Annual Report and Accounts 2021
Hargreaves Services plc

About us

The value proposition of Hargreaves Services plc is built on delivering key services to the industrial and property sectors and on supporting the growth of its German joint venture.

Hargreaves operations are managed across the following structure:

Services

Services provides critical support to many core industries including Energy, Environmental, UK Infrastructure and certain industries through the provision of materials handling, mechanical and electrical contracting services, logistics and major earthmoving.

Land

Hargreaves Land is focused on the sustainable development of brownfield sites for both residential and commercial purposes.

Hargreaves Raw Material Services

Trades in specialist commodity markets and owns DK Recycling, a specialist recycler of steel waste material.

Read more at www.hsgplc.co.uk

Highlights of the Year

Strong net cash position.
Profit before tax increased to £14.4m from £2.2m.
Full year dividend of 19.2p proposed compared to 4.5p.

Trading	– Revenue of £204.8m (2020: £222.2m) – Underlying* Profit before Tax of £21.2m (2020: £4.9m) – Basic underlying* EPS of 70.7p (2020: 19.9p)
Services	– Revenue reduced as expected to £193.0m (2020: £216.0m) primarily due to HS2 contract mobilisation delays
Hargreaves Land	– Sales of first plots at Blindwells delivered – £25m sale of the first logistics development at Unity joint venture achieved
German Joint Venture	– Strong trading performance with Underlying* Profit after Tax of £13.6m (2020: £1.6m) – DK Recycling delivering profitable performance following acquisition in December 2019
Exceptional Items	– £4.6m of goodwill impairment following exit from coal trading activities – £2.2m of contract losses recognised on legacy civil contracts which are now all settled
Board	– Nicholas Mills appointed as Non-Executive Director on 9 September 2020
Balance Sheet	– Net Cash** £16.5m (2020: £28.1m net debt) including £28.3m of net cash at bank (2020: £13.5m net bank borrowing) – Net Asset Value** per share at 31 May 2021 of £4.47 per share (2020: £4.03)
Dividend	– Final dividend of 4.5p (2020: 4.5p) and additional dividend of 12p (2020: nil p) proposed

1. Strategic Report

2. Directors' Report

3. Financial Statements

Notes:

* Underlying results are stated prior to exceptional items, impairment of intangible assets and fair value adjustments. See Alternative Performance Measure Glossary, page 95.

** Net cash and net asset value defined in glossary on page 95.

Chairman's Statement
Roger McDowell, Group Chairman

The Board has developed three strong pillars for value creation, delivery and realisation.

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

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

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

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

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

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

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

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

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

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

"I believe that the Board has developed a clear strategic approach which both simplifies and clarifies the value proposition for investors."

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

Hargreaves Raw Material Services GmbH

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

Board Changes

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

Covid-19

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

Brexit

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

Strategy

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

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

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

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

Outlook

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

Roger McDowell
Chairman
27 July 2021

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

Group Business Review
Gordon Banham, Group Chief Executive

The Group has made great progress in positioning its businesses for the future.

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

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

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

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

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

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

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

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

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

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

"Great opportunities lie ahead for the Group and I look forward to further progress in the coming year."

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

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

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

Looking to the year ending 31 May 2022, there can be no certainty that the favourable market conditions will endure, although as announced on 22 July 2021, forward trading positions have been taken out which give confidence to the Board that HRMS can continue to benefit from these market conditions throughout the first six months of the year ending 31 May 2022 at least. After a year of great progress, HRMS is well on the way to becoming a more stable and consistent provider of material profits to the Group.

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

Gordon Banham
Group Chief Executive
27 July 2021

Hargreaves now has a clear pathway for growth and value creation.

Services

Following the cessation of mining and the sale of all speciality coal inventory, the Services business has been reorganised to focus on the key markets of energy, environmental, industrial and infrastructure. Hargreaves' customer offering to these markets includes bulk logistics, materials handling and specialist earthmoving but increasingly we are focussed on growing our capability in mechanical & electrical engineering, minerals and environmental services. Each of these customer offerings features similar margins and we are increasing the amount of work derived from frameworks and term contracts to improve revenue visibility. To address the customer base most effectively, the management structure is organised into three business units which comprise these offerings being HELM, Industrial Services and Specialist Earthworks.

HELM

The business unit (previously known as Production and Distribution) has fully transitioned away from coal and is now focussed on three key aspects: Environmental, Logistics and Minerals.

Environmental

Our environmental business unit principally operates in Scotland and is focussed on the remediation of former opencast mining sites. The team secures and spreads organic recovered material (e.g. sewerage sludge and recycled compost) to create soil conditions which meet the approved organic composition and structure for forestry tree planting. To date, the business unit has remediated over 1,800 acres of land across five sites, handling approximately 130kt of incoming materials per annum. In addition, the team provides professional services to restore and remediate third party land and the expansion of these professional, environmental services is a key development area for the business.

Until now, the Group has chosen to sell the remediated land to Forestry & Land Scotland for tree planting. We are now carrying out a review to assess the potential additional value that could be created from expanding the business unit to enhance the land through direct tree planting in order for the Group to benefit through carbon sequestering and offsetting, a rapidly developing market in the UK.

Logistics

The Group operates a transport fleet of over 100 trucks providing bulk haulage into the waste, recycling and construction markets. The business is focused on servicing the waste sector, in particular Energy from Waste plants and clinical waste, as well as the haulage of fertilisers.

The medium term focus of the Logistics business is to consolidate its position within the waste and fertiliser markets which are anticipated to remain stable over the next 5-10 years. These sectors have been largely unaffected by Covid-19 as they are key industries within the UK. Furthermore, in particular within Energy from Waste, contracts for service are typically longer term providing greater visibility of revenue and stability in profitability.

Minerals

The minerals team is drawn from the experience developed from the Group's wide range of mining activities, gained over many years. Coal mining ceased in July 2020 and subsequently all remaining coal inventory was sold, terminating all material coal related revenue activities. The team is currently working with Tungsten West Limited ("TWL") to finalise the mining plan for the Hemerdon Tungsten & Tin mine, located in Devon. TWL acquired the mine from Hargreaves in late 2019 following the demise of Wolf Minerals Limited. TWL has appointed Hargreaves to an exclusive 10 year mining services contract. The re-opening of the mine is dependent on TWL proving the mine's viability and raising the necessary finance. TWL are aiming to conclude these matters during 2021, with mining operations potentially commencing in late 2022.

Whilst supporting the Hemerdon mining project the minerals team is now also providing professional services into the UK quarrying sector which is a potential sector for further growth for the business unit.

Industrial Services

The Industrial Services business is a leading provider of outsourced bulk materials handling and mechanical and electrical engineering into all of the Group's key target markets.

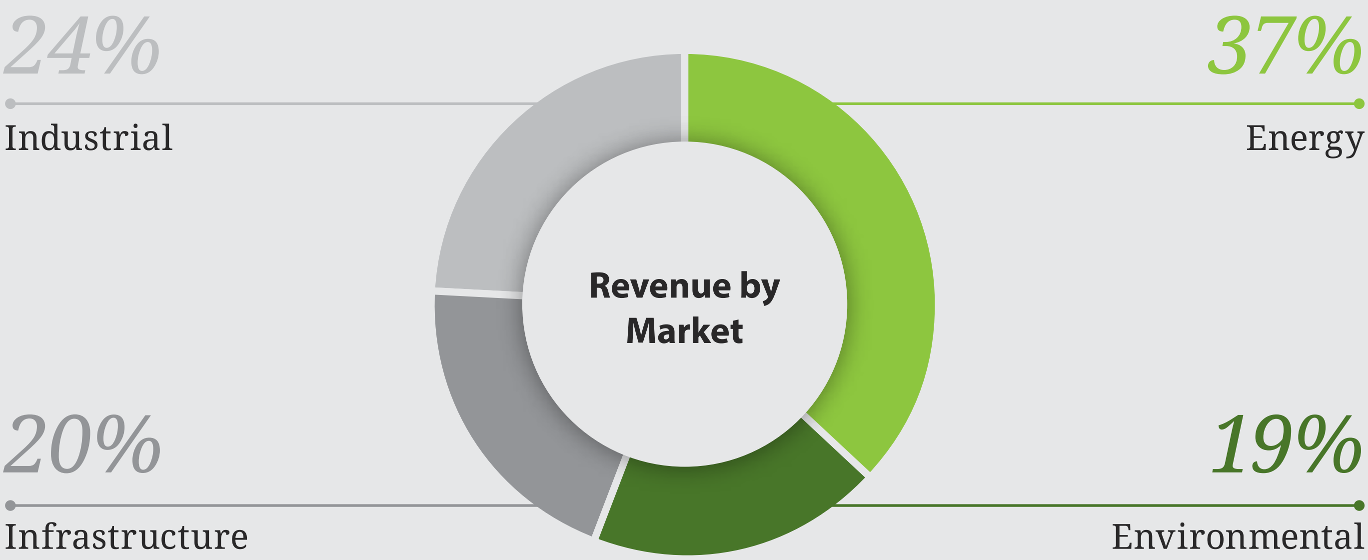
UK

The UK operations are focused on materials handling around industrial complexes, supplemented by a growing mechanical and electrical engineering capability. The expertise of the business in materials handling complements its ability to construct, repair and maintain the associated equipment and to provide clients with a total solution to their needs.

During the year, British Steel elected to take back in house some services provided by the business as the self-delivery model is favoured by their Chinese owners, Jingye, which means that revenue is likely to reduce in the year ending 31 May 2022.

The business strategy is to focus on higher margin mechanical and electrical engineering contracts as the business transitions from its traditional customer base. This strategy was validated by the appointment to a three-year framework contract with Severn Trent, a new customer, to provide maintenance, repair, removal and installation of clean and waste water assets. In addition to the Severn Trent contract, the UK business has also secured two other framework contracts with Drax and Uniper for five and three years respectively. Both frameworks have two years of extension options. These contracts help to generate predictable, sustainable earnings over the medium term and provide a strong and stable platform for growth.

Key Markets



Asia
Overseas operations are focused on Hong Kong and are principally concerned with supporting power generation. During the year, the Group has been appointed to two three-year framework arrangements, both of which have extension options, at the Castle Peak and Black Point power stations in Hong Kong. These frameworks allow for the provision of maintenance, repair and refurbishment of boilers, condensers and other critical components.

The Asian business was also appointed as a contractor to CLP Power Hong Kong (Power Systems) for distribution overhead line works. This is for a three year period with extension options for up to a further three years. The work encompasses the inspection, installation and both emergency and planned maintenance of part of the client's low voltage power distribution network. This contract marks a significant broadening of the scope and range of services that our Asian Industrial Services business offers.

Business growth is based upon widening the range of services provided to existing customers as well as penetrating new customers outside of the power industry and in territories other than Hong Kong. To support this initiative, an office has been established in Malaysia, although currently this provides only back office support as travel in the area has been severely restricted due to Covid-19.

Specialist Earthworks
Blackwell is one of the leading major earthworks contractors in the UK and was appointed in March 2021 by the EKFB JV to carry out earthmoving on part of the HS2 project. The subcontract appointment is for 30km of the HS2 earthworks centred on Aylesbury in Buckinghamshire and involves the movement of nearly 15 million cubic metres of chalk and clay over the next four years. The award is the largest in Blackwell's 65 year history.

The successful history of Blackwell was built on the back of major infrastructure projects within the UK including Heathrow Terminal 5 and the Olympic Park. This core competency has been further demonstrated by the successful delivery of the A14 upgrade project. Future opportunities include major earthmoving works on other large scale energy, transport and infrastructure projects, particularly within the South of England.

Hargreaves Land
The substantial land portfolio arising from the Group's historic mining activities is now being supplemented by additional development opportunities. This will allow the Group not only to continue to unlock and enhance the value of existing property assets but also create further value through securing, developing and then realising value on a pipeline of new development projects.

Hargreaves Land will continue to maintain broad geographical and sector exposure and undertake development projects predominantly on a pre let and/or forward sold basis enabling it to optimise the return on its applied capital. It identifies, develops and then realises value from opportunities, either in its own right or through partnership structures where appropriate, to manage levels of capital allocation and risk. Hargreaves Land is not looking to become a property investment company where capital is tied up for many years. However, there are certain projects already owned by the Group that may be held as investment properties for the medium term to supplement income whilst the business is in its early phases or where value is expected to be optimised at a later date.

Hargreaves Land has seen a robust recovery following the initial disruption to its markets caused by Covid-19 and it was able to complete a number of significant transactions in the year, notably the first two plot sales at Blindwells, near Edinburgh, and the accelerated completion of a large logistics plot sale at its 650 acre mixed use Unity JV development near Doncaster, South Yorkshire.

Momentum in the property sectors the Company is most involved in, notably residential land and logistics, has continued to build with sustained strong demand continuing to be seen from house builders, funders and commercial occupiers. This is reflected in the exchange of a further conditional contract at Blindwells for the sale of a 12 acre plot to another national house builder and the high levels of interest being received at the Unity development. This gives the Board confidence that the robust recovery experienced by Hargreaves Land this year will continue, enabling it to deliver as planned and allow the company to continue to grow across a number of regions and sectors.

Hargreaves Raw Materials Services GmbH ("HRMS")
HRMS is a joint venture of the Group based in Duisburg, Germany. It is an established supplier of specialist raw materials into many heavy industries within Germany and the rest of Europe, including the steel, foundry, sugar, insulation, and ceramic industries. Additionally, following HRMS's purchase of speciality coal from Hargreaves in December 2020, the business supports residual UK markets. Whilst this trading business continues to thrive, over the last few years HRMS has invested in a Carbon Pulverisation Plant ("CPP") and acquired a steel waste recycling business, DK Recycling und Roheisen GmbH ("DK"). These strategic decisions mark a significant shift in the nature and balance of the overall HRMS business and provide greater visibility of revenue whilst mitigating the trading business' exposure to market demand fluctuations.

Operating Review continued

The CPP is now producing material. This pulverised material provides the opportunity to displace brown lignite coal, a highly polluting form of coal used in many German industries, with a cleaner alternative. The CPP is located in Duisburg on the Rhine with excellent logistical access by road, river and rail for suppliers and distribution for finished product. The nearest equivalent plant is over 200 miles away providing a strong logistical advantage to supply into the heartland of industrial Germany. The plant has the capacity to produce 400,000t of pulverised carbon per annum with the addressable total market estimated to be around 2,000,000t per annum. Trial product is being supplied to potential new customers who tend to place annual calendar year supply contracts in the late autumn of the preceding year. The plant's current output is at an approximate break even level.

DK is one of the world's largest recyclers of ferrous waste materials from the foundry and steel industries. It takes waste product and recycles it into pig iron which is then used in the manufacture of steel products. During the year, overhead savings and changes to operating procedures, combined with favourable market conditions, have enabled DK to return to profitability after some lossmaking years. DK provides foundry operators and steel manufacturers with an attractive alternative to simply storing or burying waste material.

Key Performance Indicators

The Group has established a number of Key Performance Indicators ("KPIs") which are used to measure its performance in a number of areas. These include some non-financial measures which reflect the Board's emphasis on health and safety.

The KPIs for the Services business include:

- Underlying profit before tax against budget
- Return on capital employed against budget
- Average working capital against budget
- Lost time accident ratios against annually determined minimum targets
- "Near Miss" reporting

The KPIs for the Hargreaves Land business include:

- Underlying profit before tax against budget
- Cash performance against budget
- Return on capital employed against individual project targets

Group level KPIs include:

- Underlying profit before tax against budget
- Net debt (inclusive of leasing debt) against budget
- Lost time accident ratios against annually determined minimum targets

The Group achieved all of its KPIs in the year ended 31 May 2021. Similar challenging KPIs have been set for the year ending 31 May 2022.

Summary

Following the cessation of coal related activities, the Group's operations are continuing to evolve and adapt to the challenges and opportunities in the broader market. The emphasis on growing the mechanical and electrical engineering capability within Industrial Services and the maturing of Hargreaves Land have been ongoing for a little while now. I am particularly excited by the new opportunities being identified in both Minerals and most notably Environmental Services. These markets and a focus on operations where we have already established our capability and reputation provide a clear pathway for growth and value creation.

By order of the Board

Gordon Banham
Group Chief Executive
27 July 2021

Reasons to Invest

Experienced Board with Proven Track Record

Strong Balance Sheet with No Bank Debt

Excellent & Sustainable Dividend Return

Good Visibility of Forward Work Pipeline

Three Pillars of Business Value – Services, Land, HRMS

Financial Review
John Samuel,
Group Finance Director

The Group is now essentially free from banking security and in a strong cash position.

Results
Group revenue from continuing activities was £204.8m (2020: £222.2m) with underlying profit before tax of £21.2m (2020: £4.9m). The reduction in revenue is primarily due to the delays experienced on the HS2 project within Specialist Earthworks. Underlying profit before tax is defined by the Board as profit before tax prior to exceptional items, impairment of intangible assets and fair value gains on acquisition. The increase is mainly attributable to the performance of the Group's joint ventures which contributed £17.7m (2020: £1.6m) to underlying profit before tax. This is a key performance indicator for the Board in measuring the Group's financial performance throughout the year.

The Group incurred net exceptional charges of £2.2m (2020: £1.7m) which resulted from final account agreements on legacy civils contracts. Additionally, impairment charges on intangible assets of £4.6m (2020: £1.6m) have been recorded.

Net finance expenses were £1.2m (2020: £1.3m).

The Group recorded £17.7m (2020: £2.1m) of profits from joint ventures. Of this, £13.6m was attributable to the German joint venture which is stated after tax in accordance with IFRS and £4.1m was attributable to the Unity joint venture in Hargreaves Land. That sum is stated before tax as Unity is an LLP.

This results in profit before tax of £14.4m (2020: £2.2m).

Taxation
The income tax credit for the year is £2.0m (2020: £2.1m). The credit has been heavily impacted by the change in the rate at which deferred tax is measured increasing from 19% to 25% which creates a credit of £2.7m. In the prior year, the change in tax rates created a £0.9m credit.

In 2011, after taking professional advice, the Group engaged in a disclosable tax planning scheme relating to leasing, 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 First Tier Tribunal in June 2019 and in a decision released on 23 March 2020, the determination was in favour of HMRC. Following further advice, the determination has been submitted for appeal. The Group is one of five appellants in the matter, who would benefit from a successful outcome of this case. It is not yet known when the appeal may be heard. The Group is not carrying any asset related to this case and has provided for associated professional fees.

Cash Flow
The profit for the year of £16.4m (2020: £4.3m) generated net cash inflow from operating activities of £45.2m (2020: £7.1m outflow) after adjusting for depreciation of £6.6m (2020: £19.3m) and other items. The movement in working capital for this year was a cash inflow of £48.1m (2020: outflow of £26.2m). The sale of all coal inventory, including the speciality coal inventory sold to HRMS in December 2020 for £24m, was the major factor in releasing working capital.

Investing activities contributed £5.8m (2020: £9.1m) of cash following the receipt of £9.0m (2020: £12.2m) in proceeds of disposal of property, plant & equipment, right of use assets and investment property. £38.1m (2020: £3.8m) of the cash generated from the above was applied in repaying banking facilities and paying the capital on lease contracts. After the payment of £2.3m (2020: £1.4m) in dividends, there was a net increase of £9.8m (2019: £3.1m decrease) in cash balances to £28.3m (2020: £18.5m). After deducting debt of £11.8m (2020: £46.6m), all of which was comprised of leasing debt (2020: £14.6m of leasing debt), the Group's Net Cash position was £16.5m (2020: £28.1m net debt).

Capital Expenditure
Capital expenditure including that on right of use assets and investment properties totalled £6.4m (2020: £7.1m). Depreciation for the year was £6.6m (2020: £19.3m) with the reduction being mainly due to the cessation of mining activities.

Banking Facilities
Following the sale of the speciality coal inventory to HRMS in December 2020, the Group's requirements for banking facilities altered substantially. The Group has changed bankers to Santander and has negotiated a £12m Invoice Discounting facility which will provide flexibility to deal with any short term working capital fluctuations. Importantly, Santander have provided these facilities without the need for a debenture over the Group's assets although debtors will be secured under the Invoice Discounting facility. Additionally, there are no covenants associated with these new arrangements.

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. Under the assumptions used to calculate the schemes' position at 31 May 2021, an asset of £2.9m (2020: £0.8m liability) has been recorded. This excludes the £2.9m (2020: £3.0m) liability associated with the unfunded concessionary fuel scheme. Contributions in the year of £2.0m (2020: £1.9m) have been offset by interest and expenses of £0.2m (2020: £0.3m) and net changes in actuarial measurements of £2.0m (2020: £1.1m). The actuarial movement is accounted for through the Statement of Other Comprehensive Income. The next triennial valuation of the schemes is due as at 31 December 2021.

Covid-19
The Group has taken advantage of the UK Government's support for businesses impacted by Covid-19. In the financial year, £0.8m (2020: £0.5m) was claimed under the Coronavirus Job Retention Scheme. Additionally, as permitted by law, the Group deferred £4.8m of VAT payments. These were accrued and are being paid in instalments over the period from March 2021 to March 2022.

Dividends
The Board is recommending an unchanged final dividend of 4.5p (2020: 4.5p) per share bringing the total for the year to 7.2p (2020: 4.5p). Additionally, the Board is proposing an additional dividend of 12p (2020: nil p) per share which will be paid at the same time as the final dividend. This dividend is being funded by the receipt of an equivalent amount from HRMS.

Share Capital
There are 33,138,756 (2020: 33,138,756) ordinary shares of 10p each in issue of which the Company holds 827,150 (2020: 856,410) in treasury. During the year, 29,260 (2020: 154,796) 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. The Group's cash resources and the availability of the new £12m Invoice Discounting facility provide the Board with confidence that the Group has appropriate liquidity to meet any foreseeable cash requirements. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken. Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. 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
27 July 2021

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 2021.

Membership of the Committee
The Committee consists of the four 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 with the addition of Nicholas Mills following his joining the Board on 9 September 2020. The Board believes that the Committee 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.

Committee Meeting Schedule
The Committee met on four occasions during the year with all members at the time in attendance. The Group Finance Director attends committee meetings by invitation to ensure that the Committee is fully informed of all 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. The internal auditor attended two of the meetings.

For the financial year ending 31 May 2022, the Committee intends to continue with its programme of four meetings to be held during the year so that the work of the Committee is 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 terms of reference are formally reviewed annually to ensure that they meet the Board's expectations of the Committee's remit.

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 judgement that could materially impact reported results. The Committee provides a forum for reporting by the Group's external auditor, and advises the Board on the appointment, independence and objectivity of the external auditor 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 auditor.

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 or any whistleblowing matters which are reported. 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. In addition, this year the Committee reviewed the Board's ESG report and the intention is that it will continue to do so annually going forward.

Activities of the Committee
During the year, the Committee's principal activities comprised:

- Reviewing and approving the Internal Audit programme for the year and monitoring the progress and outcome of that, including reviewing reports from the Internal Auditor;
- Reviewing the Quarterly Risk Report and recommending appropriate actions and responses to the Board;
- Receiving quarterly reports on legal actions which the Group is concerned with;
- Receiving reports on any whistleblowing matters;
- Reviewing and approving changes in the Group's internal control policies and procedures;
- Reviewing the Group's procedures in respect of GDPR;
- Reviewing the draft interim financial statements;
- Reviewing and approving the audit plan proposed by the external auditor;
- Reviewing the draft report and accounts for the year ended 31 May 2021 and recommending their approval to the Board including:
  - Considering the accounting policies adopted for the preparation of the accounts;
  - Considering the key accounting estimates and judgements used in their preparation including but not restricted to contract revenue, contract provisions, impairment of assets and goodwill, mining restoration costs and provisions and post retirement employee benefits;
  - Considering the assumptions used to support the adoption of the going concern basis of accounting taking into account the potential impact of Covid-19;
  - Considering the Risk Management section of the annual report and in particular its completeness and relevance to the accounts;
  - Reviewing the ESG report included in the annual report.

External Auditor
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.

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, £25,000 of non-audit services were provided by PricewaterhouseCoopers LLP relating to miscellaneous assurance services. The Committee is satisfied that the provision of these services, did not compromise the external auditor's independence.

After due and careful enquiry and after reviewing the external auditor's report to the Audit & Risk Committee and discussing the findings with the auditor, the Committee is 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 PricewaterhouseCoopers LLP be proposed for re-election as auditor at the forthcoming Annual General Meeting.

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 seeks to recommend improvements to processes, covering 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 use of computer aided audit techniques to monitor transactional data using the Group's existing management information systems also continue to be developed and monitored, improving the efficiency, scope and effectiveness of the Internal Audit function.

The 2020/21 programme included reviews of compliance with the Approvals and Authorisations Mandate and compliance with a number of the Group's regulatory and legislative requirements. Business unit finance teams were required to complete a self-assessment questionnaire around their key financial controls before Internal Audit carried out targeted testing of particularly high-risk areas to ensure that the controls were operating as described. Procurement processes across the Group, compliance with and testing of the calculations of sums claimed under the Coronavirus Job Retention Scheme and the design and effectiveness of new systems in Hong Kong were also reviewed during the year. No material findings were raised across the audit programme.

The 2021/22 programme will again include cyclical reviews of compliance with the Approvals and Authorisations Mandate, key financial controls and various regulatory requirements. Assurance will also be provided around the contract management framework in place for the HS2 contract, the setting and monitoring of customer credit limits, access to IT systems and applications and incident reporting processes in the coming year. Compliance with the requirements of IR35 and the Construction Industry Scheme (CIS) will also be reviewed in 2021/22.

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. Risk registers at a Business Unit level are reviewed on a quarterly basis, with any material changes being escalated to the Board.

The Risk Management report which follows this report sets out these risks and the steps the Group has taken to mitigate them. The impact of the Covid-19 pandemic on operations both in the UK and abroad remains a risk to the business, although the Group has moved quickly to mitigate the risk where possible in line with evolving government guidance.

With the cessation of mining and the sale of specialty coal to the HRMS joint venture, the risk of a sudden decline in the coal market is no longer seen as a material risk to the Group and has therefore been removed from the Corporate Risk Register. The risk related to the Failure of a Material Business Unit is now focussed on the Group's Joint Venture in Germany, HRMS, as it is contributing an increasing amount of profit to the Group and where the Group has a material amount of capital deployed.

Going Concern Basis of Accounting
The Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. The Group's cash flow model prepared as part of the annual budget and five-year plan process was subjected to a number of stress tests. These included measuring the impact of the deferral of certain specific anticipated revenues (for example in Hargreaves Land and in Specialist Earthworks) alongside other more general sensitivity tests related to reductions in revenue. Additionally, the model was tested for resilience both with and without the availability of the new £12m Invoice Discounting facility. These assumptions and sensitivities were subjected to thorough analysis and review by the external auditor. The Committee questioned both management and the external auditor on the assumptions and testing they had applied and were satisfied to recommend to the Board that the going concern basis of accounting remains appropriate.

The Audit & Risk Committee Report was approved by the Board on 27 July 2021 and signed on its behalf by:

Nigel Halkes FCA
Chairman of the Audit & Risk Committee
27 July 2021

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 in the interest of all stakeholders 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 robust 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 continues to receive 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 the Health and Safety of employees, customers and the public are at the forefront of all Group activities. The Group Chief Executive, supported by both internal and external competent and experienced advice, is charged with overall responsibility. All businesses have formulated and implemented SHE management arrangements consisting of competent staff along with 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 each business. Where appropriate the management procedures are externally certified to internationally recognised standards.

Alongside management systems and legal compliance, the Group recognises the benefits that effective leadership and the 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 plans to carry out annual random site visits each year to see SHE processes at first hand and to emphasise to employees the importance the Board places on SHE activities. Due to the Covid-19 site arrangements with regard to visitors these visits have not been possible during FY2020/21 but are planned to recommence shortly.

The Group has been intensely focused on managing the ongoing risk to the business posed by the Covid-19 pandemic. A Covid-19 steering Group remains in place to ensure a consistent approach is applied across the Group with regards to the application of best practice in keeping our work environments Covid-19 secure and to also ensure a fair and caring approach to employee management and support. As local and national controls change then the Group reviews on a regular basis the working practices required for both legal compliance and effective operational management. An ongoing audit and inspection process is in place in all work locations to ensure controls relevant to the risk of infection are in place and adhered to at all times.

During the last 12 months the Board is pleased to note that the Group's safety performance continued to improve through the delivery of identified improvement plans and objectives. In March 2021 the Group achieved the significant milestone of being lost time incident free for a full year. Alongside this was a marked decrease in the number of plant related incidents and reported environmental issues. We have noted an improvement in the proactive safety measures, including a significant increase in the numbers of near miss and hazard observations reported, highlighting employee engagement in a positive health and safety culture.

Key safety objectives and targets for the next year have been agreed with the aim of building on this year's performance.

Insurance

Following the appointment of Marsh as risk and insurance advisor during the second half of the previous financial year, the Group has worked closely with Marsh to develop processes and reporting in respect of motor and liability claims. This has resulted in the Group having greater insight in respect of ongoing claims, historic claims and claims trends, which has resulted in an improved understanding of risk in relation to the Group's operational activities. In addition, risk management improvements have been implemented (and will continue to be developed and implemented in the future) following a review by Marsh of the Group's motor fleet arrangements.

Corporate Risks

The Board undertakes 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, has been reviewed and updated to reflect the Group's current risk profile. With the cessation of mining and the sale of specialty coal to the HRMS joint venture, the risk of a sudden decline in the coal market is no longer seen as a material risk to the Group and has therefore been removed from the Corporate Risk Register. These areas of risk were selected on the basis that a material adverse event in any one of them could potentially either:

- prevent the Group from achieving its financial or operational objectives or
- 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 and where necessary corrective actions are implemented.

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

- Contractual Risk
- Recruitment & Retention of Key Individuals
- Regulatory & Legislative Compliance
- Environmental Risk
- Fraud
- IT Security
- Liquidity & Credit Risk
- Failure of a Material Business Unit
- Impact of Covid-19

With the cessation of mining in July 2020, the sudden decline in coal markets is no longer a material risk to the Group and has therefore been removed as a corporate risk.

A table describing these risks and the mitigations in place throughout the Group to protect against them is set out on pages 15 to 17.

Key risks	**Mitigation**
Contractual Risk	
Multiple businesses 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. • Contracts have specific risk registers, which are prepared at tender stage and maintained throughout the progress of the contract. These registers highlight the potential risks inherent in a particular contract as well as the controls required to mitigate them. They form a critical part of the management of the contract and are updated regularly throughout.
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 a business within 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.

Key risks	Mitigation
Environmental	
There are inherent environmental risks within some of the Group's operations. If not properly managed, these risks could result in environmental contamination with disruption to 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 and all mining ceased in July 2020. • The Group is in the process of developing its procedures for compliance with the requirements of the Taskforce for Climate-Related Financial Disclosures which are set out in the ESG section of this report.
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. • Fraud risk awareness training has been rolled out across the Group. • Fraud risk is discussed regularly in the Audit & Risk Committee with both internal and external audit. • The Group has many controls and procedures in place to limit the risk of fraud. These controls include, but are not limited to, detailed Authorisation and Approvals Mandates, system automated controls, segregation of duties on particular processes and periodic Internal Audit reviews.
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. • A risk-based IT strategy is in place focusing on four strategic initiatives: technology and innovation, compliance, culture and education and delivery. • Third party hosting of core business applications with a full business continuity and disaster recovery infrastructure as well as regular tiered backup solutions. • Mobile device management applied to all company devices to protect network and data via mobile platforms. • Full Checkpoint security application in place to cover our end-points, VPN connectivity and access to cloud platforms. • Global leading email security application presides over all email traffic, protecting against all targeted threats, phishing, malware and URL protection. • Full user security awareness programme with regular training videos rolled out to all users across the Group.
Liquidity and Credit Risk	
The failure of the Group to maintain access to liquidity could result in a material adverse financial impact for the Group. The Group needs to ensure that sufficient liquid funds are available to meet its contractual demands and wider operational uncertainties, either through available cash reserves or external funding capacity. The Group has put in place a limited invoice discounting facility which provides working capital flexibility in addition to the Group's cash reserves. The Group is no longer dependent on bank borrowings. 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. No single customer represents more than 13% of the Group's debtors at year end.	• Whilst the Group is in a positive cash position, it maintains strong relationships with prospective 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, ranging from daily cash flow forecasting to five year planning together with the annual in-depth going concern review. • The Group regularly 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.

Key risks	Mitigation
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. HRMS has invested in the construction of a carbon pulverisation plant and owns a material steel waste recycling business, however this has not yet achieved critical mass. The Group's share of HRMS profits represents a material contribution to the Group profit before tax. HRMS is independently funded from the Group, however HRMS owes the Group substantial monies in respect of undistributed profits and loans. Additionally, the Group has provided a €5 million guarantee to HRMS' bankers.	• The Group's investment in HRMS is governed by a shareholders' agreement which provides a series of protective 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 and subject to review by Group Finance.
Impact of coronavirus The continued spread and associated effects of the Covid-19 coronavirus may have a significant impact on operations both in the UK and abroad, with key employees potentially requiring self-isolation, customers' business operations being curtailed, and travel and communications being disrupted.	• Pandemic policy has been issued to all staff. • Regular Covid-19 meetings, chaired by the Chief Executive, held to ensure appropriate mitigation is in place wherever possible. • All working locations have been made as Covid-19 secure as possible to protect the safety of our employees and visitors. • IT systems in place to enable key employees to work from home and robust controls implemented in both office and site working environments providing appropriate social distancing and hygiene measures.

Nigel Halkes FCA
Chairman of the Audit & Risk Committee
27 July 2021

ESG Environmental, Social & Governance

ESG refers to the three central factors in measuring the sustainability and societal impact of a company or business.

Environmental
Monitors and reports how the Company controls its impact on the environment

Social
Examines how the Company manages its relationship with employees, suppliers and communities

Governance
Controls and monitors how the Company deals with its leadership, internal controls and shareholders, including in the areas of E & S

Delivering services to the industrial and property sectors, Hargreaves has created a Cross-Business Working Group (ESG Group) to assess procedures, review methods and identify goals to ensure the business is informed, educated and can act on its ongoing ESG responsibilities. The ESG Group will work towards fulfilling the requirements of the Task Force on Climate-related Financial Disclosures (TCFD). The ESG Group's findings will form an integral part of future financial reports and investor presentations and will be regularly reviewed at Board level.

Governance

In light of forthcoming TCFD requirements, the Board is developing its policy towards the oversight of climate-related risks and opportunities.

Strategy

As part of the Board's approach to developing its strategy, climate-related risks and opportunities will be identified over the short, medium and long term and the Group's plans to address them will be developed.

Risk Management

We have established a Cross-Business Working Group to evaluate processes and management reporting methodology in respect of climate-related risks and opportunities.

This will ensure that the processes are embedded in each Business Unit's operations.

Metrics & Targets

The Group currently measures and reports on the Energy Savings Opportunity Scheme (ESOS), Scottish Pollutant Release Inventory (SPRI) and Streamlined Energy and Carbon Reporting (SECR).

As a direct result of the cessation of mining in July 2020, the Group can report a **37% reduction** in methane emissions and a **35% reduction** in CO_2 emissions compared with 2019 at House of Water.

The ESG Group is developing a strategy for TCFD going forward and planning to report and develop metrics as it progresses.

Environmental

Social

Governance

Safety, Health and Environmental (SHE)

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 adverse environmental impacts.

The Board is pleased to note that the Group has an excellent safety record. The Board ensures that the health and safety of employees, customers and the public are at the forefront of all Group activities.

All business areas have formulated and implemented Safety, Health and Environmental (SHE) management arrangements consisting of policies, procedures and objectives to meet both legislative and best practice requirements. SHE performance and delivery are ingrained in operations and day-to-day activities and is always the first item on the agenda of every Board meeting.

Hargreaves, over time, and through experience, has developed some fundamental underlying principles which support and drive our safety culture. These principles are defined as the "Golden Rules".

1. Zero tolerance to drugs and alcohol
2. Risk assess everything you do
3. Work safely and challenge unsafe acts
4. Unsafe conditions – See them, Sort them and Report them

All policies, procedures and objectives meet both legislative and best practice requirements.

The Group has a "Step Back - Speak Up" safety culture which involves all staff and supports everything we do. It encourages individuals to take time to ensure that they and others can always work safely and raise safety concerns with the appropriate people. A weekly safety message is issued to staff covering various topics, such as hazard identification and slip and trip awareness, whilst also encouraging the reporting of unsafe acts.

The Group's Environmental Policy Statement commits us to ensuring that protection and enhancement of the environment is embedded in our Company values and encourages our suppliers and supports our customers in adopting a similar approach. Additionally, our procurement processes require us to evaluate our suppliers' environmental approach as part of our supplier approval process.

Our South African business was recently awarded the regional Top Companies Award for Leading HSE Company 2021 from NOSA VAAL for achieving excellence within the manufacturing sector. In addition, they were awarded regional winner of the NOSA Five Star System for Sector D4, relating to manufacturing and recycling.

During the recent Covid-19 pandemic, risk assessments were completed and shared appropriately. Stringent cleaning, handwashing and hygiene procedures were implemented, in line with government guidelines. Additionally, all reasonable steps have been taken to maintain a two metre distance between workspaces along with adequate ventilation to support those unable to work from home and to enable a safe return to the workplace when government guidelines allow.

The table below lists key Group reporting requirements, commitments and policies relevant to ESG criteria.

- Health and Safety
- EMS certification – ISO14001:2015 and ISO45001:2018
- ESOS – Energy Savings Opportunity Scheme
- SPRI – Scottish Pollutant Release Inventory
- SECR – Streamlined Energy and Carbon Reporting

- CSR Fund to support local groups and charities
- Donations to community activities which employees and their families are involved with
- The Group is a Gold Corporate Partner with Durham Cathedral
- Employee Welfare Fund

- Whistleblowing policy
- Code of Ethics statement
- Modern Slavery statement
- Anti-Corruption & Bribery policy
- Fraud Risk Management policy
- Social Media policy
- Sustainable Supply Chain policy
- GDPR – Information Governance policy
- ISO9001:2015 accreditation

Environmental Engagement

The Group recognises the potential impact of its activities on the environment. The Group is committed to mitigating its impact on the environment through the application of robust Environmental Management Systems to review, manage, control and improve its environmental performance on an ongoing basis. The Group is committed to demonstrating its environmental performance improvement in accordance with all relevant legislation through robust measurement systems and appropriate goal setting, tracking and reporting. It is the Group's intention to achieve its business aims while meeting rising environmental standards.

The Group seeks to:

- Comply with all relevant environmental legislation and agreements
- Use best practice to control its impact on the environment
- Drive improvements in energy efficiency that will deliver a reduction in energy consumption and emissions
- Prevent pollution to land, air and water throughout its operations
- Set, and regularly review, objectives and targets to reduce its environmental impacts through continuous improvement
- Integrate a robust Environmental Management System based on a recognised international standard into its Business Units and activities
- Work with suppliers and customers to reduce the environmental impact of products and transport services and ensure that procurement policies consider the potential impact on the environment
- Manage transport in an efficient manner to reduce the impact on the environment
- Utilise by-products of operations wherever possible to recover value and reduce environmental impacts
- Encourage waste reduction, recycling and the re-use of products wherever possible through the implementation of waste hierarchy strategies
- Communicate the Group's environmental strategy to all employees through training, information and supervisions and make it available to stakeholders and third parties

We provide services to the Scottish Mines Restoration Trust (SMRT) in relation to the restoration of former opencast coal mining sites that were previously owned and mined by third parties that went into liquidation. SMRT is an independent non-profit making organisation which restores old opencast sites, bringing them back into community use. The Group has worked closely with SMRT since 2014 in the provision of site management and other services as part of the restoration of seven former opencast coal mining sites for the benefit of local communities and other community interest groups. Where applicable, we measure gas oil consumption and waste production against specific project criteria; the former having the greatest carbon impact.

One of the key activities of Hargreaves Land is the redevelopment of brown field sites to bring them back into productive use for both residential and employment purposes. At the present time over 1200 acres of brown field land is in the process of being redeveloped by the Company. In addition to enabling the development of new homes and creating employment opportunities, an important aspect of these brownfield site developments is the creation of new ecological habitats that enhance and expand biodiversity and the redevelopment of such brown field sites helping to reduce the development pressure on greenfield land and minimise adverse impacts on the environment.

From its ESOS report, the Group has identified three areas of potential energy saving opportunities. Opportunity One – continue to build on the work the Logistics business is undertaking in terms of fuel energy management systems and energy efficiency programmes through driver awareness training. All drivers undertake training to enable them to drive efficiently, including reducing coasting, engine idling and harsh braking, and awareness of Green Band optimisation. These key factors are monitored, along with driver behaviour, by telematics and ultimately use less fuel, consequently reducing the cost and emissions of each truck in the fleet; Opportunity Two – identify where benefits can be gained by monitoring, analysing and acting on the data obtained directly from our yellow plant assets via the manufacturer's on-board telemetry systems, attempting to reduce idling time; and Opportunity Three – determine if there are any economic, operational and environmental benefits from using Hydrogenated Vegetable Oil (HVO) to power an HGV in comparison to a standard diesel-powered HGV. Notwithstanding the 15% increased cost of using the HVO, initial trial findings indicate a 90% reduction in CO_2 emissions per truck, compared to those powered by diesel, over similar mileage and MPG. A 10% reduction in AdBlue usage was also identified. For each area of significant energy consumption, an energy audit showed compliance with the ESOS Scheme. Within the Logistics business, where our fleet may carry dangerous goods, this is monitored by Total Compliance in accordance with ADR, CDG and DGSA regulations. Findings are then analysed, and any recommendations implemented.

Scope 1 and 2 Global GHG emissions:	Tonnes of CO_2e 2020	Tonnes of CO_2e 2021	Reduction %
Combustion of fuels in operations and services provided	46,063	19,236	*58.2%*
Electricity, steam, heat and cooling for own use	676	546	*19.2%*
Total footprint	**46,739**	**19,782**	***57.7%***
Emissions reported above per employee	26.8	15.7	*41.4%*
Scope 3			
Business travel (air, rail and vehicles)	2,207	2,163	*2.0%*

In compliance with Streamlined Energy and Carbon Reporting (SECR) regulations, the Group publishes its annual global emissions using "tonnes of CO_2 equivalent" for all fully consolidated subsidiaries on the same basis used for annual accounts preparation. The reporting period for Green House Gas (GHG) emissions is 1 June 2020 to 31 May 2021. The table below highlights the reduction in GHG emissions for this reporting period compared to the previous year.

Many of our offices are fitted with energy saving auto-light switches which are triggered by movement. This lighting automatically switches off in low traffic areas and during non-office hours. Additionally, Group offices recycle paper, envelopes and card which is disposed of responsibly by a third party.

Due to the diverse nature of the Group, different Business Units hold different environmental accreditations. Both our business in Hong Kong and our Specialist Earthworks business are accredited to ISO45001:2018 and our UK Industrial Services business and Logistics business both hold ISO14001:2015 and ISO45001:2018, in addition to ISO9001:2015.

Hargreaves Environmental Services is currently investigating a business opportunity for carbon sequestration consultancy with a specific focus on its own landbank options within Scotland. A pilot programme for carbon capture, through tree planting at Chalmerston, with the potential sequester of 75,000 tonnes of carbon, is being investigated. The business is currently working with its partner, Birken Tree, to drive this initiative forward. Additionally, following restoration work at the ex-surface mining site of Powharnal in Scotland, 200,000 trees have been planted on the approximate 418 hectare site.

Our Environmental Services business has already remediated over 1,800 acres of ex-mining land with the potential for a further large landbank within the Group, which could allow us to continue this sustainable work for at least the next 5 years. The business believes that following this additional land recovery, it could further enhance the sites by tree planting, which would create carbon capture opportunities.

Following the pilot programme at Chalmerston, the plan would be to investigate other disused mining sites to understand if they too could be remediated, restored and ultimately trees planted in order to enhance the Group's carbon capture capability. Hargreaves Environmental Services is developing their expertise in the field of carbon sequestering and trading in order to not only assist the Group but also consult and partner with other 3rd party companies on how they too can build volumes of forestry carbon capture sites.

Social Engagement

Engage our People

At Hargreaves, people are our most important asset, and their safety and wellbeing is our number one priority. Fostering openness and respect are our key objectives. We value everyone and strive to work as a cohesive team. We invest significantly in our people and their working environment by creating and maintaining a safe and healthy working environment and ensuring their ongoing professional and personal development.

On commencement of employment, all employees undergo baseline health screening within three months of starting with us. They are then, depending on their role, added to a scheduled health surveillance programme.

To identify how the business can improve, we utilise engagement surveys, employee communication meetings, monthly update calls, newsletters, and e-shots. We feed back results through these channels and our "You Said - We Did" boards, to hold us accountable for identified actions.

The Group provides a confidential whistleblowing hotline, which enables all employees to report their work-related concerns to Safecall, an external and impartial organisation. These concerns are then passed onto the Group's Whistleblowing Officer with complete anonymity, who will then complete a thorough investigation and advise any relevant actions to be taken. These matters are reported to the Group's Audit & Risk Committee.

We also provide an Employee Assistance Programme (EAP) - "Better Together". This is a confidential service that can be accessed for advice and support on personal and financial matters not only by our employees but also members of their household.

To help support our employees and their families, the Group has a Welfare Fund that can be used to give financial support to individuals in the event of unexpected hardship.

The Company is committed to providing a range of development opportunities to enable its people to maximise their potential for the benefit of their own career aspirations and the needs of the business. Additional education is one of those development opportunities and has the added function of enabling people to achieve professional qualifications. The Company believes that such opportunities should be available to all employees who meet the criteria and will ensure the criteria are consistently and fairly applied and cover employees at all levels and grades, including full-time, part-time, permanent and fixed-term employees, managers, directors, trainees, and homeworkers.

The Group works in partnership with local colleges to provide apprenticeship schemes in various areas of the business from HGV fitters to data and technology roles. Additionally, in conjunction with local training providers, we provide commercial training schemes for trainee HGV drivers.

During the recent Covid-19 pandemic, whilst our employees adapted exceptionally well to the various challenges and restrictions, our focus was on flexibility, focusing on supporting our employees with all aspects of their lives from working at home, to childcare, to being available whenever they need a chat to discuss their mental health and wellbeing.

The Group is working with a mental health specialist to train identified individuals as Mental Health First Aiders. These First Aiders will be trained to spot the early symptoms of a variety of conditions, such as stress and depression, and to signpost individuals to their GP or an appropriate organisation.

Due to the diverse nature of the Group, the Company's e-newsletter, "Solutions", is issued on a bi-annual basis with the aim of informing employees about what is happening within the different areas of the Group. Employee feedback is welcomed, along with suggestions for future articles.

Support Local Communities

The Group believes in teamwork, and we make every effort to involve ourselves with local communities around our sites, for example, by sponsoring local sports teams, donating equipment for local support groups, and contributing our time to assist those in need, all the while benefitting from the satisfaction our colleagues gain from working together and helping others. For the financial year beginning 1 June 2021, the Group has designated a special

"We continuously engage with our people at a local and Group level. We do this through communications and engagement, information, and consultation, to assist them in realising their full potential. Our communication forums include messages from our CEO, Safety Forums with elected employee representatives and Managing Directors' quarterly business updates."

CSR fund which will be used to support charities, as well as local groups and initiatives that employees are actively involved with. The Group is proud to be a Gold Corporate Partner of Durham Cathedral, contributing to their work in supporting the local communities of the World Heritage site. In return for our support, the Cathedral provides benefits for employees and their families.

On an annual basis, we support the national Jeans for Genes Day and Breast Cancer Now campaign. Additionally, during the Covid-19 pandemic, the business replaced our annual Secret Santa event, opting instead to provide essential supplies to a local food bank.

In relation to the Company's former mining activities at Field House, which commenced in June 2018 and ended in July 2020, the Company contributed 20 pence per tonne of coal mined and transported from the Field House site to a Community Fund for the provision of environmental improvements and other benefits to local communities. A total of £93,000 was contributed to the Community Fund for distribution to local community projects.

More recently, Industrial Services supported the local community of Rotherham by providing materials, free of charge, to help re-site a WW1 memorial. The fitting tribute is once again on display for the community.

During November 2020, our South African business collaborated with Cape Gate and the Itireleng Task Team to improve the residential area of Boipatong and assist with repairing local roads, and improving the area next to Lebohang Secondary School, where a park has been created for use by the local community.

Governance

As part of the development of our governance structure to manage environmental and social risks, and opportunities, we have established an ESG Cross-Business Working Group to review the Group's strategy on environmental and social matters. The ESG Group is a cross-functional working group led by a Business Unit MD and works alongside the Business Units to collect information for our climate related disclosures and to assess the opportunities which climate change might afford the Group. The ESG Group also aims to ensure that we have a consistent group-wide approach to assessing environmental and social issues including climate related risks and mitigation. Furthermore, the ESG Group also considers future strategy on managing climate related risks and disclosures particularly in light of the forthcoming implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). When those requirements are determined, the ESG Group will develop appropriate targets and metrics and evolve procedures to deliver them.

The ESG Group reports to the Audit & Risk Committee. The Board has implemented policies in respect of governance matters listed earlier in this statement, which outline the Group's approach and governance arrangements in respect of particular environmental and social matters. The Board will continue to develop its governance arrangements in respect of environmental and social issues in the forthcoming year, including changes required as a result of the requirements of TCFD. The Group's other Corporate Governance procedures are set out on pages 29 to 32.

Board of Directors

Roger McDowell (aged 66)

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, Proteome Sciences plc, British Smaller Companies VCT2 PLC, Brand Architekts Group plc, Flowtech Fluidpower plc, Dovehoco 201 Limited, Disperse Ltd and Augean plc.

Gordon Banham (aged 57)

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. Gordon is currently a Director of Robertson Homes (East Anglia) Limited.

John Samuel (aged 64)

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 currently serves on the Board of the Yorkshire Air Ambulance and Ilkley Toy Museum Limited. 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 54)

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 65)

Non-Executive Director

Nigel was appointed to the Board in August 2015 and serves as Senior Independent Director and Chairman of the Audit & Risk 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, key relationships, and business development. 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 is the Deputy Chair of Visit England and is a Non-Executive Director of Tribal Group plc and is a Trustee of Polka Children's Theatre. Nigel's extensive professional experience brings rigour and insight to the Board particularly with regard to financial accounting and risk management.

Chris Jones (aged 55)

Non-Executive Director

Chris joined the Board in April 2020 and serves as Chairman of the Remuneration Committee. He is a property consultant and chartered surveyor with over 30 years' direct experience working with a broad range of organisations within the UK investment and development sectors of the commercial property market. As a founding partner of his investment practice - Christopher Dee, based in Manchester, he has provided advice to a range of private and institutional clients on all aspects of commercial property investment, development, and funding work. Chris retains a role within Christopher Dee LLP to manage a UK wide unit linked property investment fund, where he reports directly to their board on all strategic matters. Chris is currently a Director of Witton Street Nominee 1 Limited, Witton Street Nominee 2 Limited, The Creative Property Group Ltd and Doon Villa Holdings Ltd.

Nicholas Mills (aged 30)

Non-Executive Director

Nick joined the Board in 2020 as Non-Executive Director. He has been employed by Harwood Capital LLP since 2019 after spending 5 years at Gabelli Asset Management in New York. He acted primarily as a Research Analyst covering the multi-industrial space and also gained experience in Merger Arbitrage strategies and marketing Closed End Funds. He has a Bachelor of Science Degree from Boston College's Carroll School of Management. Nick is currently a Director of Harwood Capital Management (Gibraltar) Limited, Growth Financial Services Limited, 62 Pont Street Freehold Ltd and Circassia Group Plc.

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 31 May 2021.

Principal Activities
The principal activities of the Group during the year were the provision of haulage services, waste transportation, mineral import, mining and processing of coal, mechanical and electrical engineering and materials handling, dealing in plant and machinery, the development and sale of land, civil engineering, and specialist earthworks. Coal mining ceased in July 2020.

Results and Proposed Dividend
The Group profit after tax for the year was £16,406,000 (2020: profit after tax of £4,270,000). Following the payment of an interim dividend of 2.7p per share on 6 April 2020, the Directors recommend a final dividend for the year ended 31 May 2021 of 4.5p per share.

The Directors also propose to declare an additional dividend of 12 pence per ordinary share to be funded from the receipt of dividends to be paid to the Company by Hargreaves Services Europe Limited.

It is proposed that the final dividend and additional dividend will be paid on 29 October 2021 to shareholders on the register on 17 September 2021. The shares will be ex-dividend on 16 September 2021. The proposed dividends have not been provided for in these financial statements as they were not declared and approved before the year end.

Outlook
The current trading and outlook for the Group are disclosed within the Chairman's Statement in the Strategic Report above.

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
Christopher Jones
Nicholas Mills (appointed on 9 September 2020)

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 26.

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 (held by GB Holdings (2021) Limited)	Ordinary	**2,646,825**	2,646,825
Roger McDowell	Ordinary	**350,000**	300,000
Nigel Halkes	Ordinary	**5,000**	5,000
Christopher Jones	Ordinary	**62,910**	–
Nicholas Mills*	Ordinary	**–**	–
John Samuel	Ordinary	**28,000**	28,000
David Anderson	Ordinary	**32,775**	32,775

Nicholas Mills is an employee of Harwood Capital LLP, which owns 9,200,000 ordinary shares of the Company.

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 6 August 2023. No Director exercised any awards during the year.

Director	Exercise price per share	Date of share award	Number of shares awarded
Gordon Banham	10 pence per ordinary share	5 August 2020	63,927
John Samuel	10 pence per ordinary share	5 August 2020	63,927
David Anderson	10 pence per ordinary share	5 August 2020	51,370

These options were granted under the Hargreaves Services plc Executive Share Option Scheme 2020.

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, Nicholas Mills, who was appointed to the Board during the year, also offers himself for re-election.

Disclosable Interests

At 23 July 2021, the Company had been notified 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
Harwood Capital	9,200,000	28.50%
Canaccord Genuity Group	3,250,599	10.06%
GB Holdings (2021) Limited	2,646,825	8.20%
Downing	2,262,577	7.00%
Schroder Investment Management	1,948,516	6.03%
Axxion S.A.	1,600,000	4.96%
NFU Mutual	1,360,000	4.21%

The above disclosures are in accordance with the last TR1 notification to the Company by shareholders. GB Holdings (2021) Limited is a company which is wholly owned by Gordon Banham, the Chief Executive.

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, including financial and economic matters, through their reporting systems. The Group intranet also provides regular information to employees to inform them of developments within the Group.

Directors' Section 172(1) Statement

The Board acknowledges its responsibility under section 172(1) of the Companies Act 2006 and sets out below the key processes and consideration that demonstrate how the Directors promote the success of the Group.

The below statement sets out the requirements of the Act, section 172(1), and note how the Directors discharge their duties.

As noted in the Corporate Governance Report on pages 29 to 32, the Group is headed by an experienced and 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. Each decision that is made by the Directors is supported by papers which analyse the possible outcomes so that an appropriate decision can be made based upon the likely impact on the performance and position of the Group. This enables a decision to be made which best promotes the success of the Group and considers the impact on the wider stakeholder group. Factors below, are all considered during the decision-making process.

Likely consequences of any decisions in the long term

As part of the Board's decision-making process, they are given access to management papers which set out the potential outcome of decisions. The papers evaluate both the financial impact against forecast, as well as non-financial factors and how the decision fits with the strategy of the Group. Through a well-designed system of internal reporting and control the Board has devolved certain levels of autonomy to management to run and develop the business of the Group.

The Group has an annual budget and five-year plan which is reviewed regularly to benchmark performance and achievements against its long-term strategy. Each year the Board holds a session with each of the business unit Managing Directors and other senior management to review and reconsider the strategy of each business unit. This includes consideration of market conditions and opportunities, investment requirements and capital allocation, the overhead cost base and margins. The Board then considers the outlook for the entire Group and the opportunities to create, deliver and realise value for shareholders. A principal decision taken during the year was the cessation of mining operations and the subsequent sale of speciality coal inventory to HRMS in December 2020 for £24m. This was the major factor in releasing working capital. The Board's strategy is focused on delivering reliable and growing profits in its Services business, strengthening the pipeline of development projects in Hargreaves Land and supporting the growth of value in its German Joint Venture.

Interests of the Group's employees
The Directors actively consider the interest of employees in all major decisions. 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.

As part of the Group's response to Covid-19, senior management, including the CEO, business unit managing directors and HR representatives, have met regularly to consider and implement actions to safeguard our employees. Government advice has been monitored, followed and any necessary steps implemented both in the office and site environments to minimise the risk to employees. These steps include the provision of appropriate personal protective equipment, hand sanitisers and signage and precautions to maintain social distancing. Working from home has been facilitated in accordance with government guidance where employees have been able to carry out their duties from home.

The Group also operates various LTIP schemes for the Directors and other senior employees based on performance criteria. The Board believes this encourages employee engagement in promoting the success of the Group and aligning the financial interests of the Executive Directors and other senior employees with those of the shareholders.

The need to foster the Group's business relationships with suppliers, customers and others
The Directors have identified the stakeholders of the Group and review regularly to ensure adequate communication and engagement is ongoing with each stakeholder group. 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 them to improve decision making. For key customers and suppliers, appropriate due diligence is undertaken around their working practices and ethics as well as their financial stability and viability.

One of our strategic priorities is our commitment to the highest practicable standards of health and safety, which has enabled us to secure and maintain valuable contracts, as detailed in "Impact of the Group's operations on the community and environment" below.

Impact of the Group's operations on the community and environment
The Group takes its responsibility within the community and wider environment seriously. 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 in the Environmental, Social and Governance report at pages 18 to 23 and "Principle 8: Promote a corporate culture that is based on ethical values and behaviours" of the Corporate Governance Report). The Group publishes its annual global emissions in compliance with the streamlined energy and carbon reporting ("SECR") regulations detailed in "Carbon emissions" below. This demonstrates the Group's reducing carbon footprint following the cessation of coal mining operations.

The desirability of the Group maintaining a reputation for high standards of business conduct
The Group is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The Group's approach in relation to complying with each of the ten principles of the QCA Code is set out in the Corporate Governance Report on pages 29 to 32.

To strengthen further Group compliance with corporate governance, the Board undertakes a self-assessment annual performance review. The assessment provides 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 2021 review has been carried out with the Board focusing on those areas where one or more of the Directors had indicated a concern. As a result of the appointment of Christopher Jones and Nicholas Mills as Non-Executive Directors, the Board noted a significant improvement in respect of the Board size and having the appropriate balance of competencies, experiences, skills and knowledge.

The Group has a strong ethical culture based upon its Code of Ethics which can be found on the Group's website. The Group's reputation is built on its values as a Group, 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. Where there is a need to seek advice on particular issues, the Board will liaise with its lawyers and nominated advisors to ensure the consideration of business conduct, and its reputation is maintained.

The need to act fairly between members of the Group
An important role of the Board is to represent and promote the interests of the Group's shareholders as well as being accountable to them for the performance and activities of the Group. The Board engages with its shareholders 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 Group's brokers following investor road shows after half-year and year-end results. The Board incorporates this feedback into its decision-making processes. Although shareholders were prohibited from attending the Annual General Meeting in 2020 due to UK government and Public Health England restrictions in respect of COVID-19, shareholders were given an opportunity to submit written questions in advance. The Group provides contact details on the investor relations page of its website and in the notice to the 2021 Annual General Meeting which investors can use to contact the Group, giving equal access to all investors and potential investors.

Carbon emissions

In compliance with the streamlined energy and carbon reporting ("SECR") regulations, the Group publishes its annual global emissions using "tonnes of CO_2 equivalent". The reporting period for GHG emissions is 1 June 2020 to 31 May 2021. The Group has taken the exemption to report prior period emissions in the first year of reporting. The Group's first Environmental, Social and Governance report can be found at pages 18 to 23, which contains further details on carbon emissions.

Scope 1 and 2 Global GHG emissions:	Tonnes of CO_2e 2021	Tonnes of CO_2e 2020
Combustion of fuels in operations and services provided	**19,236**	46,063
Electricity, steam, heat and cooling for own use	**546**	676
Total footprint	**19,782**	46,739
Emissions reported above per employee	**15.7**	26.8

Scope 3	Tonnes of CO_2e 2021	Tonnes of CO_2e 2020
Business travel (air, rail and vehicles)	**2,163**	2,207

The Group has demonstrated its desire to reduce the level of greenhouse gas emissions through the cessation of coal mining. This has not only reduced the downstream impact of coal supplied into power stations and heavy industry but also will reduce the volume of fuel required to undertake the mining operations.

Methodology

The Group follows ISO14064:1 standard for its reporting and takes the operational control approach to reporting. The conversion of units of fuel used into tonnes of CO_2e has been done utilising the UK Government Conversion Factors 2020.

Scope 1 emissions have been calculated by taking the total number of litres of fuel used in operations during the reporting period and converting them to tonnes of CO_2e using the appropriate conversion factor.

Scope 2 emissions have been calculated by taking the total kwh of electricity and gas used at the Groups premises during the reporting period and concerting them to tonnes of CO_2e using the appropriate conversion factor.

Scope 3 emissions have been calculated by taking the total litres of fuel purchased for business travel as well as an estimate of emissions for business flights.

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 29 October 2020. The Directors will seek authority to make market purchases of up to fifteen per cent of the Company's own shares at the 2021 Annual General Meeting (full details are available in the 2021 Notice of Annual General Meeting).

Approval to Issue Shares

The Directors will seek authority to allot up to a maximum aggregate nominal amount of £1,077,054 at the 2021 Annual General Meeting (full details are available in the 2021 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 PricewaterhouseCoopers 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 2021 Notice of Annual General Meeting).

By order of the Board

John Samuel
Company Secretary
27 July 2021

Corporate Governance

The Company is committed to maintaining high standards of corporate governance and has adopted 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. Whilst this policy sets out the Board's position, measures to deal with the threat from Covid-19 may mean that certain of these steps may have to be adapted to ensure the safety of all concerned.

Deliver Growth

Principle 1: Establish a strategy and business model which promote 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. The Group's business model is evolving, evidenced by the cessation of mining, towards services and property development. The risks to the Group posed by this transition have been evaluated by the Board and continue to be on a regular basis. These risks and the Board's views on the mitigations which balance them, are set out in the Risk Management section of this 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 (although, due to UK government and Public Health England restrictions as a result of COVID-19, external shareholders were unable to attend to the 2020 Annual General meeting). 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 2021:

Attendance at meetings	Board	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Number of meetings	13	4	8	1
Gordon Banham	13 attended	n/a	n/a	n/a
Nigel Halkes	13 attended	4 attended	8 attended	1 attended
John Samuel	13 attended	n/a	n/a	n/a
Roger McDowell	13 attended	4 attended	8 attended	1 attended
David Anderson	13 attended	n/a	n/a	n/a
Christopher Jones	13 attended	4 attended	8 attended	1 attended
Nicholas Mills (appointed 9 September 2020)	8 attended	4 attended	5 attended	1 attended

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 judgement 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 Group Legal Counsel who assists the Company Secretary. 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 four 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. Whilst 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 has two other independent Non-Executive Directors.

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 the 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 Solicitor who assists 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 Singer Capital Markets.

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, which was carried out using a self-assessment questionnaire, the Board debated categories where at least one Director awarded a score of less than 3 out of 5.

As set out in our 2020 Annual Report, following 2019's performance review, 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 appointed Christopher Jones as Non-Executive Director on 1 April 2020. Additionally, Nicholas Mills was appointed on 9 September 2020. The 2021 performance review noted a significant improvement in scores awarded by Directors in respect of the size of the Board and the Board having the appropriate balance of competencies, experiences, skills and knowledge.

Alongside the annual performance review, the Chairman conducts an informal appraisal in respect of the Group Chief Executive 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 Whistleblowing 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 Whistleblowing 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 competition law and awareness of the consequences of not adhering to Group policies. The Group's Whistleblowing Policy is used to encourage staff to raise concerns in the knowledge that concerns raised in good faith will be taken seriously and investigated.

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 put in place processes and policies to comply with the General Data Protection Regulation ("GDPR") and has a Data Protection Officer who is responsible for: managing information governance; implementing the requirements of GDPR; and arranging for online training to be given to appropriate employees.

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. To protect employees, customers and contractors, the Group has implemented a series of measures to safeguard against the threat posed by Covid-19 both in the office environment and at sites details of which are set out in the Risk Management section of this Annual Report.

Environmental, Social and Governance

We are developing a Cross-Business Working Group to assess procedures, review methods and identify goals to enable balanced judgements to be made going forward. The Cross-Business Working Group will work towards the requirements of the Task Force on Climate-related Financial Disclosures ("TCFD"). The Cross-Business Working Group's findings will form an integral part of future financial reports and investor presentations. Further details can be found together within the Environmental, Social and Governance report at pages 18 to 23. Pages 18 to 23 also set out the Group's approach in respect of environmental engagement, social engagement and governance of environmental and social matters.

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 has been chaired by Christopher Jones since the 2020 Annual General Meeting 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. 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 judgement 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 ESG Working Group will also report to the Committee. The Committee meetings are also attended, by invitation, by the Chief Executive and Group Finance Director. The Committee meets not less than four 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.

Nominations Committee

The Nominations Committee, which is chaired by Roger McDowell and comprises the Non-Executive Directors and the Group Chief Executive, 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.

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 and minority representation. In making senior appointments the Board will give particular weight to addressing diversity in the constitution of senior management including directors.

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 27 July 2021.

Roger McDowell
Chairman
27 July 2021

Remuneration Report
Christopher Jones, 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:
- to ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders;
- to ensure that performance-related elements of remuneration constitute a material proportion of an executive's remuneration package; and
- to 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 eight occasions during the year, were:

Christopher Jones (Chair from 28 October 2020)
Nigel Halkes (Chair until 28 October 2020)
Roger McDowell
Nicholas Mills (appointed 9 September 2020)

All members of the Committee are Non-Executive Directors and are recognised by the Board as capable of bringing independent judgement to bear. During the year, the Board appointed a further Non-Executive Director, Nicholas Mills, who joined the Board and the Committee on 9 September 2020. Christopher Jones became Chair of the Committee after the 2020 Annual General Meeting, allowing Nigel Halkes to focus on his role as Chair of the Audit & Risk Committee. The Group Chief Executive is consulted and invited to attend meetings, when appropriate. 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. No Director can be present when his own remuneration is discussed.

During the year the Committee reviewed and considered the proposed appointment of all new employees whose basic salary was in excess of £100,000; annual pay rises and conditions of service for all employees earning over £100,000 per annum; bonus scheme arrangements; the vesting and granting of Long-Term Incentive Plans; the principles governing 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. Due to Covid-19, the Committee decided to defer the 2020 annual salary review, which is normally carried out at 1 June, until the impact of Covid-19 on trading and market conditions facing the Group could be better understood. The review was implemented in September 2020 but backdated to 1 June 2020. A cost of living increase of 1% was awarded at that date to all employees although no such award was made to the Executive Directors. During the year, there have been no changes to the benefits which the Executive Directors receive. The Committee is again recommending that there be no increase in the salaries of the Executive Directors for the year ending 31 May 2022.

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 2021, the Committee also set some specific cash targets for the Group which would have resulted in a further deduction of 10% of any bonus earned should they not have been achieved. The total bonus which could have been earned was capped at 100% of salary in respect of the Chief Executive and the Group Finance Director and 75% in respect of the Group Property Director. Bonuses do not count towards the calculation of pension

entitlement. The bonus target for the financial year ended 31 May 2021 was achieved and accordingly total bonuses amounting to £931,000 have been earned. No bonuses were earned in respect of the financial year ended 31 May 2020. Similar criteria have been set in respect of bonus arrangements for the financial year ending 31 May 2022. As part of the terms of his recruitment, David Anderson received a guaranteed bonus of £40,000 for the year ended 31 May 2020. A similar entitlement applied to the year ended 31 May 2021 and the £40,000 forms part of his total bonus for that financial year. No such entitlement applies for the year ending 31 May 2022.

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.

At the Annual General Meeting held on 30 October 2019, shareholders approved a new Long Term Incentive Plan, the Hargreaves Services plc Executive Share Option Scheme, under which all awards are now made. Details of this LTIP and awards made under it are set out below.

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 £40,000 per annum. Additionally, the other Non-Executive Directors receive an additional £2,500 per annum for chairing each Board Committee and N Halkes receives £2,500 for acting as Senior Independent Director. These salaries were not increased in the year ended 31 May 2021 and there is no proposal to increase them for the year ending 31 May 2022.

Directors' Remuneration for the Year to 31 May 2021 (Audited)

	Salary/Fees		Bonus		Benefits		Total		Pension	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Gordon Banham	**470**	470	**470**	–	**56**	53	**997**	523	**118**	118
John Samuel	**280**	280	**280**	–	**19**	19	**579**	299	**42**	42
David Anderson	**225**	225	**169**	40	**17**	45	**410**	310	**45**	45
Roger McDowell	**80**	80	**–**	–	**–**	–	**80**	80	**–**	–
Nigel Halkes	**45**	45	**–**	–	**–**	–	**45**	45	**–**	–
Christopher Jones	**43**	7	**–**	–	**–**	–	**43**	7	**–**	–
Nicholas Mills	**29**	–	**–**	–	**–**	–	**29**	–	**–**	–
Total	**1,172**	1,107	**919**	40	**92**	117	**2,183**	1,264	**205**	205

Notes:

David Anderson's contract includes a guaranteed bonus of £40,000 for the year ended 31 May 2021.
Christopher Jones's emoluments in 2020 represent the period from 1 April 2020 to 31 May 2020.
Nicholas Mills' emoluments in 2021 represent the period from 9 September 2020 to 31 May 2021.

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	2020/21 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	280,000	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	3 months
21 August 2015	Nigel Halkes	Non-Executive Director	21 August 2015	45,000	n/a
1 April 2020	Christopher Jones	Non-Executive Director	1 April 2020	42,500	n/a
9 September 2020	Nicholas Mills	Non-Executive Director	9 September 2020	40,000	3 months

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. At 31 May 2021, no Director holds any rights to subscribe for shares in Group companies.

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

The Hargreaves Services plc Executive Share Option Scheme

At the Annual General Meeting held on 30 October 2019, the Hargreaves Services plc Executive Share Option Scheme ("the Executive Share Option Scheme"), was approved by shareholders. The scheme contains performance criteria measuring both the Company's own Total Shareholder Return over a three-year period and also measuring 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 will be made annually under the Executive Share Option Scheme to Executive Directors and other senior management as determined by the Committee. The following awards were granted in the year ended 31 May 2021:

Director	Date of grant	Exercise price	No. of options granted	Exercise period
Gordon Banham	5 August 2020	10p per share	63,927	6 Aug 2023-5 Aug 2025
John Samuel	5 August 2020	10p per share	63,927	6 Aug 2023-5 Aug 2025
David Anderson	5 August 2020	10p per share	51,370	6 Aug 2023-5 Aug 2025

Additionally, the following awards were granted in the year ended 31 May 2020:

Director	Date of grant	Exercise price	No. of options granted	Exercise period
Gordon Banham	13 December 2019	10p per share	48,894	14 Dec 2022-13 Dec 2024
John Samuel	13 December 2019	10p per share	48,894	14 Dec 2022-13 Dec 2024

The performance criteria uses 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 is 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 is split equally between two parts as follows:

1. 50% of the Option is 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 lapses and ceases 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 is based on a linear calculation between the 25% growth and 100% growth outcomes from zero at 25% growth to 100% at 100% growth or greater.

2. 50% of the Option is 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 is 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) is then 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 lapses and is not 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% at the median position to 100% for ranking first (rounded up to the nearest whole number of Shares).

No option shall be granted under the Executive Share Option Scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the Executive Share Option Scheme together with 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.

The Hargreaves Services plc Share Option Scheme 2019

On 22 January 2019, shareholders in general meeting approved an 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 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 lapses five years after the date of the grant, except if the participant dies, in which case the option lapses 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 lapse if the minimum performance criterion is not met.

No further options will be granted under the Share Option Scheme 2019.

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

Deferred Bonus Scheme

A Deferred Bonus Scheme ("the Deferred Bonus Scheme") was implemented in December 2019. Deferred Bonus Scheme H was implemented on 5 August 2020 when a total of 62,448 options were granted to two employees, neither of whom is a Director. Details are set out in Note 26 to the financial statements. Additionally, on 1 October 2020, Deferred Bonus Scheme I was implemented when a total of 38,835 options were granted to an employee who is not a Director.

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 is then converted into a number of shares using the mid-closing price of a Hargreaves Services plc ordinary share on the day preceding the award. Other than serving the retention period of three years from the date of award, the Deferred Bonus Scheme has no performance criteria.

The Remuneration Committee Report was approved by the Board on 27 July 2021 and signed on its behalf by:

Christopher Jones
Chair of the Remuneration Committee
27 July 2021

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 financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006:

Under company law, 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 company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

In the case of each Director in office at the date the directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Independent Auditors' Report
to the members of Hargreaves Services plc

Report on the audit of the financial statements
Opinion
In our opinion, Hargreaves Services plc's group financial statements and parent company financial statements (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 2021 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2021 (the "Annual Report"), which comprise: the Group and Parent Company Balance Sheets as at 31 May 2021; the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Group and Parent Company Statements of Changes in Equity and the Group and Parent Company Cash Flow Statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

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

Our audit approach
Overview
Audit scope

The group is structured along four segments being Services, Hargreaves Land, Hargreaves Services Europe 'HSEL' with the remaining areas of the group included in an Unallocated segment. The group financial statements are a consolidation of the 111 reporting units within these four segments including the group's centralised functions.

Given the significance of the components to the group's revenue, Hargreaves Industrial Services Limited, and the bulk haulage and minerals divisions of Hargreaves (UK) Services Limited were considered significant components.

For further coverage Hargreaves Services plc and Blackwell Earthmoving Limited were included as full scope components.
Specific audit procedures were performed over certain financial statement line items across a further 15 reporting units.

Key audit matters
- Risk of impairment to assets – Investments in subsidiaries and joint ventures (parent company)
- Impact of COVID-19 (group and parent company)

Materiality
- Overall group materiality: £2,050,000 (2020: £2,198,000) based on 1% of revenue.
- Overall parent company materiality: £1,200,000 (2020: £1,453,000) based on 1% of total assets.
- Performance materiality: £1,537,500 (group) and £900,000 (parent company).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Contracting risk within C.A Blackwell (Contracts) Limited and risk of impairment to goodwill and intangible assets, which were key audit matters last year, are no longer included because of the settlement of legacy contracts during the year, leaving the contracting risk at year end to be minimal and the fact that the majority of the goodwill and intangible assets were impaired in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment to assets – Investments in subsidiaries and joint ventures (parent company) The parent company has investments of £26.0 million (including investments in associates and joint ventures) (2020: £34.9 million). A total impairment of £9.1 million has been recorded by management in the current year in respect of investment balances within Hargreaves Services plc. The risk we have focused on is that these non-current assets could be overstated and a further impairment charge may be required. The determination of whether or not these non-current assets are impaired involves subjective judgements and estimates about the future results and cash flows of the business. On an annual basis, management calculate the amount of headroom between the value in use of the parent company's Cash Generating Units ("CGUs") and their carrying value to determine whether there is a potential impairment of the investments relating to those CGUs. The value in use of the CGU with respect to the investment held in Hargreaves Services plc is dependent on a number of key assumptions which include: • Forecast cash flows for the next five years; • A long-term (terminal) growth rate applied beyond the end of the five year forecast period; and • A discount rate applied to the model. See the accounting policies section within the financial statements for disclosure of the related accounting policies, judgements and estimates and Note 15 for detailed investment disclosures within the financial statements.	We understood and evaluated management's budgeting and forecasting process. Upon obtaining the parent company's impairment analysis we tested the reasonableness of the key assumptions, including the following: • Verifying the mathematical accuracy of the impairment models and agreeing the carrying value of non-current assets being assessed for impairment to the balance sheet; • We challenged management's calculated weighted average cost of capital (WACC) used for discounting future cash flows within the impairment model, utilising valuation experts to assess the cost of capital for the group and comparable organisations. It was identified that the WACC used by management was above an acceptable range and as such we built this difference into our procedures and performed sensitivity analysis to ascertain the impact on the valuation of investments. This only increased the level of headroom in the impairment model; • We traced the forecast financial information within the model to the latest Board approved budget and 5 year plan and challenged management to provide support to corroborate revenue and margin assumptions, support for capital expenditure and considered the accuracy of previous forecasts and we consider that the assumptions were supported by appropriate evidence; • We performed sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and to quantify the downside changes needed before an impairment would be required at the CGU level; and • We have reviewed the financial statement disclosures made with respect to the sensitivity of the WACC, cash flows and growth rates and we consider these to be appropriate. We have also considered the impact of which COVID-19 has had on future cash flows for each CGU with further detail on procedures performed included within the 'Impact of COVID-19' Key audit matter below. In summary, we found, based on our audit work, the carrying value of investments to be acceptable. We also considered the disclosures made within the financial statements and considered these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (group and parent company) COVID-19 was declared a global pandemic by the World Health Organisation on 11 March 2020 and the on-going response is having an unprecedented impact on the economy which was considered as part of the audit. Because of its significance to the financial statements and to our audit, we determined that management's consideration of the potential impact of COVID-19 on going concern is a key audit matter. In relation to the group's going concern assessment, the Directors have prepared a 'base case' cash flow forecast for the period to 30 November 2022 reflecting what they believe the impact of the COVID-19 pandemic to be on future cash flows. The group's forecast cash flows contain assumptions over revenue, profitability and cash generation. These forecasts have been stress-tested for severe but plausible scenarios that could impact the group, as referred to within the Going Concern and COVID-19 disclosures in Note 1 – Accounting Policies. These scenarios included a severe but plausible reduction within 3 key divisional revenue streams over the course of the forecast period and includes the deferral of significant cash receipts across the group and also includes mitigating factors such as the option to suspend the final dividend payment, the deferral of staff pay increases and bonuses and the deferral of a number of land projects.	In assessing management's consideration of the potential impact of COVID-19, we undertook the following procedures: • We obtained and assessed management's board report that details the group's assessment and conclusion with respect to their ability to continue as a going concern; • We evaluated the historical accuracy of the budgeting process to assess the reliability of the data; • We evaluated management's board approved base case forecast and COVID-19 downside scenarios, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating actions are within their control and can be taken on a timely basis if needed; • We reviewed the forecasted divisional revenue streams and margins, making comparisons with FY21 actuals to ensure they are appropriate and accurately feed into the forecast model; • We understood the mitigating actions taken by management, including the option to suspend the final dividend payment; • We reviewed management's sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact on future cash flows; • We reviewed the disclosures included within the Annual Report and consider these to be appropriate; and • We are satisfied that appropriate financing is in place to support the going concern assumption. The group has total cash on hand of £28.3m at year end. Our conclusion in respect of going concern is included in the "Conclusions related to going concern" section below. We have reviewed management's disclosures in the financial statements in relation to COVID-19 and are satisfied that they are consistent with the risks affecting the group, their impact assessment and the procedures that we have performed.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The group is structured along four segments being Services, Hargreaves Land, Hargreaves Services Europe 'HSEL' with the remaining areas of the group included in an Unallocated segment. The group financial statements are a consolidation of the 111 reporting units within these four segments including the group's centralised functions.

We, as the group engagement team, audited all components based in the UK. The HSEL segment based overseas, being DK Recycling und Roheisen GmbH and Hargreaves Raw Materials Services GmBH, have been audited by PwC component auditors. The group audit team supervised the direction and execution of the audit procedures performed by the component team. Our involvement in their audit process, including attending component clearance meetings, review of their reporting results and their supporting working papers, together with the additional procedures performed at group level, gave us the evidence required for our opinion on the financial statements as a whole.

Given the significance of the components to the group's revenue, Hargreaves Industrial Services Limited, and the bulk haulage and minerals divisions of Hargreaves (UK) Services Limited were considered 3 significant components. For further coverage Hargreaves Services plc and Blackwell Earthmoving Limited were included as 2 full scope components.

Specific audit procedures were performed over administrative expenses, amortisation and impairment of intangible assets, amounts owed from group entities, cash and cash equivalents, deferred tax assets, inventory, investment property, other financial assets, other operating income, property, plant and equipment, retirement benefit obligations, revenue, investments in joint ventures, share of profit in joint ventures and trade and other receivables across a further 15 reporting units. This, together with additional procedures performed on the group's centralised functions, gave us the evidence we needed for our opinion on the group financial statements as a whole.

As a result of this scoping we obtained coverage over £169.2 million (83%) of the group's external revenues.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – parent company
Overall materiality	£2,050,000 (2020: £2,198,000).	£1,200,000 (2020: £1,453,000).
How we determined it	1% of revenue	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the annual report, 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.	We believe that total assets are considered to be appropriate as it is not a profit oriented company. The parent company is a holding company only and therefore total assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £598,000 and £1,844,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,537,500 for the group financial statements and £900,000 for the parent company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £102,500 (group audit) (2020: £109,000) and £60,000 (parent company audit) (2020: £109,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained and assessed management's board report that details the group's assessment and conclusion with respect to their ability to continue as a going concern;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- We evaluated management's board approved base case forecast and COVID-19 downside scenarios, and challenged the adequacy and appropriateness of the underlying assumptions, including the level and period of reduction in revenue and timing of significant cash receipts, and confirmed management's mitigating actions are within their control and can be taken on a timely basis if needed. We reviewed the composition of costs at a divisional level within the forecasts to ensure they were prepared on a consistent and appropriate basis;
- We reviewed the latest trading results for the year to date in 2021 including trading within the lockdown period and compared to management's budget, FY20 actuals and revised forecasts, and considered the impact of these actual results on the future forecast period;
- We reviewed management's sensitivity scenarios and we challenged management to run further downside scenarios in order to assess the possible impact on future cash flows; and
- We reviewed the disclosures included within the Annual Report and consider these to be appropriate.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 May 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to AIM Rules for Companies, health & safety regulations, environmental regulations and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to the statement of profit and loss and other comprehensive income, or through management bias in manipulation of accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Inquiry of management and those charged with governance around actual and potential litigation claims;
- Review minutes of meetings of those charged with governance;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Reviewing legal expenditure in the year to identify potential non-compliance with laws and regulations;
- Identifying and testing journal entries, in particular any journal entries with unusual account combinations;
- Challenging assumptions and judgements made by management in their significant accounting estimates and consideration of the impact of COVID-19 on going concern;
- Reviewing the internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nicholas Cook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle
27 July 2021

Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 May 2021

Continuing operations	Note	2021 £000	2020 £000
Revenue	2	**204,796**	222,242
Cost of sales		**(181,453)**	(199,385)
Gross profit		**23,343**	22,857
Other operating income	3	**3,821**	5,288
Administrative expenses		**(29,234)**	(26,840)
Operating (loss)/profit		**(2,070)**	1,305
Analysed as:			
Operating profit (before exceptional items and impairment charges)		**4,751**	4,563
Exceptional items	5	**(2,186)**	(1,683)
Impairment of intangible assets	14	**(4,635)**	(1,575)
Operating (loss)/profit		**(2,070)**	1,305
Finance income	8	**646**	845
Finance expenses	8	**(1,882)**	(2,134)
Share of profit in joint ventures (net of tax)	15	**17,680**	2,135
Profit before tax		**14,374**	2,151
Taxation	9	**2,032**	2,119
Profit for the year from continuing operations		**16,406**	4,270
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	25	**1,956**	(1,129)
Tax recognised on items that will not be reclassified to profit or loss	9	**(319)**	283
Items that are or may be reclassified subsequently to profit or loss			
Foreign exchange translation differences		**(1,806)**	366
Equity adjustment relating to adoption of IFRS 16		**–**	(161)
Effective portion of changes in fair value of cash flow hedges		**136**	83
Tax recognised on items that are or may be reclassified subsequently to profit or loss	9	**(25)**	(11)
Other comprehensive expense for the year, net of tax		**(58)**	(569)
Total comprehensive income for the year		**16,348**	3,701

	Note	2021 £000	2020 £000
Profit/(loss) attributable to:			
Equity holders of the Company		**16,426**	4,315
Non-controlling interest		**(20)**	(45)
Profit for the year		**16,406**	4,270
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**16,368**	3,746
Non-controlling interest		**(20)**	(45)
Total comprehensive income for the year		**16,348**	3,701
Basic earnings per share (pence)	10	**50.84**	13.40
Diluted earnings per share (pence)	10	**49.38**	13.11

Non-GAAP Measures

Basic underlying earnings per share from continuing operations (pence)*	10	**70.66**	19.87
Diluted underlying earnings per share from continuing operations (pence)*	10	**68.64**	19.44

* See Alternative Performance Measures Glossary on page 95.

Group and Parent Company Balance Sheets
at 31 May

		Group		Company	
	Note	2021 £000	2020 £000	2021 £000	2020 £000
Non-current assets					
Property, plant and equipment	11	**13,806**	15,561	**–**	–
Right-of-use assets	12	**13,776**	15,845	**–**	–
Investment property	13	**7,607**	9,216	**–**	–
Intangible assets including goodwill	14	**4,824**	9,418	**–**	–
Investments in joint ventures	15	**31,187**	14,093	**4,984**	4,984
Investments in subsidiary undertakings	15	**–**	–	**21,009**	29,940
Deferred tax assets	18	**10,084**	8,332	**–**	–
Retirement benefit surplus	25	**2,911**	–	**–**	–
		84,195	72,465	**25,993**	34,924
Current assets					
Other financial assets	16	**2**	65	**2**	–
Inventories	19	**27,168**	64,009	**–**	–
Trade and other receivables	20	**78,260**	71,316	**77,680**	130,239
Income tax asset		**59**	8	**–**	–
Contract assets	21	**1,720**	11,456	**–**	–
Cash and cash equivalents	22	**28,303**	18,499	**18,591**	–
		135,512	165,353	**96,273**	130,239
Total assets		**219,707**	237,818	**122,266**	165,163
Non-current liabilities					
Other interest-bearing loans and borrowings	23	**(8,586)**	(9,437)	**–**	–
Retirement benefit obligations	25	**(2,867)**	(3,768)	**–**	–
Provisions	27	**(2,495)**	(1,679)	**–**	–
		(13,948)	(14,884)	**–**	–
Current liabilities					
Other interest-bearing loans and borrowings	23	**(3,179)**	(37,186)	**–**	(34,346)
Trade and other payables	24	**(53,334)**	(43,362)	**(25,265)**	(22,754)
Provisions	27	**(4,907)**	(12,088)	**–**	(1,000)
Income tax liability		**–**	–	**(382)**	(568)
Other financial liabilities	17	**(43)**	(243)	**–**	–
		(61,463)	(92,879)	**(25,647)**	(58,668)
Total liabilities		**(75,411)**	(107,763)	**(25,647)**	(58,668)
Net assets		**144,296**	130,055	**96,619**	106,495

	Note	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £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	**(2,132)**	(326)	**–**	–
Merger reserve	28	**1,022**	1,022	**1,022**	1,022
Hedging reserve	28	**285**	174	**2**	–
Capital redemption reserve	28	**1,530**	1,530	**1,530**	1,530
Share-based payment reserve	28	**1,680**	1,462	**1,680**	1,462
Retained earnings*		**64,441**	48,703	**15,116**	25,212
		144,306	130,045	**96,619**	106,495
Non-controlling interest		**(10)**	10	**–**	–
Total equity		**144,296**	130,055	**96,619**	106,495

* The Company's loss for the year was £7.8m (2020: profit of £3.0m)

The notes on pages 52 to 94 form an integral part of these financial statements.

These financial statements on pages 52 to 94 were approved by the Board of Directors on 27 July 2021 and were signed on its behalf by:

Gordon Banham
Director

Registered number: 4952865

Group and Parent Company Statements of Changes in Equity
for year ended 31 May 2021

Group (Note 28)	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity £000
At 1 June 2019	3,314	73,955	(692)	102	211	1,530	1,022	1,139	46,841	127,422	55	127,477
Total comprehensive income/(expense) for the year												
Profit/(loss) for the year	–	–	–	–	–	–	–	–	4,315	4,315	(45)	4,270
Other comprehensive income/(expense)												
Foreign exchange translation differences	–	–	366	–	–	–	–	–	–	366	–	366
Effective portion of changes in fair value of cash flow hedges	–	–	–	83	–	–	–	–	–	83	–	83
Equity adjustment relating to adoption of IFRS 16*	–	–	–	–	–	–	–	–	(161)	(161)	–	(161)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(1,129)	(1,129)	–	(1,129)
Tax recognised on other comprehensive income	–	–	–	(11)	–	–	–	–	283	272	–	272
Total other comprehensive income/(expense)	–	–	366	72	–	–	–	–	(1,007)	(569)	–	(569)
Total comprehensive income/(expense) for the year	–	–	366	72	–	–	–	–	3,308	3,746	(45)	3,701
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	323	–	323	–	323
Dividends paid	–	–	–	–	–	–	–	–	(1,446)	(1,446)	–	(1,446)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	323	(1,446)	(1,123)	–	(1,123)
At 31 May 2020	**3,314**	**73,955**	**(326)**	**174**	**211**	**1,530**	**1,022**	**1,462**	**48,703**	**130,045**	**10**	**130,055**

Group (Note 28)	Share capital £000	Share premium £000	Translation reserve £000	Hedging reserve £000	Other reserves £000	Capital redemption reserve £000	Merger reserve £000	Share-based payment reserve £000	Retained earnings £000	Total Parent equity £000	Non-controlling interest £000	Total equity* £000
At 1 June 2020	**3,314**	**73,955**	**(326)**	**174**	**211**	**1,530**	**1,022**	**1,462**	**48,703**	**130,045**	**10**	**130,055**
Total comprehensive income/(expense) for the year												
Profit/(loss) for the year	–	–	–	–	–	–	–	–	16,426	16,426	(20)	16,406
Other comprehensive income/(expense)												
Foreign exchange translation differences	–	–	(1,806)	–	–	–	–	–	–	(1,806)	–	(1,806)
Effective portion of changes in fair value of cash flow hedges	–	–	–	136	–	–	–	–	–	136	–	136
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	1,956	1,956	–	1,956
Tax recognised on other comprehensive income	–	–	–	(25)	–	–	–	–	(319)	(344)	–	(344)
Total other comprehensive income/(expense)	–	–	(1,806)	111	–	–	–	–	1,637	(58)	–	(58)
Total comprehensive income/(expense) for the year	–	–	(1,806)	111	–	–	–	–	18,063	16,368	(20)	16,348
Transactions with owners recorded directly in equity												
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	218	–	218	–	218
Dividends paid	–	–	–	–	–	–	–	–	(2,325)	(2,325)	–	(2,325)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	218	(2,325)	(2,107)	–	(2,107)
At 31 May 2021	**3,314**	**73,955**	**(2,132)**	**285**	**211**	**1,530**	**1,022**	**1,680**	**64,441**	**144,306**	**(10)**	**144,296**

Group and Parent Company Statements of Changes in Equity
for year ended 31 May 2021 continued

Company (Note 28)	Share capital £000	Share premium £000	Hedging reserve £000	Capital redemption reserve £000	Merger reserve £000	Share- based payment reserve £000	Retained earnings £000	Total Parent equity £000
At 1 June 2019	3,314	73,955	–	1,530	1,022	1,139	23,627	104,587
Total comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	3,031	3,031
Total comprehensive income for the year	–	–	–	–	–	–	3,031	3,031
Transactions with owners recorded directly in equity								
Equity-settled share-based payment transactions	–	–	–	–	–	323	–	323
Dividends paid	–	–	–	–	–	–	(1,446)	(1,446)
Total contributions by and distributions to owners	–	–	–	–	–	323	(1,446)	(1,123)
At 31 May 2020 and 1 June 2020	**3,314**	**73,955**	**–**	**1,530**	**1,022**	**1,462**	**25,212**	**106,495**
Total comprehensive (expense) for the year								
Loss for the year	–	–	–	–	–	–	(7,771)	(7,771)
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges	–	–	2	–	–	–	–	2
Total other comprehensive income for the year	–	–	2	–	–	–	–	2
Total comprehensive income/(expense) for the year	–	–	2	–	–	–	(7,771)	(7,769)
Transactions with owners recorded directly in equity								
Equity-settled share-based payment transactions	–	–	–	–	–	218	–	218
Dividends paid	–	–	–	–	–	–	(2,325)	(2,325)
Total contributions by and distributions to owners	–	–	–	–	–	218	(2,325)	(2,107)
At 31 May 2021	**3,314**	**73,955**	**2**	**1,530**	**1,022**	**1,680**	**15,116**	**96,619**

Group and Parent Company Cash Flow Statements
for year ended 31 May 2021

	Note	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Cash flows from operating activities					
Profit/(loss) for the year from continuing operations		**16,406**	4,270	**(7,771)**	3,031
Adjustments for:					
Depreciation and impairment of property, plant and equipment and right-of-use assets	11, 12	**6,562**	19,305	**–**	–
Impairment of goodwill and intangible assets	14	**4,635**	1,575	**–**	–
Net finance expense	8	**1,236**	1,289	**1,038**	858
Share of profit in joint ventures (net of tax)	15	**(17,680)**	(2,135)		–
Impairment of investment in subsidiaries	15	**–**	–	**9,149**	2,071
Profit on sale of property, plant and equipment, investment property and right-of-use assets	3	**(3,667)**	(2,851)	**–**	–
Equity-settled share-based payment expenses	26	**218**	323	**–**	–
Income tax (credit)/expense	9	**(2,032)**	(2,119)	**175**	507
Contributions to defined benefit pension schemes	25	**(2,039)**	(1,858)	**–**	–
		3,639	17,799	**2,591**	6,468
Change in inventories		**36,841**	(15,969)	**–**	–
Change in trade and other receivables		**2,012**	12,611	**52,559**	(16,138)
Change in trade and other payables		**9,268**	(22,863)	**2,511**	3,792
Change in provisions and employee benefits		**(5,212)**	2,740	**(1,000)**	1,000
		46,548	(5,682)	**56,661**	(4,878)
Interest paid		**(1,194)**	(1,104)	**(1,038)**	(782)
Income tax paid		**(127)**	(272)	**(361)**	(552)
Net cash inflow/(outflow) from operating activities		**45,227**	(7,058)	**55,262**	(6,212)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**3,125**	8,717	**–**	–
Proceeds from sale of investment property		**5,040**	2,045	**–**	–
Proceeds from sale of right of use assets		**753**	1,410	**–**	–
Acquisition of property, plant and equipment		**(2,727)**	(2,728)	**–**	–
Acquisition of investment property		**(390)**	(324)	**–**	–
Net cash inflow from investing activities		**5,801**	9,120	**–**	–
Cash flows from financing activities					
Principal elements of lease payments	23	**(6,085)**	(8,769)	**–**	–
Dividends paid	28	**(2,325)**	(1,446)	**(2,325)**	(1,446)
(Repayment of)/proceeds from Group banking facilities	23	**(32,000)**	5,000	**(32,000)**	5,000
Net cash (outflow)/inflow from financing activities		**(40,410)**	(5,215)	**(34,325)**	3,554
Net increase/(decrease) in cash and cash equivalents		**10,618**	(3,153)	**20,937**	(2,658)
Cash and cash equivalents at 1 June		**18,499**	21,583	**(2,346)**	312
Effect of exchange rate fluctuations on cash held		**(814)**	69	**–**	–
Cash and cash equivalents at 31 May	22, 23	**28,303**	18,499	**18,591**	(2,346)

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

Notes
(forming part of the financial statements)

1 Accounting Policies

Hargreaves Services plc (the "Company", "Parent Company") is a public company limited by shares and 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 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 accounting standards in conformity with the requirements of the Companies Act 2006. 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.

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, applies to all revenue recognition, "Construction Contracts", insofar as the Group carries out construction contracts in its Services 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. Construction contract revenue in the year ended 31 May 2021 was £6.9m (2020: £15.7m).

b) 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 former 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 at 31 May 2021 is £2.5m (2020: £5.9m).

c) Contract Provision

The Group has made provisions against contract assets and potential contract liabilities which require judgements to be made regarding recoverable amounts and reasonably possible costs which may be incurred. The nature of these items are such that their timing and quantum is uncertain and so the Directors have made judgements based upon the facts as they are known at the date of this report. The view has been taken that all of these items could potentially occur within the next 12 months and so all of the provision has been classified as current. The carrying value of contract provisions at 31 May 2021 is £4.9m (2020: £6.8m).

d) 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 net surplus of the defined benefit schemes in the balance sheet at 31 May 2021 is £0.0m (2020: £3.8m deficit).

e) 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

f) Treatment of the Jointly controlled entity

Management have considered the level of control of each of the Group's individual Joint Venture arrangements 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 coal mine in South Wales. The mine ceased to operate in 2016 and restoration work is ongoing. 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 that Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

Hargreaves Services Europe Limited ("HSEL") (consolidated entity), is a material joint venture to the Group. HSEL owns 100% of Hargreaves Raw Materials Services GmbH ("HRMS") which 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 speciality mineral 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 in HSEL, with the remainder being held by the HRMS management team. One of the four Directors is appointed by the Group. 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 accounts for the investment as a joint venture.

On 10 December 2019, HRMS acquired 94.9% of DK Recycling und Roheisen GmbH ("DK") from DK Holdings GmbH. The acquisition cost was €1. By virtue of its shareholder agreement with HRMS, the Group is effectively entitled to 81.6% of the profits of DK, however the Group does not exert control over that business.

Waystone Hargreaves Land LLP (the Unity JV) is a material joint venture between the Group and a third party. The purpose of this joint venture is to develop land owned or controlled by each of the parties. The strategic business decisions of the joint venture are taken by the Board of the Unity JV. This is reflected in the equal representation on that Board of each investing party and the ownership of voting rights is split 50:50 between both parties.

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.

Impact of Covid-19

The Group has not seen a significant impact on its trading and results for the year ended 31 May 2021 as a result of Covid-19. The Group continues to monitor the situation closely but the Board does not currently consider Covid-19 to be a material risk to the Group. There has been no impact of Covid-19 on the accounting estimates and judgements.

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.

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

The financial statements were approved by the Board of Directors on 27 July 2021.

1 Accounting Policies continued

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.

Application of the Equity Method to Joint Ventures

Joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost, or fair value where cost is lower than fair value at acquisition. 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 and joint ventures 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.

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.

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.

Depreciation of right-of-use assets is based on the same categorisation as above.

1 Accounting Policies continued

Mining Assets

All mining assets and mineral reserves were disposed in the year ended 31 May 2021.

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.

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.

Lease accounting policy

The Group has relied upon the exemption under IFRS 16 to exclude the impact of low-value leases and leases that are short-term in nature (defined as leases with a term of 12 months or less). Costs on these leases are recognised on a straight-line basis as an operating expense within the income statement. All other leases are accounted for in accordance with this policy.

The Group has various lease arrangements for properties (e.g. office buildings and storage facilities), vehicles, and other equipment including plant and machinery. At the inception of a lease contract, the Group assesses whether the contract conveys the right to control the use of an identified asset for a certain period of time and whether it obtains substantially all the economic benefits from the use of that asset, in exchange for consideration. The Group recognises a lease liability and a corresponding right-of-use asset with respect to all such lease arrangements in which it is a lessee.

A right-of-use asset is capitalised on the balance sheet at cost which comprises the present value of future lease payments determined at the inception of the lease adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred in addition to an estimate of costs to remove or restore the underlying asset. Where a lease incentive is receivable, the amount is offset against the right-of-use asset at inception. Right-of-use assets are depreciated using the straight-line method over the shorter of the estimated life of the asset or the lease term and are assessed in accordance with IAS 36 'Impairment of Assets' to determine whether the asset is impaired and to account for any loss.

The lease liability is initially measured at the present value of lease payments as outlined above and is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Lease payments comprise fixed lease rental payments only with the exception of property, which also includes the associated fixed service charge. Lease liabilities are classified between current and non-current on the balance sheet.

The key estimate applied by management relates to the assessment of the incremental borrowing rate adopted by the Group to discount the future lease rentals to present value in order to measure the lease liabilities. The weighted average rate applied by the Group at transition was 3.7%.

Sub leases

If an underlying asset is re-leased by the Company to a third party and the Company retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The Company continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to Lessor Accounting in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease).

After classification lessor accounting is applied to the sublease.

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.

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. Land is not depreciated.

All investment properties within the Group currently relate to Land.

Investments
Investments in joint ventures 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.

1 Accounting Policies continued

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.

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.

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 non-routine 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 continues to 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.

1 Accounting Policies continued

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.

Government Grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. The Group received UK Government grants in relation to the Coronavirus Job Retention Scheme. The Group did not benefit directly from any other forms of UK Government assistance. There are no unfulfilled conditions and other contingencies attaching to the government assistance that has been recognised.

Property

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

Rebates

From time to time the Group may offer a rebate on the sale of goods. The rebate is recognised at the point of sale as a reduction in revenue recorded. Should the rebate not become due then additional revenue is booked to reflect this at the point at which it becomes clear the rebate will not be payable.

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.

Net Financing Costs

Net financing costs comprise interest payable, finance charges on 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 where 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. The effect is not deemed material for any the Group's provisions.

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
Certain new accounting standards and interpretations have been published that are not mandatory for 31 May 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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

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

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

2 Segmental Information continued

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

	Services 2021 £000	Hargreaves Land 2021 £000	Unallocated 2021 £000	HSEL 2021 £000	Total 2021 £000
Revenue					
Total revenue	194,600	11,800	–	–	206,400
Intra-segment revenue	(1,604)	–	–	–	(1,604)
Revenue from external customers	**192,996**	**11,800**	**–**	**–**	**204,796**
Operating profit/(loss) (before exceptional items and impairment)	**6,691**	**2,530**	**(4,470)**	**–**	**4,751**
Share of profit in joint ventures (net of tax)	–	4,069	–	13,611	17,680
Net financing costs	(1,614)	(338)	716	–	(1,236)
Impairment of intangibles	(4,635)	–	–	–	(4,635)
Exceptional items	(2,186)	–	–	–	(2,186)
Profit/(loss) before taxation	**(1,744)**	**6,261**	**(3,754)**	**13,611**	**14,374**
Taxation	591	(114)	1,555	–	2,032
Profit/(loss) after taxation	**(1,153)**	**6,147**	**(2,199)**	**13,611**	**16,406**
Depreciation charge	(6,135)	(103)	(323)	–	(6,561)
Capital expenditure	(3,381)	(23)	(216)	–	(3,620)
Net assets/(liabilities)					
Segment assets	77,900	55,820	54,800	–	188,520
Segment liabilities	(60,078)	(6,990)	(8,343)	–	(75,411)
Segment net assets	**17,822**	**48,830**	**46,457**	**–**	**113,109**
Joint ventures	–	4,051	–	27,136	31,187
Total net assets	**17,822**	**52,881**	**46,457**	**27,136**	**144,296**

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

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

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

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

The following table analyses revenue by significant category:

	2021 £000	2020 £000
Sale of goods	**83,589**	75,734
Provision of services	**93,170**	130,849
Other/Construction contracts	**28,037**	15,659
	204,796	222,242

The timing of revenue recognition is analysed as follows:

	Services 2021 £000	Hargreaves Land 2021 £000	Unallocated 2021 £000	Total 2021 £000
Over time	**77,000**	**3,452**	**–**	**80,452**
At a point in time	**115,996**	**8,348**	**–**	**124,344**
Revenue	**192,996**	**11,800**	**–**	**204,796**

	Services 2020 £000	Hargreaves Land 2020 £000	Unallocated 2020 £000	Total 2020 £000
Over time	102,711	259	–	102,970
At a point in time	113,314	5,958	–	119,272
Revenue	216,025	6,217	–	222,242

Geographical Information

	2021		2020	
	Revenue £000	Non-current assets £000	Revenue £000	Non-current assets £000
UK	**142,295**	**83,737**	190,023	72,092
Europe	**34,971**	**–**	5,220	–
Hong Kong	**25,387**	**445**	24,896	346
Other overseas	**2,143**	**13**	2,103	27
	204,796	**84,195**	222,242	72,465

3 Other Operating Income/(expense)

	2021 £000	2020 £000
Profit on disposal of property, plant and equipment	**860**	2,519
Profit on disposal of investment property	**3,041**	870
Loss on disposal of right-of-use assets	**(234)**	(538)
Profit on disposal of subsidiary undertakings	**154**	2,437
Total other operating income	**3,821**	5,288

4 Expenses and Auditors' Remuneration

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

	2021 £000	2020 £000
Impairment of goodwill and other intangibles	**4,635**	1,575
Depreciation of property, plant and equipment owned	**2,604**	6,820
Depreciation of right-of-use assets	**3,493**	5,992
Depreciation of mining assets and mineral reserves	**465**	6,493
Interest payable on right-of-use leases	**577**	675
Expense relating to short-term leases	**2,845**	2,369
Expense relating to leases of low-value assets that are not shown above as short-term	**676**	1,150

Auditors' Remuneration:

	2021 £000	2020 £000
Audit of these financial statements	**116**	67
Amounts receivable by the Company's auditor and its joint ventures in respect of:		
Audit of financial statements of subsidiaries of the Company	**289**	300
Audit of financial statements of joint ventures of the Company	**166**	146
Other assurance services	**25**	10

5 Exceptional Items

The Group incurred one exceptional item in the year as follows:

	2021 £000	2020 £000
Exceptional item in Revenue		
Reduction in value of legacy contracts in C.A. Blackwell (Contracts) Limited	**–**	(933)
Total exceptional item in Revenue	**–**	(933)
Exceptional items in Cost of sales		
Losses on legacy contracts in C.A. Blackwell (Contracts) Limited	**(2,186)**	(487)
Cessation of coal mining activities	**–**	(4,108)
Movement in provision in respect of the insolvency of British Steel	**–**	1,408
Total exceptional items in Cost of sales	**(2,186)**	(3,187)
Exceptional item in Other operating income		
Gain on disposal of Drakelands Restoration Limited	**–**	2,437
Total exceptional item in Other operating income	**–**	2,437
Total	**(2,186)**	(1,683)

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

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

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

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

6 Staff Numbers and Costs

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

	Number of employees Group	
	2021	2020
Directors and senior management	**19**	17
Administration	**216**	263
Production	**1,032**	1,462
	1,267	1,742

The aggregate payroll costs of these persons were as follows:

	Group	
	2021 £000	2020 £000
Wages and salaries	**51,819**	67,646
Share-based payments (see Note 26)	**218**	323
Social security costs	**3,963**	5,319
Contributions to defined contribution pension scheme (see Note 25)	**2,113**	2,831
Expenses of defined benefit pension schemes (see Note 25)	**141**	233
	58,254	76,352

The Company has no employees (2020: nil).

7 Directors' Remuneration

	2021 £000	2020 £000
Directors' emoluments	**2,183**	1,264
Company contributions to defined contribution pension schemes	**205**	205
	2,388	1,469

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £997,000 (2020: £523,000), and £118,000 (2020: £118,000) was paid in lieu of Company pension contributions.

The detailed breakdown of the Directors' total emoluments is included within the Remuneration Report.

	Number of Directors	
	2021	2020
Retirement benefits are accruing to the following number of Directors under:		
Defined contribution schemes	**3**	3
The number of Directors who exercised share options was	**–**	–
The number of Directors in respect of whose services shares were received or receivable under long-term incentive schemes was	**4**	4

None of the Directors hold any rights to subscribe for shares in the Group (2020: nil).

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

8 Finance Income and Expense

Recognised in Profit or Loss

	2021 £000	2020 £000
Finance income		
Bank interest receivable	**114**	156
Early settlement discount	**228**	260
Foreign exchange gain	**96**	270
Interest received from jointly controlled entities	**208**	159
Total finance income	**646**	845
Finance expense		
Total interest expense on financial liabilities measured at amortised cost	**1,263**	1,379
Interest payable on leases	**577**	675
Interest on defined benefit pension scheme obligation (see Note 25)	**42**	80
Total finance expense	**1,882**	2,134

9 Taxation

Recognised in the Income Statement

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

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

Recognised in Other Comprehensive Income

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

Reconciliation of Effective Tax Rate

	2021 £000	2020 £000
Profit for the year from continuing operations	**16,406**	4,270
Total tax credit	**(2,032)**	(2,119)
Profit excluding taxation from continuing operations	**14,374**	2,151
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	**2,731**	409
Effect of tax rates in foreign jurisdictions	**(143)**	(13)
Tax effect of joint ventures	**(2,586)**	(405)
Previously unrecognised tax losses	**(92)**	(678)
Non-deductible expenses	**894**	395
Impact of change in tax rates	**(2,736)**	(885)
Other temporary trading differences	**17**	–
Adjustment in respect of previous periods	**(117)**	(942)
Effective total tax credit	**(2,032)**	(2,119)

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

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

10 Earnings per Share

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

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

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

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

Notes
(forming part of the financial statements) continued

11 Property, Plant and Equipment
Group

	Freehold land and buildings and leasehold improvements £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 2019	11,698	4,666	72,084	407	12,948	2,335	104,138
Acquisitions	151	181	1,201	8	1,260	–	2,801
Disposals	(49)	(57)	(24,867)	–	–	–	(24,973)
Transfers	–	(41)	–	41	–	–	–
Transfer to right-of-use assets	–	–	(18,190)	–	–	–	(18,190)
Effect of movements in foreign exchange	(3)	2	(312)	(3)	–	–	(316)
At 31 May 2020	11,797	4,751	29,916	453	14,208	2,335	63,460
At 1 June 2020	11,797	4,751	29,916	453	14,208	2,335	63,460
Acquisitions	69	283	3,242	26	–	–	3,620
Disposals	(28)	(736)	(9,207)	(12)	(14,208)	(2,335)	(26,526)
Transfers	–	62	–	(62)	–	–	–
Effect of movements in foreign exchange	(2)	(25)	94	(3)	–	–	64
At 31 May 2021	**11,836**	**4,335**	**24,045**	**402**	**–**	**–**	**40,618**
Accumulated depreciation and impairment							
At 1 June 2019	4,640	3,893	40,118	374	8,671	914	58,610
Depreciation	304	522	5,980	14	5,072	1,421	13,313
Disposals	–	(57)	(18,718)	–	–	–	(18,775)
Transfers	–	(41)	–	41	–	–	–
Transfer to right-of-use assets	–	–	(5,004)	–	–	–	(5,004)
Effect of movements in foreign exchange	(2)	–	(239)	(4)	–	–	(245)
At 31 May 2020	4,942	4,317	22,137	425	13,743	2,335	47,899
At 1 June 2020	4,942	4,317	22,137	425	13,743	2,335	47,899
Depreciation	303	312	1,978	11	465	–	3,069
Disposals	(12)	(708)	(6,998)	–	(14,208)	(2,335)	(24,261)
Transfers	–	62	–	(62)	–	–	–
Effect of movements in foreign exchange	–	(12)	119	(2)	–	–	105
At 31 May 2021	**5,233**	**3,971**	**17,236**	**372**	**–**	**–**	**26,812**
Net book value							
At 1 June 2019	7,058	773	31,966	33	4,277	1,421	45,528
At 31 May 2020	6,855	434	7,779	28	465	–	15,561
At 31 May 2021	**6,603**	**364**	**6,809**	**30**	**–**	**–**	**13,806**

The Company has no property, plant and equipment.

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

12 Right-of-Use Assets

Group

	Land and buildings £000	Motor vehicles and plant £000	Total £000
Cost			
At 1 June 2019	–	–	–
Transition to IFRS 16	1,500	8,801	10,301
Additions	296	3,741	4,037
Disposals	(88)	(6,598)	(6,686)
Transfer from fixed assets	–	18,190	18,190
Effect of movements in foreign exchange	3	–	3
At 31 May 2020	1,711	24,134	25,845
At 1 June 2020	1,711	24,134	25,845
Additions	1,199	1,233	2,432
Disposals	(48)	(3,308)	(3,356)
Effect of movements in foreign exchange	(22)	(8)	(30)
At 31 May 2021	**2,840**	**22,051**	**24,891**
Accumulated depreciation and impairment			
At 1 June 2019	–	–	–
Transition to IFRS 16	56	3,685	3,741
Depreciation	1,281	4,711	5,992
Disposals	(88)	(4,650)	(4,738)
Transfer from fixed assets	–	5,004	5,004
Effect of movements in foreign exchange	1	–	1
At 31 May 2020	1,250	8,750	10,000
At 1 June 2020	1,250	8,750	10,000
Depreciation	494	2,999	3,493
Disposals	(48)	(2,321)	(2,369)
Effect of movements in foreign exchange	(7)	(2)	(9)
At 31 May 2021	**1,689**	**9,426**	**11,115**
Net book value			
At 31 May 2020	461	15,384	15,845
At 31 May 2021	**1,151**	**12,625**	**13,776**

The group leases various offices, warehouses, stores, equipment and vehicles.

The Company has no right-of-use assets.

13 Investment Property

	Group		Company	
At cost	2021 £000	2020 £000	2021 £000	2020 £000
At 31 May	**9,216**	10,067	**–**	–
Additions	**390**	324	**–**	–
Disposals	**(1,999)**	(1,175)	**–**	–
Transfer to stock	**–**	–	**–**	–
At 31 May	**7,607**	9,216	**–**	–

The fair value of the Investment Properties is estimated by the Directors at £13,404,000 (2020: £14,825,000). The reduction in the estimated fair value is due to disposals made during the year.

14 Intangible Assets including Goodwill

Group

	Goodwill £000	Customer contracts £000	Supply contracts £000	Other intangibles £000	Total Cost £000
Cost					
At 1 June 2019	22,040	13,785	8,148	1,015	44,988
Disposals	–	(12,438)	(8,148)	(1,015)	(21,601)
At 31 May 2020	22,040	1,347	–	–	23,387
At 1 June 2020	22,040	1,347	–	–	23,387
Disposals	(3,726)	–	–	–	(3,726)
Foreign exchange	–	57	–	–	57
At 31 May 2021	**18,314**	**1,404**	**–**	**–**	**19,718**
Accumulated amortisation and impairment					
At 1 June 2019	11,072	13,785	8,148	1,000	34,005
Impairment	1,560	–	–	15	1,575
Disposals	–	(12,438)	(8,148)	(1,015)	(21,601)
Exchange Movements	(10)	–	–	–	(10)
At 31 May 2020	**12,622**	**1,347**	**–**	**–**	**13,969**
At 1 June 2020	12,622	1,347	–	–	13,969
Impairment	4,635	–	–	–	4,635
Disposals	(3,726)	–	–	–	(3,726)
Exchange movements	(41)	57	–	–	16
At 31 May 2021	**13,490**	**1,404**	**–**	**–**	**14,894**
Net book value					
At 31 May 2019	10,968	–	–	15	10,983
At 31 May 2020	9,418	–	–	–	9,418
At 31 May 2021	**4,824**	**–**	**–**	**–**	**4,824**

The Group does not have any internally generated intangible assets. All intangibles have finite lives and are amortised over their useful lives depending on the life of the contracts.

Impairment Charge

The impairment charge is recognised in the following line items in the Income Statement:

	2021 £000	2020 £000
Administrative expenses	**4,635**	1,575

The Company has no intangible assets (2020: £nil).

Impairment Testing

During the year following a review of the future cash flows of the relevant Cash-Generating Units ("CGUs") the remaining intangible asset relating to the Other intangibles was impaired.

The remaining goodwill has been allocated to Cash-Generating Units or groups of CGUs as follows:

	Goodwill	
	2021 £000	2020 £000
Hargreaves Industrial Services Limited	**1,252**	1,252
Coal 4 Energy / Maxibrite Limited	**–**	4,594
Specialist Earthworks	**3,572**	3,572
	4,824	9,418

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:

	2021	2020
Period on which management approved forecasts are based	**5 years**	5 years
Discount rate	**12%**	8%

In order to test goodwill for impairment the Group performs value in use calculations by preparing cash flow forecasts for each CGU derived from the most recent financial budget and strategic plan approved by management going forward five years, with the exception of C.A. Blackwell Group Limited which is based on a 10 year financial budget due to the nature of the business. An annual growth rate of 2% has been assumed after the relevant forecast period. The Board considers that the assumptions of growth provide 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 post-tax discount rate of 12% (2020: 8%) has been used in the first instance. Management consider this to be higher than a market participant's discount rate for each individual CGU. The increase in the discount rate is due to a change in the Group's weighting of debt to equity. Over the last twelve months equity has represented a larger proportion of the Group's capital resources following the repayment of the Group's main banking facilities and has thus increased the Group's weighted average cost of capital.

Following this year's review management identified an impairment within the Coal 4 Energy Limited / Maxibrite goodwill and recognised a reduction of £4,635,000. Of this, £3,035,000 relates to the sale of the coal activities to HRMS, with £1,600,000 relating to the Maxibrite business. Each of the other CGUs has substantial headroom under the annual impairment review, which remains after allowing for reasonably possible changes in assumptions.

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 26% (2020: 38%) or the assumed operating margins would have to decrease by more than 20% (2020: 27%) before any further impact on any single CGU.

The Company has no intangible assets.

15 Investments in Subsidiaries 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 Van Heetveldelei 178, 2100 Deurne, Antwerp, Belgium
15.5 31F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, HK
15.6 Plac Rodla, 8/914, 70-419 Szczecin, Polska
15.7 Flat No.333, 3rd Floor, Devika Tower, 6 Nehru Place, Delhi-110019, India
15.8 3 Nobel Boulavard, Cape Gate NE3, Vanderbijlpark, Gauteng, 1900
15.9 Lot 6.05, Level 6, 8 First Avenue, Bandar Utama, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia
15.10 Room 1117-8, 11th Floor, Tuen Mun Central Square, N0.22 Hoi Wing Road, Tuen Mun, New Territories, HK
15.11 Cp House, Otterspool Way, Watford, Hertfordshire, England, WD25 8JJ
15.12 Werthausser Str. 182, 47053 Duisburg, Germany

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

	Address of registered office	Class of shares held	Ownership 2021	2020
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	15.1	Ordinary	**100%**	100%
H Technical Resources 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 South Africa (Pty) Ltd	15.8	Ordinary	**100%**	100%
Hargreaves Mining India Private Limited*	15.7	Ordinary	**100%**	100%
C.A. Blackwell Group Limited	15.1	Ordinary	**100%**	100%
Hargreaves Industrial Services Sdn Bhd*	15.9	Ordinary	**100%**	100%
Hargreaves Pension Company Limited	15.1	Ordinary	**100%**	100%
Hargreaves Land Holdings Limited*	15.1	Ordinary	**100%**	100%
Blackwell Earthmoving Limited	15.1	Ordinary	**100%**	100%
Dormant				
Coal 4 Energy Limited*	15.1	Ordinary	**100%**	100%
Hargreaves Carbon Products Europe 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 Corporate Director Limited*	15.1	Ordinary	**100%**	100%
Hargreaves Services (Muir Dean) Limited*	15.1	Ordinary	**100%**	100%
H Aggregates Limited*	15.1	Ordinary	**100%**	100%
HBLT Limited*	15.1	Ordinary	**100%**	100%
R Hanson & Son Limited*	15.1	Ordinary	**100%**	100%
HESOTT Limited*	15.1	Ordinary	**100%**	100%
HS Australia Limited*	15.1	Ordinary	**100%**	100%
H Europe Limited*	15.1	Ordinary	**100%**	100%
Joint ventures				
Mir Trade Services Limited*	15.1	Ordinary	**50%**	50%
Hargreaves Services Europe Limited	15.1	Ordinary	**49%**	49%

	Address of registered office	Class of shares held	Ownership 2021	Ownership 2020
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%
HE Contracts Limited*	15.1	Ordinary	**100%**	100%
Maxibrite Limited	15.1	Ordinary	**85.2%**	85.2%
RocPower Limited *	15.1	Ordinary	**85%**	85%
Hargreaves Carbon Products NV *	15.4	Ordinary	**100%**	100%
Hargreaves Industrial Services (HK) Limited	15.5	Ordinary	**100%**	100%
Access Services (HK) Limited *	15.10	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%
C. A. Blackwell (Contracts) 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	15.1	Ordinary	**100%**	100%
Hargreaves Land (South) Limited	15.1	Ordinary	**100%**	100%
Hargreaves Hatfield Limited	15.1	Ordinary	**–**	100%
Hargreaves Power Services (HK) Limited *	15.10	Ordinary	**100%**	100%
Joint ventures				
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	**49%**	49%
Hargreaves Carbon Products Polska Sp. z o.o.	15.6	Ordinary	**49%**	49%
Carbon Action Ltd	15.1	Ordinary	**50%**	50%
Hargreaves Darlington Limited	15.1	Ordinary	**50%**	50%
Waystone Hargreaves Land LLP	15.11	Ordinary	**50%**	50%
DK Recycling und Roheisen GmbH	15.12	Ordinary	**47%**	47%
Hargreaves-EWT Industrieservices GmbH	15.12	Ordinary	**25%**	–
Dormant companies				
Metallurgical Supplies Limited*	15.1	Ordinary	**100%**	100%
Tru-Green Limited*	15.1	Ordinary	**100%**	100%
Eastgate Materials Handling Limited*	15.1	Ordinary	**100%**	100%
Hargreaves Regeneration Limited*	15.1	Ordinary	**100%**	100%
Drakelands Holdings Limited*	15.1	Ordinary	**100%**	100%
Renaissance Land Management Limited*	15.1	Ordinary	**100%**	100%
517EPA Limited*	15.1	Ordinary	**100%**	100%
RocFuel Limited*	15.1	Ordinary	**50.1%**	50.1%
R&A Fuels Limited*	15.1	Ordinary	**100%**	100%
Squire Distribution Services Limited*	15.1	Ordinary	**100%**	100%
Har Transport Limited*	15.1	Ordinary	**100%**	100%
HS Transport Services Limited*	15.1	Ordinary	**100%**	100%
DWL Engineering Services 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%
HBR Limited*	15.1	Ordinary	**100%**	100%

* These UK subsidiaries are exempt from audit by virtue of s479A of the Companies Act 2006.

15 Investments in Subsidiaries and Joint Ventures continued

Tower Regeneration Leasing Limited is a 100% owned subsidiary of Tower Regeneration Limited. Hargreaves Raw Material Services GmbH and Hargreaves Carbon Products Polska Sp. z o.o. are both 100% owned subsidiaries of Hargreaves Services Europe Limited. DK Recycling und Roheisen GmbH is a 94.9% owned subsidiary of Hargreaves Raw Materials Services GmbH. Hargreaves-EWT Industrieservices GmbH is 50% owned by Hargreaves Raw Materials Services GmbH.

The Group's share of post-acquisition total recognised profit or loss in the above jointly controlled entities for the year ended 31 May 2021 was a profit of £17,680,000 (2020: £2,135,000).

The Group sold 100% of its shares in Hargreaves Hatfield Limited for total consideration of £154,000 during the year.

Joint Ventures

Carrying amount of equity accounted investees:

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Waystone Hargreaves Land LLP £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2019	–	11,692	–	52	11,744
Group's share of total comprehensive income (including fair value gain on acquisition of £555,000)	–	2,152	(17)	–	2,135
Exchange differences	–	265	–	(51)	214
At 31 May 2020	–	14,109	(17)	1	14,093

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Waystone Hargreaves Land LLP £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2020	–	14,109	(17)	1	14,093
Group's share of total comprehensive income	–	13,611	4,069	–	17,680
Exchange differences	–	(582)	–	(4)	(586)
At 31 May 2021	**–**	**27,138**	**4,052**	**(3)**	**31,187**

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Waystone Hargreaves Land LLP £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net assets/(liabilities)	(5,190)	16,316	(17)	1	11,110
Amount not recognised	5,190	–	–	–	5,190
Non-distributable reserves	–	(2,207)	–	–	(2,207)
Investment at 31 May 2020	**–**	**14,109**	**(17)**	**1**	**14,093**

Group	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Waystone Hargreaves Land LLP £000	Interests in immaterial joint ventures £000	Total £000
Hargreaves share of net assets/(liabilities)	(5,849)	29,698	4,051	(2)	27,898
Amount not recognised	5,849	–	–	–	5,849
Non-distributable reserves	–	(2,560)	–	–	(2,560)
Investment at 31 May 2021	**–**	**27,138**	**4,051**	**(2)**	**31,187**

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

At cost	Tower Regeneration Limited 2021	Tower Regeneration Limited 2020	Waystone Hargreaves Land LLP 2021	Waystone Hargreaves Land LLP 2020	Hargreaves Services Europe Limited 2021	Hargreaves Services Europe Limited 2020
Voting rights	**50%**	50%	**50%**	50%	**49%**	49%
Cash and cash equivalents	**136**	569	**15,606**	100	**468**	423
Other current assets	**3,056**	6,112	**9,167**	8,800	**104,860**	75,185
Total current assets	**3,192**	6,681	**24,773**	8,900	**105,328**	75,608
Non-current assets	**1,101**	1,186	**–**	–	**48,732**	52,760
Current liabilities	**(20,874)**	(22,696)	**(16,670)**	(8,935)	**(63,617)**	(45,809)
Non-current liabilities	**(131)**	–	**–**	–	**(55,911)**	(63,587)
Net (liabilities)/assets (100%)	**(16,712)**	(14,829)	**8,103**	(35)	**34,532**	18,972
Revenue	**62**	–	**26,932**	–	**321,295**	170,352
Other expenses	**(906)**	(1,624)	**(18,795)**	(35)	**(293,892)**	(163,437)
Depreciation and amortisation	**–**	–	**–**	–	**(3,868)**	(1,459)
Interest income	**–**	22	**–**	–	**73**	13
Interest expense	**(1,102)**	(1,085)	**–**	–	**(2,338)**	(1,654)
(Loss)/profit before tax	**(1,946)**	(2,687)	**8,137**	(35)	**21,270**	3,815
Income tax expense	**63**	–	**–**	–	**(4,878)**	(1,253)
Post tax (loss)/profit (100%)	**(1,883)**	(2,687)	**8,137**	(35)	**16,392**	2,562

The total financial liabilities included in current liabilities is: Tower Regeneration Limited £nil (2020: £nil); Hargreaves Services Europe Limited £55,676,000 (2020: £55,932,000) borrowing base facility and term loans.

Included within non-current liabilities above and disclosed in Note 32 Related parties are loans amounting to €13m (2020: €13m) due from HRMS to Hargreaves Services plc, the amounts represent £11.2m (2020: £11.7m). These loans are not due for repayment until 31 May 2027. Interest on the loans is charged at a rate of 1.8% being 1.7% over UK base rate. Additionally, Waystone Hargreaves Land LLP includes an amount of £5,582,000 (2020: £4,319,000) payable to Hargreaves Land North Limited, this loan is repayable on demand. Tower Regeneration Limited includes an amount of £10,984,000 (2020: £11,513,000) within current liabilities, which is due to Forward Sound Limited, a wholly owned subsidiary undertaking.

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

Company	Group undertakings £000	Joint ventures £000
Shares at cost and net book value		
At 1 June 2019	31,688	4,984
Capital contribution arising on share options (Note 26)	323	–
Impairment	(2,071)	–
At 31 May 2020	29,940	4,984
At 1 June 2020	29,940	4,984
Capital contribution arising on share options (Note 26)	218	–
Impairment	(9,149)	–
At 31 May 2021	**21,009**	**4,984**

The capital contribution arising on share options is as a result of the share-based payment charge during the year. Following the sale of speciality coal inventory to HRMS in the year and the cessation of all material coal related revenue activities, the parent company has impaired its investment in Coal 4 Energy Limited by £9,149,000.

16 Other Financial Assets

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Current				
Currency contracts designated as fair value through profit or loss	**2**	65	**2**	–
	2	65	**2**	–

17 Other Financial Liabilities

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Current				
Currency contracts designated as fair value through hedging reserve	**43**	154	**–**	–
Other derivatives designated as fair value through hedging reserve	**–**	89	**–**	–
	43	243	**–**	–

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	
	2021 £000	2020 £000	2021 £000	2020 £000
Property, plant and equipment	**2,245**	3,517	**–**	–
Financial assets	**8**	34	**–**	–
Employee benefits	**(11)**	715	**–**	–
Share-based payments	**94**	48	**–**	–
Tax value of loss carry-forwards recognised	**7,488**	3,723	**–**	–
Other temporary timing differences	**260**	295	**–**	–
Tax assets	**10,084**	8,332	**–**	–

Movement in Deferred Tax During the Year

	31 May 2020 £000	Recognised in income £000	Recognised in equity £000	31 May 2021 £000
Property, plant and equipment	**3,517**	**(1,272)**	**–**	**2,245**
Financial assets	**34**	**–**	**(26)**	**8**
Employee benefits	**715**	**(407)**	**(319)**	**(11)**
Share-based payments	**48**	**46**	**–**	**94**
Tax value of loss carry-forwards recognised	**3,723**	**3,765**	**–**	**7,488**
Other temporary timing differences	**295**	**(35)**	**–**	**260**
	8,332	**2,097**	**(345)**	**10,084**

Movement in Deferred Tax During the Prior Year

	31 May 2019 £000	Recognised in income £000	Recognised in equity £000	31 May 2020 £000
Property, plant and equipment	1,405	2,112	–	3,517
Financial assets	45	–	(11)	34
Employee benefits	710	(278)	283	715
Share-based payments	59	(11)	–	48
Tax value of loss carry-forwards recognised	3,454	269	–	3,723
Other temporary timing differences	556	(261)	–	295
	6,229	1,831	272	8,332

The Group has an unrecognised deferred tax asset of £1,550,000 relating to trading losses (2020: £2,040,000).

Company

Recognised Deferred Tax Assets and Liabilities

The Company has no recognised or unrecognised deferred tax assets or liabilities (2020: £nil).

The deferred tax asset has been calculated based at the rate of 25% (2020: 19%) substantively enacted at the balance sheet date.

19 Inventories

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Raw materials and consumables	**1,245**	3,360	**–**	–
Finished goods	**1,008**	36,682	**–**	–
Properties held for development and resale	**24,915**	23,967	**–**	–
	27,168	64,009	**–**	–

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

Changes in raw materials and consumables and finished goods recognised as cost of sales in the year amounted to £52,720,000 (2020: £59,704,000).

The write-down of inventories to net realisable value was £nil (2020: £5,922,000).

There were no reversals of previous write-downs in either the current or prior year.

20 Trade and Other Receivables

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Trade receivables	**26,832**	24,475	**–**	–
Amounts due from Group undertakings	**–**	–	**66,493**	118,278
Amounts due from undertakings in which the Group/Company has a participating interest	**34,096**	30,912	**11,170**	11,961
Other receivables	**573**	1,908	**17**	–
Prepayments and accrued income	**16,759**	14,021	**–**	–
	78,260	71,316	**77,680**	130,239

Included within prepayments and accrued income is £1,000,000 (2020: £1,042,000) expected to be recovered in more than 12 months.

The Group has a variety of credit terms depending on the customer. These terms range from 30 to 90 days.

20 Trade and Other Receivables continued

Trade receivables are shown net of an expected credit loss allowance of £267,000 (2020: £326,000) arising from the ordinary course of business, as follows:

	2021 £000	2020 £000
Group		
At 1 June	**326**	486
Provided during the year	**61**	4
Released	**(107)**	(159)
Utilised during the year	**(13)**	(5)
At 31 May	**267**	326

The expected credit loss allowance 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 2021	Gross trade receivables £000	Expected credit losses £000	Net trade receivables £000
Group			
Not past due date	**20,656**	**–**	**20,656**
Past due date (0-90 days)	**2,959**	**(26)**	**2,933**
Past due date (over 90 days)	**3,372**	**(129)**	**3,243**
Individually impaired amounts	**112**	**(112)**	**–**
	27,099	**(267)**	**26,832**

31 May 2020	Gross trade receivables £000	Expected credit losses £000	Net trade receivables £000
Group			
Not past due date	17,967	–	17,967
Past due date (0-90 days)	4,567	(3)	4,564
Past due date (over 90 days)	2,064	(120)	1,944
Individually impaired amounts	203	(203)	–
	24,801	(326)	24,475

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

	2021 £000	2020 £000
UK	**22,041**	17,535
European	**163**	1,646
Hong Kong	**4,628**	5,294
	26,832	24,475

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

31 May 2021	2021 £000
Group	
At 1 June 2020	**11,456**
Transfers from contract assets recognised at the beginning of the year to receivables	**(6,334)**
Increase related to services provided in the year	**950**
Impairments on contract assets recognised at the beginning of the year	**(4,352)**
At 31 May 2021	**1,720**

31 May 2020	2020 £000
At 1 June 2019	19,545
Transfers from contract assets recognised at the beginning of the year to receivables	(10,611)
Increase related to services provided in the year	3,882
Reclassified from Contract Provisions	(150)
Impairments on contract assets recognised at the beginning of the year	(1,210)
At 31 May 2020	11,456

Aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £66,908,000 (2020: £71,252,000).

Progress billings and advances received from customers under open construction contracts amounted to £66,329,000 (2020: £61,867,000).

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 £nil (2020: £21,000).

Contract assets include £1,141,000 (2020: £1,646,000) relating to retentions, of which £354,000 (2020: £640,455) are expected to be recovered in more than 12 months. The Company has no contract assets.

22 Cash and Cash Equivalents

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Cash and cash equivalents per Balance Sheet	**28,303**	18,499	**18,591**	–
Cash and cash equivalents per Cash Flow Statement	**28,303**	18,499	**18,591**	–

Included in cash and cash equivalents above is £143,000 (2020: £1,048,000) which is held in an interest-bearing account for the Group's benefit and which will be repaid to the Group following the completion of restoration works at the House of Water mine in Ayrshire which are due to be finished shortly.

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 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Non-current liabilities				
Lease liabilities	**8,586**	9,437	**–**	–
	8,586	9,437	**–**	–
Current liabilities				
Current portion of lease liabilities	**3,179**	5,186	**–**	–
Borrowing base facility	**–**	32,000	**–**	32,000
Bank overdraft	**–**	–	**–**	2,346
	3,179	37,186	**–**	34,346

Terms and Debt Repayment Schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2021 £000	Carrying amount 2021 £000	Face value 2020 £000	Carrying amount 2020 £000
Lease liabilities	Sterling	3.7%	2021–2025	11,765	11,765	14,623	14,623
Borrowing base facility	Sterling	LIBOR + 1.5%	2020	–	–	32,000	32,000
				11,765	11,765	46,623	46,623

In accordance with the presentation requirements of IFRS 9, these liabilities have been classified according to the maturity date of the longest permitted refinancing. The borrowing base facility has been fully repaid in the year ending 31 May 2021.

Lease Liabilities

Lease liabilities are payable as follows:

Group	Minimum lease payments 2021 £000	Interest 2021 £000	Principal 2021 £000	Minimum lease payments 2020 £000	Interest 2020 £000	Principal 2020 £000
Less than one year	**3,446**	**(267)**	**3,179**	5,650	(464)	5,186
Between one and five years	**9,014**	**(428)**	**8,586**	9,938	(501)	9,437
	12,460	**(695)**	**11,765**	15,588	(965)	14,623

Changes in Liabilities from Financing Activities

	Group	
	Loans and borrowings £000	Lease liabilities £000
At 1 June 2019	26,924	12,587
Changes from financing cash flows		
Proceeds from loans and borrowings	5,000	–
Principal elements of lease payments	–	(8,769)
Total changes from financing cash flows	5,000	(8,769)
Other changes		
Recognised on adoption of IFRS 16	–	6,608
New leases	–	4,197
Interest expense	1,379	675
Interest paid	(1,303)	(675)
Total other changes	76	10,805
At 31 May 2020	**32,000**	**14,623**
Changes from financing cash flows		
Repayment of loans and borrowings	(32,000)	–
Principal elements of lease payments	–	(6,085)
Total changes from financing cash flows	**(32,000)**	**(6,085)**
Other changes		
New leases	–	3,219
Interest expense	1,263	577
Interest paid	(1,263)	(569)
Total other changes	–	3,227
At 31 May 2021	**–**	**11,765**

24 Trade and Other Payables

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Current				
Trade payables	**11,247**	6,928	**12**	–
Amounts due to Group undertakings	**–**	–	**25,203**	21,899
Amounts due to undertakings in which the Group/Company has a participating interest	**8**	1,140	**–**	720
Other trade payables	**810**	581	**–**	–
Non-trade payables and accrued expenses	**41,269**	34,713	**50**	135
	53,334	43,362	**25,265**	22,754

Notes
(forming part of the financial statements) continued

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 £2,113,000 (2020: £2,831,000). 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.

In common with most company pension schemes the Industry Wide Coal Staff Superannuation Scheme ("IWCSSS") and Industry Wide Mineworkers Pension Scheme ("IWMPS") are both established as a trust under which the assets of the Scheme are held separately from those of the sponsoring employers. The management of the Scheme is the responsibility of its trustee board, the Committee of Management, who are required to manage the Scheme in accordance with its Deed and Rules. The Scheme is sectionalised so that each employer or group of associated employers has a separate sub-fund within the Scheme. Each employer is liable for the benefits accrued by its member employees but has no liability for benefits accrued in other employer sub-funds. This means that in practice each employer sub-fund effectively operates as a separate pension scheme.

The latest full actuarial valuation of these schemes was carried out at 31 December 2018 by AON Hewitt. The next triennial valuation is due to be carried out as at 31 December 2021. The 31 December 2018 valuation of the IWCSSS showed a deficit of £6.4m (previously £7.5m) and a contribution schedule was agreed at £1.4m per annum to meet the technical provisions of the scheme by 30 April 2023. The valuation of the IWMPS showed a deficit of £2.8m (previously £2.7m) and a contribution schedule was agreed at £0.4m per annum to meet the technical provisions of the scheme by 31 May 2023. 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 2018 valuations have been used as the basis, adjusted for the requirements of IAS 19 to 31 May 2021 by a qualified independent actuary, to enable the Directors to account for the schemes as follows:

	2021 £000	2020 £000
Concessionary fuel scheme		
Present value of unfunded defined benefit obligations	**(2,867)**	(3,000)
Defined benefit schemes		
Present value of funded defined benefit obligations	**(55,514)**	(56,446)
Fair value of scheme assets	**58,425**	55,678
Retirement benefit obligation surplus/(deficit)	**2,911**	(768)
Total scheme position	**44**	(3,768)

Movements in Present Value of Defined Benefit Obligation

	2021 £000	2020 £000
At the beginning of the year	**59,446**	57,578
Interest cost	**882**	1,357
Remeasurement (gains)/losses:		
– Changes in demographic assumptions	**(69)**	780
– Changes in financial assumptions	**630**	4,806
– Experience	**(1,203)**	(2,875)
Benefits paid	**(1,305)**	(2,200)
At the end of the year	**58,381**	59,446

Movements in the Fair Value of Scheme Assets

	2021 £000	2020 £000
At the beginning of the year	**55,678**	53,394
Net interest on scheme assets	**840**	1,277
Remeasurement gain	**1,314**	1,582
Employer contributions	**2,039**	1,858
Benefits paid	**(1,305)**	(2,200)
Expenses paid	**(141)**	(233)
At the end of the year	**58,425**	55,678

Expense Recognised in the Income Statement

	2021 £000	2020 £000
Expenses paid from schemes	**141**	233
Interest expense on net defined benefit pension schemes	**42**	80
	183	313

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

	2021 £000	2020 £000
Administrative expenses	**141**	233
Financial expenses	**42**	80
	183	313

Remeasurement losses recognised directly in equity in the Statement of Other Comprehensive Income:

	2021 £000	2020 £000
At 1 June	**(9,338)**	(8,209)
Recognised in the year	**1,956**	(1,129)
At 31 May	**(7,382)**	(9,338)

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 2021 £000	Fair value at 2020 £000
Growth assets	**28,766**	29,516
Matching assets	**29,131**	25,636
Cash	**528**	526
	58,425	55,678

The major assumptions used in this valuation were:

	2021	2020
Rate of increase in deferred pensions	**3.20%**	2.70%
Rate of increase in pensions in payment	**3.20%**	2.70%
Discount rate applied to scheme liabilities	**1.95%**	1.50%
Inflation assumption	**3.35%**	2.80%

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 inflation assumption has increased following the UK Government's consultations on Retail Price Index reforms and their likely impact. The discount rate assumption is derived from the AON GBP Select curve and is the same as that used in setting the assumption at 31 May 2020.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on the SAPS S3 actuarial tables with scaling factors of 110% (IWCSSS) and 105% (IWMPS) and include an allowance for future improvements in longevity based on the CMI 2019 projections with long-term improvement rate of 1% per annum. The same tables were used at 31 May 2020. No allowance has been made for any possible reduction in life expectancy due to Covid-19. The assumptions are equivalent to expecting a 60-year-old to live for a number of years as follows:

IWMPS
Current pensioner aged 60: 23.4 years (male), 27.2 years (female) (2020: 23.4 years (male), 27.1 years (female)).
Future retiree upon reaching 60: 24.7 years (male), 28.5 years (female) (2020: 24.7 years (male), 28.4 years (female)).

IWCSSS
Current pensioner aged 60: 24.9 years (male), 27.6 years (female) (2020: 24.9 years (male), 27.5 years (female)).
Future retiree upon reaching 60: 26.0 years (male), 28.8 years (female) (2020: 26.0 years (male), 28.8 years (female)).

25 Pension Schemes and Other Retirement Benefits continued

Risk exposure

Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility: The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. 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 manage risk by matching income with 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.

Inflation risks
Some of the group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. As noted above, the matching assets portfolio is designed to manage risk by matching income with certain liabilities of the schemes over a defined period.

Life expectancy
The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Sensitivity Analysis

The Directors consider 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.

	2021 £000	2020 £000
Discount rate (1% increase)	**(9,801)**	(10,065)
Inflation (1% increase)	**9,168**	11,241

	2021 £000	2020 £000
Discount rate (1% decrease)	**12,734**	13,048
Inflation (1% decrease)	**(8,598)**	(9,161)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

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

The weighted average duration of the defined benefit obligation is 18 years (2020: 18 years).

The Company has no retirement benefit obligation (2020: £nil).

26 Employee Share Schemes

The Group has established two Executive Long-Term Incentive Plans 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 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 January 2019	January 2019	Directors	499,801	3 years' service and Total Shareholder Return of between 35% and 85%	3 years
Share option scheme December 2019	December 2019	Directors	97,788	3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85%	3 years
Deferred bonus scheme G	December 2019	Senior employees	74,470	3 years' service	3 years
Share option scheme December 2020	August 2020	Directors	179,224	3 years' service and 50% Absolute Total Shareholder Return of between 35% and 85% and 50% Relative Total Shareholder Return of between 35% and 85%	3 years
Deferred bonus scheme H	August 2020	Senior employees	62,448	3 years' service	3 years
Deferred bonus scheme I	October 2020	Senior employees	38,835	3 years' service	3 years

Share Option Schemes

	2021 Weighted average exercise price	2021 Number of options	2020 Weighted average exercise price	2020 Number of options
Outstanding at the beginning of the year	**10p**	**597,589**	10p	499,801
Granted during the year	**10p**	**179,224**	10p	97,788
Outstanding at the end of the year	**10p**	**776,813**	10p	597,589

None of the share options outstanding at the end of the year are exercisable. There were 179,224 options granted in the year with a weighted average exercise price of 10p per share. These options are not exercisable before 6 August 2023.

Deferred Bonus Schemes

	2021 Weighted average exercise price	2021 Number of options	2020 Weighted average exercise price	2020 Number of options
Outstanding at the beginning of the year	**–**	**163,970**	–	244,296
Granted during the year	**–**	**101,283**	–	74,470
Lapsed during the year	**–**	**(61,904)**	–	–
Exercised during the year	**–**	**(29,260)**	–	(154,796)
Outstanding at the end of the year	**–**	**174,089**	–	163,970
Exercisable at the end of the year	**–**	**–**	–	–

The options outstanding at 31 May 2021 have an exercise price of £nil and a weighted average contractual life of 1 year 3 months. There were 101,283 options granted in the year with a weighted average exercise price of £nil. Of these options 62,448 are not exercisable before 6 August 2023 and the remaining 38,835 are not exercisable before 2 October 2023. There were 29,260 options exercised in the year with a weighted average market value of 312p. There were 61,904 options which lapsed during the year.

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 January 2019, December 2019 and August 2020 Share Option Schemes due to their more complex measurement characteristics involving the market conditions noted above in relation to relative Total Shareholder Return (TSR) and absolute Total Shareholder Return (TSR). For market based vesting conditions, such as the absolute TSR and relative TSR performance metrics, the probability of meeting these metrics and the number of awards expected to vest is taken into account when calculating the estimated fair value.

26 Employee Share Schemes continued

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

	2017 Deferred Bonus Scheme E	2019 Deferred Bonus Scheme F	2019 January Share option scheme	2019 December Share option scheme	2019 Deferred Bonus Scheme G	2020 December Share option scheme	2020 Deferred Bonus Scheme H	2020 Deferred Bonus Scheme I
Fair value at grant date	3.05	3.32	0.34	1.84	2.69	1.57	2.02	1.90
Exercise price	–	–	0.10	0.10	–	0.10	–	–
Share price	3.25	3.54	2.96	2.85	2.86	2.22	2.19	2.06
Expected volatility	40%	40%	29%	31%	31%	33%	31%	31%
Option life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected dividend	2%	2%	2.44%	2.53%	2.53%	2.03%	2.53%	2.53%
Risk-free rate	5.8%	1.7%	0.87%	0.55%	1.7%	0.00%	0.0%	0.0%

Volatility was calculated with reference to the Group's daily share price volatility. The weighted average share price in the year was 260p (2020: 250p).

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

	Expiry date	Exercise price	Options outstanding 2021	Options outstanding 2020
Deferred Bonus Scheme E	31 May 2021	–	**–**	29,260
Deferred Bonus Scheme F	31 May 2022	–	**48,446**	60,240
Share option scheme January 2019	30 January 2024	10p	**499,801**	499,801
Share option scheme December 2019	13 December 2024	10p	**97,788**	97,788
Deferred Bonus Scheme G	13 December 2024	–	**24,360**	74,470
Share option scheme December 2020	5 August 2025	10p	**179,224**	–
Deferred Bonus Scheme H	5 August 2025	–	**62,448**	–
Deferred Bonus Scheme I	1 October 2025	–	**38,835**	–
			950,902	761,559

Long-Term Incentive Plans and Deferred Bonus Schemes

The costs charged/(credited) to the Income Statement relating to share-based payments were as follows:

	2021 £000	2020 £000
Share options granted in 2014	**–**	(39)
Share options granted in 2016	**–**	172
Share options granted in 2018	**3**	30
Share options granted in 2019	**88**	123
Share options granted in 2020	**37**	37
Share options granted in 2021	**90**	–
	218	323

27 Provisions

Group	Contract provisions £000	Surface mining restoration £000	Redundancy provision £000	Total provision £000
At 1 June 2020	6,757	5,864	1,146	13,767
Provisions made	1,237	–	–	1,237
Released to contract assets	(3,087)	–	–	(3,087)
Provisions utilised	–	(3,234)	(1,146)	(4,380)
Provisions reversed	–	(135)	–	(135)
At 31 May 2021	**4,907**	**2,495**	**–**	**7,402**

Included within the Surface mining restoration provisions is an amount of £2,495,000 (2020: £4,185,000) that is expected to be utilised in the next 12 months. The contract loss provision of £4,907,000 (2020: £6,757,000) is expected to be utilised in the next 12 months.

Provisions comprise:
1 The contract provisions represent losses expected to arise, but not yet incurred on construction contracts and other contracts where the Group has identified potential warranty, defects or performance obligations.
2 A £2,495,000 restoration provision, which relates to the surface mining obligation to restore the sites now that mining operations have ceased.
3 A provision of £1,146,000 was made in the prior year in relation to the redundancies following the announcement of the cessation of Scottish mining, this was utilised in full during the year.

The Company has a £nil provision at 31 May 2021 (2020: £1,000,000). The prior year provision was in respect of a contract where it had a potential liability in respect of a contract guarantee, this has been utilised following the completion of the contract.

28 Capital and Reserves

Share Capital

	Group and Company ordinary shares	
	2021 Number	2020 Number
In issue at 1 June and 31 May	**33,138,756**	33,138,756

	2021 £000	2020 £000
Allotted, called up and fully paid		
32,311,606 (2020: 32,282,346) ordinary shares of 10p each (excluding own shares held)	**3,231**	3,228
Own shares held of 10p each 827,150 (2020: 856,410)	**83**	86
	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 827,150 (2020: 856,410) within Treasury shares, representing own shares purchased as part of the Group's share buyback programme. These shares had a market value of £3.1m at 31 May 2021 (2020: £1.7m) and were purchased for an aggregate consideration of £4.7m (2020: £4.9m).

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 the 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 paid in the year comprises:

	2021 £000	2020 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year (4.5p per share (2020: 4.5p))	**1,452**	1,446
Interim dividends paid in respect of the prior year (2.7p per share) (2020: nil)	**873**	–
	2,325	1,446
Proposed final dividend (4.5p per share (2020: 4.5p))	**1,454**	1,453
Proposed additional dividend (12p per share)	**3,877**	–

The proposed dividends are not included in liabilities as they were 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

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 2021 and 2020 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.

All other financial assets and financial liabilities are considered to be level 3.

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 £63,221,000 (2020: £68,751,000) 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 £79,675,000 (2020: £130,239,000) 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 the 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 the 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 following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

Group

	2021						2020					
	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												
Lease liabilities	**11,765**	**12,461**	**3,446**	**2,961**	**6,054**	**–**	14,623	15,588	5,650	4,304	5,634	–
Trade and other payables	**53,333**	**53,333**	**53,333**	**–**	**–**	**–**	43,362	43,362	43,362	–	–	–
Group banking facilities	**–**	**–**	**–**	**–**	**–**	**–**	32,000	32,000	32,000	–	–	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow	**43**	**43**	**43**	**–**	**–**	**–**	154	154	154	–	–	–
Commodity contracts:												
Outflow	**–**	**–**	**–**	**–**	**–**	**–**	89	89	89	–	–	–
	65,141	**65,837**	**56,822**	**2,961**	**6,054**	**–**	90,228	91,193	81,255	4,304	5,634	–

Company

	2021						2020					
	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	**25,265**	**25,265**	**25,265**	**–**	**–**	**–**	22,754	22,754	22,754	–	–	–
Overdraft	**–**	**–**	**–**	**–**	**–**	**–**	2,346	2,346	2,346	–	–	–
Group banking facilities	**–**	**–**	**–**	**–**	**–**	**–**	32,000	32,000	32,000	–	–	–
	25,265	**25,265**	**25,265**	**–**	**–**	**–**	57,100	57,100	57,100	–	–	–

(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 the 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.

29 Financial Instruments continued

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 2021

	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	**1**	**1**	**2,248**	**1,442**	**–**	**38**	**3,730**
Trade receivables	**25**	**–**	**4,628**	**3**	**–**	**–**	**4,656**
Loans due from undertakings in which the Group has a participating interest	**11,170**	**–**	**–**	**–**	**–**	**–**	**11,170**
Trade receivables due from undertakings in which the Group has a participating interest	**5,873**	**–**	**–**	**–**	**–**	**–**	**5,873**
Other receivables	**12**	**–**	**96**	**12**	**–**	**35**	**155**
Trade payables	**(14)**	**–**	**(1,069)**	**–**	**–**	**–**	**(1,083)**
Other trade payables	**–**	**–**	**(10)**	**–**	**(11)**	**–**	**(21)**
Non-trade payables and accrued expenses	**(10)**	**–**	**(4,050)**	**(692)**	**–**	**(6)**	**(4,758)**
Balance Sheet exposure	**17,057**	**1**	**1,843**	**765**	**(11)**	**67**	**19,722**
Contracted future sales	**1,036**	**–**	**–**	**–**	**–**	**–**	**1,036**
Contracted future purchases	**(799)**	**(889)**	**–**	**–**	**–**	**–**	**(1,688)**
Gross exposure	**17,294**	**(888)**	**1,843**	**765**	**(11)**	**67**	**19,070**
Forward exchange contracts	**758**	**873**	**(3,363)**	**–**	**–**	**–**	**(1,732)**
Net exposure	**18,052**	**(15)**	**(1,520)**	**765**	**(11)**	**67**	**17,338**

31 May 2020

	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	10	5	1,686	812	76	85	2,674
Trade receivables	216	1,364	5,294	–	–	–	6,874
Loans due from undertakings in which the Group has a participating interest	11,693	–	–	–	–	–	11,693
Trade receivables due from undertakings in which the Group has a participating interest	475	11	–	–	–	–	486
Other receivables	12	–	31	5	–	1	49
Trade payables	(7)	–	(1,543)	–	–	–	(1,550)
Other trade payables	–	–	(1)	–	(12)	–	(13)
Non-trade payables and accrued expenses	(13)	–	(3,250)	(328)	–	(6)	(3,597)
Balance Sheet exposure	12,386	1,380	2,217	489	64	80	16,616
Contracted future sales	861	1,806	3,164	–	–	–	5,831
Contracted future purchases	(931)	(771)	(517)	–	–	–	(2,219)
Gross exposure	12,316	2,415	4,864	489	64	80	20,228
Forward exchange contracts	(414)	(2,399)	(2,647)	–	–	–	(5,460)
Net exposure	11,902	16	2,217	489	64	80	14,768

Company

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

31 May 2021

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	**–**	**–**	**183**	**183**
Loans due from Group undertakings	**–**	**3,490**	**953**	**4,443**
Loans due from undertakings in which the Group has a participating interest	**11,170**	**–**	**–**	**11,170**
Trade receivables due from undertakings in which the Group has a participating interest	**201**	**–**	**–**	**201**
Trade payables due to Group undertakings	**(983)**	**–**	**–**	**(983)**
Balance Sheet exposure	**10,388**	**3,490**	**1,136**	**15,014**
Contracted future sales	**–**	**–**	**–**	**–**
Contracted future purchases	**–**	**–**	**–**	**–**
Gross exposure	**10,388**	**3,490**	**1,136**	**15,014**
Forward exchange contracts	**–**	**(3,363)**	**–**	**(3,363)**
Net exposure	**10,388**	**127**	**1,136**	**11,651**

31 May 2020

	Euro £000	Hong Kong Dollar £000	South African Rand £000	Total £000
Trade receivables due from Group undertakings	–	–	97	97
Loans due from Group undertakings	–	–	944	944
Loans due from undertakings in which the Group has a participating interest	11,693	–	–	11,693
Trade receivables due from undertakings in which the Group has a participating interest	268	–	–	268
Trade payables due to Group undertakings	(1,011)	–	–	(1,011)
Balance Sheet exposure	10,950	–	1,041	11,991
Contracted future sales	–	3,164	–	3,164
Contracted future purchases	–	(517)	–	(517)
Gross exposure	10,950	2,647	1,041	14,638
Forward exchange contracts	(268)	(2,647)	–	(2,915)
Net exposure	10,682	–	1,041	11,723

Sensitivity Analysis

Group

A 10% weakening of the following currencies against the Pound Sterling at 31 May 2021 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 2020.

	Equity		Profit or loss	
	2021 £000	2020 £000	2021 £000	2020 £000
€	**1,641**	1,082	**1,641**	1,082
$	**(1)**	1	**(1)**	1
HKD	**408**	651	**408**	651
ZAR	**56**	56	**56**	56
INR	**(1)**	6	**(1)**	6
MYR	**7**	7	**7**	7

A 10% strengthening of the above currencies against the Pound Sterling at 31 May 2021 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.

29 Financial Instruments continued

Interest Rate Risk

Profile

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

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Fixed rate instruments				
Financial liabilities	**(11,765)**	(14,623)	**–**	–
	(11,765)	(14,623)	**–**	–
Variable rate instruments				
Financial assets	**28,303**	18,499	**18,591**	–
Financial liabilities	**–**	(32,000)	**–**	(34,346)
	28,303	(13,501)	**18,591**	(34,346)

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 2020.

	Group		Company	
	2021 £000	2020 £000	2021 £000	2020 £000
Profit or loss				
Decrease/ increase	**(74)**	(94)	**79**	(305)

(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:

		2021 Expected cash flows					2020 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 less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Forward exchange contracts:										
Assets	**2**	**2**	**–**	**–**	**–**	65	65	–	–	–
Liabilities	**(43)**	**(43)**	**–**	**–**	**–**	(154)	(154)	–	–	–
Commodity contracts:										
Liabilities	**–**	**–**	**–**	**–**	**–**	(89)	(89)	–	–	–
	(41)	**(41)**	**–**	**–**	**–**	(178)	(178)	–	–	–

(f) Capital Management

The Group manages its capital to ensure that it 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 leasing related borrowings of £11,765,000 (2020: £46,623,000), cash and cash equivalents of £28,303,000 (2020: £18,499,000), and equity attributable to equity holders of the Parent, comprising capital, reserves and retained earnings of £144,296,000 (2020: £130,055,000).

The capital structure is reviewed regularly by the Directors. The Group's policy is to maintain gearing at levels appropriate to the business. The Directors take consideration of gearing determined as the proportion of net debt to total capital. It should be noted that the Directors review 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 Directors consider 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 Capital Commitments

Group

At 31 May 2021, the Group had capital commitments of £3,583,000 (2020: £nil).

Company

At 31 May 2021, the Company had capital commitments totalling £nil (2020: £nil).

31 Contingencies

Group and Company

The Company and certain of its subsidiary undertakings have 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 Group has performance bonds and guarantees in place in relation to various performance obligations under certain contracts. The total value of these bonds at 31 May 2021 is £3.8m (2020: £8.9m).

In relation to HRMS, the Group has provided a €5m or £4.3m (2020: €5m or £4.5m) guarantee in connection with the banking facilities of HRMS.

32 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. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions only.

Group

Other Related Party Transactions

	Sales to		Purchases from	
	2021 £000	2020 £000	2021 £000	2020 £000
Joint ventures				
Tower Regeneration Limited	**720**	2,065	**–**	–
Waystone Hargreaves Land LLP	**109**	35	**–**	–
Hargreaves Services Europe Limited	**24,747**	129	**–**	–
	25,576	2,229	**–**	–

	Interest received from		Interest paid to	
	2021 £000	2020 £000	2021 £000	2020 £000
Joint ventures				
Hargreaves Darlington Limited	**–**	85	**–**	–
Hargreaves Services Europe Limited	**208**	74	**–**	–
	208	159	**–**	–

	Loan receivables outstanding		Trade receivables outstanding		Payables outstanding	
	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Joint ventures						
Tower Regeneration Limited	**10,984**	11,513	**235**	573	**7**	7
Tower Regeneration Leasing Limited	**–**	–	**–**	3	**–**	1,133
Carbon Action Limited	**131**	–	**–**	114	**–**	–
Hargreaves Darlington Limited	**–**	2,201	**–**	–	**–**	–
Waystone Hargreaves Land LLP	**5,582**	4,319	**130**	20	**–**	–
Hargreaves Services Europe Limited	**11,160**	11,693	**5,873**	476	**–**	–
	27,857	29,726	**6,238**	1,186	**7**	1,140

Transactions with Key Management Personnel

The 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 £125,000 (2020: £71,000) and the social security costs amounted to £191,000 (2020: £170,000). There are no other post-employment or other long-term benefits.

The Company had no transactions with key management personnel.

32 Related Parties continued
Company
Other Related Party Transactions

	Receivables outstanding		Payables outstanding	
	2021 £000	2020 £000	2021 £000	2020 £000
Subsidiaries	**66,493**	118,278	**25,202**	21,899
Joint ventures	**11,372**	11,961	**–**	720
	77,865	130,239	**25,202**	22,619

33 Ultimate controlling party
The Company is listed on the Alternative Investment Market of the London Stock Exchange. Material shareholders are detailed within the Directors' Report. There is no ultimate controlling party of the Group.

34 Post balance sheet events
On 27 July 2021, The Group entered into a £12m Invoice Discounting facility. The facility is secured against certain Group debtors. There is no debenture nor any covenants associated with this facility and the pre-existing debenture has been released.

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

	2021 £'000	2020 £'000
Profit before tax	**14,374**	2,151
Exceptional items (see Note 5)	**2,186**	1,683
Impairment of intangible assets and goodwill	**4,635**	1,575
Fair value gain on acquisition by a joint venture	**–**	(555)
Underlying Profit before Tax	**21,195**	4,854

Basic underlying earnings per share	Profit attributable to the equity holders of the Company prior to exceptional items and impairment of intangible assets and fair value gains on acquisition after tax divided by the weighted average number of ordinary shares during the financial year adjusted for the effects of any potentially dilutive options. See Note 10.
Net Cash/(debt)	Represents the net position of the Group's cash and loan balances including leases. Calculated as follows:

	2021 £'000	2020 £'000
Cash and cash equivalents	**28,303**	18,499
Non-current interest-bearing loans and borrowings	**(8,586)**	(9,437)
Current interest bearings loans and borrowings	**(3,179)**	(37,186)
Net Cash/(debt)	**16,538**	(28,124)

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

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

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 Prior's Hall Durham Cathedral, Durham, DH1 3EH on 27 October 2021 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 2021.
2. To approve the Directors' Corporate Governance and Remuneration Reports for the year ended 31 May 2021.
3. To declare a final dividend for the year ended 31 May 2021 of 4.5 pence per ordinary share to bring the dividend for the year ended 31 May 2021 to a total of 7.2 pence per ordinary share.
4. To declare an additional dividend of 12 pence per ordinary share to be funded from dividends to be paid to the Company by Hargreaves Services Europe Limited.
5. 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.
6. 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.
7. To re-appoint Nicholas Mills 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.
8. To re-appoint PricewaterhouseCoopers 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.
9. To authorise the Audit & Risk Committee of the board of directors to determine the remuneration of the auditors.
10. 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**):

    10.1 up to an aggregate nominal value of £1,077,054 (representing approximately one-third of the total ordinary share capital in issue (excluding shares held in Treasury) as at 23 July 2021); and

    10.2 comprising equity securities (within the meaning of section 560 of the Act) up to an aggregate nominal amount of £2,154,107 (after deducting from such amount any shares allotted under the authority conferred by virtue of resolution 10.1) 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 10 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 10 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 10 revoked but without prejudice to any allotment or grant of Rights made or entered into prior to the date of this resolution 10.

    For the purposes of this resolution 10, **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.

11. Subject to and conditional upon the passing of resolution 10 (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 10 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:

    11.1 pursuant to the authority conferred upon them by resolution 10.1 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:

    11.1.1 in connection with or pursuant to an offer of such securities by way of a pre-emptive offer (as defined below); and

    11.1.2. (otherwise than pursuant to resolution 11.1.1) up to an aggregate nominal value of £323,116 (representing approximately 10% of the total ordinary share capital in issue (excluding shares held in Treasury) as at 23 July 2021); and

    11.2 pursuant to the authority conferred upon them by resolution 10.2, 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 11:
(a) **rights issue** has the meaning given in resolution 10; 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.

Special Business

12. 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:
    12.1 the maximum aggregate number of Ordinary Shares authorised to be purchased by the Company pursuant to this resolution 12 is 4,846,741 (representing approximately 15% of the total ordinary share capital in issue (excluding shares held in Treasury) as at 23 July 2021); and
    12.2 the minimum price which may be paid for each of those Ordinary Shares (exclusive of expenses) is 10 pence; and
    12.3 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 12 which contract would or might be executed wholly or partially after the expiration of this authority as if the authority conferred by this resolution 12 had not expired.

As at the date of this Notice, the Board is hoping to welcome shareholders in person to the Annual General Meeting. However, in the event that UK Government and Public Health England guidance changes in respect of COVID-19 resulting in external shareholders being prevented from attending the Annual General Meeting, shareholders are strongly encouraged to appoint the chair of the Meeting as their proxy with their voting instructions set out below.

The Board encourages shareholders to exercise their right to vote in the following ways:

- **You can cast your votes by proxy by completing the enclosed proxy form and returning it to Registrars of the Company, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2021. Full details of how to vote using the proxy form can be found in the Notes to this notice on pages 98 and 100. Completion and return of the proxy form will not itself prevent shareholders from attending in person and voting at the meeting should they subsequently decide to do so.**

- **CREST members may use the CREST electronic proxy appointment service to submit their proxy appointment in respect of the Annual General Meeting as detailed in the Notes to this notice on pages 98 and 100.**

The UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the Annual General Meeting will be communicated to shareholders before the meeting through our website (www.hsgplc.co.uk) and, where appropriate, by RNS announcement. We trust that all our shareholders will understand the need for these precautions in light of Government public health guidelines on COVID-19. In the event that UK Government and Public Health England guidance changes which results in external shareholders being prohibited from attending the Annual General Meeting, we will arrange a facility for shareholders to ask questions of the Board of Directors.

27 July 2021
By order of the Board

John Samuel
Company Secretary

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

Notice of Annual General Meeting – Hargreaves Services plc

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

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. As at the date of this Notice, the Board is hoping to welcome shareholders in person to the Annual General Meeting. However, in the event that UK Government and Public Health England guidance changes in respect of COVID-19 resulting in external shareholders being prevented from attending the Annual General Meeting, shareholders are strongly encouraged to appoint the chair of the Meeting as their proxy. The Company will continue to monitor the impact of COVID-19 and reserves the ability to revise arrangements in relation to the Meeting should circumstances change. Any relevant updates regarding the Meeting will be available on the Company's website.
2. Resolutions 1 to 10 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 11 and 12 will be proposed as special resolutions. A special resolution requires 75% or more of votes cast to be in favour of such resolution in order for it to be passed.
   All business proposed at the Meeting is ordinary business, pursuant to Article 24.1, save for Resolution 12. 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 25 October 2021 as holders of ordinary shares of 10 pence 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 25 October 2021 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 (although shareholders are expected to be prohibited from attending the Meeting in person). 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.
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, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2021.
5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in Notes 10-13 below) will not in itself 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 Registrars of the Company, Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD.
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 Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD. 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 Neville Registrars. 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 Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands B62 8HD no later than 11.00am on 25 October 2021. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to Note 7 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 7RA11) by 11.00am on 25 October 2021. 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 23 July 2021 (being the last business day prior to the publication of this Notice) the Company's issued share capital consisted of 33,138,756 ordinary shares (827,150 of which are held in Treasury with no voting rights). Therefore, the total voting rights in the Company as at 23 July 2021 was 32,311,606.
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; and
    - copies of the letters of appointment of Non-Executive Directors of the Company.

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 2021 to the meeting as required by law. These reports and statements are set out on pages 25 to 94 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 2021 which is set out in full on pages 33 to 36 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 dividend for the financial year ended 31 May 2021 of 4.5 pence per ordinary share. If the meeting approves resolution 3, the dividend will be paid on 29 October 2021 to shareholders on the register of members on 17 September 2021.

Resolution 4: Additional Dividend
The Board proposes an additional dividend of 12 pence per ordinary share to be funded from dividend payments to be paid to the Company from Hargreaves Services Europe Limited. If the meeting approves resolution 4, the dividend will be paid on 29 October 2021 to shareholders on the register of members on 17 September 2021.

Resolutions 5 and 6: 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 19 of this document.

Resolutions 7: Appointment of Director
As Nicholas Mills 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 Nicholas Mills be re-appointed as a director and resolution 7 proposes his re-appointment.

Brief biographical details of Nicholas Mills are set out on page 19 of this document.

Resolutions 8 and 9: 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. PricewaterhouseCoopers LLP are willing to be re-appointed for a year and resolution 8 proposes their appointment and, in accordance with standard practice, resolution 9 authorises the Audit & Risk Committee of the board of directors of the Company to determine the level of the auditors' remuneration.

Resolution 10: Renewal of Board's Authority to Allot Shares
Resolution 10.1 grants the directors authority to allot relevant ordinary shares up to an aggregate nominal amount of £1,077,054 being approximately one-third of the Company's issued ordinary share capital (excluding shares held in Treasury) as at 23 July 2021.

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

In line with guidance issued by the Investment Association, resolution 10.2 grants the directors authority to allot ordinary shares in connection with a rights issue up to an aggregate nominal amount of £2,154,107 (representing 21,541,071 ordinary shares of 10 pence each), as reduced by the nominal amount of any shares issued under resolution 10.1. This amount, before any such reduction, represents approximately two-thirds of the Company's issued ordinary share capital (excluding shares held in Treasury) as at 23 July 2021. 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 Investment Association 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 10.1, will be regarded as routine. The Investment Association 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 10.2, 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 10 replace the existing authorities to allot shares.

Resolution 11: Disapplication of Statutory Pre-emption Rights
Resolution 11.1.1 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 11.1.2 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. Historically, the Pensions and Lifetime Savings Association (PLSA) (previously known as the National Association of Pension Funds) guidelines suggested 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). The PLSA has changed its guidance which now states that the limit should be 5% but that an additional 5% is acceptable provided that the Company confirms that it intends to use the additional 5% only in connection with an acquisition or specified capital investment which would be announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue. Taking note of the PLSA's guidance, the directors are proposing that the resolution remains unchanged from that passed at last year's Annual General Meeting and in previous years.

Resolution 11.2 grants the directors power to allot those shares issued further to the powers granted to them under resolution 10.2 without first offering them to existing shareholders.

Resolution 12: Purchase of Own Shares
Resolution 12 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 4,846,741 ordinary shares. This represents approximately 15% of the issued ordinary share capital of the Company (excluding shares held in Treasury) as at 23 July 2021. 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 12 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.

Shareholder Information

Company Secretary
John Samuel FCA

Independent Auditors
PricewaterhouseCoopers LLP
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Central Square South
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Newcastle upon Tyne
NE1 3AZ

Bankers
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58/60 Briggate
Leeds
LS1 6AS

Nominated Adviser and Joint Stockbroker
Singer Capital Markets
One Bartholomew Lane
London
EC2N 2AX

Joint Stockbroker
Investec Bank plc
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London
EC2V 7QP

Registered Office
West Terrace
Esh Winning
Durham
DH7 9PT

Registrar
Neville Registrars Limited
Neville House
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Halesowen
B62 8HD

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West Terrace
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Durham DH7 9PT
Tel: 0191 373 4485
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www.hsgplc.co.uk
Company number: 4952865

For more information

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