Interim Report 2021 for the six months ended 30 November 2021

Hargreaves Services plc

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

Contents

Chairman's Statement
Roger McDowell, Chairman

The Group has delivered a strong set of results and carries real momentum into the second half of the financial year.

Introduction
I am pleased to be able to report another strong set of results for the Group. Each of the three pillars of the business, being Services, Hargreaves Land and our investment in Germany, now have real momentum behind them and the Group has seen year on year growth in profitability across each business segment.

The last six months have continued to be challenging for many, as the world continues to deal with the impact of the Coronavirus pandemic. Throughout this time, I have been particularly impressed with the dedication and professionalism of our employees and I would like to thank them once again for their support.

Momentum
The first half of this financial year has been a period of demonstrable momentum in each of our businesses. Whilst, the Group's German Joint Venture, Hargreaves Raw Materials Services GmbH ("HRMS") has continued to capitalise on favourable market conditions, it has also delivered sustainable operational improvements within DK Recycling.

The Services business has started work in earnest on HS2, with monthly revenues now over £2m from that contract. The announcement of the successful listing of Tungsten West plc ("TW") has provided further impetus to the business which has a 10 year mining services contract with TW in addition to the right to eight annual payments of £1m, the first of which has been received.

Hargreaves Land has made substantial progress on both the commercial and residential aspects of the Unity Joint Venture. More details are set out below in the Chief Executive's Review. This is in addition to the news that Brockwell Energy Limited, a former subsidiary of the Group, has obtained financial close on an Energy from Waste plant which is to be constructed at our Westfield site. This represents the start of the development of the Group's renewable energy land assets.

Results
As expected, Group Revenue reduced to £76.1m (2020: £92.0m) following the decision to end all material coal related activities in December 2020. The Group's Profit before tax has increased substantially to £10.4m (2020: £1.1m). While the majority of the improvement in profit is attributable to the continued strong performance of HRMS, I note that both the Services and Land businesses have contributed a combined £1.3m of this growth. Basic earnings per share have increased over ninefold to 31.0p (2020: 3.4p). Further information on trading is given in the Chief Executive's Review.

Cash and debt
The Group held net cash of £8.5m on 30 November 2021, compared to a net bank debt position of £8.0m twelve months ago. This improvement was largely due to the decision to exit coal in December 2020, which released a substantial amount of cash from working capital.

The Group has loaned £15m to HRMS in the period to support the German management team to capitalise on strong trading conditions in their specialist markets. This loan will be repaid in the second half of the year.

Total net debt, which includes leasing debt of £11.5m (2020: £12.8m), was £3.0m compared with £20.8m on 30 November 2020. The Board is anticipating net debt (including leasing debt) to be higher at the year end due to the anticipated investment in leased equipment for the HS2 contract, but the quantum is dependent on the timing of delivery. The Group does not expect to have any net bank debt at the year end.

Dividend
The Group's performance has enabled the Board to increase the interim dividend by 3.7% to 2.8p (2020: 2.7p). The interim dividend will be paid on 6 April 2022 to shareholders on the register at 25 February 2022. 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 in HRMS are repatriated to the Company. Such additional dividend would be declared and paid alongside any final ordinary dividend following shareholder approval at the 2022 Annual General Meeting.

COVID-19
The Group has traded resiliently throughout the pandemic. The Board does not consider the pandemic to be a material threat to its operations at the present time.

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

Services
The Services business is building a sustainable profit stream through stable 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 the reliability of future performance. The business is concentrated on organic, capital-light growth, with a particular focus on contract selectivity and higher margin activities.

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

HRMS
This business is continuing to take advantage of strong trading conditions leading to a material increase in the Board's expectations for profits in the current and future years. It is now focused on sustaining an increased level of profitability in DK Recycling following its acquisition in December 2019 and securing contracts to increase the utilisation of its Carbon Pulverisation Plant.

In July 2021, I stated: *"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."* Following such discussions and after consultation with the German management team, the Board has decided to continue to support the development of HRMS. The Board believes that the inherent value of HRMS can be most effectively demonstrated by trading successfully through commodity cycles. Over the medium term the Board considers that HRMS will be a material profit and cash generator for the Group and that it has further value opportunities to exploit.

Outlook
The first six months of the year have been positive for the Group and have built on the back of the strong year ended 31 May 2021. The Group has now moved on from its historic activities and has a clear strategy to create, deliver and realise shareholder value in each of its businesses. The Group has real momentum behind each of its businesses, and the progress made in HRMS has encouraged the Board to increase its expectations materially for the current and future years. I look forward to reporting further progress in the second half of the year.

Roger McDowell
Chairman
26 January 2022

Chief Executive's Review
Gordon Banham, Group Chief Executive

I am pleased with the growth in profits in our three pillars of Services, Hargreaves Land and HRMS.

£'m	Services	Land	HRMS	Central Costs	Total
Revenue (Nov 2021)	**70.2**	**5.9**	**–**	**–**	**76.1**
Revenue (Nov 2020)	*89.9*	*2.1*	*–*	*–*	*92.0*
Profit before Tax (Nov 2021)	**3.1**	**0.5**	**9.0**	**(2.2)**	**10.4**
Profit before Tax (Nov 2020)	*2.1*	*(0.1)*	*0.9*	*(1.8)*	*1.1*

Services
The Services business recorded revenue of £70.2m (2020: £89.9m) and Profit before tax of £3.1m (2020: £2.1m). The reduction in revenue is due to the cessation of all material coal related activities in December 2020. Growth in Profit before tax is due, in part, to the performance of the Specialist Earthworks business which has seen a contribution from the HS2 contract in the first half compared to minimal activity in the comparative period.

Services has continued to make good progress throughout the first half. It is focused on delivering services to four key market sectors, being Energy, Environmental, Industrial and Infrastructure. In addition to the solid trading performance delivered in the first half, there are two particular factors that I would like to highlight.

Hemerdon
As announced in October 2021, the Board was pleased to note the successful listing of Tungsten West plc ("TW") on AIM. TW are the owners of the large tungsten mine at Hemerdon in Devon and the funds raised by the listing will help to secure the future of the site. This news was important for Hargreaves, because we have an exclusive 10-year mining services contract with TW, which is now expected to commence operations in 2023. As part of this, the Group is entitled to eight annual payments of £1m, the first of which was received in November 2021.

This contract provides a long term and sustainable revenue stream for the Services business in an operation that plays to our key strengths. Credit risk has been mitigated through the agreed contract terms.

HS2
The Group was appointed by the EKFB Joint Venture to carry out the major earthworks on a part of the HS2 project in March 2021 under a £120m contract, however work did not begin in earnest until the current financial year. I am pleased to report that we now have over 100 employees on the project and the monthly run rate for revenue is over £2m. We anticipate the level of activity to grow from the spring of 2022 as the weather improves and we enter the normal earthmoving season.

The Services business continues to be heavily weighted to the second half of the financial year, in terms of both revenue and profit. This is partly due to the recurring annual profile of our operations in Hong Kong, in which major outages generally occur in the second half. In the current year, the weighting of results is also impacted by the timing of works on the HS2 contract.

The UK has seen higher levels of inflation in recent times and with the possibility of further increases this is an area of risk for many businesses. Hargreaves is well insulated against inflation, with many of the term contracts in the Services business having specific escalation clauses to mitigate any increase in underlying delivery costs.

Looking to the medium term, we are growing our environmental offering as we look at the potential for carbon sequestration on former surface mining sites in Scotland as well as continuing to develop the mechanical and electrical engineering business, which provides for better margins and which complements our existing materials handling operations.

There are many reasons to be optimistic about the outlook for the Services business both in the second half of the year and in the medium to long term.

Hargreaves Land
Hargreaves Land recorded revenue of £5.8m (2020: £2.1m) and a Profit before tax of £0.5m (2020: loss of £0.1m) for the period.

Subsequent to the period end, I am pleased to report that completion has been achieved on the 12.9 acre sale at Blindwells to Persimmon for a total consideration of £9.6m payable in three equal annual instalments. This highlights the progress being made on this flagship residential development. To date Hargreaves Land has achieved total completed sales of £18.6m over 26.6 acres. There are a further eight parcels of land remaining to be sold over the next ten years within phase one of the Blindwells project. Phase two represents an additional 110 acres which is currently being promoted through the local plan for a further 1,500 homes, with planning allocated expected in 2027. This provides a solid and reliable base for recurring revenue and profits from Blindwells.

Progress has also been made at the 650 acre Unity Joint Venture. The project has exchanged contracts with Bellway and Harron Homes for the conditional sale of 36 acres of residential land, which will generate an expected revenue for the Joint Venture of £15m, with completion expected in stages commencing in the financial year ending 31 May 2024. In addition to the residential exchange, following the 79 acre sale for the development of a £25m logistics hub announced in April 21, the Joint Venture has secured a £14m enabling works contract to facilitate that development.

This progress provides clear visibility of future cashflows for the Unity Joint Venture. The scheme, which is independently funded, is a long term project and is expected to deliver substantial value to the Group over at least the next 10 years.

In December 2021, the Group noted the successful financial close that was achieved on the Westfield Energy from Waste ("EfW") plant being developed by our former subsidiary Brockwell Energy Limited ("Brockwell"). The immediate impact was the receipt of £2m of deferred consideration from the sale of Brockwell. Additionally, Brockwell has entered into a minimum 35 year index linked lease starting at £105k per annum and growing to £420k per annum following the construction of the plant, but this higher rent will commence no later than 2025.

This also marks the first major step in the delivery of value within the Group's portfolio of renewable energy land assets. There are approximately 100 developable acres at Westfield, and the EfW plant will only occupy 9 acres, allowing for over 90 acres of available space for businesses keen to utilise the cheaper heat and power to be provided by the EfW plant. Additionally, the site has 80 acres allocated for the construction of a 30MW solar farm.

In addition to Westfield, the Group also holds several parcels of land in Scotland, each of which has options to lease wind farms with a total generation capability of 120MW per annum. One of these options to lease was exercised in 2021 by a major international renewable energy company and construction of the wind farm is underway. Further to this a number of agreements are held whereby proposed wind farms with a generation capability of 450MW can only be accessed through land which Hargreaves controls. These wind farms already have planning permission in place and grid connections secured. The Group expects the build out timetables to result in rental returns to the Group commencing after 2024. This specific element of our Hargreaves Land portfolio represents an exciting opportunity for the Group to support the transition to a green economy within the UK, whilst creating and delivering substantial shareholder value.

Hargreaves Land now has offices in Durham, Glasgow and Leeds as the business looks actively to identify new opportunities. The business currently has visibility of a pipeline of commercial projects with a combined GDV of £65m+ focused in Scotland and the North of England and control over land with the potential for 600 residential homes.

Investment in HRMS

HRMS recorded a post tax profit of £9.0m (2020: £0.9m) for the six months ended 30 November 2021. Profitability has increased in each aspect of the operation, Minerals Trading, the Carbon Pulverisation Plant ("CPP") and DK Recycling. This improvement in profit follows on from the strong results seen in the second half of the year ended 31 May 2021.

The minerals trading business has always been skilled in adapting to market conditions and has again delivered excellent results. The business trades in pig iron, ferroalloys and other speciality minerals. Volumes traded in the first six months of the financial year were 750kt across all products, compared with 415kt in the comparative period. In addition to the increased volumes, margin has also improved, particularly on sales of pig iron, which have seen a sustained increase in pricing throughout the period. As pricing and volumes have increased, so has the demand for working capital within HRMS. To support HRMS in capitalising on the current market conditions, Hargreaves has provided a temporary £15m loan which is due for repayment in the second half.

As previously reported, the CPP is now commissioned and producing product for DK Recycling as well as trial product for other potential customers. The CPP can produce 400kt of pulverised carbon when at full capacity. The plant is on course to produce approximately 100kt in the current financial year. As the business secures orders for the remaining capacity, I expect to see progressive growth in sustainable profits from the CPP over the next few years.

The third element of HRMS, DK Recycling, has also made a substantial contribution to the Group as it has benefited from strong pig iron and zinc commodity prices. The plant takes around 500kt of waste material from the steel manufacturing industry in Germany and recycles it into 285kt of pig iron and approximately 6kt of zinc per annum. That waste material would otherwise go to landfill. Some of the current level of profitability has been driven by the strong zinc and pig iron prices DK is experiencing and to provide greater security over future revenue, forward positions have been taken to hedge 40% of the projected zinc sales for the next 12 months. Additionally, the German management team is now confident that they have created a sustainable level of operational improvement following the acquisition of DK in December 2019.

ESG

The Annual Report for the year ended 31 May 2021 noted that the Group had established 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 reports quarterly to the Audit & Risk Committee on its progress and its findings will continue to form an integral part of future annual reports and investor presentations.

Environmental

Hargreaves is looking to develop various business initiatives in response to climate change including potentially establishing carbon sequestration on former surface mining sites and providing opportunities for Energy from Waste plants and Wind Farms to be operated from appropriate sites controlled by the Group. One of the key activities of Hargreaves Land is the redevelopment of brownfield sites to bring them back into productive use for both residential and employment purposes. Over 1,200 acres of such land is currently being redeveloped by the Group. Such developments also feature the creation of new ecological habitats that enhance and expand biodiversity.

Social

The Group is working with a mental health specialist to train identified individuals as Mental Health First Aiders. In addition, the Group provides an Employee Assistance Programme which offers confidential support, counselling and advice, alongside a 24/7 freephone helpline for employees and their families to help support their mental health and wellbeing. The Group has also established a Corporate Social Responsibility fund which supports charities, as well as local groups and initiatives that employees are actively involved with.

Governance

The Company is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code. The Board will continue to develop its governance arrangements particularly in respect of environmental and social issues, including any changes required as a result of the requirements of the Taskforce on Climate-related Financial Disclosures.

Summary

I am pleased with the strong results delivered in the first half with growth in profits in our three pillars of Services, Hargreaves Land and HRMS.

With over 50 term contracts and framework agreements in place and over 85% of Services revenue secured for the current financial year, the opportunities which are within sight in Services at both Hemerdon and HS2 point to substantial further growth. The recent announcements of progress at Blindwells, Unity and Westfield combined with the opportunities within the renewable energy land portfolio demonstrate the reliable income streams I expect from Hargreaves Land in the coming years. Finally, at HRMS, the sustainable improvements being delivered at both the CPP and DK Recycling together with their ability to capitalise on trading opportunities lead me to believe that HRMS will continue to be a substantial contributor of profits to the Group.

Gordon Banham
Group Chief Executive
26 January 2022

Financial Statements

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2021

	Note	Unaudited six months ended 30 November 2021 £000	Unaudited six months ended 30 November 2020 £000	Audited year ended 31 May 2021 £000
Revenue		**76,082**	92,041	204,796
Cost of sales		**(64,196)**	(80,463)	(181,453)
Gross profit		**11,886**	11,578	23,343
Other operating income		**542**	1,045	3,821
Administrative expenses		**(11,369)**	(11,755)	(29,234)
Operating profit/(loss)		**1,059**	868	(2,070)
Operating profit (before exceptional items and amortisation)		**1,059**	868	4,751
Exceptional items	5	**–**	–	(2,186)
Amortisation and impairment of intangible assets		**–**	–	(4,635)
Operating profit/(loss)		**1,059**	868	(2,070)
Finance income		**361**	183	646
Finance expense		**(292)**	(911)	(1,882)
Share of profit in joint ventures (net of tax)	9	**9,269**	944	17,680
Profit before tax		**10,397**	1,084	14,374
Taxation	6	**(386)**	(26)	2,032
Profit for the period		**10,011**	1,058	16,406
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		**–**	–	1,956
Tax recognised on items that will not be reclassified to profit or loss		**–**	–	(319)
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		**45**	(703)	(1,806)
Effective portion of changes in fair value of cash flow hedges		**35**	194	136
Tax recognised on items that are or may be reclassified subsequently to profit or loss		**(7)**	(37)	(25)
Other comprehensive income/(expense) for the period, net of tax		**73**	(546)	(58)
Total comprehensive income for the period		**10,084**	512	16,348
Profit/(loss) attributable to:				
Equity holders of the company		**10,029**	1,085	16,426
Non-controlling interest		**(18)**	(27)	(20)
Profit for the period		**10,011**	1,058	16,406

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2021 continued

	Note	Unaudited six months ended 30 November 2021 £000	Unaudited six months ended 30 November 2020 £000	Audited year ended 31 May 2021 £000
Total comprehensive income/(expense) for the period attributable to:				
Equity holders of the company		**10,102**	539	16,368
Non-controlling interest		**(18)**	(27)	(20)
Total comprehensive income for the period		**10,084**	512	16,348
GAAP measures				
Basic earnings per share (pence)	8	**31.04**	3.36	50.84
Diluted earnings per share (pence)	8	**30.15**	3.26	49.38
Non-GAAP measures				
Basic underlying earnings per share (pence)	8	**31.04**	3.36	70.66
Diluted underlying earnings per share (pence)	8	**30.15**	3.26	68.64

Condensed Consolidated Balance Sheet
as at 30 November 2021

	Unaudited 30 November 2021 £000	Unaudited 30 November 2020 £000	Audited 31 May 2021 £000
Non-current assets			
Property, plant and equipment	**11,995**	12,180	13,806
Right of use assets	**15,040**	14,932	13,776
Investment property	**7,286**	9,147	7,607
Intangible assets including goodwill	**4,824**	9,415	4,824
Investments in joint ventures	**39,873**	14,705	31,187
Deferred tax assets	**9,662**	8,074	10,084
Retirement benefit surplus	**3,600**	–	2,911
	92,280	68,453	84,195
Current assets			
Other financial assets	**2**	33	2
Inventories	**31,117**	58,583	27,168
Trade and other receivables	**87,102**	78,462	78,260
Income tax asset	**629**	492	59
Contract assets	**2,667**	8,468	1,720
Cash and cash equivalents	**8,509**	4,820	28,303
	130,026	150,858	135,512
Total assets	**222,306**	219,311	219,707
Non-current liabilities			
Other Interest-bearing loans and borrowings	**(8,354)**	(9,423)	(8,586)
Retirement benefit obligations	**(2,831)**	(2,890)	(2,867)
Provisions	**–**	(526)	(2,495)
	(11,185)	(12,839)	(13,948)
Current liabilities			
Other Interest-bearing loans and borrowings	**(3,192)**	(16,220)	(3,179)
Trade and other payables	**(52,714)**	(52,242)	(53,334)
Provisions	**(6,021)**	(8,780)	(4,907)
Other financial liabilities	**(7)**	(17)	(43)
	(61,934)	(77,259)	(61,463)
Total liabilities	**(73,119)**	(90,098)	(75,411)
Net assets	**149,187**	129,213	144,296

Condensed Consolidated Balance Sheet
as at 30 November 2021 continued

	Unaudited 30 November 2021 £000	Unaudited 30 November 2020 £000	Audited 31 May 2021 £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	**(2,087)**	(1,029)	(2,132)
Merger reserve	**1,022**	1,022	1,022
Hedging reserve	**313**	331	285
Capital redemption reserve	**1,530**	1,530	1,530
Share-based payment reserve	**1,818**	1,561	1,680
Retained earnings	**69,139**	48,335	64,441
	149,215	129,230	144,306
Non-controlling interest	**(28)**	(17)	(10)
Total equity	**149,187**	129,213	144,296

Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 November 2020

	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 2020	3,314	73,955	(326)	174	211	1,530	1,022	1,462	48,703	130,045	10	130,055
Total comprehensive income and expense for the period												
Profit/(loss) for the period	–	–	–	–	–	–	–	–	1,085	1,085	(27)	1,058
Other comprehensive (expense)/income												
Foreign exchange translation differences	–	–	(703)	–	–	–	–	–	–	(703)	–	(703)
Effective portion of changes in fair value of cash flow hedges	–	–	–	194	–	–	–	–	–	194	–	194
Tax recognised on other comprehensive income	–	–	–	(37)	–	–	–	–	–	(37)	–	(37)
Total other comprehensive (expense)/income	–	–	(703)	157	–	–	–	–	–	(546)	–	(546)
Total comprehensive income and expense for the period	–	–	(703)	157	–	–	–	–	1,085	539	(27)	512
Transactions with owners recorded directly in equity												
Equity settled share-based payment transactions	–	–	–	–	–	–	–	99	–	99	–	99
Dividends paid	–	–	–	–	–	–	–	–	(1,453)	(1,453)	–	(1,453)
Total contributions by and distributions to owners	–	–	–	–	–	–	–	99	(1,453)	(1,354)	–	(1,354)
Balance at 30 November 2020	**3,314**	**73,955**	**(1,029)**	**331**	**211**	**1,530**	**1,022**	**1,561**	**48,335**	**129,230**	**(17)**	**129,213**

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	–	–	–	–	–	–	–	–	(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 Cash Flow Statement
for the six months ended 30 November 2021

	Unaudited six months ended 30 November 2021 £000	Unaudited six months ended 30 November 2020 £000	Audited year ended 31 May 2021 £000
Cash flows from operating activities			
Profit for the period	**10,011**	1,058	16,406
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	**2,598**	3,429	6,562
Amortisation and impairment of goodwill and intangible assets	**–**	–	4,635
Net finance (income)/expense	**(69)**	728	1,236
Share of profit in joint ventures (net of tax)	**(9,269)**	(944)	(17,680)
Profit on sale of property, plant and equipment, investment property and right-of-use assets	**(602)**	(988)	(3,667)
Equity settled share-based payment expense	**138**	99	218
Income tax expense/(credit)	**386**	26	(2,032)
Contributions to defined benefit pension schemes	**(768)**	(879)	(2,039)
Retranslation of foreign denominated assets and liabilities	**764**	–	–
	3,189	2,529	3,639
Change in inventories	**(3,949)**	5,426	36,841
Change in trade and other receivables	**(10,495)**	(4,795)	2,012
Change in trade and other payables	**(581)**	8,207	9,268
Change in provisions and employee benefits	**(1,380)**	(3,460)	(5,212)
	(13,216)	7,907	46,548
Interest paid	**299**	(772)	(1,194)
Income tax paid	**–**	(313)	(127)
Net cash (outflow)/inflow from operating activities	**(12,917)**	6,822	45,227
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**640**	2,833	3,125
Proceeds from sale of investment property	**786**	557	5,040
Proceeds from sale of ROU assets	**33**	694	753
Acquisition of property, plant and equipment	**(224)**	(420)	(2,727)
Acquisition of investment property	**(15)**	(121)	(390)
Net cash inflow from investing activities	**1,220**	3,543	5,801
Cash flows from financing activities			
Principal elements of lease payments	**(2,755)**	(3,593)	(6,085)
Dividends paid	**(5,331)**	(1,453)	(2,325)
Repayment of Group banking facilities	**–**	(19,000)	(32,000)
Net cash outflow from financing activities	**(8,086)**	(24,046)	(40,410)
Net (decrease)/increase in cash and cash equivalents	**(19,783)**	(13,681)	10,618
Cash and cash equivalents at the start of the period	**28,303**	18,499	18,499
Effect of exchange rate fluctuations on cash held	**(11)**	2	(814)
Cash and cash equivalents at the end of the period	**8,509**	4,820	28,303

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 2021 and the comparative figures for the six months ended 30 November 2020 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 2021.

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 2021, as described in those financial statements.

3. Status of financial information

The comparative figures for the financial year ended 31 May 2021 are not the Group's statutory consolidated financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2021 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 2021. The Directors have reviewed financial forecasts, including severe yet plausible impacts from COVID-19 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 2021 Unaudited £'000	Six months ended 30 November 2020 Unaudited £'000	Year ended 31 May 2021 Audited £'000
Exceptional items in Cost of Sales			
Losses on legacy contracts in C.A. Blackwell (Contracts) Limited	–	–	(2,186)
Total exceptional items in Cost of Sales	–	–	(2,186)

There are no exceptional items in the period ended 30 November 2021 (30 November 2020: £nil).

In the year ended 31 May 2021 £2.2m of losses were recognised on the legacy contracts within C.A. Blackwell (Contracts) Limited. 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.

6. Taxation

Income tax for the period is charged at 19% (2020: 19%). The effective tax rate, after removing the impact of jointly controlled entities is 34.2% (2020: 18.6%), representing an estimate of the annual effective rate for the full year to 31 May 2022. This rate is higher than the standard rate of income tax due to the effect on deferred tax of the forthcoming rise in the corporate tax rate 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 4.5 pence and additional dividend of 12p per ordinary share, proposed in the 2021 annual accounts and approved by the shareholders at the Annual General Meeting on 27 October 2021, was paid on 29 October 2021. The directors have proposed an interim dividend of 2.8 pence per share (2020: 2.7p) which will be paid on 6 April 2022 to shareholders on the register at the close of business on 25 February 2022. 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 2021 Unaudited			Six months ended 30 November 2020 Unaudited			Year ended 31 May 2021 Audited		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Underlying earnings per share	**10,029**	**31.04**	**30.15**	1,085	3.36	3.26	22,832	70.66	68.64
Exceptional items and amortisation (net of tax)	**–**	**–**	**–**	–	–	–	(6,406)	(19.82)	(19.26)
Basic earnings per share	**10,029**	**31.04**	**30.15**	1,085	3.36	3.26	16,426	50.84	49.38
Weighted average number of shares		**32,316**	**33,267**		32,282	33,240		32,312	33,262

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 951,000 (2020: 958,000), the effect on continuing basic earnings per ordinary share is 0.89p (2020: 0.10p).

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 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**

	Services Unaudited 30 November 2020 £000	Hargreaves Land Unaudited 30 November 2020 £000	Unallocated Unaudited 30 November 2020 £000	HSEL Unaudited 30 November 2020 £000	Total Unaudited 30 November 2020 £000
Revenue					
Total revenue	90,180	2,109	–	–	92,289
Intra-segment revenue	(248)	–	–	–	(248)
Revenue from external customers	**89,932**	**2,109**	**–**	**–**	**92,041**
Operating profit/(loss)	**2,770**	**(3)**	**(1,899)**	**–**	**868**
Share of profit in joint ventures (net of tax)	–	–	–	944	944
Net financing costs	(707)	(101)	80	–	(728)
Profit/(loss) before tax	**2,063**	**(104)**	**(1,819)**	**944**	**1,084**

10. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 26 January 2022. 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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