	–	–	–	–	–	(2,310)	(2,310)
Total contributions by and distributions to owners	–	–	–	–	96	(2,310)	(2,214)
At 31 May 2019	**3,314**	**73,955**	**1,530**	**1,022**	**1,139**	**23,627**	**104,587**

Consolidated Cash Flow Statement

for year ended 31 May 2019

	Note	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash flows from operating activities					
(Loss)/profit for the year from continuing operations		**(8,193)**	1,181	**(211)**	575
Adjustments for:					
Depreciation and impairment of property, plant and equipment	12	**16,136**	12,936	**–**	–
Impairment of investment properties	13	**–**	621	**–**	–
Amortisation and impairment of goodwill and intangible assets	14	**142**	880	**–**	–
Net finance expense	8	**1,704**	1,311	**203**	1,602
Share of profit in associates and joint ventures (net of tax)	15	**(1,534)**	(3,175)	**–**	–
Impairment of investment in subsidiaries	15	**–**	–	**1,814**	779
(Profit)/loss on sale of property, plant and equipment and investment property	3	**(4,291)**	185	**–**	–
Equity-settled share-based payment expenses	26	**96**	107	**–**	–
Income tax (credit)/expense	9	**(1,665)**	(693)	**1,960**	124
Contributions to defined benefit pension schemes	25	**(1,746)**	(1,829)	**–**	–
Translation of non-controlling interest and investments		**(100)**	(24)	**–**	–
		549	11,500	**3,766**	3,080
Change in assets held for sale		**8,961**	–	**–**	–
Change in inventories		**(11,262)**	10,976	**–**	–
Change in trade and other receivables		**26,172**	(2,984)	**20,249**	71,495
Change in trade and other payables		**(17,454)**	(387)	**(13,636)**	(76,776)
Change in provisions and employee benefits		**1,817**	(1,475)	**–**	–
		8,783	17,630	**10,379**	(2,201)
Interest paid		**(1,635)**	(905)	**(189)**	(1,440)
Income tax received/(paid)		**307**	1,127	**(1,425)**	1,764
Net cash inflow/(outflow) from continuing operating activities		**7,455**	17,852	**8,765**	(1,877)
Net cash inflow/(outflow) from operating activities in discontinued operations		**15,593**	(1,017)	**6,419**	–
Net cash inflow/(outflow) from operating activities		**23,048**	16,835	**15,184**	(1,877)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment and investment property		**12,231**	1,001	**–**	–
Acquisition of property, plant and equipment and investment property		**(8,433)**	(21,227)	**–**	–
Net cash inflow/(outflow) from investing activities in continuing operations		**3,798**	(20,226)	**–**	–
Net cash outflow from investing activities in discontinued operations		**–**	(4,309)	**–**	–
Net cash inflow/(outflow) from investing activities		**3,798**	(24,535)	**–**	–
Cash flows from financing activities					
Payment of finance lease liabilities		**(6,780)**	(5,461)	**–**	–
Dividends paid	28	**(2,310)**	(2,300)	**(2,310)**	(2,300)
(Repayment of)/proceeds from Group banking facilities		**(12,300)**	3,800	**(12,300)**	3,800
Net cash (outflow)/inflow from financing activities		**(21,390)**	(3,961)	**(14,610)**	1,500
Net increase/(decrease) in cash and cash equivalents		**5,456**	(11,661)	**574**	(377)
Cash and cash equivalents at 1 June		**16,110**	27,817	**(262)**	115
Effect of exchange rate fluctuations on cash held		**17**	(46)	**–**	–
Cash and cash equivalents at 31 May	22, 23	**21,583**	16,110	**312**	(262)

Notes
(forming part of the financial statements)

1 Accounting Policies
Hargreaves Services plc (the "Company") is a public company incorporated, domiciled and registered in England, UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in associates and joint ventures. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). In publishing the Parent Company financial statements together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual Income Statement and related notes that form a part of these approved financial statements. The financial statements are presented in Sterling since this is the currency in which the majority of the Group's transactions are denominated.

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

In these financial statements various IFRSs which are effective for the first time have been adopted, including the following standards, amendments and interpretations:
- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers.

The new accounting standard IFRS 15 sets out a single and comprehensive framework for revenue recognition. The guidance in IFRS 15 is more detailed than previous IFRSs for revenue recognition (IAS 11 Construction Contracts and IAS 18 Revenue and associated interpretations). The Group has adopted IFRS 15 and has chosen to apply the retrospective approach. The adoption of IFRS 15 has resulted in a representation of contract assets and contract provisions in the 2018 balance sheet (see notes 20, 21, 24 and 27), this representation has not resulted in a change to the previously reported net assets of the Group.

The new accounting standard IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and liabilities and replaces IAS 39. Among other things, the standard introduces a forward looking credit loss impairment model whereby entities need to consider and recognise impairment triggers that might occur in the future (an "expected loss" model). The Group has adopted IFRS 9 and has chosen to apply the retrospective approach.

None of the IFRSs adopted by the Group had a material impact on the Group's result for the year or its equity.

Accounting Estimates involving Judgements
The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The Board considers that the key areas requiring the use of estimates and judgements which may materially affect the financial statements are:

a) Construction Contract Revenue
IFRS 15, Revenue from Contracts with Customers, is applicable to these financial statements, commencing on 1 June 2018, for the first time. Whilst it applies to all revenue recognition, it has replaced IAS 11, "Construction Contracts", insofar as the Group carries out construction contracts in its Specialist Earthworks business and represents a key area of judgement. Management must assess the performance obligations under each contract and the point at which those obligations have been fulfilled, allocating the transaction price as necessary to each obligation. The estimates and judgements which management must carry out to assess the total expected costs on a contract remain necessary under IFRS 15. The Group has control and review procedures in place to monitor, and evaluate, regularly, the estimates being made to ensure that they are consistent and appropriate. This includes reviewing the independent certification of the value of work done, the progress of work against contracted timescales and the costs incurred against plan. In particular, management makes judgements on the expected recoverability of value recorded in respect of performance obligations which have been completed but not yet agreed with the customer and on the likelihood of the entitlement to any variable consideration. Differences arising on the ultimate completion of the contract and any unforeseen changes or events as the contract progresses may result in material changes to expected financial outcomes. The transition to IFRS 15 has had no impact on the measurement of revenue in the comparative period. Construction contract revenue in the year ended 31 May 2019 was £57.6m (2018: £55.8m).

b) Mining Production and Profitability
The Group has a surface mining business. Estimates of mine life and production levels, and the profitability of future production (which in the medium-term continues to be partly dependent on future prices for coal) are included in Group forecasts. These forecasts are used in the impairment assessment of mining assets, including goodwill. Estimates of mine life and production levels also form the basis of depreciation of capitalised mining costs. The carrying value of the mining assets as at 31 May 2019 is £4.3m (2018: £5.7m).

c) Restoration Costs
In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" the Board makes provisions for liabilities which exist but where judgements have to be made as to the quantification of such liabilities.

The Group's surface mining activities give rise to obligations for site restoration. The restoration provisions, which are set out in Note 27, are based on the Group's current obligation for the cost of future site restoration. Restoration provisions are measured at the expected value of future cash flows, discounted to their present value applying an appropriate risk-adjusted rate. Significant judgements and estimates are involved in forming an expectation of future activities and the amount and timing of the associated cash flows. Such expectations are based on existing planning requirements and management's future development plans which may give rise to a constructive obligation. The carrying value of restoration provisions as at 31 May 2019 is £4.1m (2018: £4.0m).

d) Redundancy Provision

Following the announcement that British Steel Limited was going into an insolvency process, management has made a provision in respect of possible redundancy costs in respect of all employees engaged on contracts for that customer. Currently, British Steel is continuing to trade under the aegis of the Official Receiver, but the Group has no certainty as to how long this may continue. As a result, formal notice has been served on each employee affected and the Group has made a provision for possible redundancy costs based upon the contract ceasing as at the date of these financial statements. Should the contract continue, or British Steel be sold, and a new contract undertaken by the Group which involves the retention of some or all of the employees, then this provision may require reassessment. The carrying value of the redundancy provision as at 31 May 2019 is £1.7m (2018: £nil).

e) Post Retirement Employee Benefits

The Group operates two funded defined benefit schemes and an unfunded concessionary fuel scheme. Independent actuaries calculate the Group's asset/liability in respect of the defined benefit schemes. The actuaries make assumptions as to discount rates, salary escalations, net interest on scheme assets/liabilities, future pension increases, mortality rates applicable to members and future rates of inflation. These assumptions are made under the Board's direction. The Board determines the appropriateness of these assumptions by benchmarking them against those used by other schemes and by taking advice from the independent actuaries. If the actual experience of the schemes is different from the assumptions used, then the pension asset/liability may differ from that shown in these financial statements. More information is given in Note 25 to these financial statements. The impact of the equalisation of Guaranteed Minimum Pensions has been assessed to be negligible. The carrying value of the defined benefit schemes in the balance sheet as at 31 May 2019 is £4.2m (2018: £4.4m).

f) Measurement of the Recoverable Amounts of Cash-Generating Units ("CGUs") Containing Goodwill, Property Assets and Parent Company Intra-Group Balances

In accordance with IAS 36 "Impairment of Assets", the Board identifies appropriate CGUs and the allocation of goodwill to these units. The assessment of impairment involves assumptions on the estimated future operating cash flows from these CGUs, the discount rate applied in the calculations and the comparison of the cash flows to the carrying value of the goodwill. These are key areas of judgement and include significant accounting estimates. Management has assessed the sensitivity of carrying amounts of CGUs containing goodwill to reasonably possible changes in key assumptions. More information on the assumptions used and the sensitivities applied are set out in Note 14 to these financial statements. Freehold property assets, including investment properties and properties held for development and resale are recorded at the lower of cost and net realisable value. The carrying value is assessed on the basis of the strategy for each asset and the expected net proceeds arising, with reference to estimated market value where relevant. An assessment is made regarding the recoverability of intra-Group balances on a regular basis. This assessment includes, but is not restricted to, a review of net assets and future trading opportunities within each Group business.

Accounting Judgements

g) Discontinued Operations

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", a non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year. On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss, this represents an area of judgement. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In accordance with IFRS 5, the above policy is effective from the start of the accounting period in which the operation meets the criteria to be classified as held for sale. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Income Statement is restated as if the operation has been discontinued from the start of the comparative period.

Measurement Convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as fair value through the Statement of Profit and Loss or as available for sale are stated at their fair value.

Going Concern

The Group's business activities, together with the factors likely to affect its future development performance and position are set out in the Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, Note 29 to the financial statements includes: the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

1 Accounting Policies continued

Going Concern continued

The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. Committed banking facilities are in place until 31 August 2020. Discussions on new facilities with existing and prospective new lenders are underway and the Board is confident that suitable new facilities will be secured to replace them well before they expire. Therefore, and after making appropriate enquiries including reviewing budgets and strategic plans, the Directors have a reasonable expectation that 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.

The financial statements were approved by the Board of Directors on 30 July 2019.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Change in Subsidiary Ownership and Loss of Control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Application of the Equity Method to Associates and Joint Ventures

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the Group's carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Transactions Eliminated on Consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Parent Company Financial Statements

In the Parent Company financial statements, all investments in subsidiaries, joint ventures and associates are carried at cost less impairment.

Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the Income Statement except for differences arising on qualifying cashflow hedges which are recognised directly in other comprehensive income.

The assets and liabilities of foreign operations are translated into Pounds Sterling, the Group's presentational currency, at the exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence is lost, the entire accumulated amount in the translation reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

Classification of Financial Instruments Issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Financial Instruments

Financial Assets

Financial assets classified as "loans and receivables" under IAS 39 (being trade and other receivables and amounts due from undertakings in which the Group has a participating interest) continue to be classified within the "amortised cost" category according to IFRS 9.

The Group classifies financial assets under the following measurement categories:

- Measured at amortised cost (non-derivative financial assets);
- Measured subsequently at fair value through either profit or loss or comprehensive income.

Non-derivative Financial Assets

Non-derivative financial assets include trade and other receivables and contract assets, as defined by IFRS 15. Neither of these two categories contain a significant financing element and, as such, expected credit losses are measured under IFRS 9 using the simplified impairment approach. This approach requires expected lifetime losses to be recognised upon the initial recognition of the asset.

At initial recognition, the Group measures a non-derivative financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The Group subsequently measures trade and other receivables and contract receivables at amortised cost.

Derivative Financial Instruments

The Group uses forward foreign currency contracts to manage its exchange rate risk. The Group also uses derivative sale and purchase contracts to mitigate the risk of fluctuating coal and fuel prices and exchange rate risk.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured to fair value at each reporting date and changes therein are accounted for as described as follows.

Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecast transaction (for example, interest payments, sales and purchases denominated in foreign currency, sale and purchase of commodities), changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in the hedging reserve to the extent that the hedge is effective. Amounts deferred in equity are recognised in the Consolidated Statement of Comprehensive Income when the hedged item affects profit or loss. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in profit or loss.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement as part of financing costs. The Group continues to apply IAS 39 for the purposes of hedge accounting as permitted under IFRS 9.

Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intra-Group Financial Instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

1 Accounting Policies continued

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful economic lives, they are accounted for as separate items of property, plant and equipment.

Mine development costs associated with the Group's surface mining operations are depreciated on a tonnage extracted basis over the estimated production life of the site.

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Depreciation rates are as follows:

Freehold buildings	–	2% to 4% p.a.
Leasehold improvements	–	15% p.a.
Motor vehicles and plant	–	10% to 20% p.a.
Furniture and equipment	–	25% p.a.
Fixtures and fittings	–	15% p.a.

Assets in the course of construction are not depreciated until they are brought into use.

Mining Assets

Surface mine development	–	units of coal production.
Stripping activity asset	–	units of coal production from the specific box cut to which the associated stripping asset relates.
Mineral reserves	–	units of coal production.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Depreciation on assets in the course of construction commences when the assets are available for use.

Mining Assets

Surface Mine Development Asset

Costs incurred in preparing and developing sites are referred to as "surface mine development costs" and are capitalised within "property, plant and equipment" as part of "Mining assets". Surface mine development costs principally comprise:

- the costs associated with achieving the necessary planning permission and consents, licences and permits required to operate the site;
- drilling, pumping, geology and mine design costs; and
- site development and infrastructure costs.

This asset is amortised to the statement of comprehensive income on a units of production method. Production is deemed to commence when work to extract coal from the first production box cut begins.

Income from incidental coal that is extracted during the development phase is included within the consolidated statement of comprehensive income together with the associated direct costs.

Stripping Asset

During the production phase, a non-current "stripping activity asset" is recognised within "Mining assets" to capitalise costs of removing overburden in order to gain access or improve access to coal deposits; to the extent that future economic benefits are probable, the deposit of coal to which access has been improved can be identified and costs reliably measured. The stripping activity asset is initially measured at cost and subsequently carried at cost or its revalued amount less amortisation and impairment. The stripping activity asset is amortised over the units of production of the coal deposit identified as being made more accessible as a result of the directly associated stripping activity.

Mineral Reserves

Costs associated with the acquisition of mining reserves, such as coal, are referred to as "mineral reserves" and are capitalised within "property, plant and equipment" as part of "Mining assets". This asset is amortised to the statement of comprehensive income on a units of production method.

Investment Property

Investment properties are properties which are held either to earn rental income, or for capital appreciation, or for both. Investment properties are stated at cost less impairment. Investment properties are not remeasured to fair value at each reporting date, however, a review for impairment is carried out at each reporting date, giving consideration to the fair value of the property. An impairment is recognised when the fair value of the property is lower than the book value.

Investments

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment in the Parent Company accounts.

Business Combinations
Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill arises from the acquisition of businesses and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately, or which arise from legal rights regardless of whether those rights are separable.

Acquisitions on or After 1 June 2010
For acquisitions on or after 1 June 2010, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On the acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities acquired, reflecting conditions at the date of acquisition. Adjustments to fair values include those made to bring accounting policies into line with those of the Group. Provisional fair values are finalised within 12 months of the business combination date and, where significant, are adjusted by restatement of the comparative period in which the acquisition occurred.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Acquisitions Between 1 June 2006 and 1 June 2010
Goodwill arising on acquisitions that have occurred between 1 June 2006 and 1 June 2010 is capitalised and is subject to impairment review, both annually and when there are indications the carrying value may not be recoverable. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Acquisitions Prior to 1 June 2006 (Date of Transition to IFRSs)
Goodwill arising on acquisitions prior to 1 June 2006 was capitalised and amortised under UK GAAP. This goodwill is carried at the UK GAAP carrying value at the date of transition to adopted IFRS and is subject to impairment reviews as described above.

Acquisitions and Disposals of Non-Controlling Interests
Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the Parent.

Prior to the adoption of IAS 27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

Intangible Assets and Goodwill
Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Other intangible assets that are acquired by the Group, which have finite useful economic lives, are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

Assets Held for Sale
The Group has classified non-current assets as held for sale if the carrying value will be recovered principally through sale rather than continuing use, they are available for immediate sale and the sale is highly probable within one year.

On initial classification as held for sale, assets are measured at the lower of carrying amount and fair value less costs to sell, with any adjustments taken to the Income Statement. In accordance with IFRS 5, no reclassifications are made in prior periods.

1 Accounting Policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. Work in progress includes work to date on service contracts where project milestones have not yet been reached. Where necessary, provisions are made against obsolete, defective or slow-moving inventories. Finished goods includes items of plant and machinery which are regarding as trading stock.

Properties Held for Development and Resale

Properties held for development and resale are included within inventories on the basis that their carrying value will be recovered principally through sale in the ordinary course of business, rather than through continuing use within the Group. These assets are not available for immediate sale and will be subject to further development before being available for sale. Properties held for development and resale are shown in the financial statements at the lower of cost and net realisable value. Cost represents the acquisition price including legal and other professional costs associated with the acquisition together with subsequent development costs net of amounts transferred to cost of sales. Net realisable value is the expected net sales proceeds of the developed property.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

Trade and Other Payables

Trade and other payables are non-interest-bearing and are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

Reversals of Impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee Benefits

Defined Benefit Pension Plans

Following the acquisition of Maltby Colliery Limited on 26 February 2007, the Group operates a concessionary fuel retirement benefit scheme. In addition, following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group.

The retirement benefit scheme liabilities are calculated by a qualified actuary using the projected unit method. The concessionary fuel retirement benefit schemes are unfunded retirement benefits and as such there are no assets in the schemes. The retirement benefit deficits are recognised in full, the movement in the scheme deficits is split between operating charges, finance items and, in other comprehensive income, remeasurement gains and losses.

The defined benefit pension schemes are funded retirement benefit schemes. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in other comprehensive income, remeasurement gains and losses.

Defined Contribution Pension Plans

The Group operates a Group defined contribution personal pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial period. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

Share-Based Payment Transactions

The Group operates a share option scheme for certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do not meet the related service and non-market performance conditions at the vesting date.

Where the Company grants share-based payment awards over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Shares purchased by the Group are deducted from retained earnings at the total consideration paid or payable.

Exceptional Items
Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the Income Statement. Any future movement on items previously classified as exceptional will also be classified as exceptional.

Revenue
Revenue is recognised when control over a product or service is transferred to the Group's customer. The value attributed to revenue is measured based on the consideration specified in the contract and excludes any amounts collected on behalf of third parties. In circumstances where consideration is not clearly defined in the contract, the revenue is subject to variability. When revenue is variable, the Group estimates the amount of consideration to be recovered. Revenue is only recognised to the extent that it is highly probable that a significant reversal in a future period will not occur. When an amendment to an existing contract arises, the Group reviews the nature of the modification and whether or not it reflects a separate or new performance obligation to be satisfied, or whether it is an amendment to an existing performance obligation.

Revenue is measured excluding value added tax, for goods and services supplied to external customers in line with the fulfilment of contractual performance obligations. All directly attributable expenses in respect of goods supplied and services provided are recognised in the Income Statement in the period to which they relate. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust its transaction price for the time value of money.

The Group's activities cover a variety of disciplines, therefore, depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Group will account for revenue both over time and at a point in time. Where revenue is measured over time, the Group uses the input method to measure progress of delivery.

Sales of Plant, Coal, Coke and Other Mineral Sales
Revenue is recognised at a point in time when delivery of the product has been made and title has passed to the customer. A number of mineral sales are sold on long-term contracts, whereby quantities and pricing are agreed with customers for a defined future period. Revenue is recognised on individual sales at a point in time when the conditions above have been met.

Revenue is measured at the invoiced price net of VAT and any discounts. If, as a separate transaction, the Company has entered into a derivative contract to hedge the sale price, any gains or losses on that hedge instrument are also included in revenue at the same time as the hedged transaction is recorded as revenue.

Services
Revenue is recognised over time as contractual performance obligations are fulfilled. A proportion of sales are subject to long-term contracts, typically on a cost-plus or similar basis. Typically, these contracts take the form of a continuing performance obligation. The revenue and profit on such contracts is recognised (and invoiced) using the input method of measuring progress on completion of the performance obligation. Profit is recognised in line with the recognition of revenue allocating costs to each separate performance obligation as appropriate. Any losses on contracts are recognised in full immediately.

Construction Contract Revenue
When the outcome of individual contracts can be estimated reliably, contract revenue and costs are recognised as revenue and expenses respectively over time by reference to the fulfilment of performance obligations using the input method of estimating progress of delivery at the reporting date. Costs are recognised as incurred, and revenue is recognised using the input method. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Revenue includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. Revenue includes an assessment of any variable consideration which may become receivable based upon relevant performance measures. Variable consideration is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised. Provision is made for all known or expected losses on contracts as soon as they are foreseen. These provisions are reviewed throughout the contract life and are adjusted as required. However, the nature of the risks on contracts are such that is often not possible to resolve them until the end of the contract and therefore the provisions may not reverse until the contract is concluded.

Property
Sales of freehold land are recognised at a point in time upon legal completion.

Contract Assets
Contract assets represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract Liabilities
Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Leases

As Lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the Income Statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful economic life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the term of the lease.

1 Accounting Policies continued

Leases continued

As Lessor

Where the Group also acts as lessor and substantially all the risks and rewards of ownership have passed to the lessee, the Group derecognises the related equipment and recognises a receivable for the minimum lease payments discounted at a rate which reflects a constant periodic rate of return over the life of the lease.

Net Financing Costs

Net financing costs comprise interest payable, finance charges on finance leases and interest receivable on funds invested together with changes in the fair values of interest rate swaps and foreign currency forward contracts recognised through the profit and loss and the net interest on the defined benefit pension scheme liability. This is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset/liability.

Interest income and interest payable is recognised in the Income Statement as it accrues, using the effective interest method. Dividend income is recognised in the Income Statement on the date the entity's right to receive payment is established.

Taxation

Tax on the profit or loss for the period comprises both current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Provisions

A provision is recognised in the Balance Sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Restoration and Rehabilitation Costs

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration. Restoration works can include site decommissioning and dismantling and site and land rehabilitation. The extent of work required, and the associated costs are dependent on the requirements of relevant authorities and the Group's environmental policies.

An initial provision reflecting the current obligation for the cost of future site restoration is recognised at the commencement of the production phase for all liabilities created through development of the surface mine. Production activities give rise to further restoration obligations and provisions are made for these liabilities as they arise.

Restoration provisions are measured at the expected value of future cash flows. Significant judgements and estimates are involved in forming an expectation of future activities and the amount and timing of the associated cash flows. Such expectations are based on existing planning requirements and management's future development plans which give rise to a constructive obligation.

Restoration provisions are adjusted for changes in estimates, which are accounted for as a change in the corresponding capitalised cost within non-current assets, except where a reduction in the provision is greater than the unamortised capitalised cost of the related assets, in which case the capitalised cost is reduced to £nil and the remaining adjustment is recognised in the Statement of Comprehensive Income. Changes to the capitalised cost result in an adjustment to future amortisation and financial charges.

Given the significant judgements and estimates involved, adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence. Factors influencing those changes include but are not limited to: revisions to estimated reserves and site operations; planning requirements and management's development plans and changes in the estimated cost and scope of anticipated activities.

Adopted IFRSs Not Yet Applied

At the date of these financial statements the following Adopted IFRSs have been endorsed but have not been applied in these financial statements. In respect of IFRS 16, no material net impact on the Net Assets from the adoption of this new standard is expected, although assets and liabilities will increase correspondingly, which as at 31 May 2019 would have been approximately £6m. The Group has chosen not to adopt any of the standards noted below earlier than required:

- IFRS 16: Leases (will apply to the accounting period commencing 1 June 2019).

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 Distribution & Services, Hargreaves Land, Legacy and Unallocated.

- **Distribution & Services:** Provides coal distribution, including mining operations, materials handling and contracting services and logistics to a range of industrial, wholesale and public sector customers. The business unit also provides earth moving and infrastructure services across the UK and trades in plant and machinery.
- **Hargreaves Land:** The development and realisation of value from the land portfolio including rental income from investment properties.
- **Legacy:** The realisation of surplus assets which are not associated with the continuing operations into cash in a timely manner, whilst obtaining full value.
- **Unallocated:** The corporate overhead contains the central functions that are not devolved to the individual business units.

These segments are combinations of subsidiaries, jointly controlled entities and associates. They have separate management teams and provide different products and services. The four operating segments are also reportable segments.

Underlying Operating Profit is defined by the Board as Operating Profit prior to exceptional items, amortisation and impairment of intangible assets and includes the Group's share of the operating profit of its German associate.

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 operating profit/(loss), which is reconciled to (loss)/profit before tax in the tables below:

	Distribution & Services 2019 £000	Hargreaves Land 2019 £000	Legacy 2019 £000	Unallocated 2019 £000	Total 2019 £000
Revenue					
Total revenue	293,787	3,634	6,054	–	303,475
Intra-segment revenue	–	(862)	–	–	(862)
Revenue from external customers	**293,787**	**2,772**	**6,054**	**–**	**302,613**
Underlying operating profit/(loss)	**12,110**	**2,232**	**–**	**(4,376)**	**9,966**
Amortisation and impairment of intangibles	(142)	–	–	–	(142)
Taxation on associates and joint ventures	(875)	–	–	–	(875)
Exceptional items	(16,770)	–	–	634	(16,136)
Operating (loss)/profit including share of associate	**(5,677)**	**2,232**	**–**	**(3,742)**	**(7,187)**
Interest on associates and joint ventures	(967)	–	–	–	(967)
Net financing costs	(1,646)	(144)	–	86	(1,704)
Loss/(profit) before taxation	**(8,290)**	**2,088**	**–**	**(3,656)**	**(9,858)**
Depreciation charge	**(15,416)**	**(192)**	**–**	**(528)**	**(16,136)**
Capital expenditure	**(15,535)**	**(15)**	**–**	**(365)**	**(15,915)**
Net assets/(liabilities)					
Segment assets	188,199	27,288	12,824	7,302	235,613
Segment liabilities	(83,675)	(2,970)	–	(33,235)	(119,880)
Segment net assets/(liabilities)	**104,524**	**24,318**	**12,824**	**(25,933)**	**115,733**
Associates and joint ventures	11,744	–	–	–	11,744
Total net assets					**127,477**

Unallocated net liabilities of £25.9m include the Group banking facilities liability (£26.9m), cash and cash equivalents (£0.9m liability), derivative financial instruments (£0.3m liability), corporation tax liability (£0.6m) and deferred tax asset (£6.2m), retirement benefit obligations (£4.2m) and other corporate items (£0.8m asset).

2 Segmental Information continued

	Distribution & Services 2018 £000	Hargreaves Land 2018 £000	Legacy 2018 £000	Unallocated 2018 £000	Total 2018 £000
Revenue					
Total revenue	286,188	11,730	4,706	–	302,624
Intra-segment revenue	(5,505)	–	–	–	(5,505)
Revenue from external customers	280,683	11,730	4,706	–	297,119
Underlying operating profit/(loss)	12,872	2,085	46	(5,554)	9,449
Amortisation of intangibles	(880)	–	–	–	(880)
Taxation on associates and joint ventures	(1,632)	–	–	–	(1,632)
Exceptional items	(3,484)	–	–	–	(3,484)
Operating profit/(loss) including share of associate	6,876	2,085	46	(5,554)	3,453
Interest on associates and joint ventures	(1,654)	–	–	–	(1,654)
Net financing costs	(1,968)	(491)	–	1,148	(1,311)
Profit/(loss) before taxation	3,254	1,594	46	(4,406)	488
Depreciation charge	(12,019)	(467)	–	(450)	(12,936)
Capital expenditure	(23,585)	(5,545)	–	(295)	(29,425)
Net assets/(liabilities)					
Segment assets	203,256	34,115	28,547	5,384	271,302
Segment liabilities	(93,634)	(6,492)	–	(45,205)	(145,331)
Segment net assets/(liabilities)	109,622	27,623	28,547	(39,821)	125,971
Associates and joint ventures	10,116	–	–	–	10,116
Total net assets					136,087

Unallocated net liabilities of £39.8m include Group banking facilities liability (£39.3m), cash and cash equivalents (£0.6m liability), derivative financial instruments (£1.0m asset), corporation and deferred tax assets (£3.9m asset), retirement benefit obligations (£4.4m) and other corporate items (£0.4m liability).

The following table analyses revenue by significant category:

	2019 £000	2018 £000
Sale of goods	**104,349**	122,188
Provision of services	**140,711**	119,114
Construction contracts	**57,553**	55,817
	302,613	297,119

The timing of revenue recognition is analysed as follows:

	Distribution & Services 2019 £000	Hargreaves Land 2019 £000	Legacy 2019 £000	Total 2019 £000
Over time	**198,264**	**–**	**–**	**198,264**
At a point in time	**95,523**	**2,772**	**6,054**	**104,349**
Revenue	**293,787**	**2,772**	**6,054**	**302,613**

	Distribution & Services 2018 £000	Hargreaves Land 2018 £000	Legacy 2018 £000	Total 2018 £000
Over time	174,931	–	–	174,931
At a point in time	105,752	11,730	4,706	122,188
Revenue	280,683	11,730	4,706	297,119

Geographical Information

	2019		2018	
	UK £000	Overseas £000	UK £000	Overseas £000
Revenue	**251,073**	**51,540**	271,205	25,914
Non-current assets	**84,098**	**453**	89,776	961

3 Other Operating Income/(expense)

	2019 £000	2018 £000
Profit/(loss) on disposal of property, plant and equipment	**2,718**	(185)
Profit on disposal of investment property	**1,573**	–
Total other operating income/(expense)	**4,291**	(185)

4 Expenses and Auditor's Remuneration

The following items have been charged to the Statement of Profit and Loss:

	2019 £000	2018 £000
Amortisation and impairment of goodwill and other intangibles	**142**	880
Depreciation of property, plant and equipment owned	**8,250**	7,146
Depreciation of property, plant and equipment held under finance lease	**2,154**	3,170
Depreciation of mining assets and mineral reserves	**5,732**	2,620
Impairment of investment properties	**–**	621

4 Expenses and Auditor's Remuneration continued

Auditor's Remuneration:

	2019 £000	2018 £000
Audit of these financial statements	**52**	25
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**182**	189
Taxation compliance services	**2**	9
Other tax advisory services	**130**	38
Other assurance services	**9**	6
All other services	**–**	28

In addition to the above, fees of £50,000 (2018: £73,000) were receivable by the Company's auditor for other advisory services in respect of discontinued operations.

Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5 Exceptional Items

The Group incurred a number of exceptional items in the year primarily related to the losses sustained due to the insolvency of Wolf Minerals (UK) Limited and British Steel Limited. Additionally, there were two other items relating to the C.A. Blackwell subsidiary.

	2019 £000	2018 £000
Losses due to the insolvency of Wolf Minerals (UK) Limited	**(8,130)**	–
Losses due to the insolvency of British Steel Limited	**(7,964)**	–
Losses on legacy contracts in C. A. Blackwell	**(676)**	(3,435)
Net amounts recovered from C. A. Blackwell breach of warranty claim	**634**	–
Other restructuring costs relating to C. A. Blackwell	**–**	(459)
Credit associated with early closure of certain mining operations	**–**	410
Total	**(16,136)**	(3,484)

6 Staff Numbers and Costs

The average number of persons employed by the Group in continuing and discontinued operations (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group	
	2019	2018
Directors and senior management	**25**	30
Administration	**333**	427
Production	**1,700**	1,563
	2,058	2,020

The aggregate payroll costs of these persons were as follows:

	Group	
	2019 £000	2018 £000
Wages and salaries	**80,536**	79,076
Share-based payments (see Note 26)	**96**	107
Social security costs	**6,698**	4,697
Contributions to defined contribution pension scheme (see Note 25)	**3,153**	2,078
Expenses of defined benefit pension schemes (see Note 25)	**241**	220
	90,724	86,178

7 Directors' Remuneration

	2019 £000	2018 £000
Directors' emoluments	**1,132**	1,498
Company contributions to defined contribution pension schemes	**183**	177
	1,315	1,675

Included within the 2018 figures above are £150,000 of Directors' emoluments and £4,000 of pension contributions in relation to the discontinued operation.

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £523,000 (2018: £613,000), and £118,000 (2018: £116,000) was paid in lieu of Company pension contributions.

	Salary/Fees		Share options exercised		Benefits		Total		Pension	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Gordon Banham	**470**	463	–	108	**53**	42	**523**	613	**118**	116
John Samuel	**264**	108	–	–	**19**	10	**283**	118	**40**	16
David Anderson	**125**	–	–	–	**13**	–	**138**	–	**25**	–
Iain Cockburn	**–**	188	–	–	**–**	8	**–**	196	**–**	45
Kevin Dougan	**–**	368	–	–	**–**	21	**–**	389	**–**	–
Roger McDowell	**76**	2	–	–	**–**	–	**76**	2	**–**	–
Nigel Halkes	**43**	40	–	–	**–**	–	**43**	40	**–**	–
David Morgan	**46**	100	–	–	**–**	–	**46**	100	**–**	–
Peter Jones	**23**	40	–	–	**–**	–	**23**	40	**–**	–
Total	**1,047**	1,309	–	108	**85**	81	**1,132**	1,498	**183**	177

Notes:
John Samuel's emoluments in 2018 represent the period from 2 January 2018 to 31 May 2018.
David Anderson's emoluments represent the period from 14 November 2018 to 31 May 2019.
Iain Cockburn's emoluments in 2018 represent the period from 1 June 2017 to 2 January 2018. Included within the 2018 figures were £150,000 salary/fees and £4,000 pension in relation to the discontinued operation.
Kevin Dougan's emoluments in 2018 represent the period from 1 June 2017 to 1 December 2017 and include £241,000 payment in lieu of notice.
Roger McDowell's emoluments in 2018 represent the period from 11 May 2018 to 31 May 2018.
David Morgan's emoluments in 2019 represent the period from 1 June 2018 to 31 July 2018 and include £29,000 payment in lieu of notice.
Peter Jones emoluments in 2019 represent the period from 1 June 2018 to 30 October 2018.

	Number of Directors	
	2019	2018
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	**3**	2
The number of Directors who exercised share options was	**–**	1
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**3**	2

None of the Directors hold any rights to subscribe for shares in the Group (2018: nil).

All of the Directors benefited from qualifying third-party indemnity provisions.

8 Finance Income and Expense
Recognised in Profit or Loss

	2019 £000	2018 £000
Finance income		
Bank interest receivable	**183**	122
Early settlement discount	**168**	–
Foreign exchange gain	**–**	248
Interest received from jointly controlled entities	**99**	256
Total finance income	**450**	626
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**1,450**	1,608
Interest payable on finance leases	**489**	220
Foreign exchange loss	**118**	–
Interest on defined benefit pension scheme obligation (see Note 25)	**97**	109
Total finance expense	**2,154**	1,937

9 Taxation
Recognised in the Income Statement

	2019 £000	2018 £000
Current tax		
Current year	**87**	469
Adjustments for prior years	**344**	(173)
Current tax expense	**431**	296
Deferred tax		
Origination and reversal of temporary timing differences	**(1,178)**	(712)
Adjustments for prior years	**(918)**	(277)
Deferred tax credit	**(2,096)**	(989)
Tax credit in Income Statement (excluding share of tax of equity accounted investees)	**(1,665)**	(693)
Share of tax of equity accounted investees	**875**	1,632
Total tax (credit)/expense from continuing operations	**(790)**	939

The deferred tax adjustment in respect of prior years of £918,000 relates to capital allowances, which were disclaimed within the Group provision previously.

Recognised in Other Comprehensive Income

	2019 £000	2018 £000
Deferred tax income/(expense)		
Effective portion of changes in fair value of cash flow hedges	**216**	(192)
Remeasurements of defined benefit pension schemes	**203**	120
	419	(72)

Reconciliation of Effective Tax Rate

	2019 £000	2018 £000
(Loss)/profit for the year from continuing operations	**(8,193)**	1,181
Total tax (credit)/expense (including share of tax of equity accounted investees)	**(790)**	939
(Loss)/profit excluding taxation from continuing operations	**(8,983)**	2,120
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	**(1,707)**	403
Effect of tax rates in foreign jurisdictions	**378**	741
Previously unrecognised/(unrecognised) tax losses	**576**	(508)
Non-deductible expenses	**537**	753
Adjustment in respect of previous periods	**(574)**	(450)
Effective total tax (credit)/expense	**(790)**	939

The UK corporation tax rate has been 19.00% for the duration of the financial year (2018: 19.00%).

Factors That May Affect Future Current and Total Tax Charges
The UK corporation tax rate reduced from 20% to 19% (effective from 1 April 2017) and remained at 19% for the tax year beginning 6 April 2019. On 16 March 2016 it was announced that the main rate of UK Corporation Tax would reduce further to 17% on 6 April 2020. This change was substantively enacted on 6 September 2016. This will reduce the Group's current tax charge accordingly. The deferred tax balances at 31 May 2019 and 2018 have been calculated based on the rate of 17%, the rate substantively enacted at the balance sheet date.

10 Discontinued Operations and Assets Held for Sale
Discontinued Operations
All discontinued operation results are attributable to equity holders. The Group's discontinued operations made a profit of £3,526,000 (2018: loss of £1,000,000) after tax during the year.

The discontinued operations represent the activities and disposal of Brockwell Energy Limited ("Brockwell"). The Company disposed of the whole of its shareholding in Brockwell on 19 October 2018 generating a profit after tax of £4,534,000. Proceeds includes the reimbursement of certain costs and expenses incurred by or in respect of Brockwell. Possible contingent consideration of £2m has not been recognised on grounds that any fair value attributable under IFRS 9 would be immaterial. In addition to this, discontinued operations include a loss after tax of £1,008,000 relating to a write off of a receivable in relation to the Belgian fraud uncovered in 2012. There are no remaining balances relating to this matter.

	2019 £000	2018 £000
Proceeds from disposal of subsidiary	**21,733**	–
Assets disposed	**(10,034)**	–
	11,699	–
Administrative expenses	**(7,760)**	(1,144)
Profit/(loss) before tax of discontinued operations	**3,939**	(1,144)
Current tax (charge)/credit	**(313)**	91
Deferred tax (charge)/credit	**(100)**	53
	(413)	144
Profit/(loss) for the year from discontinued operations	**3,526**	(1,000)

10 Discontinued Operations and Assets Held for Sale continued

Assets Held for Sale

In the prior year the assets and liabilities of Brockwell Energy group were classified as held for sale. In addition to the assets associated with the disposal group, there was property, plant and equipment relating to the closure of Maltby Colliery which was also classified as held for sale in the previous year. Additionally, certain items of Freehold Land and Buildings were transferred into Assets Held for Sale as discussions regarding their sale were ongoing at the prior year end, these assets were disposed of during the year for proceeds of £8.4m.

Assets held for sale	2019 £000	2018 £000
Property, plant and equipment – Land and Buildings	–	8,433
Property, plant and equipment – Other	–	9,016
Goodwill	–	383
Other current assets	–	138
Other current liabilities	–	(1,310)
Total assets held for sale	–	16,660

The Company has no assets held for sale (2018: £nil).

11 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.

	2019			2018		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share from continuing operations	**4,918**	**15.30**	**15.30**	4,764	14.90	14.79
Exceptional items and amortisation (net of tax)	**(13,185)**	**(41.01)**	**(41.01)**	(3,535)	(11.06)	(10.97)
Continuing basic (loss)/earnings per share	**(8,267)**	**(25.71)**	**(25.71)**	1,229	3.84	3.82
Discontinued operations	**3,526**	**10.96**	**10.96**	(1,000)	(3.12)	(3.11)
Basic (loss)/earnings per share	**(4,741)**	**(14.75)**	**(14.75)**	229	0.72	0.71
Weighted average number of shares		**32,150**	**32,150**		31,981	32,214

The calculation of weighted average number of shares includes the effect of own shares held of 1,013,502 (2018: 1,069,904).

The calculation of diluted (loss)/earnings per share is based on the (loss)/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 425,491 (2018: 232,834); however the effect of these on basic (loss)/earnings per ordinary share in the current year is 0.00p as these instruments would have had an anti-dilutive impact (2018: 0.01p). Effect on continuing basic (loss)/earnings per ordinary share is 0.00p (2018: 0.02p).

12 Property, Plant and Equipment

Group

	Freehold land and buildings and leasehold improvements £000	Assets in the course of construction £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Mining assets £000	Mineral reserves £000	Total £000
Cost								
At 1 June 2017	28,776	2,706	6,422	49,310	539	7,761	–	95,514
Other acquisitions	1,078	5,255	296	20,760	89	1,947	–	29,425
Disposals	(1,869)	–	(599)	(12,960)	(88)	(124)	–	(15,640)
Transfers	6,109	(7,961)	263	1,571	25	(7)	–	–
Transfer to current assets	(18,890)	–	(5)	(17,930)	(35)	–	–	(36,860)
At 31 May 2018	15,204	–	6,377	40,751	530	9,577	–	72,439
At 1 June 2018	15,204	–	6,377	40,751	530	9,577	–	72,439
Other acquisitions	37	–	318	9,850	4	3,371	2,335	15,915
Disposals	(312)	–	(1,567)	(16,005)	(259)	–	–	(18,143)
Transfers	524	–	19	(538)	(5)	–	–	–
Transfer to current assets	(1,139)	–	–	–	–	–	–	(1,139)
Effect of movements in foreign exchange	(1)	–	4	(152)	–	–	–	(149)
At 31 May 2019	**14,313**	**–**	**5,151**	**33,906**	**270**	**12,948**	**2,335**	**68,923**
Depreciation and impairment								
At 1 June 2017	8,333	–	5,493	16,191	476	1,357	–	31,850
Depreciation	525	–	439	9,261	91	2,620	–	12,936
Disposals	(1,791)	–	(597)	(11,859)	(83)	(124)	–	(14,454)
Transfers	(2)	–	(3)	5	–	–	–	–
Transfer to current assets	–	–	–	(11,690)	–	–	–	(11,690)
Effect of movements in foreign exchange	–	–	(1)	21	–	–	–	20
At 31 May 2018	7,065	–	5,331	1,929	484	3,853	–	18,662
At 1 June 2018	7,065	–	5,331	1,929	484	3,853	–	18,662
Depreciation	278	–	586	9,528	12	4,818	914	16,136
Disposals	(88)	–	(1,542)	(9,400)	(259)	–	–	(11,289)
Effect of movements in foreign exchange	–	–	3	(117)	–	–	–	(114)
At 31 May 2019	**7,255**	**–**	**4,378**	**1,940**	**237**	**8,671**	**914**	**23,395**
Net book value								
At 1 June 2017	20,443	2,706	929	33,119	63	6,404	–	63,664
At 31 May 2018	8,139	–	1,046	38,822	46	5,724	–	53,777
At 31 May 2019	**7,058**	**–**	**773**	**31,966**	**33**	**4,277**	**1,421**	**45,528**

The Company has no property, plant and equipment.

Leased Plant and Machinery

At 31 May 2019 the net carrying amount of leased plant and machinery was £14,211,000 (2018: £17,608,000). The leased equipment secures lease obligations (see Note 23).

Security

The Group's property, plant and equipment is used to secure some of its interest-bearing loans and borrowings (see Note 23).

13 Investment Property

At cost	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
At 31 May	**11,909**	12,124	**–**	–
Additions	**232**	469	**–**	–
Disposals	**(1,086)**	(63)	**–**	–
Impairment	**–**	(621)	**–**	–
Transfer to stock	**(988)**	–	**–**	–
At 31 May	**10,067**	11,909	**–**	–

The fair value of the Investment Properties is estimated by the Directors at £16,595,000 (2018: £19,073,000). The reduction in the estimated fair value is due to disposals and transfers made during the year. During the prior year an impairment of £621,000 was made against one of the investment properties following the completion of the restoration works as the expected market value was below the book value.

14 Intangible Assets including Goodwill

Group

	Goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total Cost £000
Cost					
At 1 June 2017	22,418	13,776	8,148	1,015	45,357
Transfer to assets held for sale	(383)	–	–	–	(383)
Exchange movements	5	9	–	–	14
At 31 May 2018, 1 June 2018 and 31 May 2019	**22,040**	**13,785**	**8,148**	**1,015**	**44,988**
Amortisation and impairment					
At 1 June 2017	10,926	12,892	8,148	1,002	32,968
Amortisation	4	264	–	–	268
Impairment	–	612	–	–	612
Exchange movements	4	17	–	(2)	19
At 31 May 2018	10,934	13,785	8,148	1,000	33,867
At 1 June 2018	10,934	13,785	8,148	1,000	33,867
Impairment	142	–	–	–	142
Exchange movements	(4)	–	–	–	(4)
At 31 May 2019	**11,072**	**13,785**	**8,148**	**1,000**	**34,005**
Net book value					
At 31 May 2017	11,492	884	–	13	12,389
At 31 May 2018	11,106	–	–	15	11,121
At 31 May 2019	**10,968**	**–**	**–**	**15**	**10,983**

Amortisation and Impairment Charge
The amortisation and impairment charge is recognised in the following line items in the Income Statement:

	2019 £000	2018 £000
Administrative expenses	**142**	880

The Company has no intangible assets (2018: £nil).

Impairment Testing
During the year following a review of the future cash flows of the relevant CGUs the remaining intangible asset relating to the customer contracts was impaired.

The remaining goodwill has been allocated to cash-generating or groups of CGUs as follows:

	Goodwill	
	2019 £000	2018 £000
Hargreaves Industrial Services Limited	**1,252**	1,252
Coal 4 Energy Limited/Maxibrite Limited	**6,140**	6,140
C.A. Blackwell Group Limited	**3,572**	3,572
Other	**4**	142
	10,968	11,106

The recoverable amounts of the above CGUs have been calculated with reference to their value in use. The key features of this calculation are shown below:

	2019	2018
Period on which management approved forecasts are based	**5 years**	5 years
Discount rate	**9%**	9%

In order to test goodwill for impairment the Group performs value in use calculations by preparing cash flow forecasts for each cash generating unit derived from the most recent financial budget and strategic plan approved by management going forward five years. No further growth is assumed. Assuming no long-term growth provides management with a conservative estimate against which to compare the corresponding CGU carrying values. Sustaining maintenance capital expenditure in each CGU has been included in the calculations but no cash flows relating to enhancement capital expenditure have been included. A pre-tax discount rate of 9% (2018: 9%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual CGU.

Other than changes to the discount rate, the key assumption which would impact the carrying value of goodwill is the margin generated by each CGU. Whilst the sensitivities vary according to CGU, for a material impairment to take place the discount rate would have to increase to 21% (2018: 27%) or the assumed operating margins would have to decrease by more than 40% (2018: 81%) before any impact on any single CGU.

Each of the CGUs had significant headroom under the annual impairment review, which remains after allowing for reasonably possible changes in assumptions.

The Company has no intangible assets.

15 Investments in Subsidiaries, Associates and Joint Ventures

List of Registered Offices:

15.1 West Terrace, Esh Winning, Durham, DH7 9PT
15.2 Tower Colliery, Tirherbert Road, Rhigos, Aberdare, CF44 9UF
15.3 Böningerstraβe 29, 47051 Duisburg, Germany
15.4 H. Farmanstraat 47, 9000 Gent, Belgium
15.5 Van Heetveldelei 178, 2100 Deurne, Antwerp, Belgium
15.6 31F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, HK
15.7 Plac Rodla, 8/914, 70-419 Szczecin, Polska
15.8 Flat No.333, 3rd Floor, Devika Tower, 6 Nehru Place, Delhi-110019, India
15.9 3 Nobel Boulavard, Cape Gate NE3, Vanderbijlpark, Gauteng, 1900
15.10 Lot 6.05, Level 6, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia
15.11 Room 1117-8, 11th Floor, Tuen Mun Central Square, N0.22 Hoi Wing Road, Tuen Mun, New Territories, HK

The Group and Company have the following investments in subsidiaries, associates and joint ventures at the end of the year:

	Address of registered office	Class of shares held	Ownership 2019	Ownership 2018
Company				
Subsidiary undertakings				
Hargreaves (UK) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Industrial Services Limited	15.1	Ordinary	**100%**	100%
Forward Sound Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services (HK) Limited	15.6	Ordinary	**100%**	100%
Hargreaves Land Limited (formerly Hargreaves Surface Mining Limited)	15.1	Ordinary	**100%**	100%
Hargreaves Technical Resources Limited	15.1	Ordinary	**100%**	100%
Hargreaves Carbon Products Europe Limited	15.1	Ordinary	**100%**	100%
Hargreaves Maltby Limited	15.1	Ordinary	**100%**	100%
Hargreaves Property Ventures Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services (Westfield) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services (Castlebridge) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services (Blindwells) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Forestry Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Damside) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Broken Cross) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Glentaggart) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (House of Water) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Wind Farm (Chalmerston) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services South Africa (Pty) Ltd	15.9	Ordinary	**100%**	100%
Hargreaves Mining India Private Limited	15.8	Ordinary	**100%**	100%
Hargreaves Services (Muir Dean) Limited	15.1	Ordinary	**100%**	100%
C.A. Blackwell Group Limited	15.1	Ordinary	**100%**	100%
Hargreaves Aggregates Limited	15.1	Ordinary	**100%**	100%
Hargreaves Industrial Services Sdn Bhd	15.10	Ordinary	**100%**	100%
Monckton Energy Limited	15.1	Ordinary	**100%**	100%
Maltby Energy Limited	15.1	Ordinary	**100%**	100%
Featherstone Energy Limited	15.1	Ordinary	**100%**	100%
Selby Energy Limited	15.1	Ordinary	**100%**	100%
Hargreaves Pension Company Limited	15.1	Ordinary	**100%**	100%
Coal 4 Energy Limited	15.1	Ordinary	**100%**	100%
Hargreaves Corporate Director Limited	15.1	Ordinary	**100%**	–
Hargreaves Land Holdings Limited	15.1	Ordinary	**100%**	–
Drakelands Restoration Limited	15.1	Ordinary	**100%**	–
Dormant				
Hargreaves (Bulk Liquid Transport) Limited	15.1	Ordinary	**100%**	100%
R Hanson & Son Limited	15.1	Ordinary	**100%**	100%
Hargreaves ESOT Trustee Limited	15.1	Ordinary	**100%**	100%
Hargreaves Services Australia Limited	15.1	Ordinary	**100%**	100%
Hargreaves Europe Limited	15.1	Ordinary	**100%**	100%
Joint ventures and associate undertakings				
Mir Trade Services Limited	15.1	Ordinary	**50%**	50%
Hargreaves Services Europe Limited	15.1	Ordinary	**86%**	86%

	Address of registered office	Class of shares held	Ownership 2019	Ownership 2018
Group				
Subsidiary undertakings				
Hargreaves (UK) Services Limited	15.1	Ordinary	**100%**	100%
The Monckton Coke & Chemical Company Limited	15.1	Ordinary	**100%**	100%
Maltby Colliery Limited	15.1	Ordinary	**100%**	100%
Hargreaves Engineering & Contracts Limited	15.1	Ordinary	**100%**	100%
Maxibrite Limited	15.1	Ordinary	**85.2%**	85.2%
RocFuel Limited	15.1	Ordinary	**50.1%**	50.1%
RocPower Limited	15.1	Ordinary	**85%**	85%
Hargreaves Carbon Products NV	15.5	Ordinary	**100%**	100%
Hargreaves Industrial Services (HK) Limited	15.6	Ordinary	**100%**	100%
Access Services (HK) Limited	15.11	Ordinary	**100%**	100%
Mekol NV	15.4	Ordinary	**100%**	100%
OCCW (St Ninians) Limited	15.1	Ordinary	**100%**	100%
OCCW (Duncanziemere) Limited	15.1	Ordinary	**100%**	100%
OCCW (Chalmerston) Limited	15.1	Ordinary	**100%**	100%
OCCW (Netherton) Limited	15.1	Ordinary	**100%**	100%
OCCW (Damside) Limited	15.1	Ordinary	**100%**	100%
OCCW (Broken Cross) Limited	15.1	Ordinary	**100%**	100%
OCCW (House of Water) Limited	15.1	Ordinary	**100%**	100%
517EPA Limited	15.1	Ordinary	**100%**	100%
C. A. Blackwell (Contracts) Limited	15.1	Ordinary	**100%**	100%
HBR Limited	15.1	Ordinary	**100%**	100%
Geofirma Soils Engineering Limited	15.1	Ordinary	**100%**	100%
Renaissance Land Regeneration Limited	15.1	Ordinary	**100%**	100%
Hargreaves Land (North) Limited (formerly Renaissance Land (D20) Limited)	15.1	Ordinary	**100%**	100%
Renaissance Land Management Limited	15.1	Ordinary	**100%**	100%
Hargreaves Land (South) Limited (formerly Renaissance (Padiham) Limited)	15.1	Ordinary	**100%**	100%
Tru-Green Limited	15.1	Ordinary	**100%**	100%
Hargreaves Hatfield Limited	15.1	Ordinary	**100%**	100%
Eastgate Materials Handling Limited	15.1	Ordinary	**100%**	100%
Hargreaves EG Limited	15.1	Ordinary	**100%**	–
Hargreaves Regeneration Limited	15.1	Ordinary	**100%**	–
Drakelands Holdings Limited	15.1	Ordinary	**100%**	–
Joint ventures and associate undertakings				
Tower Regeneration Limited	15.2	Ordinary	**50%**	50%
Tower Regeneration Leasing Limited	15.2	Ordinary	**50%**	50%
Hargreaves Raw Material Services GmbH	15.3	Ordinary	**86%**	86%
Hargreaves Carbon Products Polska Sp. z o.o.	15.7	Ordinary	**86%**	86%
Carbon Action Ltd	15.1	Ordinary	**50%**	–
Hargreaves Darlington Limited	15.1	Ordinary	**50%**	–
Dormant companies				
Hargreaves Metallurgical Supplies Limited	15.1	Ordinary	**100%**	100%
R&A Fuels Limited	15.1	Ordinary	**100%**	100%
Squire Distribution Services Limited	15.1	Ordinary	**100%**	100%
Hargreaves Transport Limited	15.1	Ordinary	**100%**	100%
Hargreaves Industrial Dormant Limited	15.1	Ordinary	**100%**	100%
Hargreaves Transport Services Limited	15.1	Ordinary	**100%**	100%
DWL Engineering Services Limited	15.1	Ordinary	**100%**	100%
SCCL (Option Co) Limited	15.1	Ordinary	**100%**	100%
Norton Wind Energy Limited	15.1	Ordinary	**100%**	100%
Premier Lime and Stone Company	15.1	Ordinary	**100%**	100%
C.A. Blackwell (Plant) Limited	15.1	Ordinary	**100%**	100%

Tower Regeneration Leasing Limited is a 100% owned subsidiary of Tower Regeneration Limited.

The Group's share of post-acquisition total recognised profit or loss in the above associates and jointly controlled entities for the year ended 31 May 2019 was a profit of £1,534,000 (2018: profit of £3,175,000).

15 Investments in Subsidiaries, Associates and Joint Ventures continued

Associates and Joint Ventures

Carrying amount of equity accounted investees:

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2017	–	7,036	(171)	52	6,917
Group's share of total comprehensive income	–	3,071	104	–	3,175
Exchange differences	–	24	–	–	24
At 31 May 2018	–	10,131	(67)	52	10,116

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2018	–	10,131	(67)	52	10,116
Group's share of total comprehensive income	–	1,522	12	–	1,534
Exchange differences	–	94	–	–	94
At 31 May 2019	**–**	**11,747**	**(55)**	**52**	**11,744**

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net (liabilities)/assets	(1,612)	10,400	(67)	52	8,773
Amount not recognised	1,612	–	–	–	1,612
Non-distributable reserves	–	(269)	–	–	(269)
Investment at 31 May 2018	–	10,131	(67)	52	10,116

Group	Tower Regeneration Limited £000	Hargreaves Raw Material Services GmbH £000	Interests in immaterial associate undertakings £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net (liabilities)/assets	(3,917)	12,012	(55)	52	8,092
Amount not recognised	3,917	–	–	–	3,917
Non-distributable reserves	–	(265)	–	–	(265)
Investment at 31 May 2019	**–**	**11,747**	**(55)**	**52**	**11,744**

The figures below are prepared under IFRS, all numbers are presented in £000s.

	Tower Regeneration Limited		Hargreaves Raw Material Services GmbH	
At cost	2019	2018	2019	2018
Voting rights	**50%**	50%	**49%**	49%
Cash and cash equivalents	**357**	698	**–**	–
Other current assets	**6,471**	26,615	**51,960**	55,462
Total current assets	**6,828**	27,313	**51,960**	55,462
Non-current assets	**1,101**	1,255	**20,401**	10,382
Current liabilities	**(15,474)**	(24,154)	**(45,498)**	(47,799)
Non-current liabilities	**(3,647)**	(9,020)	**(12,895)**	(5,952)
Net (liabilities)/assets (100%)	**(11,192)**	(4,606)	**13,968**	12,093
Revenue	**5**	201	**149,580**	207,554
Other expenses	**(4,900)**	(4,430)	**(145,663)**	(200,204)
Interest income	**25**	20	**8**	–
Interest expense	**(1,281)**	(1,288)	**(1,144)**	(1,910)
(Loss)/profit before tax from continuing operations	**(6,151)**	(5,497)	**2,781**	5,440
Income tax expense	**–**	–	**(1,011)**	(1,869)
Post tax (loss)/profit from continuing operations (100%)	**(6,151)**	(5,497)	**1,770**	3,571

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £nil (2018: £nil); Hargreaves Raw Material Services GmbH ("HRMS") £42,217k (2018: £29,086k) borrowing base facility and term loans.

Included within non-current liabilities above and disclosed in Note 33 Related parties are loans amounting to €13m (2018: €13m) due from HRMS to Hargreaves Services plc, the amounts represent £11.4m (2018: £11.8m). These loans are not due for repayment until 31 May 2027. Interest on the loans is charged at a rate of 2.45% being 1.7% over UK base rate.

Group Composition

Management have considered the level of control of each of the Group's individual Joint Venture arrangements and associate investments and are satisfied that the Group does not have control, either through voting rights or other circumstances, of any of these arrangements. Tower Regeneration Limited is a Joint Venture between the Group and a third party. The purpose of this joint venture was to enable the Group's access to an open cast mine in the South of Wales. The Group is entitled to 35% of the profits from the operation. The strategic business decisions of the Joint Venture are taken by both the Group and the third party equally. This is reflected in the equal representation on the Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

HRMS, is the Group's only material associate investment. HRMS is a key supplier of specialist raw materials to major European customers in the steel, foundry, smelting, ferroalloy, sugar, limestone, insulation, refractory and ceramic industries. HRMS has worldwide expertise in raw material sourcing, port operations and logistics management. This combined with the Group's expertise in production operations, material handling, storage operations and logistics, marketing and technical support, creates an ideal platform for HRMS to compete in the supply of bulk carbon products in Europe. The Group is entitled to 86% of the profits of HRMS, however the Group does not exert control over the business. The Group holds 49% of the voting rights, with the remainder being held by the HRMS management team and has one of the four Directors. The Group does not have the power to change these arrangements. A shareholder agreement is in place to provide the Group with safeguards designed to protect its investment; however, the key strategic decisions affecting the operation and its results are not taken by the Group. In the event of a dispute between the Group and the operation which could not be resolved, the operation would be subject to an orderly wind down. Whilst the voting rights demonstrate significant influence, the Group does not control the operation and therefore the Board treats the investment as an associate.

The Group also has a non-material interest in the following companies: Tower Regeneration Leasing Limited, MIR Trade Services Limited, Hargreaves Services Europe Limited, Hargreaves Carbon Products Polska Sp. z o.o, Carbon Action Limited and Hargreaves Darlington Limited.

15 Investments in Subsidiaries, Associates and Joint Ventures continued

Company	Group undertakings £000	Joint ventures £000
Shares at cost and net book value		
At 1 June 2017	34,078	4,984
Capital contribution arising on share options (Note 26)	107	–
Impairment	(779)	–
At 31 May 2018	33,406	4,984
At 1 June 2018	33,406	4,984
Capital contribution arising on share options (Note 26)	96	–
Impairment	(1,814)	–
At 31 May 2019	**31,688**	**4,984**

The capital contribution arising on share options is as a result of the share-based payment charge during the year.

16 Other Financial Assets

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Current				
Currency contracts designated as fair value through profit or loss	**25**	35	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	1,009	**–**	–
	25	1,044	**–**	–

17 Other Financial Liabilities

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Non-current				
Other derivatives designated as fair value through hedging reserve	**137**	30	**–**	–
	137	30	**–**	–

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Current				
Currency contracts designated as fair value through hedging reserve	**36**	7	**–**	–
Other derivatives designated as fair value through hedging reserve	**114**	–	**–**	–
	150	7	**–**	–

18 Deferred Tax Assets and Liabilities

Group

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2019 £000	2018 £000	2019 £000	2018 £000
Property, plant and equipment	**1,405**	1,709	**–**	–
Financial assets	**45**	–	**–**	(171)
Employee benefits	**710**	747	**–**	–
Share-based payments	**59**	86	**–**	–
Tax value of loss carry-forwards	**3,454**	1,043	**–**	–
Other temporary timing differences	**556**	400	**–**	–
Tax assets/(liabilities)	**6,229**	3,985	**–**	(171)

Movement in Deferred Tax During the Year

	31 May 2018 £000	Recognised in income £000	Recognised in equity £000	31 May 2019 £000
Property, plant and equipment	**1,709**	**(304)**	**–**	**1,405**
Financial assets	**(171)**	**–**	**216**	**45**
Employee benefits	**747**	**(240)**	**203**	**710**
Share-based payments	**86**	**(27)**	**–**	**59**
Tax value of loss carry-forwards utilised	**1,043**	**2,411**	**–**	**3,454**
Other	**400**	**156**	**–**	**556**
	3,814	**1,996**	**419**	**6,229**

Movement in Deferred Tax During the Prior Year

	31 May 2017 £000	Recognised in income £000	Recognised in equity £000	31 May 2018 £000
Property, plant and equipment	(281)	1,990	–	1,709
Financial assets	21	–	(192)	(171)
Employee benefits	867	(240)	120	747
Share-based payments	191	(105)	–	86
Tax value of loss carry-forwards utilised	1,008	35	–	1,043
Other	1,038	(638)	–	400
	2,844	1,042	(72)	3,814

The amount recognised in income includes £100,000 deferred tax charge (2018: £53,000 deferred tax credit) in relation to discontinued operations, see Note 10.

The Group has an unrecognised deferred tax asset of £2,455,000 relating to trading losses (2018: £2,085,000).

Company

Recognised Deferred Tax Assets and Liabilities

The Company has no recognised deferred tax assets or liabilities (2018: £nil).

The deferred tax asset has been calculated based at the rate of 17% (2018: 17%) substantively enacted at the balance sheet date.

19 Inventories

	Group		Company	
	2019 £000	**2018 £000**	**2019 £000**	**2018 £000**
Raw materials and consumables	**6,355**	6,166	**–**	–
Work in progress	**–**	555	**–**	–
Finished goods	**25,426**	21,763	**–**	–
Properties held for development and resale	**16,259**	6,168	**–**	–
	48,040	34,652	**–**	–

All amounts included within raw materials, work in progress and finished goods are expected to be recovered within 12 months.

20 Trade and Other Receivables

	Group		Company	
	2019 £000	**2018 £000**	**2019 £000**	**2018 £000**
Trade receivables	**27,318**	36,522	**–**	–
Amounts due from Group undertakings	**–**	–	**100,900**	121,847
Amounts due from undertakings in which the Group/Company has a participating interest	**27,005**	29,768	**11,681**	11,613
Other receivables	**4,384**	9,519	**1,521**	1,194
Other tax and social security	**–**	1,470	**–**	–
Prepayments and accrued income	**16,855**	25,697	**–**	–
Corporation tax	**–**	269	**–**	62
	75,562	103,245	**114,102**	134,716

Prior to the adoption of IFRS 15, construction contract receivables arising under IAS 11 were included in Trade and other receivables. Following the adoption of IFRS 15, £18,970,000 has been represented as contract assets in Note 21.

Included within prepayments and accrued income is £2,975,000 (2018: £5,056,000) expected to be recovered in more than 12 months. Included within Other receivables is an amount of £nil (2018: £930,000) in relation to monies held in escrow following the completion of the acquisition of C.A. Blackwell Group Limited.

The Group has a variety of credit terms depending on the customer. These terms generally range from 30 to 60 days.

Trade receivables are shown net of an allowance for bad debts of £486,000 (2018: £418,000) arising from the ordinary course of business, as follows:

	2019 £000	**2018 £000**
Group		
At 1 June	**418**	242
Provided during the year	**205**	221
Released	**(58)**	(25)
Utilised during the year	**(79)**	(20)
At 31 May	**486**	418

The allowance for bad debts records impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly.

The ageing of trade receivables was:

31 May 2019	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	**20,693**	**–**	**20,693**
Past due date (0-90 days)	**5,327**	**(35)**	**5,292**
Past due date (over 90 days)	**1,640**	**(307)**	**1,333**
Individually impaired amounts	**144**	**(144)**	**–**
	27,804	**(486)**	**27,318**

31 May 2018	Gross trade receivables £000	Doubtful debt £000	Net trade receivables £000
Group			
Not past due date	20,509	–	20,509
Past due date (0-90 days)	15,859	–	15,859
Past due date (over 90 days)	525	(371)	154
Individually impaired amounts	47	(47)	–
	36,940	(418)	36,522

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2019 £000	2018 £000
UK	**22,446**	24,706
European customers	**630**	222
Other regions	**4,242**	11,594
	27,318	36,522

Further details on the Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 29.

21 Contract Assets

	2019 £000
Group	
At 1 June 2018	**18,970**
Transfers from contract assets recognised at the beginning of the year to receivables	**(9,342)**
Increase related to services provided in the year	**9,086**
Impairments on contract assets recognised at the beginning of the year	**(1,118)**
At 31 May 2019	**17,596**

Aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £135,179,000 (2018: £148,093,000).

Progress billings and advances received from customers under open construction contracts amounted to £117,346,000 (2018: £136,136,000).

Contract liabilities being advances for which related work has not started, and billings in excess of costs incurred and recognised profits are included in deferred income and amounted to £13,000 (2018: £11,000).

Contract assets include £2,543,000 (2018: £4,169,000) relating to retentions, of which £1,949,000 (2018: £2,259,000) are expected to be recovered in more than 12 months. The Company has no contract assets.

Notes
(forming part of the financial statements) continued

22 Cash and Cash Equivalents

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash and cash equivalents per Balance Sheet	**21,583**	16,110	**312**	–
Cash and cash equivalents per Cash Flow Statement	**21,583**	16,110	**312**	–

Included in cash and cash equivalents above is £1,039,116 (2018: £538,825) in respect of cash which is ring-fenced for settlement of restoration works in the mining business and £nil (2018: £164,218) in respect of cash which is ring-fenced for settlement of subsidence liabilities in relation to Maltby Colliery.

The Group's exposure to credit and currency risk related to cash and cash equivalents is disclosed in Note 29.

23 Other Interest-Bearing Loans and Borrowings

This note provides information about the contractual terms of the Group's and the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's and the Company's exposure to interest rate and foreign currency risk, see Note 29.

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Non-current liabilities				
Finance lease liabilities	**8,298**	4,434	**–**	–
Borrowing base facility	**26,924**	–	**26,924**	–
	35,222	4,434	**26,924**	–
Current liabilities				
Current portion of finance lease liabilities	**4,289**	3,200	**–**	–
Borrowing base facility	**–**	29,300	**–**	29,300
Revolving credit facility	**–**	9,960	**–**	9,960
Bank overdraft	**–**	–	**–**	262
	4,289	42,460	**–**	39,522

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2019 £000	Carrying amount 2019 £000	Face value 2018 £000	Carrying amount 2018 £000
Finance lease liabilities	Sterling	2.0% – 4.8%	2016–2024	**12,587**	**12,587**	7,634	7,634
Borrowing base facility	Sterling	LIBOR + 1.5%	2020	**27,000**	**26,924**	29,300	29,300
Revolving credit facility	Sterling	LIBOR + 1.6%	2018	**–**	**–**	10,000	9,960
				39,587	**39,511**	46,934	46,894

In accordance with the presentation requirements of IFRS 9, these liabilities have been classified according to the maturity date of the longest permitted refinancing. These amounts have been classified as falling due within more than one year due to the Group's facilities in existence at 31 May 2019 maturing on 31 August 2020.

The Group has a two-year committed facility consisting of a £50m borrowing base facility. This facility is secured by a debenture over the Group's assets and matures on 31 August 2020. Additionally, the Group has a £15m overdraft facility which is repayable on demand.

Finance Lease Liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2019 £000	Interest 2019 £000	Principal 2019 £000	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	**4,679**	**(390)**	**4,289**	3,415	(215)	3,200
Between one and five years	**8,702**	**(404)**	**8,298**	4,678	(244)	4,434
	13,381	**(794)**	**12,587**	8,093	(459)	7,634

Changes in Liabilities from Financing Activities

	Group	
	Loans and borrowings £000	Finance lease liabilities £000
At 1 June 2018	39,260	7,634
Changes from financing cash flows		
Repayment of loans and borrowings	(12,300)	–
Payment of finance lease liabilities	–	(6,780)
Total changes from financing cash flows	(12,300)	(6,780)
Other changes		
New finance leases	–	11,733
Interest expense	1,450	489
Interest paid	(1,486)	(489)
Total other changes	(36)	11,733
At 31 May 2019	**26,924**	**12,587**

24 Trade and Other Payables

	Group		Company	
	2019 £000	Represented 2018 £000	2019 £000	2018 £000
Current				
Trade payables	**22,561**	28,967	**–**	–
Amounts due to Group undertakings	**–**	–	**18,144**	32,509
Amounts due to undertakings in which the Group has a participating interest	**29**	3,086	**–**	–
Other trade payables	**1,368**	1,204	**406**	37
Non-trade payables and accrued expenses	**45,301**	55,168	**412**	–
	69,259	88,425	**18,962**	32,546

Prior to the adoption of IFRS 15, construction contract provisions arising under IAS 11 were included in Trade and other payables. Following the adoption of IFRS 15, £1,375,000 has been represented as contract provisions in Note 27.

25 Pension Schemes and Other Retirement Benefits

Defined Contribution Scheme

The Group operates a Group personal pension scheme. The pension cost charge for the year represents contributions payable by the Group to the employees' funds and amounted to £3,153,000 (2018: £2,078,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

Defined Benefit Schemes

The Group acquired a concessionary fuel retirement benefit scheme and became responsible for two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007. The defined benefit schemes are part of two industry-wide schemes which relate to the coal industry. Details of these two schemes are consolidated in the tables below because the two schemes share the same characteristics and risks, and as such, the disclosures have been aggregated. The Group is only liable for its own section of the scheme. Any deficit or surplus is not shared with other members of the multi employer scheme.

The latest full actuarial valuation of these schemes was carried out at 31 December 2015 by AON Hewitt. The valuation of the Industry Wide Coal Staff Superannuation Scheme ("IWCSSS") showed a deficit of £7.5m and a contribution schedule was agreed at £1.2m per annum to meet the technical provisions of the scheme by 30 April 2023. The valuation of the Industry Wide Mineworkers Pension Scheme ("IWMPS") showed a deficit of £2.7m and a contribution schedule was agreed at £0.4m per annum to meet the technical provisions of the scheme by 31 July 2020. The schemes' actuaries are in the process of carrying out the triennial valuations as at 31 December 2018 the results of which are not yet available. For accounting purposes under IAS 19, actuaries use different assumptions than for the triennial valuation. The major difference relates to assumptions concerning the future return on the growth assets portfolio. The 2015 valuations have been used as the basis, adjusted for the requirements of IAS 19 to 31 May 2019 by a qualified independent actuary, to enable the Board to account for the schemes as follows:

	2019 £000	2018 £000
Present value of unfunded defined benefit obligations	**(2,072)**	(1,882)
Present value of funded defined benefit obligations	**(55,506)**	(52,715)
Fair value of scheme assets	**53,394**	50,202
Deficit in the schemes – Pension liability	**(4,184)**	(4,395)

25 Pension Schemes and Other Retirement Benefits continued
Defined Benefit Schemes continued
Movements in Present Value of Defined Benefit Obligation

	2019 £000	2018 £000
At the beginning of the year	**54,597**	53,719
Interest cost	**1,483**	1,350
Remeasurement (gains)/losses:		
– Changes in demographic assumptions	**(1,257)**	(293)
– Changes in financial assumptions	**3,959**	(5,073)
– Experience	**167**	6,492
Benefits paid	**(1,371)**	(1,598)
At the end of the year	**57,578**	54,597

Movements in the Fair Value of Scheme Assets

	2019 £000	2018 £000
At the beginning of the year	**50,202**	48,616
Net interest on scheme assets	**1,386**	1,241
Remeasurement gain	**1,672**	269
Employer contributions	**1,746**	1,829
Benefits paid	**(1,371)**	(1,533)
Expenses paid	**(241)**	(220)
At the end of the year	**53,394**	50,202

Expense Recognised in the Income Statement

	2019 £000	2018 £000
Expenses paid from schemes	**241**	220
Interest expense on net defined benefit pension schemes	**97**	109
	338	329

The expense is recognised in the following line items in the Income Statement:

	2019 £000	2018 £000
Administrative expenses	**241**	220
Financial expenses	**97**	109
	338	329

Remeasurement gains and (losses) recognised directly in equity in the Statement of Other Comprehensive Income since 26 February 2007:

	2019 £000	2018 £000
At 1 June	**(7,012)**	(6,155)
Recognised in the year	**(1,197)**	(857)
At 31 May	**(8,209)**	(7,012)

Scheme Assets

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, were:

	Fair value at 2019 £000	Fair value at 2018 £000
Growth assets	**28,702**	28,265
Matching assets	**23,678**	21,673
Cash	**1,014**	264
	53,394	50,202

As part of the two industry-wide schemes, the schemes' assets represent an allocation of larger investment portfolios. The growth assets include equities, diversified funds and interest-bearing securities and are managed by Legal & General Investment Management, Invesco and PIMCO. These assets also include property investments. The matching assets are managed by Legal & General Investment Management and include corporate bonds, gilts and other fixed interest securities. The matching assets portfolio is designed to match certain liabilities of the schemes over a defined period. The growth assets portfolio seeks to deliver returns in excess of benchmark targets set by the independent Trustees.

The major assumptions used in this valuation were:

	2019	2018
Rate of increase in deferred pensions	**3.20%**	3.20%
Rate of increase in pensions in payment	**3.20%**	3.20%
Discount rate applied to scheme liabilities	**2.40%**	2.75%
Inflation assumption	**3.30%**	3.30%

The assumptions used by the actuary and approved by the Board are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on the SAPS S2 actuarial tables and include an allowance for future improvements in longevity based on the CMI 2017 projections with an increase of 1% per annum. The assumptions are equivalent to expecting a 60-year-old to live for a number of years as follows:

IWMPS

Current pensioner aged 60: 22.9 years (male), 26.7 years (female) (2018: 23.5 years (male), 27.2 years (female)).
Future retiree upon reaching 60: 24.2 years (male), 28.0 years (female) (2018: 24.8 years (male), 28.5 years (female)).

IWCSSS

Current pensioner aged 60: 24.7 years (male), 26.8 years (female) (2018: 25.2 years (male), 27.2 years (female)).
Future retiree upon reaching 60: 25.9 years (male), 28.0 years (female) (2018: 26.4 years (male), 28.6 years (female)).

Sensitivity Analysis

The Group considers the discount rate and inflation rate assumptions to be the most significant actuarial assumptions and therefore the only assumptions relevant for sensitivity analysis purposes. Reasonably possible changes at the reporting date to one of the actuarial assumptions, holding other assumptions constant, would have increased/(decreased) the defined benefit obligation by the amounts shown below.

	2019 £000	2018 £000
Discount rate (1% increase)	**(10,364)**	(9,339)
Inflation (1% increase)	**10,916**	9,519

	2019 £000	2018 £000
Discount rate (1% decrease)	**13,668**	12,140
Inflation (1% decrease)	**(9,600)**	(8,595)

The Group expects to contribute approximately £1,800,000 to the defined benefit schemes in the next financial year.

The Company has no retirement benefit obligation (2018: £nil).

26 Employee Share Schemes

The Group has established an Executive Long-Term Incentive Plan and a deferred bonus scheme. The terms and conditions of the schemes are as follows, whereby all options are settled by physical delivery of shares:

	Date of grant	Employees entitled	Number of shares granted	Principal vesting conditions	Contractual life
Deferred bonus scheme A	December 2014	Senior employees	112,122	3 years' service	3 years
Deferred bonus scheme B (50%)	December 2014	Senior employees	91,722	3 years' service	3 years
Deferred bonus scheme B (50%)	December 2014	Senior employees	91,722	4 years' service	4 years
Deferred bonus scheme C	August 2016	Senior employees	135,034	3 years' service	3 years
Deferred bonus scheme D	November 2016	Senior employees	20,000	3 years' service	3 years
Deferred bonus scheme E	May 2017	Senior employees	29,260	3 years' service	3 years
Deferred bonus scheme F	July 2018	Senior employees	60,240	3 years' service	3 years
Share option scheme 2019	January 2019	Directors	499,801	3 years' service and Total Shareholder Return of between 35% and 85%	3 years

Share Option Schemes

	2019 Weighted average exercise price	2019 Number of options	2018 Weighted average exercise price	2018 Number of options
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**10p**	**499,801**	–	–
Lapsed during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**10p**	**499,801**	–	–
Exercisable at the end of the year	**–**	**–**	–	–

There were 499,801 options granted in the year with a weighted average exercise price of 10p per share. These options are not exercisable before 30 January 2022.

Deferred Bonus Schemes

	2019 Weighted average exercise price	2019 Number of options	2018 Weighted average exercise price	2018 Number of options
Outstanding at the beginning of the year	**–**	**240,458**	–	397,112
Granted during the year	**–**	**60,240**	–	29,260
Lapsed during the year	**–**	**–**	–	(43,172)
Exercised during the year	**–**	**(56,402)**	–	(142,742)
Outstanding at the end of the year	**–**	**244,296**	–	240,458
Exercisable at the end of the year	**–**	**25,774**	–	22,137

The options outstanding at 31 May 2019 have an exercise price of £nil and a weighted average contractual life of 11 months. There were 56,402 options exercised in the year with a weighted average market value of 313p. There were 60,240 options granted in the year with a weighted average exercise price of £nil.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received in respect of the Deferred Bonus Schemes is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. A Monte Carlo model is used for the 2019 Share Option Scheme due to its more complex measurement characteristics.

The fair value of options and the assumptions used in these calculations for the options outstanding are as follows:

	2015 Deferred Bonus Scheme A	2015 Deferred Bonus Scheme B	2017 Deferred Bonus Scheme C	2017 Deferred Bonus Scheme D	2017 Deferred Bonus Scheme E	2019 Deferred Bonus Scheme F	2019 Share option scheme
Fair value at grant date	3.28	4.42	1.48	2.11	3.05	**3.32**	**0.34**
Exercise price	–	–	–	–	–	**–**	**0.10**
Share price	3.49	4.70	1.73	2.25	3.25	**3.54**	**2.96**
Expected volatility	20%	20%	20%	40%	40%	**40%**	**29%**
Option life	3 years	3–4 years	3 years	3 years	3 years	**3 years**	**3 years**
Expected dividend	2%	2%	5%	2%	2%	**2%**	**2.44%**
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	**1.7%**	**0.87%**

Volatility was calculated with reference to the Group's daily share price volatility. The average share price in the year was 319p (2018: 340p).

Share options outstanding at the end of the year have the following expiry date and exercise prices:

			Options outstanding	
	Expiry date	Exercise price	2019	2018
Deferred Bonus Scheme A	31 August 2019	–	**16,990**	16,990
Deferred Bonus Scheme B (3 Year)	31 August 2019	–	**5,147**	5,147
Deferred Bonus Scheme B (4 Year)	31 August 2019	–	**3,637**	60,039
Deferred Bonus Scheme C	31 May 2020	–	**109,022**	109,022
Deferred Bonus Scheme D	31 May 2020	–	**20,000**	20,000
Deferred Bonus Scheme E	31 May 2021	–	**29,260**	29,260
Deferred Bonus Scheme F	31 May 2022	–	**60,240**	–
Share option scheme 2019	30 January 2024	10p	**499,801**	–
			744,097	240,458

Long-Term Incentive Plans and Deferred Bonus Schemes
The costs (credited)/charged to the Income Statement relating to share-based payments were as follows:

	2019 £000	2018 £000
Share options granted in 2014	**(66)**	19
Share options granted in 2015	**–**	–
Share options granted in 2016	**68**	58
Share options granted in 2018	**30**	30
Share options granted in 2019	**64**	–
	96	107

27 Provisions

Group	Contract provisions £000	Surface restoration £000	Maltby restoration £000	Maltby subsidence £000	Redundancy provision £000	Total provision £000
At 31 May 2018 (represented)	1,375	3,281	760	164	–	5,580
Provisions made	–	1,800	–	2	1,681	3,483
Provisions utilised	(1,110)	(982)	–	–	–	(2,092)
Provisions reversed	–	–	(760)	(166)	–	(926)
At 31 May 2019	**265**	**4,099**	**–**	**–**	**1,681**	**6,045**

Included within the Surface mining restoration provisions is an amount of £381,000 (2018: £1,523,000) that is expected to be utilised in the next 12 months. The redundancy provision of £1,681,000 (2018: £nil) and the contract loss provision of £265,000 (2018: £1,110,000) is expected to be utilised in the next 12 months.

Notes
(forming part of the financial statements) continued

27 Provisions continued

Provisions comprise:

1 The contract provisions represent losses expected to arise, but not yet incurred on construction contracts.
2 A £4,099,000 restoration provision, which relates to the surface mining obligation to restore the sites once mining operation is completed.
3 A £760,000 restoration provision which related to Maltby Colliery's obligation to restore the site has been removed following the sale of the associated land.
4 A statutory provision payable to the UK Coal Authority at a set rate, in order to rectify any potential subsidence of the local area around Maltby Colliery, has now been satisfied.
5 A redundancy provision of £1,681,000 was created following the announcement that the Group's customer British Steel had entered into insolvency proceedings.

The Company has no provisions.

28 Capital and Reserves

Share Capital

	Group and Company ordinary shares	
	2019 Number	2018 Number
In issue at 1 June and 31 May	**33,138,756**	33,138,756

	2019 £000	2018 £000
Allotted, called up and fully paid		
32,125,254 (2018: 32,068,852) ordinary shares of 10p each (excluding own shares held)	**3,213**	3,207
Own shares held of 10p each 1,013,502 (2018: 1,069,904)	**101**	107
	3,314	3,314

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

As at the year end the Group held 1,013,502 (2018: 1,069,904) within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares have a market value of £2.3m at 31 May 2019 (2018: £3.8m) and were purchased for an aggregate consideration of £5.8m (2018: £6.0m).

Share Premium

The share premium represents the excess amount paid for share capital issued at prices higher than the nominal value.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising since 1 June 2007, the transition date to Adopted IFRSs, from the translation of the financial statements of foreign operations.

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Share-based Payments Reserve

The Share-based Payments reserve comprises cumulative charge in relation to the Group's long term incentive plans (Note 26). This reserve is expected to move in line with the charge recognised in the Share-based Payment charge recognised in the Income Statement.

Other Reserves

Other reserves, the Merger reserve, and the Capital Redemption reserve are historical reserves for which no movements are anticipated.

Dividends

The aggregate amount of dividends comprises:

	2019 £000	2018 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (4.5p per share (2018: 4.5p))	**1,443**	1,436
Interim dividends paid in respect of the current year (2.7p per share (2018: 2.7p))	**867**	864
	2,310	2,300
Proposed dividend (4.5p per share (2018: 4.5p))	**1,448**	1,439

The proposed dividend is not included in liabilities as it was not approved before the year end.

29 Financial Instruments

The Group's and Company's principal financial instruments comprise short-term receivables and payables, bank loans and overdrafts, obligations under finance leases and cash. Neither the Group nor the Company trades in financial instruments but uses derivative financial instruments in the form of forward rate agreements and forward foreign currency contracts to help manage its foreign currency, interest rate and commodity price exposures. The main purpose of these financial instruments is to raise finance for the Group's and Company's ongoing operations and to manage its working capital requirements.

(a) Fair Values of Financial Assets and Financial Liabilities

Derivative Financial Instruments

Fair Value Hierarchy

The following hierarchy classifies each class of financial asset or liability depending on the valuation technique applied in determining its fair value:

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Level 3: The fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In both 2019 and 2018 all of the forward exchange contracts and the commodity contracts are considered to be Level 2 contracts. There have been no transfers between categories in the current or preceding year.

The fair value of financial instruments held at fair value have been determined based on available market information at the balance sheet date.

The fair value of the options has been determined based upon the fair value of the assets and liabilities of the entities.

(b) Credit Risk

Financial Risk Management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's risk is influenced by the nature of its customers. New customers are analysed for creditworthiness before the Group's standard payment terms and conditions are offered and appropriate credit limits set.

Exposure to Credit Risk

The maximum Group exposure to credit risk at the balance sheet date was £76,303,000 (2018: £94,779,000) being the total of the carrying amount of trade receivables, other receivables, contract assets and amounts due from undertakings in which the Group has a participating interest.

The maximum Company exposure to credit risk at the balance sheet date was £114,102,000 (2018: £134,654,000) being the total of the carrying amount of trade receivables, other receivables and amounts due from Group undertakings.

The allowance account for trade receivables is used to record impairment losses unless the Group or Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly. Further information on credit risk is provided in Note 20.

(c) Liquidity Risk

Financial Risk Management

Liquidity risk is the risk that the Group and Company will not be able to access the necessary funds to finance their operations. The Group finances operations through a mix of short and medium-term facilities.

The Group manages its liquidity risk by monitoring existing facilities and cash flows against forecast requirements based on a rolling cash forecast.

The Group's principal existing bank borrowing facilities do not expire until 31 August 2020; however, management has already commenced initial discussions with both existing and potential lenders with the intention of securing replacement facilities well before the expiry date of the existing facilities.

29 Financial Instruments continued

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

Group

	2019						2018					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Represented Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Finance lease liabilities	**12,587**	**13,381**	**4,679**	**4,178**	**4,524**	**–**	7,634	8,093	3,415	2,067	2,611	–
Trade and other payables*	**69,259**	**69,259**	**69,259**	**–**	**–**	**–**	88,425	88,425	88,425	–	–	–
Group banking facilities	**26,924**	**26,924**	**–**	**26,924**	**–**	**–**	39,260	39,260	39,260	–	–	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow	**36**	**36**	**36**	**–**	**–**	**–**	7	7	7	–	–	–
Commodity contracts:												
Outflow	**251**	**251**	**114**	**137**	**–**	**–**	30	30	–	–	30	–
	109,057	**109,851**	**74,088**	**31,239**	**4,524**	**–**	135,356	135,815	131,107	2,067	2,641	–

* Excludes derivatives (shown separately).

Company

	2019						2018					
	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Trade and other payables	**18,962**	**18,962**	**18,962**	**–**	**–**	**–**	32,546	32,546	32,546	–	–	–
Group banking facilities	**26,924**	**26,924**	**–**	**26,924**	**–**	**–**	39,260	39,260	39,260	–	–	–
	45,886	**45,886**	**18,962**	**26,924**	**–**	**–**	71,806	71,806	71,806	–	–	–

(d) Market Risk

Financial Risk Management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Group's or Company's income or the value of its holdings of financial instruments.

Group

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The Group's policy is to reduce currency exposures on sales and purchasing through forward foreign currency contracts.

The Group is exposed to interest rate risk principally where its borrowings are at a variable interest rate. Levels of interest bearing borrowings are monitored to minimise the exposure to interest rate risk, when appropriate the Group will utilise interest rate swaps to mitigate the remaining risk. Currently, the Group does not have any interest rate swaps in place.

Commodity Price Risk

Commodity price risk is the risk of financial loss to the Group through open positions on the trading of coal, coke and other mineral commodities, prices for which are subject to variations that are both uncontrollable and unpredictable.

The Group mitigates these risks wherever practicable, through the use of measures including fixed price contracts, hedging instruments and "back-to-back" purchase and sale agreements.

Although short-term trading risks are managed in this way, through the Group's surface mining activities, the Group has a longer-term exposure to price movements, favourable or unfavourable, in international coal prices.

Foreign Currency Risk

Group

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 May 2019

	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Malaysian Ringgit £000	Total £000
Cash and cash equivalents	**61**	**10**	**1,479**	**659**	**81**	**95**	**2,385**
Trade receivables	**258**	**246**	**3,958**	**1**	**–**	**–**	**4,463**
Loans due from undertakings in which the Group has a participating interest	**11,404**	**–**	**–**	**–**	**–**	**–**	**11,404**
Trade receivables due from undertakings in which the Group has a participating interest	**540**	**–**	**–**	**–**	**–**	**–**	**540**
Other receivables	**13**	**–**	**4,116**	**6**	**–**	**1**	**4,136**
Prepayments and accrued income	**1**	**–**	**4,588**	**187**	**–**	**–**	**4,776**
Trade payables	**(7)**	**–**	**(1,828)**	**(30)**	**–**	**–**	**(1,865)**
Other trade payables	**–**	**–**	**(1,232)**	**–**	**(13)**	**–**	**(1,245)**
Non-trade payables and accrued expenses	**(18)**	**–**	**(4,056)**	**(337)**	**–**	**(14)**	**(4,425)**
Balance Sheet exposure	**12,252**	**256**	**7,025**	**486**	**68**	**82**	**20,169**
Contracted future sales	**652**	**–**	**1,001**	**–**	**–**	**–**	**1,653**
Contracted future purchases	**(3,572)**	**–**	**–**	**–**	**–**	**–**	**(3,572)**
Gross exposure	**9,332**	**256**	**8,026**	**486**	**68**	**82**	**18,250**
Forward exchange contracts	**2,920**	**–**	**(1,001)**	**–**	**–**	**–**	**1,919**
Net exposure	**12,252**	**256**	**7,025**	**486**	**68**	**82**	**20,169**

31 May 2018

	Euro £000	US Dollar £000	Hong Kong Dollar £000	South African Rand £000	Indian Rupee £000	Malaysian Ringgit £000	Total £000
Cash and cash equivalents	89	1	1,022	378	104	95	1,689
Trade receivables	94	–	3,534	1	–	–	3,629
Loans due from undertakings in which the Group has a participating interest	11,821	–	–	–	–	–	11,821
Other receivables	2,703	–	60	–	–	–	2,763
Prepayments and accrued income	1	–	3,937	160	–	–	4,098
Trade payables	(21)	–	(4,150)	(83)	–	–	(4,254)
Other trade payables	–	–	(2)	(34)	(14)	–	(50)
Non-trade payables and accrued expenses	(4)	–	(3,054)	(297)	–	–	(3,355)
Balance Sheet exposure	14,683	1	1,347	125	90	95	16,341
Contracted future sales	–	391	1,720	–	–	–	2,111
Contracted future purchases	(601)	(1,148)	–	–	–	–	(1,749)
Gross exposure	14,082	(756)	3,067	125	90	95	16,703
Forward exchange contracts	601	757	(1,720)	–	–	–	(362)
Net exposure	14,683	1	1,347	125	90	95	16,341

29 Financial Instruments continued

Company

The Company's exposure to foreign currency risk is as follows.

31 May 2019

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	**–**	**5**	**852**	**857**
Loans due from undertakings in which the Group has a participating interest	**11,404**	**–**	**–**	**11,404**
Trade receivables due from undertakings in which the Group has a participating interest	**277**	**–**	**–**	**277**
Trade payables due to Group undertakings	**(1,011)**	**–**	**–**	**(1,011)**
Balance Sheet exposure	**10,670**	**5**	**852**	**11,527**
Contracted future sales	**–**	**1,001**	**–**	**1,001**
Gross exposure	**10,670**	**1,006**	**852**	**12,528**
Forward exchange contracts	**–**	**(1,001)**	**–**	**(1,001)**
Net exposure	**10,670**	**5**	**852**	**11,527**

31 May 2018

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	–	1,745	852	2,597
Loans due from undertakings in which the Group has a participating interest	11,613	–	–	11,613
Trade payables due to Group undertakings	(1,011)	(1,734)	–	(2,745)
Balance Sheet exposure	10,602	11	852	11,465
Contracted future sales	–	1,720	–	1,720
Gross exposure	10,602	1,731	852	13,185
Forward exchange contracts	–	(1,720)	–	(1,720)
Net exposure	10,602	11	852	11,465

Sensitivity Analysis

Group

A 10% weakening of the following currencies against the Pound Sterling at 31 May 2019 would have increased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2018.

	Equity		Profit or loss	
	2019 £000	2018 £000	2019 £000	2018 £000
€	**1,084**	1,335	**1,084**	1,335
$	**23**	–	**23**	–
HKD	**639**	122	**639**	122
ZAR	**44**	11	**44**	11
INR	**6**	8	**6**	8
MYR	**7**	9	**7**	9

A 10% strengthening of the above currencies against the Pound Sterling at 31 May 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest Rate Risk

Profile

At the balance sheet date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Fixed rate instruments				
Financial liabilities	**(12,587)**	(7,634)	**–**	–
	(12,587)	(7,634)	**–**	–
Variable rate instruments				
Financial assets	**21,583**	16,110	**–**	–
Financial liabilities	**(26,924)**	(39,260)	**(26,924)**	(39,522)
	(5,341)	(23,150)	**(26,924)**	(39,522)

Sensitivity Analysis

An increase of one basis point in interest rates throughout the period would have affected profit or loss by the amounts shown below. This calculation assumes that the change occurred at all points in the period and had been applied to the average risk exposures throughout the period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit and loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 2018.

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Profit or loss				
Decrease	**(142)**	(153)	**(328)**	(371)

(e) Cash Flow Hedges

Cash Flow Hedges – Group

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur:

		2019 Expected cash flows					2018 Expected cash flows			
	Carrying amount £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	1 year or years £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Forward exchange contracts:										
Assets	**25**	**25**	**–**	**–**	**–**	35	35	–	–	–
Liabilities	**(36)**	**(36)**	**–**	**–**	**–**	(7)	(7)	–	–	–
Commodity contracts:										
Assets	**–**	**–**	**–**	**–**	**–**	1,009	1,009	–	–	–
Liabilities	**(251)**	**(114)**	**(137)**	**–**	**–**	(30)	–	–	(30)	–
	(262)	**(125)**	**(137)**	**–**	**–**	1,007	1,037	–	(30)	–

29 Financial Instruments continued

(f) Capital Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern, whilst maximising the return to shareholders. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents, and equity attributable to equity holders of the Parent, comprising capital, reserves and retained earnings.

The capital structure is reviewed regularly by the Group's Board of Directors. The Group's policy is to maintain gearing at levels appropriate to the business. The Board takes consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Board reviews gearing taking careful account of the working capital needs and flows of the business. The nature of the Group's principal borrowing facility is that of an asset-based lending structure based upon eligible inventories and receivables. As a result, the facility varies in line with the Group's working capital requirements.

The Board considers the allocation of capital delivered from asset realisation and cash flows from operations, taking into account the growth opportunities and return on capital employed in each business unit.

30 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2019 £000	2018 £000	2019 £000	2018 £000
Less than one year	**2,313**	3,574	**–**	–
Between one and five years	**3,442**	3,935	**–**	–
More than five years	**29**	–	**–**	–
	5,784	7,509	**–**	–

Group

During the year £5,548,000 was recognised as an expense in the Income Statement in respect of operating leases (2018: £9,166,000).

Company

During the year £nil was recognised as an expense in the Income Statement in respect of operating leases (2018: £nil).

31 Capital Commitments

Group

As at 31 May 2019, the Group did not have any capital commitments however as at 31 May 2018 the Group was committed to contracts to purchase freehold land, property, plant and equipment for £3,928,000.

Company

As at 31 May 2019, the Company did not have any capital commitments (2018: £nil).

32 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The Company acts as a guarantor, or surety, for various subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The Company's maximum unprovided exposure is £nil (2018: £nil).

The Group has performance bonds and guarantees in place in relation to various performance obligations under certain contracts. The total value of these bonds as at 31 May 2019 is £4.8m (2018: £2.0m).

In relation to HRMS, the Group has provided a €5m or £4.4m (2018: €5m or £4.4m) guarantee in connection with the banking facilities of HRMS.

33 Related Parties

Identity of Related Parties with which the Group has Transacted

The Group and the Company have a related party relationship with their subsidiaries and joint ventures (Note 15) and its Directors.

Group

Other Related Party Transactions

	Sales to		Purchases from	
	2019 £000	2018 £000	2019 £000	2018 £000
Joint ventures				
Tower Regeneration Limited	**9,518**	15,510	**–**	–
Tower Regeneration Leasing Limited	**–**	–	**687**	2,570
Associate undertakings				
Hargreaves Raw Materials Services GmbH	**2,228**	46	**–**	785
	11,746	15,556	**687**	3,355

	Interest received from		Interest paid to	
	2019 £000	2018 £000	2019 £000	2018 £000
Joint ventures				
Tower Regeneration Limited	**–**	205	**–**	–
Associate undertakings				
Hargreaves Darlington Limited	**16**	–	**–**	–
Hargreaves Raw Materials Services GmbH	**83**	51	**–**	–
	99	256	**–**	–

	Loan receivables outstanding		Trade receivables outstanding		Payables outstanding	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Joint ventures						
Tower Regeneration Limited	**12,825**	17,870	**192**	–	**4**	–
Tower Regeneration Leasing Limited	**–**	77	**18**	–	**–**	3,086
Hargreaves Darlington Limited	**2,026**	–	**–**	–	**–**	–
Associate undertakings						
Hargreaves Raw Materials Services GmbH	**11,404**	11,821	**540**	–	**25**	–
	26,255	29,768	**750**	–	**29**	3,086

Transactions with Key Management Personnel

The Board of Directors are the key management personnel of the Group. Details of Directors' remuneration, share options, pension benefits and other non-cash benefits can be found in Note 7. In addition to this, the element of the share-based payment charge for the year that relates to key management personnel is £20,000 (2018: £36,000) and the social security costs is £146,000 (2018: £248,000). There are no other post-employment or other long-term benefits.

Company

Other Related Party Transactions

	Receivables outstanding		Payables outstanding	
	2019 £000	2018 £000	2019 £000	2018 £000
Subsidiaries	**100,900**	121,847	**18,144**	32,509
Joint ventures	**11,681**	11,613	**–**	–
	112,581	133,460	**18,144**	32,509

Alternative Performance Measure 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 Operating Profit	Represents the operating profit from continuing operations of the Group before net exceptional items, the amortisation and impairment of intangible assets and includes the Group's share of the operating profit of its German associate. See Note 2 for reconciliation to statutory profit before tax. This measure is consistent with how the business measures performance and is reported to the Board.
Basic underlying earnings per share	Profit attributable to the equity holders of the Parent before net exceptional items and the amortisation and impairment of intangible assets 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 11.
Net Debt	Represents the net position of the Group's cash and loan balances including leases and hire purchase. Calculated as follows:

	2019 £'000	2018 £'000
Cash and cash equivalents	**21,583**	16,110
Non-current interest bearing loans and borrowings	**(35,222)**	(4,434)
Current interest bearings loans and borrowings	**(4,289)**	(42,460)
Net Debt	**(17,928)**	(30,784)

Alternative Performance Measure	Definition and Purpose
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:

	2019 £'000	2018 £'000
Total shares in issue	**33,138,756**	33,138,756
Less shares in treasury	**(1,013,502)**	(1,069,904)
Shares for calculation	**32,125,254**	32,068,852
Net Asset Value per Balance Sheet	**£127,477,000**	£136,087,000
Net Asset Value per share	**£3.97**	£4.24

Notice of Annual General Meeting – Hargreaves Services plc
(incorporated and registered in England and Wales under company number 4952865)

NOTICE IS GIVEN that this year's **Annual General Meeting** of Hargreaves Services plc (the **Company**) will be held at The Solarium, Durham Cathedral, Durham, DH1 3EH on 30 October 2019 at 11.00am to consider and, if thought fit, approve the following resolutions:

Ordinary Business

1. To adopt and receive the Directors' Report, the Strategic Report, the Directors' Corporate Governance and Remuneration Reports, the Audit & Risk Committee Report, the Auditor's Report and the Financial Statements for the year ended 31 May 2019.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2019.
3. To declare a final dividend for the year ended 31 May 2019 of 4.5 pence per ordinary share to bring the dividend for the year ended 31 May 2019 to a total of 7.2 pence per ordinary share.
4. To re-appoint Roger McDowell as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
5. To re-appoint John Samuel as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-appointment.
6. To re-appoint David Anderson as a director of the Company in accordance with article 29.2 of the Company's articles of association, who offers himself for re-appointment.
7. To re-appoint KPMG LLP as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next general meeting at which accounts are laid before the Company.
8. To authorise the Audit & Risk Committee of the board of directors to determine the remuneration of the auditors.
9. To authorise the directors of the Company pursuant to section 551 of the Companies Act 2006 (the **Act**) generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into such shares in the Company (**Rights**):
   9.1 up to an aggregate nominal value of £1,070,842 (representing approximately one-third of the total ordinary share capital in issue as at 26 July 2019); and
   9.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,141,684 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 9.1) in connection with or pursuant to an offer or invitation by way of a rights issue (as defined below), provided that such authorities conferred by this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless varied, revoked or renewed by the Company in general meeting, save that the Company may at any time before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and the directors may allot shares and grant Rights pursuant to such offers or agreements as if the relevant authorities conferred by this resolution 9 had not expired. These authorities shall be in substitution for all previous authorities previously granted to the directors to allot shares and grant Rights which are pursuant to this resolution 9 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 9.

   For the purposes of this resolution 9, **rights issue** means an offer or invitation to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date for such allotment and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, to subscribe for further securities by means of the issue of a renounceable letter (or other negotiable instrument) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatsoever.

10. Subject to and conditional upon the passing of resolution 9 (and in substitution for all existing like powers granted to the directors of the Company (to the extent they remain in force and unexercised)), the directors be and are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authority conferred upon them by resolution 9 or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
    10.1. in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and
    10.2. (otherwise than pursuant to resolution 10.1) up to an aggregate nominal value of £321,253 (representing approximately 10% of the total ordinary share capital in issue as at 26 July 2019); and
    10.3 pursuant to the authority conferred upon them by resolution 9.2, in connection with or pursuant to a rights issue, as if section 561(1) of the Act and sub-sections (1) – (6) of section 562 of the Act did not apply to any such allotment, and the powers given shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year unless renewed or extended prior to such expiry, save that the directors of the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

For the purpose of this resolution 10:

(a) **rights issue** has the meaning given in resolution 9; and
(b) **pre-emptive offer** means a rights issue, open offer or other pre-emptive issue or offer to (i) holders of ordinary shares in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on the record date(s) for such allotment; and (ii) persons who are holders of other classes of equity securities if this is required by the rights of such securities (if any) or, if the directors of the Company consider necessary, as permitted by the rights of those securities, but subject in both cases to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or any other matter whatsoever.

(incorporated and registered in England and Wales under company number 4952865)

Special Business

11. The Company be and is generally and unconditionally authorised for the purpose of section 701 of the Act to make market purchases (which in this resolution shall have the meaning given to this term in section 693(4) of the Act) of its ordinary shares of 10 pence each in the capital of the Company (Ordinary Shares) on the terms set out below:
    11.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 11 is 4,818,788 (representing approximately 15% of the total ordinary share capital in issue as at 26 July 2019); and
    11.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10 pence; and
    11.3 the maximum price (exclusive of expenses) which may be paid for each of those Ordinary Shares is not more than the higher of (i) 5% above the average of the middle market quotations for Ordinary Shares (as derived from the Daily Official Lists of the London Stock Exchange) for the five dealing days immediately preceding the date of purchase and (ii) the price stipulated by European Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation, but so that this authority shall (unless previously varied, revoked or renewed) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling six months after the end of the Company's current financial year, save that the Company may before the expiry of this authority conclude any contract for the purchase of its own shares pursuant to the authority conferred by this resolution 11 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 11 had not expired.

12. To approve the Hargreaves Services plc Executive Share Option Scheme (the Scheme), the principal terms of which are as described in the Remuneration Report and the explanatory notes below and to authorise the directors of the Company to do all things necessary to implement, complete or to procure the implementation or completion of the grant of the options under the Scheme.

31 July 2019
By order of the Board

Andrew Robertson
Company Secretary

Registered Office:
West Terrace
Esh Winning
Durham
DH7 9PT
Registered in England and Wales No. 4952865

Notes

1. This notice is the formal notification to members of the Company's Annual General Meeting (the **Meeting**), its date, time and place and the matters to be considered. If you are in doubt as to what action you should take you should consult an independent adviser.
   Resolutions 1 to 9 and Resolution 12 will be proposed as ordinary resolutions. A simple majority (being more than 50%) or votes cast must be in favour of each such resolution in order for it to be passed.
   Resolutions 10 and 11 will be proposed as special resolutions. A special resolution requires 75% or more of votes cast to be in favour of the resolution in order for it to be passed.
   All business proposed at the Meeting is ordinary business, pursuant to Article 24.1, save for Resolutions 11 and 12.
2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those shareholders registered in the register of members of the Company at close of business on 28 October 2019 as holders of ordinary shares of £0.10 each in the capital of the Company shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at the time. Changes to entries in the register of members after close of business on 28 October 2019 shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
3. If you are a member of the Company at the time set out in Note 2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend and to speak and vote on your behalf at the Meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
   A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by you. You may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman of the Meeting) and give your instructions to them.
4. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Registrars of the Company, Link Asset Services, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00am on 28 October 2019.
5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Note 11 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
6. If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.

7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see Note 4 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
8. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Asset Services Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
9. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Link Asset Services at Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11.00am on 28 October 2019. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to Note 6 above, your appointment will remain valid.
10. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
11. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear) specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00am on 28 October 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
12. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
13. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
14. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company. Corporate representatives should bring with them either an original or certified copy of the appropriate board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.
15. As at 26 July 2019 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 32,125,254 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 26 July 2019 are 32,125,254.
16. The following documents will be available for inspection at the Company's registered office at West Terrace, Esh Winning, Durham, DH7 9PT during normal business hours on any week day (Saturdays and English public holidays excepted) from the date of this notice until the close of the Meeting and at the place of that Meeting for at least 15 minutes prior to and during the Meeting:
    - copies of the service contracts for the Executive Directors of the Company;
    - copies of the letters of appointment of Non-Executive Directors of the Company; and
    - the proposed rules of the Hargreaves Services plc Executive Share Option Scheme.

Explanatory Notes to the Notice of Annual General Meeting
The notes on the following pages explain the proposed resolutions.

Resolution 1: Accounts
The directors will present their Report, the Directors' Corporate Governance and Remuneration Reports, the Auditor's Report and the audited Financial Statements for the financial year ended 31 May 2019 to the meeting as required by law. These reports and statements are set out on pages 17 to 83 of the Company's Annual Report.

Resolution 2: Approval of the Directors' Remuneration Report
Shareholders are asked to approve the Directors' Remuneration Report for the financial year ended 31 May 2019 which is set out in full on pages 23 to 25 of the Company's Annual Report. The vote is advisory and the directors' entitlement to remuneration is not conditional upon this resolution being passed.

Resolution 3: Final Dividend
The Board proposes a final dividend for the financial year ended 31 May 2019 of 4.5 pence per share. If the meeting approves resolution 3, the final dividend will be paid on 1 November 2019 to shareholders on the register of members on 20 September 2019.

Explanatory Notes to the Notice of Annual General Meeting continued

Resolutions 4 and 5: Re-appointment of Directors
At each Annual General Meeting one-third of the directors for the time being (other than those appointed since the last Annual General Meeting) are required to retire. If the number of relevant directors is not a multiple of three, the number nearest to one-third of directors, but not less than one-third, must retire. Directors due to retire by rotation are those longest in office since their last re-election or re-appointment. A retiring director is eligible for re-appointment. Roger McDowell and John Samuel are both offering themselves for re-appointment.

Brief biographical details of Roger McDowell and John Samuel are set out on page 16 of this document.

Resolutions 6: Appointment of Director
As David Anderson was appointed to the Board subsequent to the date of the last Annual General Meeting, he is required by the Company's articles of association to be re-appointed at this year's Annual General Meeting. Accordingly, the directors recommend that David Anderson be re-appointed as a director and resolution 6 proposes his re-appointment.

Brief biographical details of David Anderson are set out on page 16 of this document.

Resolutions 7 and 8: Re-appointment and Remuneration of Auditors
The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the next general meeting. KPMG LLP are willing to continue in office for a further year and resolution 7 proposes their re-appointment and, in accordance with standard practice, resolution 8 authorises the Audit & Risk Committee of the board of directors of the Company to determine the level of the auditors' remuneration.

Resolution 9: Renewal of Board's Authority to Allot Shares
Resolution 9.1 grants the directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,070,842 being approximately one-third of the Company's issued ordinary share capital as at 26 July 2019.

In line with guidance issued by the Association of British Insurers (the **ABI**), resolution 9.2 grants the directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,141,684 (representing 21,416,840 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 9.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital as at 26 July 2019. Under a rights issue, ordinary shareholders are invited to subscribe for further ordinary shares in proportion (as near as is practicable) to their holdings of shares in the Company and, if they accept the invitation, their holding of shares is not diluted (and if they decline the offer then they can sell their "rights" in the market for value).

Guidelines issued by the ABI provide that an authority for directors to allot new shares up to an amount equal to one-third of the existing share capital, such as that granted by resolution 9.1, will be regarded as routine. The ABI guidelines also state that an authority for directors to allot a further amount equal to one-third of the existing issued share capital, such as that granted by resolution 9.2, will also be regarded as routine as long as that additional authorisation applies only to fully pre-emptive rights issues.

It is not the directors' current intention to exercise either of these authorities. The authorities granted by resolution 9 replace the existing authorities to allot shares.

Resolution 10: Disapplication of Statutory Pre-emption Rights
Resolution 10.1 grants the directors power to allot shares without first offering them to existing shareholders in proportion to their existing shareholdings, where such offers are made in connection with or pursuant to a pre-emptive offer of shares.

Resolution 10.2 permits the directors to allot shares without first offering them to existing shareholders and otherwise than in connection with a pre-emptive offer, but only up to a limit of 10% of the total ordinary share capital. The Pre-Emption Group's Statement of Principles (the "PEG Principles") recommend that boards of directors should not seek authority to issue more than 5% of the issued share capital of a company for cash on a non-pre-emptive basis. The PEG Principles are designed for Officially Listed Companies, rather than AIM companies, and the National Association of Pension Funds has confirmed that AIM companies should be permitted to take authority to allot up to 10% of issued share capital for cash on a non pre-emptive basis (which the Company has done each year since joining AIM).

Resolution 10.3 grants the directors power to allot those shares issued further to the powers granted to them under resolution 9.2 without first offering them to existing shareholders.

Resolution 11: Purchase of Own Shares
Resolution 11 authorises the Company to purchase its own shares (in accordance with section 701 of the Act) during the period from the date of this Annual General Meeting until the end of the next Annual General Meeting of the Company or the expiration of six months after the Company's current financial year end, whichever is the sooner, up to a total of 4,818,788 ordinary shares. This represents approximately 15% of the issued ordinary share capital of the Company as at 26 July 2019. The maximum price payable for a share shall not be more than the higher of 5% above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated in the European Commission-adopted Regulatory Technical Standards pursuant to Article 5(6) of the Market Abuse Regulation (being the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out). The minimum price payable for a share will be 10 pence. Companies are permitted to retain any of their own shares which they have purchased as treasury shares with a view to possible re-issue at a future date, rather than cancelling them. The Company will consider holding any of its own shares that it purchases pursuant to the authority conferred by this resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost-effectively and would provide the Company with additional flexibility in the management of its capital base.

The directors will consider making use of the renewed authority pursuant to resolution 11 in circumstances which they consider to be in the best interests of shareholders generally after taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the effect on earnings per share and the Company's overall financial position. No purchases will be made which would effectively alter the control of the Company without the prior approval of the shareholders in a general meeting.

Resolution 12: Approval of the Hargreaves Services plc Executive Share Option Scheme (the Scheme)

Introduction

Capitalised terms have the meaning given to them in the definitions at the end of this explanatory note.

Subject to the approval by ordinary resolution by shareholders, the Scheme will be adopted, and Options granted annually subject to the Rules and at the discretion of the Remuneration Committee.

Grant of Options

Options (envisaged as equating to 50% but which may be up to a maximum of 100%) of an Option Holder's annual salary will be granted annually under the Scheme to Executive Directors and senior management as determined by the Remuneration Committee. No Option will be granted under the Scheme If the grant of that Option would cause the total number of Shares under Option whether pursuant to the Scheme or any other employee share scheme or share Incentive plan operated by the Company to exceed 10% of the enlarged ordinary share capital of the Company.

Exercise of Options

Subject to the fulfilment of the performance criteria described below, the Options may be exercised at any time between the third anniversary and the fifth anniversary of the Date of Grant (except where the fifth anniversary date falls within a Close Period when the period shall be extended until ten working days after the end of such Close Period).

Performance Criteria

The performance criteria will use the average mid-market closing Share price for the 21 Trading Days preceding 1 June during the year of the grant of the Option as a "**Base Value**". The number of Shares to be acquired on the exercise of an Option will be dependent on the Total Shareholder Return on the third anniversary of the Date of Grant (**Strike Date**) calculated by reference to the average Share price for the 21 Trading Days preceding the Strike Date.

The performance parameters for Total Shareholder Return will be split equally between two parts.

1. 50% of the Option will be based upon the Company's performance (the **Company Performance Option**). If the Total Shareholder Return figure on the Strike Date reflects 100% or more growth in excess of the Base Value, the Company Performance Option may be exercised in full. If the Total Shareholder Return figure at the Strike Date reflects less than 25% growth in excess of the Base Value, the Company Performance Option will lapse and cease to be exercisable. In the event that the Total Shareholder Return figure at the Strike Date reflects percentages between 25% growth and 100% growth above the Base Value, the number of shares to be acquired under the Company Performance Option will be based on a linear calculation between the 25% growth and 100% growth outcomes from zero at 25% growth to 100% of the Company Performance Option at 100% growth or greater. The performance criteria in respect of the Company Performance Option is therefore expressed as follows:
   - If the Strike Value is less than the 25% Growth Value, the Company Performance Option will lapse and cease to be exercisable.
   - In the event that the Strike Value is equal to or greater than the 25% Growth Value but less than the 100% Growth Value, the Company Performance Option may be exercised only to the extent determined by multiplying the number of Shares under the Company Performance Option by the value of X, calculated as follows:

$$X = \frac{\text{(Strike Value – 25\% Growth Value)}}{\text{100\% Growth Value – 25\% Growth Value}}$$

- If the Strike Value is equal to or greater than the 100% Growth Value, the Company Performance Option may be exercised in full.

2. 50% of the Option will be based upon benchmarking the Company's performance against the Peer Group (the Peer Group Performance Option). The growth of each of the companies in the Peer Group will be measured using the average mid-market closing share price of such company for the 21 Trading Days preceding 1 June during the year of grant of the Option and calculating the growth at the Strike Date by reference to the average share price for the 21 Trading Days preceding the Strike Date. The growth of the Company (measured using the Base Value and the Strike Value) will be ranked in the "Peer Group TSR List" alongside the growth of the companies in the Peer Group. If the Company:
   - is ranked below the median position of the Peer Group TSR List, the Peer Group Performance Option will lapse and not be exercisable;
   - is ranked first in the Peer Group TSR List, the Peer Group Performance Option may be exercised in full; and
   - is ranked at or above the median of the Peer Group TSR List but below first, the number of shares in respect of which the Peer Group Performance Option may be exercised shall be calculated on a straight line basis from 25% of the Peer Group Performance Option at the median position to full exercise of the Peer Group Performance Option for ranking first (rounded up to the nearest whole number of Shares).

Disposal of Shares Acquired Under the Options

The Rules provide that, following the acquisition of Shares pursuant to the exercise of an Option, no disposal of any such Shares can be made until or after the fourth anniversary of the Date of Grant, except to the extent that such disposal is permitted by the Board in order to facilitate the satisfaction of any tax liability as a result of an exercise of an Option.

The Rules provide that an Option Holder will be entitled to transfer some or all of the Shares acquired in respect of an Option to a spouse or civil partner at any time, provided that the Option Holder procures that such Shares will be held until on or after the fourth anniversary of the Date of Grant (unless such disposal is permitted by the Board in order to facilitate the satisfaction of any tax liability as a result of the exercise of an Option).

Explanatory Notes to the Notice of Annual General Meeting continued

Resolution 12: Approval of the Hargreaves Services plc Executive Share Option Scheme (the Scheme) continued

Change of Control

In the event of a change of Control, an Option may be exercised within six months of: a person making an offer to acquire the whole or part of the issued share capital of the Company and obtaining Control of the Company; and any condition subject to which an offer is made having been satisfied (or such shorter period of not less than 21 calendar days as the Board shall specify in writing to the Option Holder). In the event of a change of Control, the Strike Date will be the date of such exercise and the Total Shareholder Return shall be calculated by reference to the price per share being paid as part of such change of Control. The Company Performance Option criteria will be adjusted on a time-weighted basis to reflect the realised Total Shareholder Return by reference to the earlier Strike Date.

Share Buy-backs

In the calculation of Total Shareholder Return, the Board (excluding any members of the Board who are Option Holders under the Scheme) will be entitled to exercise its reasonable discretion in relation to making any adjustment to the Total Shareholder Return as a result of any buy-back of Shares made by the Company between the Date of Grant and the Strike Date.

Cash Alternative

Where an Option has been exercised by an Option Holder, the Board may (at its sole discretion) and subject to the Option Holder's consent, pay to the Option Holder a cash alternative in relation to some or all of the Shares to be exercised equal to the market value in relation to such Shares (being the bid price as notified by the Company's brokers at the close of business on the day that the Option Holder exercises his Option) less the Option Price.

Definitions

25% Growth Value means either:
(a) a Total Shareholder Return figure which exceeds which exceeds the Base Value by 25%;
(b) if exercise of the Option in permitted earlier than the Third Anniversary pursuant to a change of Control, the figure calculated as follows:

$$\left(\frac{D \times 0.25}{1{,}095} + 1\right) \times \text{Base Value}$$

where "D" is the number of days between the Date of Grant and the Strike Date (inclusive).

100% Growth Value means either:
(a) a Total Shareholder Return figure which exceeds which exceeds the Base Value by 100%;
(b) if exercise of the Option in permitted earlier than the Third Anniversary pursuant to a change of Control, the figure calculated as follows:

$$\left(\frac{D}{1{,}095} + 1\right) \times \text{Base Value}$$

where "D" is the number of days between the Date of Grant and the Strike Date (inclusive).

AIM means the Alternative Investment Market of the London Stock Exchange;

Average Value means the mean average, being the sum of the figures in question divided by the number of figures in question;

Base Value means the Average Value of the mid-market closing Share Price for the 21 Trading Days preceding 1 June in the year that the Option is granted;

Board means the Board of Directors of the Company;

Close Period means any period during which the Company is prohibited from issuing shares to employees or directors of the Company under its share dealing policy or otherwise;

Control has the same meaning as in Section 719 of the Income Tax (Earnings and Pension) Act 2003;

Date of Grant means in relation to any Option the date on which the Option was or is to be granted;

Option means a right to acquire shares in accordance with the Rules;

Option Holder means an individual to whom an Option has been granted;

Option Price means 10 pence per share;

Peer Group means in relation to an Option a list of companies comparable to the Company determined by the Board (which for the purposes of this paragraph shall exclude any members of the Board who are Option Holders under the Scheme) having taken professional advice as appropriate prior to the granting of the Option;

Peer Group Total Shareholder Return means the total shareholder return on any ordinary shares achieved in the Company and each company in the Peer Group as determined by the Board providing that:
(a) in determining the share price element of total shareholder return of each of the companies in the Peer Group at the Strike Date, the share price shall be calculated using the Average Value of the mid-market closing share price of such company for the 21 Trading Days preceding 1 June during the year of the grant of the Option and calculating the total shareholder return by reference to the Average Value of the share price for the 21 Trading Days preceding the Strike Date;
(b) in determining the share price element of total shareholder return achieved by the Company at the Strike Date, the Base Value and Strike Value shall be used; and
(c) if the Board, which for the purposes of this sub-paragraph shall exclude any members of the Board who are Option Holders under the Scheme, (exercising its reasonable discretion) so determines, any adjustment to the total shareholder return calculation of the Company and/or any of the companies in the Peer Group so as to ensure that total shareholder return is measured on a fair and comparative basis;

Peer Group TSR List means a list of the Peer Group Total Shareholder Returns of the Company and each company in the Peer Group ranked in order, with the company with the highest Peer Group Total Shareholder Return ranked first;

Remuneration Committee means the Remuneration Committee of the Board;

Rules means the rules of the Scheme as from time to time amended in accordance with their provisions;

Scheme means the Hargreaves Services plc Executive Share Option Scheme;

Share means a fully paid ordinary share of 10p in the capital of the Company;

Share Price means either:
(a) the closing mid-market value of a share in the Company listed on AIM; or
(b) (in the context of an Option exercise pursuant to a change of Control) the price per share being paid in connection with the change of Control.

Strike Date means either:
(a) the Third Anniversary; or
(b) (if exercise of the Option is permitted earlier than the Third Anniversary pursuant to the Rules) the date of such earlier exercise.

Strike Value means either:
(a) the Total Shareholder Return value calculated by reference to the Average Value of the Share Price for the 21 Trading Days preceding the Strike Date; or
(b) (if the Option is being exercised pursuant to a change of Control), the Total Shareholder Return value calculated by reference to the price per share being paid as part of such change of Control;

Third Anniversary means the date falling three years after the Date of Grant;

Trading Day means the ordinary business days of AIM, being all weekdays other than specified public and bank holidays;

Total Shareholder Return means the total shareholder return in respect of any Share on any given date, being the combined total of:
(a) the Share Price; and
(b) the value of any dividends or special dividends paid or declared in respect of such Share during the period since the Date of Grant; and
(c) if the Board, which for the purposes of this sub-paragraph shall exclude any members of the Board who are Option Holders under the Scheme, (exercising its reasonable discretion) so determines, any adjustment to the total sum derived from sub-paragraphs (a) and (b) above as a result of any buy-back of shares made by the Company between the Date of Grant and the Strike Date.

Notes

Shareholder Information

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Andrew Robertson

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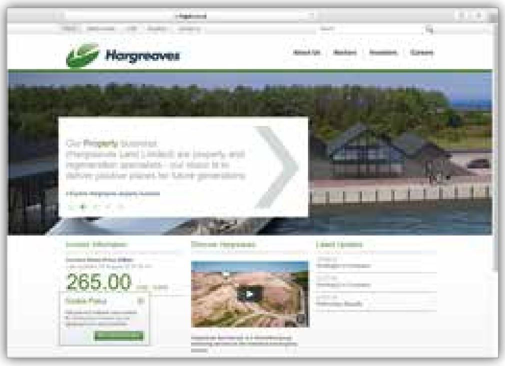
For more information

Please visit us online at www.hsgplc.co.uk for up to date investor information, company news and other information.



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