Interim Report 2020 for the six months ended 30 November 2020

Hargreaves Services plc

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

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Chairman's Statement
Roger McDowell, Chairman

Bank debt has now been eliminated and the Board looks forward confidently to a future beyond coal.

Introduction
I am pleased to be able to report on a solid set of results for the Group despite the ongoing uncertainty created by the coronavirus pandemic. The safety of our employees remains paramount in the Board's mind and I would like to take this opportunity to thank our employees once again for their support over this period. It is testament to the dedication and flexibility of our workforce, as well as the stability of many of the Group's activities, that we are able to present a profitable first half result alongside a substantial reduction in our bank debt. The financial position of the Group has given the Board the confidence to reinstate the interim dividend.

The Board expects to deliver full year results in line with expectations. Although revenue and profit have reduced when compared with the first half last year, this is almost wholly attributable to the impact of delays to the HS2 project on our Specialist Earthworks business. That impact is one of timing and not one of lost opportunity.

Sale of speciality coal stocks to Hargreaves Raw Materials Services GmbH ("HRMS")
It has been a pivotal period for the Group since my last report in July 2020. In particular, in relation to the Group's coal related activities, which I can now report have ceased in all material respects. As announced on 24 December 2020, the Group has sold its remaining speciality coal to its German joint venture, HRMS, and will no longer produce or purchase coal. This builds upon the cessation of all coal mining in July 2020, meaning that the Group has now exited all material coal related business activities.

The Board is very pleased with this evolution of the Group as the sale of the speciality coal stocks to HRMS not only accelerates the realisation of £24m of cash from coal inventory but also aids the growth of HRMS by opening it up to new markets within the UK. This is an important additional step in the growth of shareholder value within HRMS alongside the development of the Carbon Pulverisation Plant and the acquisition last year of DK Recycling und Roheisen GmbH ("DK").

Results
As expected, Revenue reduced to £92.0m (2019: £124.7m) and Underlying Profit before tax reduced to £1.1m (2019: £2.4m). Both metrics have declined primarily within the Specialist Earthworks business as the comparative period included the completion of the A14 project whilst, in the current year, delays to the commencement of HS2 have been well publicised. Further information on trading is given in the Chief Executive's Review. Underlying Profit before tax is defined by the Board as Profit before tax prior to exceptional items and amortisation of intangible assets.

Earnings Per Share
Basic underlying earnings per share from continuing operations were 3.4p (2019: 6.4p) and 3.4p (2019: 13.6p) on a reported basis.

Net Debt
Net bank debt at 30 November 2020 reduced by 69% to £8.0m, compared with £25.4m twelve months earlier and £13.5m at 31 May 2020. This substantial and ongoing reduction is primarily due to the cessation of coal mining in July 2020 and the expected subsequent unwind in coal related assets. The sale of the remaining speciality coal to HRMS, which occurred after the period end, has accelerated the planned unwind and therefore the Board expects to report a positive net cash position, before leasing debt, at 31 May 2021.

Total net debt, including debt associated with leased assets was £20.8m, compared with £40.3m twelve months ago. The Group anticipates total net debt at 31 May 2021 to be slightly lower than at the half year, as the cash receipt from the sale of the coal to HRMS is expected to be offset by an increase in leasing debt as a result of investment in plant assets for HS2.

Dividend
At the beginning of the coronavirus pandemic the Board took the decision to cancel the interim dividend as a precautionary measure against the potential financial impact of the virus. At the year end, the Board announced a final dividend, which demonstrated the cautious yet confident view of the Group's cashflows at the time. Since then, the Group has continued to trade resiliently and the Board has decided to reinstate an interim dividend of 2.7p (2019: nil p) per ordinary share. This will be paid on 6 April 2021 to shareholders on the register at 26 February 2021.

The Board still intends to pass through a dividend of 12p per ordinary share to shareholders which it expects to receive from its German joint venture alongside any final dividend declared later in the year.

Board Changes
During the period, I was delighted to welcome Nicholas Mills onto the Board. Nicholas is employed by Harwood Capital LLP, our largest shareholder, and will provide a valuable insight into the impact of decisions on our shareholders as well as contributing with his broader financial and business acumen.

Brexit
The Group has limited exposure to trading within the EU, which has been further reduced with the cessation of our coal trading activities. Consequently, the Board does not expect any material direct impact on the Group's trading arrangements following the UK's exit from the single market on 1 January 2021.

The Board cannot meaningfully assess the impact of the new 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.

Chairman's Statement continued

COVID-19

This last year has been unprecedented and led to many businesses working in new and innovative ways. Hargreaves has performed resiliently throughout the pandemic due to a combination of our flexible and dedicated workforce and because many of our business areas are focused on core critical activities. The only business which was affected materially was Hargreaves Land, which suffered delays during the first lockdown period at Blindwells, the major development project in Scotland. Whilst the vaccine roll out is welcome news, the Board remains vigilant as to the continuing impact of the pandemic and the Group is well positioned to navigate it as it has done to date.

Strategy and Shareholder Value

For some time now, the Board's strategy for the Group has been to focus on:

- Delivering reliable and growing profits from the Distribution & Services business;
- Unlocking capital from coal related activities;
- Investment in the growth of Hargreaves Land; and
- Supporting the development of HRMS to deliver shareholder value.

The Board is pleased with the progress that has been made against its strategic goals over the last six months. The contract wins within Distribution and Services highlight the ability of our teams to grow sustainable returns in our underlying businesses and recent framework appointments are improving the visibility of future revenue streams. The Group has continued to invest in Hargreaves Land, which is beginning to deliver returns with the commencement on site of the Bridlington scheme and the post period end completion of the first land sales at Blindwells.

The sale of speciality coal to HRMS has achieved the Board's aim of unlocking capital from coal activities, whilst also providing access to an additional market to aid the growth of HRMS. HRMS is becoming an increasingly important component of the overall value of the Group and its future growth and cash generation is a key factor for the Board in considering how to deliver shareholder value.

Outlook

The first six months of this financial year have been very significant in the history of Hargreaves, set against the difficulties caused by COVID-19. The Group ceased coal mining in July 2020 and, in December 2020, all material coal related revenue activities. Hargreaves has a long history tied closely to the coal industry and this marks a major transformational step for the Group.

Bank debt has now been eliminated and the Board now looks forward confidently to a future beyond coal with a strong pipeline of contracted works within Distribution and Services, a good bank of land opportunities and an increasingly valuable investment in its German joint venture. The Board expects to announce full year results in line with expectations on 28 July 2021.

Roger McDowell
Chairman
27 January 2021

Chief Executive's Review
Gordon Banham, Group Chief Executive

The future for Hargreaves is strong as we continue the transition of the Group.

Distribution & Services
The Distribution & Services business recorded revenue of £92.2m (2019: £121.0m) and Operating Profit before exceptional items was £2.8m (2019: £4.4m). These reductions were expected due to the phasing of works within the Specialist Earthworks business unit and the reduction in coal volumes.

As the Group has now transitioned away from all material coal related activities, it is imperative that it remains focused on its continuing businesses. It has been a significant six months for new contract wins, as the Group has been appointed to six multi-year framework agreements in its Distribution & Services business both in the UK and in Hong Kong. These contracts provide more resilient, sustainable revenue streams as well as advancing our skills and credentials within mechanical and electrical engineering.

Production & Distribution
Revenue in Production & Distribution was £51.1m (2019: £59.7m). Operating Profit was £2.1m (2019: £2.5m). The first six months saw a positive performance for the Transport business offset by the expected decline in coal revenues. The Transport business saw Operating Profit grow to £1.2m (2019: £1.0m) on revenue of £18.3m (2019: £18.7m). Improving margins and an increased focus on the waste sector, including clinical waste, has helped to drive the improved performance.

Following the cessation of coal mining in July, the coal trading business recorded an Operating Profit for the first six months of £0.9m (2019: £1.5m). The reduction is due to a lower volume of speciality coal sales, which was partially impacted by coronavirus as certain industries that are reliant on coal saw reduced levels of activity.

Industrial Services
Total Industrial Services revenue was £36.3m for the period to 30 November 2020 (2019: £43.4m). The reduction in revenue derived from lower activity levels in Asia, partially due to the coronavirus, and the termination of some lower margin contracts in the UK. The division has delivered an increased margin of 5.2%, compared with 4.4% twelve months ago, and maintained its level of Operating Profit at £1.9m (2019: £1.9m).

Industrial Services – UK
The improvement in margin across Industrial Services is a result of contract selectivity in the UK and continuing tight cost control. Underlying Operating Profit was £2.1m (2019: £2.1m). The business continues to transition away from its traditional base of supporting coal fired power stations as that industry declines and has made strong progress in the last six months to broaden its customer and skills base.

As announced on 28 October 2020, the business was awarded a three-year framework contract with Severn Trent, a new customer, to provide maintenance, repair, removal and installation of clean and waste water assets. This contract award demonstrates the growing capability of the UK business to deliver mechanical and electrical engineering services to key clients in both infrastructure and industrial markets.

In addition to the Severn Trent contract, the UK business has also secured two other framework contracts with Drax and Uniper for five and three years respectively. Both frameworks have two years of extension options. These secured medium term contracts help to generate predictable, sustainable earnings over the medium term and provide a strong and stable platform for growth.

Following the acquisition of British Steel in March 2020 by Jingye Group, Hargreaves has been in discussions with the new owner, whilst continuing to provide services under short term arrangements. Those discussions concluded with an agreement for Jingye to take certain activities in house which saw the transfer of 146 Hargreaves employees to British Steel under the Transfer of Undertakings regulations in January 2021 at no cost to Hargreaves. The Group has traded profitably with British Steel since the announcement of its liquidation in May 2019 and this outcome has been anticipated for some time. As such, the Board had not factored ongoing trading with British Steel into any forecasts beyond the current financial year. A 12 month contract for the provision of some plant and equipment has been agreed with British Steel.

Industrial Services – Asia
The Hong Kong based Asia business incurred an operating loss of £0.2m (2019: loss of £0.2m), which was in line with expectations. The business remains seasonal with the majority of project work and planned site outages weighted heavily into the second half.

In addition to the five-year core framework contract secured with CLP Power in Hong Kong last year, the Group has also been successful in securing two three-year framework arrangements, both of which have extension options, at the Castle Peak and Black Point power stations in Hong Kong. These frameworks allow for the provision of maintenance, repair and refurbishment of boilers, condensers and other critical components.

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

Specialist Earthworks

As has been widely reported, the delays to the commencement of HS2 have led to a slow start to the financial year for the Earthworks business unit, recording revenue of £2.8m (2019: £17.9m) and an operating loss of £1.2m (2019: £0.0m). A reduction in activity was expected as the comparative period included contribution from the completion of works at the A14. However, as previously noted, the timing of these types of major infrastructure projects is often uncertain and subject to political decisions, and this further delay to the HS2 project has meant a greater disparity between H1 and H2 than originally anticipated. Although some initial works are now contracted, the HS2 project is now expected to commence mobilisation in the spring of 2021.

I am also pleased to announce that we have made substantial progress towards agreeing the final account balances on all of the legacy civils contracts. These contracts will be settled prior to the financial year end. Bringing these final accounts to a conclusion is a major step forward for the business and marks the end of the Group's involvement in civil engineering contracts.

The business unit's sole focus is on securing and delivering major earthmoving contracts beginning with HS2. The business is positioning itself on a number of other major projects in the nuclear, road and infrastructure markets in the South of England, where earthworks form a key element of the project expenditure.

Hargreaves Land

Hargreaves Land delivered revenue of £2.1m (2019: £3.7m) and a break even result (2019: profit of £0.2m) for the period. All revenue and profits in the first half were due to the sale of non-strategic land for which the Group determined there was insufficient development potential to warrant further investment.

Subsequent to the period end, I am pleased to report that the first sale at Blindwells to Bellway has completed. The Bellway contract includes some deferred consideration which is to be settled as to £4.2m in January 2021, £2.1m in January 2022 and not less than £1.4m in January 2023. The quantum of the final payment depends upon abnormal foundation costs. The Group has invested a further £2.2m into the Blindwells development in the period.

In May 2020, the Group announced the exchange of the first major commercial sale contract on the Unity Joint Venture scheme at Hatfield, South Yorkshire. The 32 hectare sale is conditional on the completion of certain infrastructure works at the site including the construction of an access road. Work on the access road is due to begin in early 2021, with completion expected before the end of next financial year. The cost of this work is being funded by external financing secured within the joint venture independently of Hargreaves. The link road accessing the M18, which was not part of the joint venture's responsibilities, has been completed and is now open, which is key to the future development of the site. Additionally, the Unity Joint Venture has exchanged conditional contracts with Harron Homes for the construction of over 200 homes on a 23 acre part of the site. Completion is expected to take place in 2023.

The Bridlington retail development, which was announced in December 2020 with a Gross Development Value ("GDV") of £9.5m, represents the type of project, in terms of both modest capital commitment and time to delivery, that Hargreaves Land is looking to target to help complement projects such as Blindwells and the Unity joint venture.

At 30 November 2020, the Group had controlling interests in land with planning permission for 4,700 residential plots and 4 million square feet of commercial space. The Group is currently progressing new projects with a combined GDV of £27m (Hargreaves share £21m).

Investment in HRMS

The Group's German Joint Venture recorded a post tax profit of £0.9m (2019: £0.7m). This improvement in performance represents a return to the level of profitability achieved in the six months to 30 November 2018, following a weakening in trading conditions in German markets in the comparative period.

Whilst margins have remained consistent, the business has seen volume increases demonstrating the ability of the team to continue trading through periods of economic uncertainty, as has been seen in Germany due to the coronavirus. The Carbon Pulverisation Plant has commenced production and is supplying to its first customer, DK, although scale up is not anticipated to impact materially on the current year's results.

It has been twelve months since HRMS acquired DK Recycling und Roheisen ("DK") for €1. The changes implemented by the management team at HRMS to date have improved the performance which has seen a breakeven contribution in the first half as the business was loss making prior to the acquisition. Whilst management continues to drive improvement programmes at DK, it is too early in the turnaround of the business to anticipate when it may make a meaningful contribution.

Corporate Costs

Corporate costs for the first six months were £1.9m (2019: £2.1m). This further reduction reflects many of the cost saving exercises that were actioned in the previous financial year. Whilst central costs remain a focus of the Board, no material further reductions are anticipated.

Summary

The result for the first half has been satisfactory with margin growth in our Transport and Industrial Services business partially offsetting the delays to HS2 and reduction in coal volumes. I am particularly pleased to see substantial progress in concluding the final account positions on the legacy civils contracts, allowing the Specialist Earthworks business to look to future opportunities in its field of core expertise.

The Group has often been second half weighted in terms of profitability and this year we expect this to be more pronounced than in previous years. The delays to HS2 and the timing of completions within Hargreaves Land have exacerbated the weighting to the second half that is always present due to the seasonality of the Hong Kong business.

The key strategic decision to sell all speciality coal to HRMS and cease all material coal related activities is a fundamental change in the Group's operations. Given the framework contract wins that have been secured in Distribution & Services within the first six months of the year, the momentum building within Hargreaves Land and the Group's strong balance sheet, the future for Hargreaves is strong as we continue the transition of the Group.

Gordon Banham
Group Chief Executive
27 January 2021

Financial Statements

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2020

	Note	Unaudited six months ended 30 November 2020 £000	Unaudited six months ended 30 November 2019* £000	Audited year ended 31 May 2020 £000
Revenue		**92,041**	124,651	222,242
Cost of sales		**(80,463)**	(109,610)	(199,385)
Gross profit		**11,578**	15,041	22,857
Other operating income*		**1,045**	3,382	5,288
Administrative expenses*		**(11,755)**	(13,033)	(26,840)
Operating profit		**868**	5,390	1,305
Operating profit (before exceptional items and amortisation)		**868**	2,547	4,563
Exceptional items	5	**–**	2,843	(1,683)
Amortisation and impairment of intangible assets		**–**	–	(1,575)
Operating profit		**868**	5,390	1,305
Financial income		**183**	240	845
Financial expenses		**(911)**	(1,109)	(2,134)
Share of profit in joint ventures (net of tax)		**944**	689	2,135
Profit before tax		**1,084**	5,210	2,151
Taxation	6	**(26)**	(887)	2,119
Profit for the period		**1,058**	4,323	4,270
Other comprehensive (expense)/income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		**–**	–	(1,129)
Tax recognised on items that will not be reclassified to profit or loss		**–**	–	283
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		**(703)**	(678)	366
Effective portion of changes in fair value of cash flow hedges		**194**	106	83
Equity adjustment relating to adoption of IFRS 16		**–**	(154)	(161)
Tax recognised on items that are or may be reclassified subsequently to profit or loss		**(37)**	(18)	(11)
Other comprehensive expense for the period, net of tax		**(546)**	(744)	(569)
Total comprehensive income for the period		**512**	3,579	3,701
Profit/(loss) attributable to:				
Equity holders of the company		**1,085**	4,358	4,315
Non-controlling interest		**(27)**	(35)	(45)
Profit for the period		**1,058**	4,323	4,270

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the six months ended 30 November 2020 continued

	Note	Unaudited six months ended 30 November 2020 £000	Unaudited six months ended 30 November 2019* £000	Audited year ended 31 May 2020 £000
Total comprehensive income/(expense) for the period attributable to:				
Equity holders of the company		**539**	3,614	3,746
Non-controlling interest		**(27)**	(35)	(45)
Total comprehensive income for the period		**512**	3,579	3,701
GAAP measures				
Basic earnings per share (pence)	8	**3.36**	13.56	13.40
Diluted earnings per share (pence)	8	**3.26**	13.26	13.11
Basic earnings per share from continuing operations (pence)	8	**3.36**	13.56	13.40
Diluted earnings per share from continuing operations (pence)	8	**3.26**	13.26	13.11
Non-GAAP measures (continuing)				
Basic underlying earnings per share (pence)	8	**3.36**	6.39	19.87
Diluted underlying earnings per share (pence)	8	**3.26**	6.25	19.44

* The comparative condensed consolidated statement of profit and loss and other comprehensive income has been restated to increase other operating income and administrative expenses by £2,437,000.

Condensed Consolidated Balance Sheet
as at 30 November 2020

	Unaudited 30 November 2020 £000	Unaudited 30 November 2019 £000	Audited 31 May 2020 £000
Non-current assets			
Property, plant and equipment	**12,180**	25,224	15,561
Right of use assets	**14,932**	17,275	15,845
Investment property	**9,147**	9,666	9,216
Intangible assets including goodwill	**9,415**	10,965	9,418
Investments in joint ventures	**14,705**	11,871	14,093
Deferred tax assets	**8,074**	5,299	8,332
	68,453	80,300	72,465
Current assets			
Other financial assets	**33**	10	65
Inventories	**58,583**	62,392	64,009
Trade and other receivables	**78,462**	92,656	71,316
Income tax asset	**492**	–	8
Contract assets	**8,468**	17,415	11,456
Cash and cash equivalents	**4,820**	15,493	18,499
	150,858	187,966	165,353
Total assets	**219,311**	268,266	237,818
Non-current liabilities			
Other Interest-bearing loans and borrowings	**(9,423)**	(50,993)	(9,437)
Retirement benefit obligations	**(2,890)**	(3,336)	(3,768)
Provisions	**(526)**	(4,579)	(1,679)
	(12,839)	(58,908)	(14,884)
Current liabilities			
Other Interest-bearing loans and borrowings	**(16,220)**	(4,798)	(37,186)
Trade and other payables	**(52,242)**	(72,251)	(43,362)
Provisions	**(8,780)**	(1,711)	(12,088)
Income tax liability	**–**	(736)	–
Other financial liabilities	**(17)**	(165)	(243)
	(77,259)	(79,661)	(92,879)
Total liabilities	**(90,098)**	(138,569)	(107,763)
Net assets	**129,213**	129,697	130,055

Condensed Consolidated Balance Sheet
as at 30 November 2020 continued

	Unaudited 30 November 2020 £000	Unaudited 30 November 2019 £000	Audited 31 May 2020 £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	**(1,029)**	(1,370)	(326)
Merger reserve	**1,022**	1,022	1,022
Hedging reserve	**331**	190	174
Capital redemption reserve	**1,530**	1,530	1,530
Share-based payment reserve	**1,561**	1,226	1,462
Retained earnings	**48,335**	49,599	48,703
	129,230	129,677	130,045
Non-controlling interest	**(17)**	20	10
Total equity	**129,213**	129,697	130,055

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.

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 Cash Flow Statement
for the six months ended 30 November 2020

	Unaudited six months ended 30 November 2020 £000	Unaudited six months ended 30 November 2019 £000	Audited year ended 31 May 2020 £000
Cash flows from operating activities			
Profit for the period from continuing operations	**1,058**	4,323	4,270
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	**3,429**	8,032	19,305
Amortisation and impairment of goodwill and intangible assets	**–**	–	1,575
Net finance expense	**728**	869	1,289
Share of profit in joint ventures (net of tax)	**(944)**	(689)	(2,135)
Profit on sale of property, plant and equipment, investment property and right-of-use assets	**(988)**	(945)	(2,851)
Equity settled share-based payment expense	**99**	87	323
Income tax expense/(credit)	**26**	887	(2,119)
Contributions to defined benefit pension schemes	**(879)**	(849)	(1,858)
Translation of non-controlling interest	**–**	18	–
	2,529	11,733	17,799
Change in inventories	**5,426**	(14,352)	(15,969)
Change in trade and other receivables	**(4,795)**	(17,128)	12,611
Change in trade and other payables	**8,207**	3,032	(22,863)
Change in provisions and employee benefits	**(3,460)**	244	2,740
	7,907	(16,471)	(5,682)
Interest paid	**(772)**	(546)	(1,104)
Income tax (paid)/received	**(313)**	183	(272)
Net cash inflow/(outflow) from operating activities	**6,822**	(16,834)	(7,058)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment and investment property	**4,084**	4,182	12,172
Acquisition of property, plant and equipment and investment property	**(541)**	(1,142)	(3,052)
Net cash inflow from investing activities	**3,543**	3,040	9,120
Cash flows from financing activities			
Principal elements of lease payments	**(3,593)**	(4,794)	(8,769)
Dividends paid	**(1,453)**	(1,446)	(1,446)
(Repayment) of/proceeds from Group banking facilities	**(19,000)**	14,000	5,000
Net cash (outflow)/inflow from financing activities	**(24,046)**	7,760	(5,215)
Net decrease in cash and cash equivalents	**(13,681)**	(6,034)	(3,153)
Cash and cash equivalents at the start of the period	**18,499**	21,583	21,583
Effect of exchange rate fluctuations on cash held	**2**	(56)	69
Cash and cash equivalents at the end of the period	**4,820**	15,493	18,499

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 2020 and the comparative figures for the six months ended 30 November 2019 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 2020.

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 2020, as described in those financial statements.

The income statement for the comparative period has been restated to increase both Other operating income and Administrative expenses by £2,437,000 in connection with the Gain on disposal of a subsidiary. There is no impact on previously reported Profit for the period.

3. Status of financial information

The comparative figures for the financial year ended 31 May 2020 are not the Group's statutory consolidated financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2020 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 2020. Following the recent sale of speciality coal to HRMS which took place after the period end, the bank debt of the Group has been eliminated. The Group's current banking facility expires on 31 July 2021 and is no longer appropriate for the activities of the Group given the disposal of coal stocks. 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. The Board is in discussion with banks in relation to the provision of future facilities and is confident that these will be established in the next few months. 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 2020 Unaudited £'000	Six months ended 30 November 2019 Unaudited £'000	Year ended 31 May 2020 Audited £'000
Exceptional items in Revenue			
Reduction in value of legacy contracts in C.A. Blackwell (Contracts) Limited	–	–	(933)
Total exceptional items in Revenue	–	–	(933)
Exceptional items in Cost of Sales			
Losses on legacy contracts in C.A. Blackwell (Contracts) Limited	–	–	(487)
Cessation of coal mining activities	–	–	(4,108)
Movement in provision in respect of the insolvency of British Steel	–	–	1,408
Total exceptional items in Cost of Sales	–	–	(3,187)
Exceptional items in Other Operating income			
Gain on disposal of Drakelands Restoration Limited	–	2,437	2,437
Total exceptional items in Other Operating income	–	2,437	2,437
Exceptional items in Administrative expenses			
Profit due to insolvency of British Steel	–	406	–
Total exceptional items in Administrative expenses	–	406	–
Total	–	2,843	(1,683)

There are no exceptional items in the period to 30 November 2020.

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

On 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.

Notes to the Condensed Consolidated Interim Financial Information continued

5. Exceptional items continued

Following the acquisition of British Steel in the year ended 31 May 2020 by Jingye Group, there was no longer any need for the remaining employment related provision to be retained, and at 31 May 2020 this was released reversing the exceptional charge from the prior year.

In the year ended 31 May 2020 further losses were recognised on the legacy contracts within C.A. Blackwell (Contracts) Limited resulting in a reversal of previously recognised revenue of £933,000 and further costs of £487,000.

6. Taxation

Income tax for the period is charged at 19% (2019: 19%). The effective tax rate, after removing the impact of jointly controlled entities is 18.6% (2019: 19.6%), representing an estimate of the annual effective rate for the full year to 31 May 2021.

7. Dividends

The final dividend of 4.5 pence per ordinary share, proposed in the 2020 annual accounts and approved by the shareholders at the Annual General Meeting on 28 October 2020, was paid on 30 October 2020. The directors have proposed an interim dividend of 2.7 pence per share (2019: Nil) which will be paid on 6 April 2021 to shareholders on the register at the close of business on 26 February 2021. 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.

8. Earnings per share

	Six months ended 30 November 2020 Unaudited			Six months ended 30 November 2019 Unaudited			Year ended 31 May 2020 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	**1,085**	**3.36**	**3.26**	2,055	6.39	6.25	6,399	19.87	19.44
Exceptional items and amortisation (net of tax)	–	–	–	2,303	7.17	7.01	(2,084)	(6.47)	(6.33)
Basic earnings per share	**1,085**	**3.36**	**3.26**	4,358	13.56	13.26	4,315	13.40	13.11
Weighted average number of shares		**32,282**	**33,240**		32,137	32,862		32,199	32,913

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 958,000 (2019: 725,000), the effect on continuing basic earnings per ordinary share is 0.10p (2019: 0.30p).

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.

	Distribution & 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**

	Distribution & Services Unaudited 30 November 2019 £000	Hargreaves Land Unaudited 30 November 2019 £000	Unallocated Unaudited 30 November 2019 £000	HSEL 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**
Share of profit in joint ventures (net of tax)	–	–	–	689	689
Net financing costs	(804)	(101)	36	–	(869)
Exceptional items	406	–	2,437	–	2,843
Profit before tax	**4,007**	**100**	**414**	**689**	**5,210**

10. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 27 January 2021. Copies of this interim statement will be sent to all shareholders and will be available to the public from the Group's registered office.

Notes

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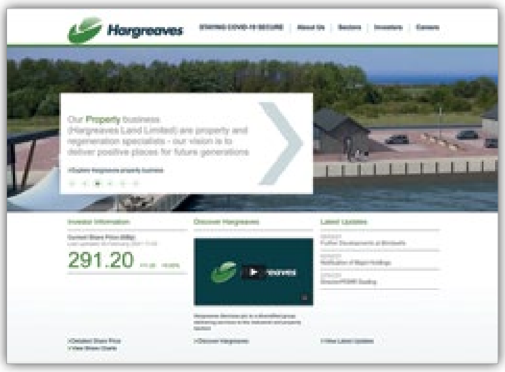
For more information

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



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