Interim Report 2023

for the six months ended 30 November 2023

Hargreaves Services plc

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

Contents

Chair's Statement
Roger McDowell, Chairman

The first half of the year has seen solid progress on our two strategic goals, resulting in a substantial increase in the return of value to shareholders.

Introduction
The six-month period to 30 November 2023 has been a time of contrasts across our three business segments, yet the Board is confident the overall trend leans solidly towards the positive. We have seen the momentum within our Services business continue, with increased earthmoving and engineering activity driving growth in both revenue and margin. Sales within Hargreaves Land have been slow, impacted by the wider property market. However, with several post period end completions we remain confident that Land is poised to deliver its best full year result to date. Whilst HRMS has delivered a loss for the period driven by the difficult economic circumstances in Germany and a low point in the cycle, we have started to see an increase in cash return from the joint venture and have visibility of a return to profitability in the second half.

Strategic Progress
The Board outlined two areas of strategic focus in the Annual Report and Accounts for the year ended 31 May 2023. They were the plan to realise value from the Group's renewable energy land assets over the next five years and to progress the buy out of the Group's defined benefit pension scheme. I am pleased to report several developments with each of these strategic initiatives, as detailed below.

Renewable Energy Land Assets
The team continues to prepare the Group's renewable energy land assets into suitable portfolios for realisation in the medium term. We have seen good progress on the permitting, development and commissioning of the underlying assets by the third-party operators. The timing of portfolio asset sales will be determined by the commencement of energy production as the team look to optimise the realisation values. Notwithstanding this, we expect to go to market with the first package of assets for sale in the year ending 31 May 2025.

Pension Scheme
Considerable headway has also been made on the project to buy out the Group's defined benefit pension scheme, which will remove the requirement to pay an ongoing £1.8m per annum to support the deficit. Our most recent estimate is that the cash cost to buy out the scheme will be no more than £9m with the payment expected to be made in the first half of calendar year 2024 out of existing cash reserves.

This action means that the Group will no longer be required to make annual payments to the scheme and all benefit payments will be managed by the insurer. I am pleased to confirm that once the payment has been made the main objective to cease annual contributions into the scheme will be achieved and it is this annual cash flow saving that has been used to support the increase in the sustainable dividend to our shareholders.

Results
Revenue for the Group decreased by 5.4% to £110.2m (2022: £116.5m) due to several sales within Hargreaves Land completing post period end. This resulted in a reduction in revenue from £8.7m to £0.7m for Hargreaves Land. The Group's PBT also decreased from £18.7m to £2.7m. Much of this can be attributed to the reduction in contribution from HRMS, as had been anticipated, and the impact of a £2m one-off gain in the first half of the prior year. EBITDA was £12.3m (Nov 2022: £12.9m), the reduction on the comparative period being due to the timing of sales within Hargreaves Land. As a result of this timing and the profile of activity with HRMS, we expect the second half of the year to be much stronger than the first.

Services Underlying Growth
Whilst the Group has seen a reduction in both revenue and PBT compared to the six months ended 30 November 2022, this masks the strong performance of the Services business, which is less impacted by the timing of individual events. EBITDA attributable to the Services business has increased to £15.9m (2022: £13.9m) reflecting the robust and resilient nature of the 60+ term and framework contracts in place.

The business remains unaffected by recent announcements regarding the future of the HS2 project, in particular the cancellation of the Northern leg between Birmingham and Manchester, as this phase had not been contracted and our forecasts had not included this aspect of the scheme. The Services project pipeline remains diverse, with limited reliance on the success of one specific scheme.

Cash Return from HRMS
As expected, it has been a slower start to the year for HRMS than we have observed in recent times. The substantial profits that it has been able to generate over the last two years were not expected to be sustainable and the Board always anticipated that profit levels would reduce once commodity prices softened.

As highlighted in previous updates, the reduction in activity and commodity prices has been reflected in reduced working capital consumption, resulting in a cash release by HRMS. The Group received an £8m distribution from HRMS during the first half (2022: £4m) and we expect the cash repatriation from Germany to be sustainable at no less than £7m per annum. This cash inflow will be used to support the substantial increase in the interim dividend.

Cash and Debt
As at 30 November 2023 the Group held cash of £18.7m compared with £21.9m on 31 May 2023 (Nov 2022: £18.1m). This decrease is due, in part, to the continued investment in Land assets ahead of contracted sales.

The only debt held by the Group is leasing debt for specific plant items which was £28.8m at 30 November 2023 (Nov 2022: £30.6m). This decrease reflects the regular leasing payments to reduce the liability in the ordinary course of business.

Dividend
In line with the announcement made on 21 December 2023, due to the progress made with the buy out of the pension scheme liability, combined with the additional sustainable cash receipt from HRMS the Board is confirming a historic six-fold increase in the interim dividend. The interim dividend of 18.0p (2022: 3.0p) reflects the cash generative nature of the Group and the continued expectation of recurrent cash returns from HRMS. The 18.0p interim dividend represents 50% of the Board's expected full year dividend.

The interim dividend will be paid on 11 April 2024 to shareholders on the register on 22 March 2024.

Outlook
The first half of the year has seen solid progress on our two key strategic goals, resulting in a substantial increase in the return of value to shareholders. The Group continues to trade in line with market expectations (as refreshed in December 2023). The Services business has continued to demonstrate its reliable and resilient earnings stream. Whilst it was a subdued first half of the year for Hargreaves Land, the sales expected to complete in the second half of the year leave that business unit in a strong position to deliver its best ever full year results. We anticipate a gradual recovery in Germany from the low point in the first half and the additional sustainable cash receipt from HRMS means we are also well placed to realise long-term value for our shareholders.

Roger McDowell
Chairman
24 January 2024

Chief Executive's Review
Gordon Banham, Group Chief Executive

I firmly believe there are substantial opportunities to optimise and realise further value for shareholders in the coming years.

£'m	Services	Land	HRMS	Central Costs	Total
Revenue (Nov 2023)	**109.5**	**0.7**	**–**	**–**	**110.2**
Revenue (Nov 2022)	*107.8*	*8.7*	*–*	*–*	*116.5*
Profit/(loss) before tax (Nov 2023)	**7.8**	**(1.0)**	**(1.9)**	**(2.2)**	**2.7**
Profit/(loss) before tax (Nov 2022)	*8.5*	*1.6*	*10.8*	*(2.2)*	*18.7*

Services

The Services business delivered first half revenues of £109.5m (2022: £107.8m) and a PBT of £7.8m (2022: £8.5m). The growth in revenue is due to increased earthmoving activities and additional engineering works on certain contracts.

The comparative period includes a non-recurring gain of £2.0m relating to asset realisations. There is no such gain in the results to 30 November 2023. As such, the like-for-like comparison is a PBT of £7.8m with a comparative result of £6.5m. This represents an improvement in the net margin from 6.0% to 7.1%. Much of this improvement in margin has been due to the increased activities at HS2, accompanied by further enabling works at the Sizewell C nuclear project.

As has been the case in previous years, the full year result for Services is likely to be weighted towards the first six months of the financial year. This is due to the earthmoving season predominantly taking place during the first half, as well as the annual £1m receipt from Tungsten West being received in June 23.

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

Contract Security

The Services business continues to be the main driver of performance within the Group, holding over 60 term and framework contracts with high quality customers giving excellent visibility of revenue. The period has seen further contract successes, in particular the award and commencement of a three-year materials handling contract at Port of Tyne.

The largest single contract within the Group is the earthmoving contract for EKFB on HS2, which is now in its second full year of operation. This has been a key driver for growth over the past couple of years and the Board expects there to be at least another two full earthmoving seasons of full-scale activity. Looking forward, focus for the Group remains on securing positions on Lower Thames Crossing and Sizewell C. During the period, the Group has been awarded a number of contracts for essential enabling works at Sizewell C, which places Hargreaves in the best possible position to be able to secure the main contract for earthmoving when it is tendered.

Engineering Capability

The Group has had a lot of success in building and developing its capability in mechanical engineering. The first half of the year has seen the successful commissioning of a five-section conveyor solution, which has materially reduced the carbon emissions on our section of HS2. Additionally, the team is nearing completion of a significant Lime Silo and Dosing Plant for the Skanska Costain Strabag Joint Venture ("SCS"). Both of these schemes represent material projects, and the business is well placed to secure further projects of this kind.

Whilst inflation has abated somewhat in recent months, it remains relatively high and has been so through the period. The Group's contractual positions have continued to protect it from margin erosion, as demonstrated by the substantial increase in underlying margin within Services.

Services remains the core generator of revenue and cash flow for the Group. With a secure 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 £0.7m (2022: £8.7m) and a loss before tax of £1.0m (2022: profit of £1.6m). The variation in both revenue and profit before tax is due to the timing of sales at Blindwells. Whilst the comparative period saw the completion of a plot sale at Blindwells, no such completion occurred in the six months to 30 November 2023, in part due to the trends experienced in the general property markets. However, the underlying activity within the business unit has been high in terms of developing opportunities.

Preparatory works have been completed to enable the sale of a previously exchanged 20-acre plot to Avant Homes, which is expected to complete before the end of January 2024. The deal will see the Group receive total proceeds of £18.5m payable in four instalments over three years.

The Unity Joint Venture saw the completion of the construction of a forward funded 191,000 sq ft logistics unit ahead of programme. Additionally, terms have been agreed for the sale of two plots to McDonalds and Starbucks, which further demonstrates the desirability of this key location.

In December 2023, Hargreaves Land completed the sale of the Energy from Waste (EfW) ground lease investment at Westfield in Scotland for consideration of £7.6m. The sale represents the disposal of eight acres out of the 50 available developed acres at Westfield, allowing for future sales to occur at the site.

Finally, contracts have been exchanged in December 2023 on a 28-acre site at Maltby, Rotherham for the sale of 185 residential plots for gross proceeds of £4.9m.

Renewables

The Group's renewable energy land assets have continued to be a core focus for the business, with realisations expected to be in excess of £25m once they are sufficiently mature. At present 210MW of wind assets are operational on land owned by the Group.

It is expected that this will increase to over 930MW of operational wind assets and battery storage by the end of calendar year 2025, with a further 2,165MW of wind, solar and battery assets beyond 2025 subject to agreed terms and exchange of contracts. We have seen a significant increase in the appetite for battery storage in recent months, with 1,495MW of further opportunities added to the pipeline since our Annual Report and Accounts in August 2023.

The first tranche of renewable energy land asset sales is being prepared to go to market in FY25. This is likely to include around 400MW of wind assets, which should be sufficiently mature by that stage.

HRMS

HRMS recorded a post-tax loss of £1.9m (2022: profit of £10.8m) for the six months ended 30 November 2023. This substantial reduction has been driven by a number of contributing factors. First, the principal market for the business is Germany, which is currently in a technical recession and has seen many of the joint venture's clients operate on reduced shift patterns, therefore requiring lower levels of raw materials. Subsequently this has impacted HRMS' trading activities.

Second, zinc prices have dropped to around €2,500 per tonne compared to highs of over €4,000 in the previous period. Zinc is a key output of the steel waste recycling process within DK, a subsidiary of HRMS. Whilst 60% of the zinc output is hedged, the reduction in spot prices realised on the remaining 40% has put pressure on the result.

Third, pig iron prices have been very low during the period whilst coke pricing (a key input) has remained high. This disparity between pig iron and coke pricing reflects the absence of an embargo on imports into Europe of Russian pig iron, suppressing the sales price of pig iron whilst coke pricing has been supported by an embargo on Russian product.

Despite the headwinds encountered by the joint venture during the first half of the financial year, there are two key factors that give confidence for a turnaround. First, the 12th package of sanctions against Russia, which was recently announced by the EU, includes the restriction of "steel-making raw materials", including pig iron. This is expected to result in an increase in pig iron selling prices achievable by DK.

Second, a key input of the pig iron production at DK is steel waste dusts. DK charges a gate fee for accepting the dusts, which it then recycles into pig iron and zinc. Many of the suppliers of steel dusts are on long term contracts, however, several are up for renewal and renegotiation in 2024 and there is expectation that many will see substantial increases in the gate fee. The Board believes that these changes alone will be sufficient to return the joint venture to profitability during the second half of the financial year.

The reduction in trading activity has reduced working capital consumption, leading to an increased cash receipt from HRMS of £8m (2022: £4m) in the first half of the financial year. As reported on 21 December 2023, the management of HRMS has agreed to maintain this level of cash return to the Group for the foreseeable future. The Board has confidence in the sustainability of this cash flow, at no less than £7m per annum, to the Group based on the future likely base level of profitability from the trading activities within HRMS, which are not linked to the steel waste recycling activities.

ESG

The Group continues to make positive strides with regard to ESG and has recently appointed its first Head of ESG. This appointment will spearhead the Group's efforts to minimise our impact on the environment whilst also championing our ESG credentials, which will be crucial to unlocking new opportunities for Hargreaves.

Furthermore, the Group was awarded the prestigious HS2 EKFB sustainability award for the second year running as a recognition of our efforts to reduce carbon emissions through our Plant Idle Time campaign.

Summary

The Services business' low capital model has continued to improve margin and grow underlying profitability through efficient contract management and engineering innovation. With over 90% of revenues secured under contract for the year ending 31 May 2024, the Services business can continue to deliver sustainable and reliable profits into the future.

Hargreaves Land has not been immune to the difficulties in the UK property market, however, this was expected and the post-period end completion of the Westfield EfW ground lease and the exchange of contracts at Maltby demonstrate the value in the underlying portfolio, as well as the ability of the team to realise these opportunities for shareholders. The outlook is also positive, with Hargreaves Land poised to deliver its best ever full year result.

Whilst the trading performance of HRMS has been disappointing, the confirmation of an increased cash flow from HRMS is very welcome and will be used to support the increased dividend to shareholders. The changes to gate fees and the impact of the recently announced EU sanctions on Russian pig iron imports are in combination expected to result in a significant improvement in the profitability of HRMS in FY25.

Overall, I remain optimistic about the value creation potential within the Group and, with no bank debt on the Balance Sheet, I firmly believe there are substantial opportunities to optimise and realise further value for shareholders in the coming years.

Gordon Banham
Group Chief Executive
24 January 2024

Financial Statements

Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the six months ended 30 November 2023

	Note	Unaudited six months ended 30 November 2023 £000	Unaudited six months ended 30 November 2022 £000	Audited year ended 31 May 2023 £000
Revenue		**110,171**	116,475	211,459
Cost of sales		**(88,943)**	(94,782)	(172,402)
Gross profit		**21,228**	21,693	39,057
Other operating income		**–**	2,844	4,918
Administrative expenses		**(16,127)**	(16,561)	(32,178)
Operating profit		**5,101**	7,976	11,797
Finance income		**818**	504	1,612
Finance expense		**(1,473)**	(823)	(2,565)
Share of (loss)/profit in joint ventures (net of tax)		**(1,714)**	11,053	16,311
Profit before tax		**2,732**	18,710	27,155
Taxation	5	**(1,035)**	(1,562)	771
Profit for the period		**1,697**	17,148	27,926
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans		**–**	–	(4,645)
Tax recognised on items that will not be reclassified to profit or loss		**–**	–	1,161
Items that are or may be reclassified subsequently to profit or loss				
Foreign exchange translation differences		**528**	1,406	1,130
Share of other comprehensive income of joint ventures (net of tax)		**–**	–	1,912
Other comprehensive income/(expense) for the period, net of tax		**528**	1,406	(442)
Total comprehensive income for the period		**2,225**	18,554	27,484
Profit attributable to:				
Equity holders of the company		**1,706**	16,962	27,915
Non-controlling interest		**(9)**	186	11
Profit for the period		**1,697**	17,148	27,926
Total comprehensive income for the period attributable to:				
Equity holders of the company		**2,234**	18,368	27,473
Non-controlling interest		**(9)**	186	11
Total comprehensive income for the period		**2,225**	18,554	27,484
GAAP measures				
Basic earnings per share (pence)	7	**5.22**	52.15	85.85
Diluted earnings per share (pence)	7	**5.14**	51.09	84.13

Condensed Consolidated Balance Sheet
as at 30 November 2023

	Note	Unaudited 30 November 2023 £000	Unaudited 30 November 2022 £000	Audited 31 May 2023 £000
Non-current assets				
Property, plant and equipment		**10,822**	10,392	10,861
Right of use assets		**34,157**	35,305	39,815
Investment property		**15,267**	13,672	14,074
Intangible assets including goodwill		**5,589**	5,949	5,685
Investments in joint ventures	9	**73,226**	70,541	74,282
Deferred tax assets		**14,214**	9,657	14,753
Trade receivables		**–**	4,224	–
Retirement benefit surplus		**9,111**	11,467	8,474
		162,386	161,207	167,944
Current assets				
Inventories		**44,192**	33,872	39,302
Trade and other receivables		**82,474**	86,109	71,609
Contract assets		**5,058**	6,081	5,114
Cash and cash equivalents		**18,718**	18,102	21,859
		150,442	144,164	137,884
Total assets		**312,828**	305,371	305,828
Non-current liabilities				
Other Interest-bearing loans and borrowings		**(13,874)**	(17,460)	(20,839)
Retirement benefit obligations		**(2,839)**	(2,666)	(2,902)
Provisions		**(3,829)**	(5,898)	(4,120)
Deferred tax liabilities		**(3,853)**	(2,419)	(3,417)
		(24,395)	(28,443)	(31,278)
Current liabilities				
Other Interest-bearing loans and borrowings		**(14,913)**	(13,140)	(15,511)
Trade and other payables		**(64,545)**	(58,792)	(47,427)
Provisions		**(11,268)**	(8,844)	(10,467)
Income tax liability		**(212)**	–	(154)
		(90,938)	(80,776)	(73,559)
Total liabilities		**(115,333)**	(109,219)	(104,837)
Net assets		**197,495**	196,152	200,991

Condensed Consolidated Balance Sheet
as at 30 November 2023 continued

	Note	Unaudited 30 November 2023 £000	Unaudited 30 November 2022 £000	Audited 31 May 2023 £000
Equity attributable to equity holders of the parent				
Share capital		**3,314**	3,314	3,314
Share premium		**73,982**	73,972	73,972
Other reserves		**211**	211	211
Translation reserve		**(161)**	(413)	(689)
Merger reserve		**1,022**	1,022	1,022
Hedging reserve		**318**	318	318
Capital redemption reserve		**1,530**	1,530	1,530
Share-based payment reserve		**2,540**	2,216	2,388
Retained earnings		**114,959**	114,018	119,136
		197,715	196,188	201,202
Non-controlling interest		**(220)**	(36)	(211)
Total equity		**197,495**	196,152	200,991

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 Statement of Changes in Equity
for the six months ended 30 November 2023

	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 2023	3,314	73,972	(689)	318	211	1,530	1,022	2,388	119,136	201,202	(211)	200,991
Total comprehensive income/(expense) for the period												
Profit/(loss) for the period	–	–	–	–	–	–	–	–	1,706	1,706	(9)	1,697
Other comprehensive income												
Foreign exchange translation differences	–	–	528	–	–	–	–	–	–	528	–	528
Total other comprehensive income	–	–	528	–	–	–	–	–	–	528	–	528
Total comprehensive income/(expense) for the period	–	–	528	–	–	–	–	–	1,706	2,234	(9)	2,225
Transactions with owners recorded directly in equity												
Issue of shares	–	10	–	–	–	–	–	–	–	10	–	10
Equity settled share-based payment transactions	–	–	–	–	–	–	–	152	–	152	–	152
Dividends paid	–	–	–	–	–	–	–	–	(5,883)	(5,883)	–	(5,883)
Total contributions by and distributions to owners	–	10	–	–	–	–	–	152	(5,883)	(5,721)	–	(5,721)
Balance at 30 November 2023	**3,314**	**73,982**	**(161)**	**318**	**211**	**1,530**	**1,022**	**2,540**	**114,959**	**197,715**	**(220)**	**197,495**

Condensed Consolidated Cash Flow Statement
for the six months ended 30 November 2023

	Unaudited six months ended 30 November 2023 £000	Unaudited six months ended 30 November 2022 £000	Audited year ended 31 May 2023 £000
Cash flows from operating activities			
Profit for the period	**1,697**	17,148	27,926
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	**7,128**	4,932	14,570
Net finance expense	**655**	319	953
Amortisation of intangible assets	**96**	–	175
Share of loss/(profit) in joint ventures (net of tax)	**1,714**	(11,053)	(16,311)
Profit on sale of property, plant and equipment, investment property and right-of-use assets	**–**	(2,844)	(4,718)
Equity settled share-based payment expense	**152**	187	359
Income tax expense/(credit)	**1,035**	1,562	(771)
Contributions to defined benefit pension schemes	**(589)**	(1,170)	(2,426)
Retranslation of foreign denominated assets and liabilities	**(122)**	31	482
	11,766	9,112	20,239
Change in inventories	**(4,890)**	(3,398)	(8,827)
Change in trade and other receivables	**(10,889)**	4,314	23,290
Change in trade and other payables	**17,156**	6,622	(4,563)
Change in provisions and employee benefits	**509**	2,867	2,713
	13,652	19,517	32,852
Interest received	**818**	504	1,127
Interest paid	**(1,585)**	(775)	(2,192)
Income tax received/(paid)	**2**	28	(281)
Net cash inflow from operating activities	**12,887**	19,274	31,506
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**110**	4,565	6,565
Proceeds from sale of investment property	**–**	146	266
Proceeds from sale of ROU assets	**12**	54	81
Acquisition of property, plant and equipment	**(1,466)**	(1,730)	(3,442)
Acquisition of investment property	**(770)**	(5,377)	(5,783)
Acquisition of right of use assets	**–**	(54)	(85)
Payment for acquisition of subsidiaries, net of cash acquired	**–**	(1,447)	(1,447)
Net cash outflow from investing activities	**(2,114)**	(3,843)	(3,845)
Cash flows from financing activities			
Principal elements of lease payments	**(8,027)**	(5,519)	(12,721)
Dividends paid	**(5,883)**	(5,725)	(6,701)
Net cash outflow from financing activities	**(13,910)**	(11,244)	(19,422)
Net (decrease)/increase in cash and cash equivalents	**(3,137)**	4,187	8,239
Cash and cash equivalents at the start of the period	**21,859**	13,773	13,773
Effect of exchange rate fluctuations on cash held	**(4)**	142	(153)
Cash and cash equivalents at the end of the period	**18,718**	18,102	21,859

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 2023 and the comparative figures for the six months ended 30 November 2022 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 2023.

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 2023, as described in those financial statements.

3. Status of financial information

The comparative figures for the financial year ended 31 May 2023 are not the Group's statutory consolidated financial statements for that financial year. The statutory financial accounts for the financial year ended 31 May 2023 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 2023. 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. Taxation

UK income tax for the period is charged at 25% (2022: 19%). The effective tax rate, after removing the impact of joint ventures is 23.3% (2022: 20.4%), representing an estimate of the annual effective rate for the full year to 31 May 2024. This rate is lower than the standard rate of UK income tax due to the impact of overseas tax which applies a lower tax rate.

6. Dividends

The final dividend of 6.0p and additional dividend of 12.0p per ordinary share, proposed in the 2023 Annual Report and Accounts and approved by the shareholders at the Annual General Meeting on 25 October 2023, was paid on 30 October 2023.

The directors have proposed an interim dividend of 18.0p per share (2022: 3.0p) which will be paid on 11 April 2024 to shareholders on the register at the close of business on 22 March 2024. 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.

7. Earnings per share

	Six months ended 30 November 2023 Unaudited			Six months ended 30 November 2022 Unaudited			Year ended 31 May 2023 Audited		
	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence	Earnings £000	EPS Pence	DEPS Pence
Basic earnings per share	**1,706**	**5.22**	**5.14**	16,962	52.15	51.09	27,926	85.85	84.13
Weighted average number of shares (000's)		**32,659**	**33,217**		32,528	33,200		32,528	33,193

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 558,000 (2022: 672,000), the effect on basic earnings per ordinary share is 0.08p (2022: 1.06p).

8. 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. HRMS represents the Groups share of its German joint venture, which includes Hargreaves Services Europe Limited which is the parent company of HRMS and DK.

	Services Unaudited 30 November 2023 £000	Hargreaves Land Unaudited 30 November 2023 £000	Unallocated Unaudited 30 November 2023 £000	HRMS Unaudited 30 November 2023 £000	Total Unaudited 30 November 2023 £000
Revenue					
Total revenue	110,327	673	–	–	111,000
Intra-segment revenue	(829)	–	–	–	(829)
Revenue from external customers	**109,498**	**673**	**–**	**–**	**110,171**
Operating profit/(loss)	**8,913**	**(1,284)**	**(2,528)**	**–**	**5,101**
Share of profit/(loss) in joint ventures (net of tax)	–	173	–	(1,887)	(1,714)
Net finance (expense)/income	(1,092)	108	329	–	(655)
Profit/(loss) before tax	**7,821**	**(1,003)**	**(2,199)**	**(1,887)**	**2,732**

	Services Unaudited 30 November 2022 £000	Hargreaves Land Unaudited 30 November 2022 £000	Unallocated Unaudited 30 November 2022 £000	HRMS 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**

9. 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 2023	–	68,607	5,751	(76)	74,282
Group's share of (loss)/profit in joint ventures (net of tax)	–	(1,887)	173	–	(1,714)
Exchange differences	–	646	–	12	658
At 30 November 2023	**–**	**67,366**	**5,924**	**(64)**	**73,226**

10. Condensed consolidated interim financial information

The condensed consolidated interim financial information was approved by the Board of Directors on 24 January 2024. 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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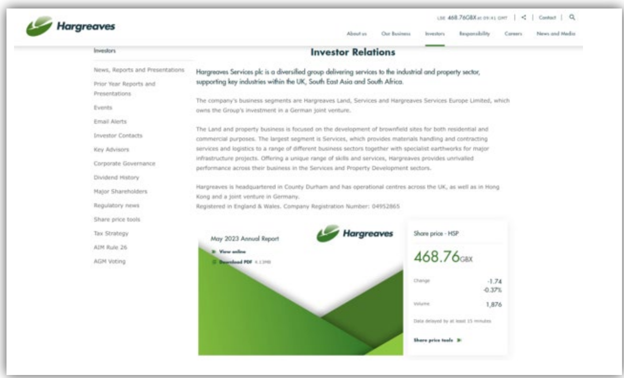
For more information

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



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