Hargreaves

Interim Report
for the six months ended 30 November 2019
Hargreaves Services plc

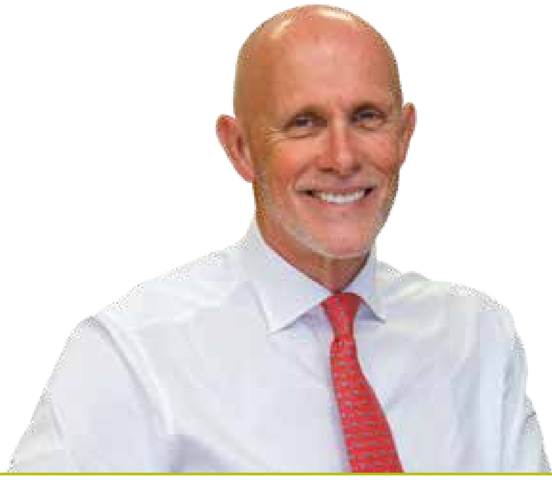
Hargreaves Services plc delivers key services to the industrial and property sectors.

Contents

Chairman's Statement

Roger McDowell, Chairman

Hargreaves has made good progress in the last six months following the challenges it faced in the year ended 31 May 2019.



Introduction
I am pleased to report a positive set of results for Hargreaves in the six months ended 30 November 2019. In addition to increased underlying profitability and improved margins, the Group has succeeded in securing a strong future position at the tungsten mine at Hemerdon, Devon, alongside recording a £2.4m exceptional gain, details of which were announced on 2 December 2019.

Hargreaves Raw Material Services GmbH ('HRMS')
As part of the Board's plans to create and realise shareholder value, it has been working with its German associate business, HRMS, to enhance the value of its investment. Hargreaves owns 49% of the voting share capital in HRMS and is entitled to 86% of the economic benefit. The management of HRMS owns and is entitled to the remainder.

As announced on 10 December 2019, HRMS has acquired 94.9% of DK Recycling und Roheisen GmbH ('DK') from DK Holdings GmbH. The acquisition cost was €1. Through a combination of this acquisition and the investment in its Carbon Pulverisation Plant ('CPP'), the management of HRMS is seeking to strengthen its business by adding complementary manufacturing process capability to HRMS' specialist commodity trading skills.

The CPP is about to begin trial production and is expected to be fully commissioned by early April 2020. The integrated and enlarged German business, which is expected to record future annual revenue in excess of €300m, should provide improved trading visibility, moderating the natural volatility of earnings in the original HRMS trading business whilst creating tangible value for shareholders.

As shareholders will be aware, HRMS is separately and independently managed from Hargreaves and, in recognition of that status, the Board has decided to change the presentation of the results and activities of HRMS. Previously, the Board included the results of HRMS (prior to interest and tax) within Underlying Operating Profit, which was inconsistent with IFRS reporting requirements and necessitated a reconciliation to statutory reporting. The results of HRMS are now presented in accordance with IAS 28 and are therefore excluded from Underlying Operating Profit.

The Board believes that reporting the results of the German associate separately from the rest of the Group's activities reflects both its independent management and ownership structure, as well as its growing importance as a key asset which the Board believes has the potential to deliver substantial shareholder value in the next few years.

Results
As expected, Revenue reduced to £124.7m (2018: £167.9m) but Underlying Operating Profit improved to £2.5m (2018: £2.1m). Revenue has declined primarily in the Specialist Earthworks business following the completion of civils contracts and because the comparative period included over £8m of revenue from Wolf Minerals Limited prior to its liquidation in October 2018. Further information on trading is given in the Chief Executive's Review. Underlying Operating Profit is defined by the Board as Operating Profit from continuing activities prior to exceptional items and amortisation of intangible assets and now excludes the results of the German associate.

The Group has recorded £2.8m of exceptional profit in the period (2018: £8.1m exceptional loss). As previously announced, in connection with developments at the Hemerdon tungsten mine, the Group sold its subsidiary, Drakelands Restoration Limited, to Tungsten West Limited which gave rise to an exceptional gain of £2.4m. Additionally, the Group has continued to deliver services to British Steel during the period resulting in an £0.4m release from the exceptional provision made in the prior year.

After accounting for these exceptional items, operating profit was £5.4m (2018: loss of £6.1m). After financial income and expenses and including the Group's share of post-tax profits of the German associate of £0.7m (2018: £0.9m), the Group consolidated profit before tax was £5.2m (2018: loss of £6.0m).

Earnings Per Share
Basic underlying earnings per share from continuing operations were 6.4p (2018: 5.4p) and 13.6p (2018: loss per share 2.6p) on a reported basis.

IFRS 16
IFRS 16 'Leases' became effective for the Group from 1 June 2019 and replaces IAS 17 'Leases'. The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17. The adoption of the standard has had no material effect on the Income Statement but has increased the level of reported net debt by £5.6m as noted below. This increase has been largely offset by an increase in tangible assets recorded in property, plant and equipment.

Net Debt
Net debt was £40.3m. Prior to the accounting changes in accordance with IFRS 16, net debt would have been recorded as £34.7m (2018: £28.6m). The increase when compared with 30 November 2018 is due to higher levels of working capital in the Distribution & Services business, primarily related to finished goods inventory as efficient mining production exceeded demand levels. The Board expects to report a slightly lower level of net debt at the year end. The Board does not expect inventory levels to reduce until next financial year.

Chairman's Statement continued

Dividend
The Board has decided to maintain the interim dividend at 2.7p (2018: 2.7p). This will be paid on 6 April 2020 to shareholders on the register at 28 February 2020.

Board Changes
For some time, the Board has been seeking to appoint another non-executive director. I am pleased to report that Christopher Jones MRICS has agreed to join the Board and will do so on 1 April 2020. Chris has over 30 years' experience working with a broad range of organisations within the UK commercial property market. In 1999, he was a founding partner of Christopher Dee LLP, a Manchester based partnership specialising in the analysis, acquisition and disposal of commercial property investment and development opportunities across the UK. Chris retires from the partnership at the end of March 2020. I look forward to welcoming Chris to the Board and to working with him to develop our Hargreaves Land business in particular.

Auditors
Following a thorough tender process, the Board has decided to appoint PricewaterhouseCoopers LLP as auditors to the Group in place of KPMG LLP.

Brexit
With the UK scheduled to leave the EU on 31 January 2020, uncertainty as to the outcome of future trade negotiations with the EU remains. As previously reported, Hargreaves has very little trading activity with any country within the EU. Consequently, the Board expects no material direct impact on the Group's trading activities whatever the final trading arrangements with the EU may be. The Group's German associate business, HRMS, trades almost exclusively within the EU but imports much of its trading stock from outside the EU.

The Board cannot meaningfully assess the impact of the potential future trading relationship with the EU on business sentiment in trading and financial markets which may lead to material change in the economic or financial environment within the UK and Europe for the Group or its customers.

Strategy and Shareholder Value
The Board's strategy to increase returns from the Distribution & Services business and to develop the Group's Property business, Hargreaves Land, which the Board regards as an important area to generate greater medium and longer-term value, remains unchanged. Additionally, as noted above, the Board is strongly supporting its German associate business in developing the value of its investment in HRMS.

Outlook
Hargreaves has made good progress in the last six months following the challenges it faced in the year ended 31 May 2019. The Board remains focused on delivering reliable and growing profits in, and unlocking capital from, its Distribution & Services businesses enabling strong cash returns to shareholders alongside investment in the growth of Hargreaves Land. The German associate has the full support of the Hargreaves' Board as it develops from a pure trading business into supplying and recycling specialist raw materials for the German manufacturing sector.

Although the Board expects to report higher than anticipated net debt at 31 May 2020 as a result of increased inventory levels, the Board anticipates reporting full year operating results slightly ahead of its expectations due to the benefit of ongoing trading with British Steel, which is expected to continue until at least the end of February 2020.

Roger McDowell
Chairman
29 January 2020

Chief Executive's Review

Gordon Banham, Group Chief Executive

The Group's balance sheet remains strong, providing the platform from which to continue the transition of our business and to generate and deliver shareholder returns.

Distribution & Services
The Distribution & Services business recorded revenue of £121.0m (2018: £152.5m) and an Underlying Operating Profit of £4.4m (2018: £4.4m). Operating profit under IFRS was £4.8m (2018 loss of £3.8m). Further information on the performance of each business within this segment is given below.

Production & Distribution
Revenue in Production & Distribution was £59.7m (2018: £63.4m). Operating profit improved to £2.5m (2018: £2.0m) following margin improvements in speciality coal markets and improved profitability in the Transport business resulting from greater contract selectivity and overhead reduction. The second half of the financial year may feature slightly weaker demand in the coal markets due to the mild winter weather.

Industrial Services
Revenue grew by 10% to £43.4m (2018: £39.4m) with an Underlying Operating Profit of £1.9m (2018: £1.4m) representing a margin of 4.4% (2018: 3.6%). The business has over 40 current contracts for 25 different customers.

Following the announcement in May 2019 that British Steel had gone into liquidation, the Official Receiver has continued to trade the business. This has benefitted our UK Industrial Services activity contributing £7.0m of revenue and £0.6m of operating profit during the period, similar to that recorded in the comparative period.

The Group recorded an exceptional provision of £8m in the year ended 31 May 2019 relating to unrecoverable debts and work in progress, potential redundancy and other costs on the assumption that British Steel would cease to trade as at 31 July 2019. In the six months to 30 November 2019, £0.2m of the provision has been utilised against costs incurred and £5.0m has been allocated against the unrecoverable debts and work in progress. Some possible employment related liabilities have been mitigated through the passage of time which has enabled a further £0.4m reduction in the provision, which now stands at £2.4m.

While the future of British Steel remains uncertain and discussions continue between the Government and interested parties, Hargreaves expects that its trading will continue at a similar level until at least the end of February 2020. This additional trading activity means that the result for the Industrial Services business for this financial year is now expected to be higher than previous expectations.

As in previous years, the cyclical profiling of contracts and planned site outages in Hong Kong, means that operating profit in the overseas Industrial Services business, which reported a loss in the period of £0.1m (2018: loss of £0.1m), will be heavily weighted to the second half. As reported in July the Hong Kong business secured its appointment to a new five year NEC4 Term Service Contract with its principal customer, CLP Power Hong Kong Ltd, providing a solid base for growth in the region.

Specialist Earthworks
Following the conclusion of site works on the major civils contracts in Specialist Earthworks and as a result of the liquidation of Wolf Minerals Ltd, revenue reduced markedly and in line with expectations to £17.9m (2018: £49.9m) with an operating profit of £0.0m (2018: £1.0m).

The major contract in this business in the period has been the A14 bulk earthworks project which completed on site in December. Future major earthworks business opportunities are being pursued including participation in the construction of the HS2 high speed rail infrastructure, where the Group has been selected as a preferred supplier by one of the major consortia. The timing of many of these projects is uncertain and are often subject to political decisions, however the business is well placed to provide what is a specialist capability in a market with a small number of potential suppliers. Costs have been managed down to a minimum level whilst preserving the capability necessary to address HS2 and other opportunities as they arise.

As previously reported, the Group is continuing to seek to agree satisfactory final account settlements on three major completed legacy civils contracts which have a total of £9.2m of contract assets outstanding. Some or all of these accounts may not be fully resolved during the current financial year which may mean a higher than expected level of working capital and net debt at the year end.

Hargreaves Land
Hargreaves Land contributed £3.7m (2018: £9.4m) of revenue in the first half and an operating profit of £0.2m (2018: £0.4m). As in the comparative period, all of the revenue derived from the sale of parcels of surplus land which did not have sufficient development potential to warrant retention.

During the period, a further £4.3m of expenditure has been incurred installing infrastructure and services at the major Blindwells site near Edinburgh, where conditional sales to two housebuilders totalling in excess of £10.0m have already been announced. The third block of land has now been released to the market and strong interest has again been generated from residential developers. Legal completion of sales at Blindwells is dependent principally upon the housebuilders receiving detailed planning permission and associated statutory approvals.

As previously announced, in June 2019 Hargreaves Land entered into a joint venture with another developer at Hatfield, Yorkshire, to develop a 600 acre site with planning permission for 3,100 residential properties and 2 million square feet for a mixture of industrial, commercial and logistics use. Initial profits are not expected to flow from this project until the year ending 31 May 2021.

Chief Executive's Review continued

Hargreaves Land continued
At 30 November 2019, the Group held interests in sites where planning permission has been achieved in respect of 4,700 residential plots and 4 million square feet of retail and commercial space.

In addition to the sites where planning permission has already been secured, Hargreaves Land is currently promoting 1,200 residential plots on four sites through the planning process. Additionally, over 125,000 square feet of retail warehousing has been submitted in detailed planning applications on two sites. Typically, these sites are not owned by Hargreaves Land, but the Group's position is secured by options or conditional purchase agreements.

Investment in HRMS
The Group's German associate's post tax profit was £0.7m (2018: £0.9m). Trading conditions in the German market in certain speciality minerals have been weaker than a year ago. It should be noted that traditionally this business has been stronger in the second half of the financial year although, as it is a trading business, market conditions can be unpredictable creating short term volatility.

Currently, HRMS expects that second half trading will be a little stronger than the first half performance with a minimal contribution from the Carbon Pulverisation Plant which is expected to be fully commissioned in early April. Second half trading will also include the impact of HRMS' acquisition of DK although at this early stage, HRMS management does not expect a material contribution from DK in this financial year.

Legacy Asset Realisations
During the period there has been a further £1.2m realised from Legacy Assets (2018: £5.9m) at book value. The remaining Legacy Asset of £11.6m (2018: £21.5m) comprises the loan due from the Tower Joint Venture which is underpinned by tangible assets in the form of plant and machinery and land. A small reduction in the loan is expected in the second half of the financial year as a result of the sale of surplus plant.

Corporate Costs
The programme to reduce corporate and other overhead is ongoing with corporate costs falling in the period to £2.1m (2018: £2.7m).

Summary
During the period, it has been particularly satisfying to secure a solution at Hemerdon which provides our shareholders with substantial medium-term earnings potential alongside the immediate gain recorded in these results. The future holds a number of further opportunities, particularly in Specialist Earthworks should HS2 go ahead, although that is not expected to benefit the reported results in the current financial year.

I also expect Hargreaves Land to make further progress on a number of exciting projects including Hatfield. I look forward to seeing our German associate bring its trading expertise to bear in transforming the financial performance of DK together with initial production from the Carbon Pulverisation Plant.

The Group's balance sheet remains strong, providing the platform from which to continue the transition of our business and to generate and deliver shareholder returns.

Gordon Banham
Group Chief Executive
29 January 2020

Financial Statements

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the six months ended 30 November 2019

	Note	Unaudited six months ended 30 November 2019 £000	Unaudited six months ended 30 November 2018* £000	Audited year ended 31 May 2019* £000
Revenue		**124,651**	167,872	302,613
Cost of sales		**(109,610)**	(160,238)	(285,902)
Gross profit		**15,041**	7,634	16,711
Other operating income		**945**	163	4,291
Administrative expenses		**(10,596)**	(13,854)	(30,690)
Operating profit/(loss)		**5,390**	(6,057)	(9,688)
Operating profit (before exceptional items)		**2,547**	2,073	6,448
Exceptional items – Cost of sales	5	**406**	(8,130)	(12,645)
Exceptional items – Administrative expenses	5	**2,437**	–	(3,491)
Operating profit/(loss) (after exceptional items)		**5,390**	(6,057)	(9,688)
Financial income		**240**	98	450
Financial expenses**		**(1,109)**	(1,001)	(2,154)
Share of profit of associates and jointly controlled entities (net of tax)	6	**689**	932	1,534
Profit/(loss) before tax		**5,210**	(6,028)	(9,858)
Taxation	7	**(887)**	1,173	1,665
Profit/(loss) for the period from continuing operations		**4,323**	(4,855)	(8,193)
Discontinued operations				
Profit for the period from discontinued operations	8	**–**	4,007	3,526
Profit/(loss) for the period		**4,323**	(848)	(4,667)
Other comprehensive (expense)/income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		**–**	–	(1,197)
Tax recognised on items that will not be reclassified to profit or loss		**–**	–	203
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		**(678)**	313	318
Effective portion of changes in fair value of cash flow hedges		**106**	(992)	(1,269)
Equity adjustment relating to adoption of IFRS 16		**(154)**	–	–
Tax recognised on items that are or may be reclassified subsequently to profit or loss		**(18)**	169	216
Other comprehensive expense for the period, net of tax		**(744)**	(510)	(1,729)
Total comprehensive income/(expense) for the period		**3,579**	(1,358)	(6,396)
Profit/(loss) attributable to:				
Equity holders of the company		**4,358**	(846)	(4,741)
Non-controlling interest		**(35)**	(2)	74
Profit/(loss) for the period		**4,323**	(848)	(4,667)

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the six months ended 30 November 2019 continued

	Note	Unaudited six months ended 30 November 2019 £000	Unaudited six months ended 30 November 2018* £000	Audited year ended 31 May 2019* £000
Total comprehensive income/(expense) for the period attributable to:				
Equity holders of the company		**3,614**	(1,356)	(6,470)
Non-controlling interest		**(35)**	(2)	74
Total comprehensive income/(expense) for the period		**3,579**	(1,358)	(6,396)
GAAP measures				
Basic earnings per share (pence)	10	**13.56**	(2.64)	(14.75)
Diluted earnings per share (pence)	10	**13.26**	(2.64)	(14.75)
Basic earnings per share from continuing operations (pence)	10	**13.56**	(15.13)	(25.71)
Diluted earnings per share from continuing operations (pence)	10	**13.26**	(14.95)	(25.71)
Non-GAAP measures (continuing)				
Basic underlying earnings per share (pence)	10	**6.39**	5.40	15.30
Diluted underlying earnings per share (pence)	10	**6.25**	5.33	15.30

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

** Finance expenses for the six months ended 30 November 2019 include £142,000 of additional finance charges in relation to the adoption of IFRS 16.

Condensed Consolidated Balance Sheet
as at 30 November 2019

	Unaudited 30 November 2019 £000	Unaudited 30 November 2018* £000	Audited 31 May 2019* £000
Non-current assets			
Property, plant and equipment	**25,224**	53,712	45,528
Right of use assets	**17,275**	–	–
Investment property	**9,666**	11,762	10,067
Intangible assets	**10,965**	11,126	10,983
Investments in associates and jointly controlled entities	**11,871**	11,159	11,744
Deferred tax assets	**5,299**	5,299	6,229
	80,300	93,058	84,551
Current assets			
Assets held for sale	**–**	128	–
Inventories	**62,392**	35,622	48,040
Derivative financial instruments	**10**	215	25
Trade and other receivables	**92,656**	111,046	75,562
Contract assets	**17,415**	16,415	17,596
Cash and cash equivalents	**15,493**	26,999	21,583
	187,966	190,425	162,806
Total assets	**268,266**	283,483	247,357
Non-current liabilities			
Interest-bearing loans and borrowings**	**(50,993)**	(52,437)	(35,222)
Retirement benefit obligations	**(3,336)**	(3,686)	(4,184)
Provisions	**(4,579)**	(1,425)	(3,718)
Derivative financial instruments	**–**	(193)	(137)
	(58,908)	(57,741)	(43,261)
Current liabilities			
Interest-bearing loans and borrowings**	**(4,798)**	(3,199)	(4,289)
Trade and other payables	**(72,251)**	(86,519)	(69,259)
Provisions	**(1,711)**	(2,177)	(2,327)
Income tax liabilities	**(736)**	(454)	(594)
Derivative financial instruments	**(165)**	(6)	(150)
	(79,661)	(92,355)	(76,619)
Total liabilities	**(138,569)**	(150,096)	(119,880)
Net assets	**129,697**	133,387	127,477

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

** Interest-bearing loans and borrowings at 30 November 2019 include £0.5m of additional current liabilities and £5.8m of additional non-current lease liabilities recognised under IFRS 16.

Condensed Consolidated Balance Sheet
as at 30 November 2019 continued

	Unaudited 30 November 2019 £000	Unaudited 30 November 2018* £000	Audited 31 May 2019* £000
Equity attributable to equity holders of the parent			
Share capital	**3,314**	3,314	3,314
Share premium	**73,955**	73,955	73,955
Other reserves	**211**	211	211
Translation reserve	**(1,370)**	(697)	(692)
Merger reserve	**1,022**	1,022	1,022
Hedging reserve	**190**	332	102
Capital redemption reserve	**1,530**	1,530	1,530
Share-based payment reserve	**1,226**	1,144	1,139
Retained earnings	**49,599**	52,597	46,841
	129,677	133,408	127,422
Non-controlling interest	**20**	(21)	55
Total equity	**129,697**	133,387	127,477

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 November 2018

	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
Balance at 1 June 2018	3,314	73,955	(1,010)	1,155	211	1,530	1,022	1,043	54,886	136,106	(19)	136,087
Total comprehensive income and expense for the period												
Loss for the period	–	–	–	–	–	–	–	–	(846)	(846)	(2)	(848)
Other comprehensive income/ (expense)												
Foreign exchange translation differences	–	–	313	–	–	–	–	–	–	313	–	313
Effective portion of changes in fair value of cash flow hedges	–	–	–	(992)	–	–	–	–	–	(992)	–	(992)
Tax recognised on other comprehensive income	–	–	–	169	–	–	–	–	–	169	–	169
Total other comprehensive income/ (expense)	–	–	313	(823)	–	–	–	–	–	(510)	–	(510)
Total comprehensive income and expense for the period	–	–	313	(823)	–	–	–	–	(846)	(1,356)	(2)	(1,358)
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	–	–	–	–	–	–	–	101	–	101	–	101
Dividends paid	–	–	–	–	–	–	–	–	(1,443)	(1,443)	–	(1,443)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	101	(1,443)	(1,342)	–	(1,342)
Balance at 30 November 2018	**3,314**	**73,955**	**(697)**	**332**	**211**	**1,530**	**1,022**	**1,144**	**52,597**	**133,408**	**(21)**	**133,387**

Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 November 2019

	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
Balance 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 and expense for the period												
Profit/(loss) for the period	–	–	–	–	–	–	–	–	4,358	4,358	(35)	4,323
Other comprehensive (expense)/income												
Foreign exchange translation differences	–	–	(678)	–	–	–	–	–	–	(678)	–	(678)
Effective portion of changes in fair value of cash flow hedges	–	–	–	106	–	–	–	–	–	106	–	106
Equity adjustment relating to adoption of IFRS 16*	–	–	–	–	–	–	–	–	(154)	(154)	–	(154)
Tax recognised on other comprehensive income	–	–	–	(18)	–	–	–	–	–	(18)	–	(18)
Total other comprehensive (expense)/income	–	–	(678)	88	–	–	–	–	(154)	(744)	–	(744)
Total comprehensive income and expense for the period	–	–	(678)	88	–	–	–	–	4,204	3,614	(35)	3,579
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	–	–	–	–	–	–	–	87	–	87	–	87
Dividends paid	–	–	–	–	–	–	–	–	(1,446)	(1,446)	–	(1,446)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	87	(1,446)	(1,359)	–	(1,359)
Balance at 30 November 2019	**3,314**	**73,955**	**(1,370)**	**190**	**211**	**1,530**	**1,022**	**1,226**	**49,599**	**129,677**	**20**	**129,697**

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option which has resulted in an impact of £154,000 on the Group's opening equity. Under this option, the comparative information is not restated. See Note 1.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 November 2019

	Unaudited six months ended 30 November 2019 £000	Unaudited six months ended 30 November 2018* £000	Audited year ended 31 May 2019* £000
Cash flows from operating activities			
Profit/(loss) for the period from continuing operations	**4,323**	(4,855)	(8,193)
Adjustments for:			
Depreciation and impairment of property, plant and equipment***	**8,032**	7,756	16,136
Amortisation and impairment of goodwill and intangible assets	**–**	–	142
Net finance expense	**869**	903	1,704
Share of profit of jointly controlled entities (net of tax)	**(689)**	(932)	(1,534)
Profit on sale of Property, Plant and Equipment	**(945)**	(190)	(4,291)
Equity settled share-based payment expense	**87**	101	96
Income tax expense/(credit)	**887**	(1,173)	(1,665)
Contributions to defined benefit pension schemes	**(849)**	(709)	(1,746)
Translation of non-controlling interest	**18**	(116)	(100)
	11,733**	785	549
Change in assets held for sale	**–**	8,832	8,961
Change in inventories	**(14,352)**	(154)	(11,262)
Change in trade and other receivables	**(17,128)**	(4,823)	26,172
Change in trade and other payables	**3,032**	1,239	(17,454)
Change in provisions and employee benefits	**244**	(603)	1,817
	(16,471)	5,276	8,783
Interest paid	**(546)**	(802)	(1,635)
Income tax received	**183**	413	307
Net cash (outflow)/inflow from continuing operating activities	**(16,834)**	4,887	7,455
Net cash inflow from operating activities in discontinued operations	**–**	14,020	15,593
Net cash (outflow)/inflow from operating activities	**(16,834)**	18,907	23,048
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and investment property	**4,182**	1,398	12,231
Acquisition of property, plant and equipment and investment property	**(1,142)**	(5,902)	(8,433)
Net cash inflow/(outflow) from investing activities	**3,040**	(4,504)	3,798
Cash flows from financing activities			
Payment of finance lease liabilities	**(4,794)**	(2,775)	(6,780)
Dividends paid	**(1,446)**	(1,443)	(2,310)
Proceeds from/(repayments of) Group banking facilities	**14,000**	700	(12,300)
Net cash inflow/(outflow) from financing activities	**7,760**	(3,518)	(21,390)
Net (decrease)/increase in cash and cash equivalents	**(6,034)**	10,885	5,456
Cash and cash equivalents at the start of the period	**21,583**	16,110	16,110
Effect of exchange rate fluctuations on cash held	**(56)**	4	17
Cash and cash equivalents at the end of the period	**15,493**	26,999	21,583

* The Group has adopted IFRS 16 starting 1 June 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated. See Note 1.

** Operating cash inflows before movements in working capital for the six months ended 30 November 2019 are £1,999,000 higher due to the adoption of IFRS 16. Interest paid for the six months ended 30 November 2019 is £142,000 higher due to the adoption of IFRS 16. Cash outflows in respect of the capital element of lease rental payments for the six months ended 30 November 2019 are £1,857,000 higher due to the adoption of IFRS 16.

*** Additional depreciation on the Group's right-of-use assets due to the adoption of IFRS 16 amounted to £1,939,000 for the six months ended 30 November 2019.

Notes to the Condensed Consolidated Interim Financial Information

1. Basis of preparation

The condensed consolidated interim financial information set out in this statement for the six months ended 30 November 2019 and the comparative figures for the six months ended 30 November 2018 is unaudited. This financial information does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. It does not comply with IAS 34 'Interim Financial Reporting', as is permissible under the rules of the Alternative Investment Market.

The condensed consolidated interim financial information, which is neither audited nor reviewed, has been prepared in accordance with the measurement and recognition criteria of adopted International Financial Reporting Standards. This statement does not include all the information required for the annual financial statements and should be read in conjunction with the financial statements of the Group as at and for the year ended 31 May 2019.

For the year ending 31 May 2020, IFRS 16, Leases, has become effective and replaces the requirements of IAS 17, Leases. The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of adoption is recognised through reserves, with comparatives continuing to be reported under IAS 17. An asset representing the Group's right as a lessee to use a leased item and a liability for the associated future lease payments, has been recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The cost of leases has been recognised in the consolidated income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the accounting for finance leases under IAS 17, but different to the accounting for operating leases (under which no lease asset or lease liability was recognised, and operating lease rentals were charged to the consolidated income statement on a straight-line basis).

As a result of adopting the new accounting standard for the six months ended 30 November 2019, the Group's profit before tax has reduced by £224,000, and operating profit has increased by £82,000. The reduction in profit before tax is the net impact of £142,000 of additional finance charges and £1,939,000 of additional depreciation, replacing £1,857,000 of operating lease rental charges. Finance charges under IFRS 16 are front-loaded in the early part of the lease term and when using the modified retrospective approach to adoption, this resulted in the overall cost of leases being greater than operating lease rental charges would have been under IAS 17.

Net debt increased by £5,241,000 at 1 June 2019 as a result of the recording of the additional lease liabilities on the balance sheet. This was largely offset within net assets by an increase of £5,200,000 in right-of-use assets recorded in property, plant and equipment and the recognition of £113,000 of associated accruals.

There are no other new IFRS which apply to the condensed consolidated interim financial information.

2. Accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial information are the same as those applied in the preparation of the annual financial statements for the year ended 31 May 2019, as described in those financial statements, with the exception of the adoption of IFRS 16.

Adoption of IFRS 16

The Group adopted IFRS 16 with a date of initial application of 1 June 2019 using the modified retrospective approach whereby the right-of-use asset on transition equalled the lease liability, before the reclassification and adjustment of associated balance sheet items. The comparative information for the six months ended 30 November 2018 and for the year ended 31 May 2019 has not been restated and continues to be reported under IAS 17.

The Group applied the following measures/exemptions available on transition to IFRS 16, to leases previously classified as operating leases;

- on transition the Group has applied IFRS 16 only to those contracts that were previously identified as containing a lease. Contracts previously identified as not containing leases under IAS 17 were not reassessed;
- The Group has relied on its previous assessment of whether leases are onerous in accordance with IAS 37 immediately before the date of initial application as an alternative to performing an impairment review;
- The Group has not recognised right-of-use assets and liabilities for leases of low value or for which the lease term ends within 12 months of the date of initial application, on a lease-by-lease basis; and
- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term in a similar class of underlying asset).

The Group has changed its accounting policies and updated its internal processes and controls relating to leasing. The new definition of a lease has been applied to contracts entered into from 1 June 2019.

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.

Notes to the Condensed Consolidated Interim Financial Information continued

2. Accounting policies continued

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 at 1 June 2019. The weighted average rate applied by the Group at transition was 3.7%. The impact on the Group's opening balance sheet at 1 June 2019 as a result of the adoption of IFRS 16 was as follows:

	£000
Net assets at 31 May 2019	127,477
Right-of-use assets recognised	5,200
Reclassification of accruals	(113)
Lease liabilities recognised	(5,241)
Net assets at 1 June 2019	**127,323**

Applying the Group's incremental borrowing rate to discount the operating lease commitments reported at 31 May 2019 results in a liability of £5.2m. This reconciles to the right of use asset recognised as follows:

	£000
Operating lease commitments at 31 May 2019	5,784
Discount using the incremental borrowing rate at 1 June 2019	(563)
Discounted operating lease commitments	5,221
Recognition exemption for short-term and low-value leases	(250)
Reassessment of lease terms including extension and termination options reasonably certain to be exercised	229
Right of use asset recognised at 1 June 2019	**5,200**

3. Status of financial information

The comparative figures for the financial year ended 31 May 2019 are not the Group's statutory consolidated financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2019 have been reported on by the company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

4. Principal risks and uncertainties

The principal risks and uncertainties affecting the Group are unchanged from those set out in the Group's accounts for the year ended 31 May 2019. The Directors have reviewed financial forecasts and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future on the basis that the Group is successful in refinancing its borrowing facilities by 31 August 2020. Accordingly, the Group continues to adopt the going concern basis in preparing the condensed consolidated interim financial information.

5. Exceptional items

	Six months ended 30 November 2019 Unaudited £000	Six months ended 30 November 2018 Unaudited £000	Year ended 31 May 2019 Audited £000
Gain on disposal of Drakelands Restoration Limited	**2,437**	–	–
Profit/(losses) due to the insolvency of British Steel Limited	**406**	–	(7,964)
Losses due to the insolvency of Wolf Minerals (UK) Limited	**–**	(8,130)	(8,130)
Losses on legacy contracts in C. A. Blackwell	**–**	–	(676)
Net amounts recovered from C. A. Blackwell breach of warranty claim	**–**	–	634
Total exceptional items	**2,843**	(8,130)	(16,136)

On 29 November 2019 the Group disposed of 100% of the share capital of Drakelands Restoration Limited ('Drakelands') for proceeds of £2,800,000. Associated disposal costs were £363,000, Drakelands net assets at the date of disposal were £nil.

6. Results of associate

	Six months ended 30 November 2019 Unaudited £000	Six months ended 30 November 2018 Unaudited £000	Year ended 31 May 2019 Audited £000
Underlying operating profit of associate	**1,627**	2,024	3,376
Interest on associates and joint ventures	**(530)**	(622)	(967)
Taxation on associates and joint ventures	**(408)**	(470)	(875)
Share of profit of associates and jointly controlled entities	**689**	932	1,534

Notes to the Condensed Consolidated Interim Financial Information continued

7. Taxation

Income tax for the period is charged at 19% (2018: 19%). The effective tax rate, after removing the impact of jointly controlled entities is 19.6% (2018: 16.9%), representing an estimate of the annual effective rate for the full year to 31 May 2020.

8. Discontinued operations

	Six months ended 30 November 2019 Unaudited £000	Six months ended 30 November 2018 Unaudited £000	Year ended 31 May 2019 Audited £000
Proceeds from disposal of subsidiary	–	21,733	21,733
Assets disposed	–	(10,034)	(10,034)
	–	11,699	11,699
Administrative expenses	–	(7,437)	(7,760)
Profit before tax of discontinued operations	–	4,262	3,939
Current tax charge	–	(255)	(313)
Deferred tax charge	–	–	(100)
Taxation	–	(255)	(413)
Profit for the period from discontinued operations	–	4,007	3,526

The discontinued operations represented the activities and disposal of Brockwell Energy Limited ('Brockwell'). The Company disposed of the whole of its shareholding in Brockwell on 19 October 2018. Proceeds included the reimbursement of certain costs and expenses incurred by or in respect of Brockwell. In addition to this the profit from discontinued operations for the year ended 31 May 2019 included a loss after tax of £1,008,000 relating to writing off a receivable in relation to the Belgian fraud uncovered in 2012.

9. Dividends

The final dividend of 4.5 pence per ordinary share, proposed in the 2019 annual accounts and approved by the shareholders at the Annual General Meeting on 30 October 2019, was paid on 2 November 2019. The directors have proposed an interim dividend of 2.7 pence per share (2018: 2.7p) which will be paid on 6 April 2020 to shareholders on the register at the close of business on 28 February 2020. This will be paid out of the Company's available distributable reserves. In accordance with IAS 1, dividends are recorded only when paid and are shown as a movement in equity rather than as a charge in the income statement.

10. Earnings per share

	Six months ended 30 November 2019 Unaudited			Six months ended 30 November 2018 Unaudited			Year ended 31 May 2019 Audited		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share from continuing operations	**2,055**	**6.39**	**6.25**	1,732	5.40	5.33	4,918	15.30	15.30
Exceptional items and amortisation (net of tax)	**2,303**	**7.17**	**7.01**	(6,585)	(20.53)	(20.28)	(13,185)	(41.01)	(41.01)
Continuing basic earnings per share	**4,358**	**13.56**	**13.26**	(4,853)	(15.13)	(14.95)	(8,267)	(25.71)	(25.71)
Discontinued operations	–	–	–	4,007	12.49	12.31	3,526	10.96	10.96
Basic earnings per share	**4,358**	**13.56**	**13.26**	(846)	(2.64)	(2.64)	(4,741)	(14.75)	(14.75)
Weighted average number of shares		**32,137**	**32,862**		32,077	32,468		32,150	32,150

The calculation of diluted earnings per share is based on the profit for the period attributable to equity holders of the Company and on the weighted average number of ordinary shares in issue in the period adjusted for the dilutive effect of the share options outstanding. The effect on the weighted average number of shares is 725,000 (2018: 391,000), the effect on continuing basic earnings per ordinary share is 0.30p (2018: 0.18p).

Notes to the Condensed Consolidated Interim Financial Information continued

11. Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors, since they are responsible for strategic decisions.

	Distribution & Services Unaudited 30 November 2019 £000	Hargreaves Land Unaudited 30 November 2019 £000	Unallocated and Legacy Unaudited 30 November 2019 £000	HRMS Unaudited 30 November 2019 £000	Total Unaudited 30 November 2019 £000
Revenue					
Total revenue	121,000	3,700	–	–	124,700
Intra-segment revenue	(49)	–	–	–	(49)
Revenue from external customers	**120,951**	**3,700**	**–**	**–**	**124,651**
Operating profit/(loss) before exceptional items	**4,405**	**201**	**(2,059)**	**–**	**2,547**
Exceptional items	406	–	2,437	–	2,843
Operating profit	**4,811**	**201**	**378**	**–**	**5,390**
Share of profit in associates and joint ventures (net of tax)	–	–	–	689	689
Net financing costs	(804)	(101)	36	–	(869)
Profit before taxation	**4,007**	**100**	**414**	**689**	**5,210**

	Distribution & Services Unaudited 30 November 2018 £000	Hargreaves Land Unaudited 30 November 2018 £000	Unallocated and Legacy Unaudited 30 November 2018 £000	HRMS Unaudited 30 November 2018 £000	Total Unaudited 30 November 2018 £000
Revenue					
Total revenue	152,774	9,403	5,925	–	168,102
Intra-segment revenue	(230)	–	–	–	(230)
Revenue from external customers	**152,544**	**9,403**	**5,925**	**–**	**167,872**
Operating profit/(loss) before exceptional items	**4,363**	**378**	**(2,668)**	**–**	**2,073**
Exceptional items	(8,130)	–	–	–	(8,130)
Operating (loss)/profit	**(3,767)**	**378**	**(2,668)**	**–**	**(6,057)**
Share of profit in associates and joint ventures (net of tax)	–	–	–	932	932
Net financing costs	(862)	(73)	32	–	(903)
(Loss)/profit before taxation	**(4,629)**	**305**	**(2,636)**	**932**	**(6,028)**

Underlying Operating Profit is defined by the Board as Operating Profit from continuing activities prior to exceptional items and amortisation of intangible assets and excludes the Group's share of the operating profit of its German associate. It is a key performance measure monitored by the Board on a monthly basis.

12. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 29 January 2020. Copies of this interim statement will be sent to all shareholders and will be available to the public from the Group's registered office.

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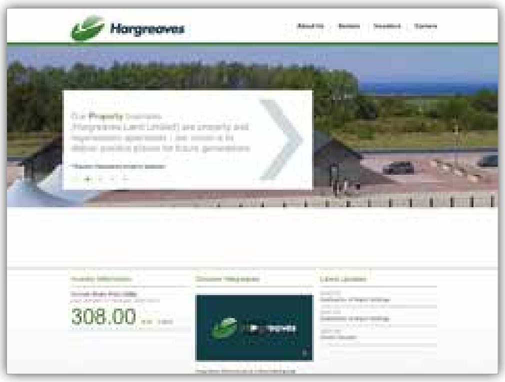

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