Interim Report 2022 for the six months ended 30 November 2022

Hargreaves Services plc

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

Contents

Chairman's Statement
Roger McDowell, Chairman

I am pleased that the Group has remained resilient throughout this period and continued to create opportunities to deliver value for our shareholders.

Introduction
The last six months have seen an increased level of operations on the HS2 contract within Services, continuing land sales at Blindwells in Hargreaves Land and further strong trading at HRMS. This has delivered profitable growth across all business sectors, despite the well-publicised challenges posed by the inflationary environment.

I am pleased that the Group has remained resilient throughout this period and continued to create opportunities to deliver value for our shareholders.

Resilience and growth
The past 12 months have seen a substantial increase in the cost of goods and services, which has put many businesses and industries under pressure, not to mention the wider population. Against this backdrop, the Group has demonstrated its resilience, particularly within the Services business, to withstand these pressures and to deliver profitable growth. With over 50 term and framework contracts in Services, most of which have inflation related escalation clauses, the Group is well insulated against the impact of inflation.

During the period, activity levels on the HS2 contract have increased, which has provided substantial growth in revenue and profitability both in earthmoving and mechanical and electrical engineering services. Even discounting the impact of HS2 earthmoving activities, revenue grew by 8.7% across the Services business due primarily to the success of the engineering projects work.

Hargreaves Land has completed another sale at Blindwells, which continues to demonstrate the recurrent nature of the revenue from that site.

Our German Joint Venture, HRMS, benefited in the prior year from very favourable commodity markets, and they have been able to continue to trade well in volatile market conditions.

Results
Group revenue increased by 53% to £116.5m (2021: £76.1m) primarily due to increased activity on the HS2 contract. The Group's Profit before tax has increased substantially by 80% from £10.4m to £18.7m. EBITDA has increased to £12.9m (Nov 2021: £3.7m) as more profit is derived from Services and Land business segments. Whilst much of this improvement is due to the HS2 contract, the first half has also seen some non-recurring asset realisations yielding a profit of £2.0m. As a result, the full year results are likely to be weighted towards the first half.

Cash and debt
The Group held cash in hand of £18.1m on 30 November 2022 compared to £13.8m on 31 May 2022 (Nov 2021: £8.5m). This cash increase is due, in part, to the repayment of the short-term working capital funding that was provided to HRMS in the prior year, offset by investment into Hargreaves Land assets.

The only debt held by the Group is leasing debt for specific plant items. At 30 November 2022 the Group had leasing debt of £30.6m, which is a substantial increase on the 31 May 2022 leasing debt of £18.4m (Nov 2021: £11.5m). This increase is due to the acquisition of plant and equipment to support the HS2 contract. The total amount of leasing debt is expected to increase further before the end of the financial year as the final plant deliveries for HS2 are due to be received in the second half.

Net asset value
The net asset per share of the Group has increased to 603p from 462p representing an increase of 31% in a year.

Dividend
Following the continued strong performance of the Group, the Board is announcing a 7.1% increase in the interim dividend to 3.0p (2021: 2.8p). The interim dividend will be paid on 6th April 2023 to shareholders on the register at 24th March 2023.

Board changes
John Samuel has informed the Board of his intention to step down as Group Finance Director and Board Director on 31 July 2023.

John will be succeeded as Group Finance Director and Board Director (the latter subject to satisfactory completion of customary due diligence and approval by the Company's nominated advisor) by Stephen Craigen, (39), with effect from 1 August 2023. Stephen has been with the Group for nine years and has held the role of Group Financial Controller since 2017. The Board has great confidence in Stephen and that there will be a seamless transition of responsibilities.

Strategy and Shareholder Value
The Group has developed three strong, defined businesses through which it aims to create, deliver and realise value for shareholders.

Services
The Services business is building a sustainable and resilient profit stream through term contracts and framework agreements in the Energy, Environmental, Infrastructure and Industrial sectors. The Group currently has over 50 such contracts in place to support future performance. The business is concentrated on organic, profitable growth, with a particular focus on contract selectivity and higher margin activities. The current year has seen a notable increase in its level of operations with the ramp up at HS2 and there is a solid foundation for further sustainable growth. Additionally, I am pleased to announce that our specialist earthmoving subsidiary, Blackwell, expects to be appointed to support Balfour Beatty to deliver the 'Roads North of the Thames' package of works for the proposed Lower Thames Crossing, on behalf of National Highways. Contractual arrangements will be clarified in due course. Designed to be the greenest road project ever built in the UK, the Lower Thames Crossing will create a new connection under the River Thames, increasing road capacity and easing congestion in the South of England.

Hargreaves Land
This business is focused on maximising the inherent value of its existing portfolio, including Blindwells and the Unity Joint Venture, as well as developing a strong pipeline of new opportunities. In addition, the business is now starting to deliver returns from its renewable energy land portfolio.

HRMS
This business has taken advantage of strong trading conditions although, as expected, these seem likely to weaken in the second half of the financial year. It is focused on sustaining the structural improvement in profitability achieved in DK Recycling und Roheisen GmbH ("DK") and securing contracts to increase the utilisation of its Carbon Pulverisation Plant ("CPP") whilst continuing to take advantage of trading opportunities in the minerals commodity markets.

Outlook
The first six months of the year have been positive for the Group during a period of inflationary pressures and other economic uncertainties. The Board has a clear focus on the creation, delivery and realisation of value for shareholders in each business unit. The Group has demonstrated its resilience and its ability to drive organic profitable growth. I look forward to reporting further progress in the second half of the financial year and the Board is confident that results for the year will be in line with market expectations.

Roger McDowell
Chairman
25 January 2023

Chief Executive's Review
Gordon Banham, Group Chief Executive

I am pleased with the profitable growth the Group has delivered in the period within each of its business segments.

£'m	Services	Land	HRMS	Central Costs	Total
Revenue (Nov 2022)	**107.8**	**8.7**	**–**	**–**	**116.5**
Revenue (Nov 2021)	*70.2*	*5.9*	*–*	*–*	*76.1*
Profit/(loss) before tax (Nov 2022)	**8.5**	**1.6**	**10.8**	**(2.2)**	**18.7**
Profit/(loss) before tax (Nov 2021)	*3.1*	*0.5*	*9.0*	*(2.2)*	*10.4*

Services

The Services business recorded revenue of £107.8m (2021: £70.2m) and Profit before tax of £8.5m (2021: £3.1m). The increase in revenue is due in large part to the HS2 project, which commenced in the second half of the prior financial year. The increase in revenue attributable to earthmoving at HS2 is £31.5m and the remaining revenue increase of £6.1m represents a growth of 8.7% due to the successful award of certain engineering project works.

Profit before tax in the first half of the year includes a non-recurring gain of £2.0m from asset realisations, which is likely to mean that market expectations for the full year performance of this business segment will be similarly exceeded. Excluding this gain, the improvement in Profit before tax is due primarily to the HS2 contract and represents a 110% increase. The result for the full year is likely to be heavily weighted to the first half because the earthmoving season for HS2 falls into the Group's H1 and the £1m annual receipt from Tungsten West plc ("TW") is also a first half event.

The Services business continues to deliver good quality, resilient profits and remains focused on delivering services to our four key market sectors, Energy, Environmental, Industrial and Infrastructure.

Contract success

During the period the Group has been awarded a 10-year contract with Durham County Council and a 5-year contract with Scottish Water, both of which will help to provide a base of further Environmental business development. Elsewhere the Services business has seen success with the renewal of several other contracts in all of its key markets ranging from 1 to 5 year extensions.

The earthmoving part of the business, Blackwell, has been awarded a short-term contract to assist in the creation of a nature reserve, which is associated with the Sizewell C nuclear project. This provides an ideal opportunity to demonstrate capability on a project that will require significant future earthworks to be undertaken.

The business is carrying out the major earthworks on part of the HS2 project, working for the EKFB Joint Venture. This contract is individually significant and represents a substantial growth in the revenue and profitability of the Group as a whole. I am pleased to confirm that the project is going well and at peak operation the Group had over 400 workers on site.

In addition to the earthmoving activity, the Group has also developed and installed a five section 650m conveyor system, which will reduce the carbon emissions on HS2 by over 5,000 tonnes in total through the removal of approximately 1.15 million miles of HGV traffic from the local roads, thus reducing diesel consumption by 1.6 million litres, as well as any traffic disturbances to the local community. This innovative solution has been recognised through the team winning the EKFB C23 project of the year award in the best environmental and sustainable initiative category.

The Group has now received the second of eight annual £1m payments from TW relating to maintaining our capabilities on site. TW has informed the market of their progress in restarting operations at the Tungsten mine at Hemerdon in Devon. The Group continues to maintain a close relationship with TW and retains the exclusive contract for the provision of mining services should the project come to fruition.

Inflation has been high throughout the period and this has presented significant challenges for many businesses. We have reported previously that Hargreaves is well insulated against such inflationary pressures, due to many of the term contracts containing specific escalation clauses. I am pleased to confirm that during the first half, these measures have been successful in protecting the Group against loss of value through inflation as demonstrated by the strong profits recorded.

Looking to the medium term, the contract wins and renewals secured in the period as well as the recent announcement of Balfour Beatty on Lower Thames Crossing, we continue to strengthen the sustainable and resilient revenue streams in the Services business. The business is continuing to develop its mechanical and electrical engineering offering building on the successful conveyor installation at HS2 as well as exploring opportunities for carbon sequestration on some of our Scottish land assets.

Services remains the core generator of revenue and cash flow for the Group. With a strong book of recurring contracted revenue, the business is in a strong position to deal with the ongoing economic and political uncertainties.

Hargreaves Land

Land

Hargreaves Land recorded revenue of £8.7m (2021: £5.9m) and a Profit before tax of £1.6m (2021: £0.5m). The growth in both revenue and Profit before tax is due to the timing of sales at Blindwells.

The first half saw the completion of the sale of 4.5 acres to Ogilvie Homes generating revenue of £3.4m. This development of 77 new homes, including 23 affordable, has now commenced and Ogilvie is the fourth housebuilder now onsite at Blindwells. Out of 480 housing plots sold to date, including 144 affordable, 100 have now been built.

Chief Executive's Review continued

At the Unity Joint Venture, the 650-acre mixed use development in Doncaster, work has commenced on the forward funded 191,000 sq ft logistics unit following the grant of detailed planning permission at the end of last year with the completion of this initial phase of commercial development expected to be achieved in the second half of FY24.

As reported elsewhere, market conditions tightened across virtually all sectors in the second half of 2022. However, demand from house builders for serviced development sites with planning permission in prime locations has remained resilient, although unsurprisingly we are not expecting the continuation of the aggressive land price inflation that was experienced in early 2022. We expect demand for quality residential land to return to a more normalised level in the coming year, underpinned by a shortage of available residential opportunities in the areas we operate in.

In the commercial sectors where we operate, primarily industrial/logistics and retail warehousing, occupier demand has remained reasonably robust for well-located opportunities, although investment values began to moderate from mid-2022 reflecting increased interest rates and greater uncertainty over wider economic conditions.

Hargreaves Land is currently working on contracted pipeline opportunities with an estimated Gross Development Value of over £200m, ranging from residential to industrial and mixed commercial use.

Renewables

I am pleased to confirm that infrastructure work is nearing completion at our site in Westfield, which has seen a capital investment of £5m in the period. This work is being undertaken to service an initial phase of 50 acres of consented employment land on the site. The construction of an Energy from Waste ("EfW") plant at Westfield by Brockwell Energy is underway and Hargreaves Land is receiving associated rental income on a 35-year minimum term lease, which will increase to £0.4m p.a. index linked at the end of the first 3 years of the lease term.

The development at Westfield is a major step in the delivery of value from our renewable land portfolio. In addition to Westfield, the Group owns circa 3,000 acres of land, which will be developed for the purpose of renewable energy generation, primarily windfarms, solar farms and battery storage. Hargreaves Land will not build out any of these projects but will be the landlord in any arrangement. Dalquhandy, the first of the windfarm projects, has now been completed and is expected to be fully operational in early 2023, with the construction of another wind farm at Broken Cross in South Lanarkshire now being developed out.

Investment in HRMS

HRMS recorded a post tax profit of £10.8m (2021: £9.0m) for the six months ended 30 November 2022. Whilst minerals trading has been strong in the first half, and ahead of the comparative period, it has not been at the level experienced in the second half of last financial year, as commodity prices and global demand have softened.

The HRMS trading business has always been skilled at maximising opportunities whilst minimising the risk profile taken. We have seen this again in the first half of the year. I can also confirm that £12.5m of the temporary £15m loan from Hargreaves Services plc that was in place on 31 May 2022 has now been repaid.

Visibility remains relatively short term for the trading team but it is likely that the second half of the financial year will be less strong than the first half as markets are expected to soften further.

The steel waste recycling business, DK has seen another good performance in the first half, albeit lower than the previous six months, as pig iron prices have reduced. Due to an unusually extended period of maintenance on the power plant additional costs were incurred on energy amounting to €3m. As a result, it is probable that the full year results for HRMS will be approximately £1.5m lower than market expectations.

Having proved the concept of the CPP and delivered high quality product, the conflict in Ukraine has impacted heavily on the pricing of raw materials, which has restricted sales of the product to new customers as brown lignite coal dust is more competitively priced. The Board of HRMS remains confident in the future of the plant, which is breaking even at present, and once markets return to a more sustainable level, expects to see return from this investment.

ESG

The Group's Cross-Business Working Group ("ESG Group") is now well established and has previously set out the following three targets for FY23:

- to reduce electricity and gas usage per office based employee by 2% per annum;
- to improve the kilometres per litre attained by the haulage fleet by 3% per annum; and
- to reduce the idling time in yellow plant by 6% per annum.

The ESG Group is monitoring the Group's performance against these targets and will report the outcomes in the 2023 Annual Report and Accounts.

Further, in 2022, the Group was pleased to be awarded an A "Very Good" ESG rating from Integrum ESG, an independent ratings advisor.

Summary

The contract wins and renewals in the Services business provide further resilience to the Group's profitability as we head into the second half of the financial year and beyond. Whilst there is uncertainty within the UK housing and property market more generally, I remain confident in the viability of the Hargreaves Land portfolio as we continue to see strong demand for schemes brought to market. Finally, HRMS has performed well in the last six months, however, some commodity markets have softened recently and visibility remains limited. As expected, it is likely that the contribution from HRMS in the second half will be lower than that for the first six months of the year.

I am pleased with the profitable growth the Group has delivered in the period within each of its business segments, during a period of challenging economic conditions.

Gordon Banham
Group Chief Executive
25 January 2023

Financial Statements

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2022

	Note	Unaudited six months ended 30 November 2022 £000	Unaudited six months ended 30 November 2021 £000	Audited year ended 31 May 2022 £000
Revenue		**116,475**	76,082	177,908
Cost of sales		**(94,782)**	(64,196)	(148,458)
Gross profit		**21,693**	11,886	29,450
Other operating income		**2,844**	542	1,298
Administrative expenses		**(16,561)**	(11,369)	(24,520)
Operating profit		**7,976**	1,059	6,228
Operating profit (before exceptional items)		**7,976**	1,059	4,474
Exceptional items	5	**–**	–	1,754
Operating profit		**7,976**	1,059	6,228
Finance income		**504**	361	823
Finance expense		**(823)**	(292)	(770)
Share of profit in joint ventures (net of tax)		**11,053**	9,269	28,200
Profit before tax		**18,710**	10,397	34,481
Taxation	6	**(1,562)**	(386)	347
Profit for the period from continuing operations		**17,148**	10,011	34,828
Discontinued operations				
Profit for the period from discontinued operations		**–**	–	2,000
Profit for the period		**17,148**	10,011	36,828
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		**–**	–	5,955
Tax recognised on items that will not be reclassified to profit or loss		**–**	–	(1,488)
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		**1,406**	45	313
Effective portion of changes in fair value of cash flow hedges		**–**	35	41
Tax recognised on items that are or may be reclassified subsequently to profit or loss		**–**	(7)	(8)
Share of other comprehensive income of joint ventures (net of tax)		**–**	–	3,070
Other comprehensive income for the period, net of tax		**1,406**	73	7,883
Total comprehensive income for the period		**18,554**	10,084	44,711
Profit/(loss) attributable to:				
Equity holders of the company		**16,962**	10,029	37,040
Non-controlling interest		**186**	(18)	(212)
Profit for the period		**17,148**	10,011	36,828

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2022 continued

	Note	Unaudited six months ended 30 November 2022 £000	Unaudited six months ended 30 November 2021 £000	Audited year ended 31 May 2022 £000
Total comprehensive income/(expense) for the period attributable to:				
Equity holders of the company		**18,368**	10,102	44,923
Non-controlling interest		**186**	(18)	(212)
Total comprehensive income for the period		**18,554**	10,084	44,711
GAAP measures				
Basic earnings per share (pence)	8	**52.15**	31.04	113.80
Diluted earnings per share (pence)	8	**51.09**	30.15	110.44

Condensed Consolidated Balance Sheet
as at 30 November 2022

	Note	Unaudited 30 November 2022 £000	Unaudited 30 November 2021 £000	Audited 31 May 2022 £000
Non-current assets				
Property, plant and equipment		**10,392**	11,995	9,938
Right of use assets		**35,305**	15,040	22,062
Investment property		**13,672**	7,286	8,298
Intangible assets including goodwill		**5,949**	4,824	4,824
Investments in joint ventures	10	**70,541**	39,873	58,383
Deferred tax assets		**9,657**	9,662	11,063
Trade receivables		**4,224**	–	4,224
Retirement benefit surplus		**11,467**	3,600	10,382
		161,207	92,280	129,174
Current assets				
Other financial assets		**–**	2	–
Inventories		**33,872**	31,117	30,476
Trade and other receivables		**86,109**	87,102	88,574
Income tax asset		**–**	629	–
Contract assets		**6,081**	2,667	6,752
Cash and cash equivalents		**18,102**	8,509	13,773
		144,164	130,026	139,575
Total assets		**305,371**	222,306	268,749
Non-current liabilities				
Other Interest-bearing loans and borrowings		**(17,460)**	(8,354)	(11,045)
Retirement benefit obligations		**(2,666)**	(2,831)	(2,703)
Provisions		**(5,898)**	–	(2,344)
Deferred tax liabilities		**(2,419)**	–	(1,920)
		(28,443)	(11,185)	(18,012)
Current liabilities				
Other Interest-bearing loans and borrowings		**(13,140)**	(3,192)	(7,326)
Trade and other payables		**(58,792)**	(52,714)	(50,727)
Provisions		**(8,844)**	(6,021)	(9,440)
Income tax liability		**–**	–	(108)
Other financial liabilities		**–**	(7)	–
		(80,776)	(61,934)	(67,601)
Total liabilities		**(109,219)**	(73,119)	(85,613)
Net assets		**196,152**	149,187	183,136

Condensed Consolidated Balance Sheet
as at 30 November 2022 continued

	Note	Unaudited 30 November 2022 £000	Unaudited 30 November 2021 £000	Audited 31 May 2022 £000
Equity attributable to equity holders of the parent				
Share capital		**3,314**	3,314	3,314
Share premium		**73,972**	73,955	73,972
Other reserves		**211**	211	211
Translation reserve		**(413)**	(2,087)	(1,819)
Merger reserve		**1,022**	1,022	1,022
Hedging reserve		**318**	313	318
Capital redemption reserve		**1,530**	1,530	1,530
Share-based payment reserve		**2,216**	1,818	2,029
Retained earnings		**114,018**	69,139	102,781
		196,188	149,215	183,358
Non-controlling interest		**(36)**	(28)	(222)
Total equity		**196,152**	149,187	183,136

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 November 2021

	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 2021	3,314	73,955	(2,132)	285	211	1,530	1,022	1,680	64,441	144,306	(10)	144,296
Total comprehensive income and expense for the period												
Profit/(loss) for the period	–	–	–	–	–	–	–	–	10,029	10,029	(18)	10,011
Other comprehensive income/(expense)												
Foreign exchange translation differences	–	–	45	–	–	–	–	–	–	45	–	45
Effective portion of changes in fair value of cash flow hedges	–	–	–	35	–	–	–	–	–	35	–	35
Tax recognised on other comprehensive income	–	–	–	(7)	–	–	–	–	–	(7)	–	(7)
Total other comprehensive income	–	–	45	28	–	–	–	–	–	73	–	73
Total comprehensive income and expense for the period	–	–	45	28	–	–	–	–	10,029	10,102	(18)	10,084
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	–	–	–	–	–	–	–	138	–	138	–	138
Dividends paid	–	–	–	–	–	–	–	–	(5,331)	(5,331)	–	(5,331)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	138	(5,331)	(5,193)	–	(5,193)
Balance at 30 November 2021	**3,314**	**73,955**	**(2,087)**	**313**	**211**	**1,530**	**1,022**	**1,818**	**69,139**	**149,215**	**(28)**	**149,187**

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 November 2022

	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 2022	3,314	73,972	(1,819)	318	211	1,530	1,022	2,029	102,781	183,358	(222)	183,136
Total comprehensive income for the period												
Profit for the period	–	–	–	–	–	–	–	–	16,962	16,962	186	17,148
Other comprehensive income												
Foreign exchange translation differences	–	–	1,406	–	–	–	–	–	–	1,406	–	1,406
Total other comprehensive income	–	–	1,406	–	–	–	–	–	–	1,406	–	1,406
Total comprehensive income for the period	–	–	1,406	–	–	–	–	–	16,962	18,368	186	18,554
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	–	–	–	–	–	–	–	187	–	187	–	187
Dividends paid	–	–	–	–	–	–	–	–	(5,725)	(5,725)	–	(5,725)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	187	(5,725)	(5,538)	–	(5,538)
Balance at 30 November 2022	**3,314**	**73,972**	**(413)**	**318**	**211**	**1,530**	**1,022**	**2,216**	**114,018**	**196,188**	**(36)**	**196,152**

Condensed Consolidated Cash Flow Statement
for the six months ended 30 November 2022

	Unaudited six months ended 30 November 2022 £000	Unaudited six months ended 30 November 2021 £000	Audited year ended 31 May 2022 £000
Cash flows from operating activities			
Profit for the period from continuing operations	**17,148**	10,011	34,828
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	**4,932**	2,598	8,666
Net finance expense/(income)	**319**	(69)	(53)
Share of profit in joint ventures (net of tax)	**(11,053)**	(9,269)	(28,200)
Profit on sale of property, plant and equipment, investment property and right-of-use assets	**(2,844)**	(602)	(1,298)
Equity settled share-based payment expense	**187**	138	349
Income tax expense/(credit)	**1,562**	386	(347)
Contributions to defined benefit pension schemes	**(1,170)**	(768)	(2,002)
Retranslation of foreign denominated assets and liabilities	**31**	764	202
	9,112	3,189	12,145
Change in inventories	**(3,398)**	(3,949)	(3,308)
Change in trade and other receivables	**4,314**	(10,495)	(19,256)
Change in trade and other payables	**6,622**	(581)	903
Change in provisions and employee benefits	**2,867**	(1,380)	1,000
	19,517	(13,216)	(8,516)
Interest (paid)/received	**(271)**	299	34
Income tax received/(paid)	**28**	–	(44)
Net cash inflow/(outflow) from operating activities	**19,274**	(12,917)	(8,526)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**4,565**	640	801
Proceeds from sale of investment property	**146**	786	1,407
Proceeds from sale of ROU assets	**54**	33	78
Acquisition of property, plant and equipment	**(1,730)**	(224)	(1,479)
Acquisition of investment property	**(5,377)**	(15)	(1,070)
Acquisition of right of use assets	**(54)**	–	(163)
Acquisition of subsidiaries	**(1,447)**	–	–
Dividends received from joint ventures	**–**	–	3,917
Net cash (outflow)/inflow from investing activities in continuing operations	**(3,843)**	1,220	3,491
Net cash inflow from investing activities in discontinued operations	**–**	–	2,000
Net cash (outflow)/inflow from investing activities	**(3,843)**	1,220	5,491
Cash flows from financing activities			
Principal elements of lease payments	**(5,519)**	(2,755)	(5,531)
Dividends paid	**(5,725)**	(5,331)	(6,237)
Net cash outflow from financing activities	**(11,244)**	(8,086)	(11,768)
Net increase/(decrease) in cash and cash equivalents	**4,187**	(19,783)	(14,803)
Cash and cash equivalents at the start of the period	**13,773**	28,303	28,303
Effect of exchange rate fluctuations on cash held	**142**	(11)	273
Cash and cash equivalents at the end of the period	**18,102**	8,509	13,773

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 2022 and the comparative figures for the six months ended 30 November 2021 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 UK-adopted international accounting 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 2022.

There are no 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 2022, as described in those financial statements.

3. Status of financial information
The comparative figures for the financial year ended 31 May 2022 are not the Group's statutory consolidated financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2022 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 2022. The Directors have reviewed financial forecasts and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. 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 2022 Unaudited £000	Six months ended 30 November 2021 Unaudited £000	Year ended 31 May 2022 Audited £000
Exceptional items in Administrative expenses			
Release of accrual relating to liability from the year ended 31 May 2015	–	–	1,754
Total exceptional items in Administrative expenses	**–**	–	1,754

There are no exceptional items in the six month period ended 30 November 2022 (30 November 2021: £nil).

In the year ending 31 May 2022, an aged accrual dating from the year ended 31 May 2015 totalling £1,754,000 was released as the potential for payment had lapsed due to time.

6. Taxation
UK income tax for the period is charged at 19% (2021: 19%). The effective tax rate, after removing the impact of jointly controlled entities is 20.4% (2021: 34.2%), representing an estimate of the annual effective rate for the full year to 31 May 2023. This rate is higher than the standard rate of UK income tax due to the effect on deferred tax of the forthcoming rise in the corporate tax rate to 25% and the impact of accounting for tax related to the Unity Joint Venture, which is a Limited Liability Partnership.

7. Dividends
The final dividend of 5.6p and additional dividend of 12p per ordinary share, proposed in the 2022 annual accounts and approved by the shareholders at the Annual General Meeting on 27 October 2022, was paid on 31 October 2022. The directors have proposed an interim dividend of 3.0p per share (2021: 2.8p) which will be paid on 6 April 2023 to shareholders on the register at the close of business on 24 March 2023. 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.

Notes to the Condensed Consolidated Interim Financial Information continued

8. Earnings per share

	Six months ended 30 November 2022 Unaudited			Six months ended 30 November 2021 Unaudited			Year ended 31 May 2022 Audited		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share	**16,962**	**52.15**	**51.09**	10,029	31.04	30.15	33,407	103.23	100.18
Exceptional items and amortisation (net of tax)	**–**	**–**	**–**	–	–	–	1,421	4.39	4.26
Continuing basic earnings per share	**16,962**	**52.15**	**51.09**	10,029	31.04	30.15	34,828	107.62	104.44
Discontinued operations	**–**	**–**	**–**	–	–	–	2,000	6.18	6.00
Basic earnings per share	**16,962**	**52.15**	**51.09**	10,029	31.04	30.15	36,828	113.80	110.44
Weighted average number of shares		**32,528**	**33,200**		32,316	33,267		32,362	33,347

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 672,000 (2021: 951,000), the effect on continuing basic earnings per ordinary share is 1.06p (2021: 0.89p).

9. 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. HSEL represents Hargreaves Services Europe Limited, the holding company for the Group's investment in its German Joint Venture.

	Services Unaudited 30 November 2022 £000	Hargreaves Land Unaudited 30 November 2022 £000	Unallocated Unaudited 30 November 2022 £000	HSEL Unaudited 30 November 2022 £000	Total Unaudited 30 November 2022 £000
Revenue					
Total revenue	108,000	8,700	–	–	116,700
Intra-segment revenue	(225)	–	–	–	(225)
Revenue from external customers	**107,775**	**8,700**	**–**	**–**	**116,475**
Operating profit/(loss)	**9,147**	**1,331**	**(2,502)**	**–**	**7,976**
Share of profit in joint ventures (net of tax)	–	242	–	10,811	11,053
Net finance (expense)/income	(642)	28	295	–	(319)
Profit/(loss) before tax	**8,505**	**1,601**	**(2,207)**	**10,811**	**18,710**

	Services Unaudited 30 November 2021 £000	Hargreaves Land Unaudited 30 November 2021 £000	Unallocated Unaudited 30 November 2021 £000	HSEL Unaudited 30 November 2021 £000	Total Unaudited 30 November 2021 £000
Revenue					
Total revenue	71,043	5,846	–	–	76,889
Intra-segment revenue	(807)	–	–	–	(807)
Revenue from external customers	**70,236**	**5,846**	**–**	**–**	**76,082**
Operating profit/(loss)	**3,149**	**169**	**(2,259)**	**–**	**1,059**
Share of profit in joint ventures (net of tax)		292	–	8,977	9,269
Net finance income	–	–	69	–	69
Profit/(loss) before tax	**3,149**	**461**	**(2,190)**	**8,977**	**10,397**

10. Investments in joint ventures

	Tower Regeneration Limited £000	Hargreaves Services Europe Limited £000	Waystone Hargreaves LLP £000	Interests in immaterial joint ventures £000	Total £000
At 1 June 2022	–	53,547	4,910	(74)	58,383
Group's share of profit in joint ventures (net of tax)	–	10,811	241	1	11,053
Exchange differences	–	1,112	–	(7)	1,105
At 30 November 2022	**–**	**65,470**	**5,151**	**(80)**	**70,541**

11. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 25 January 2023. 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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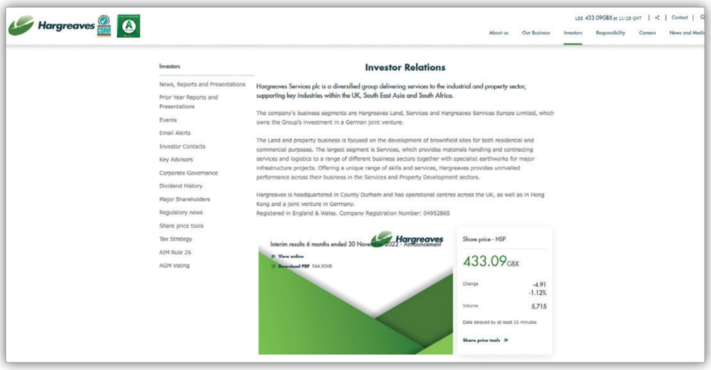
For more information

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



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