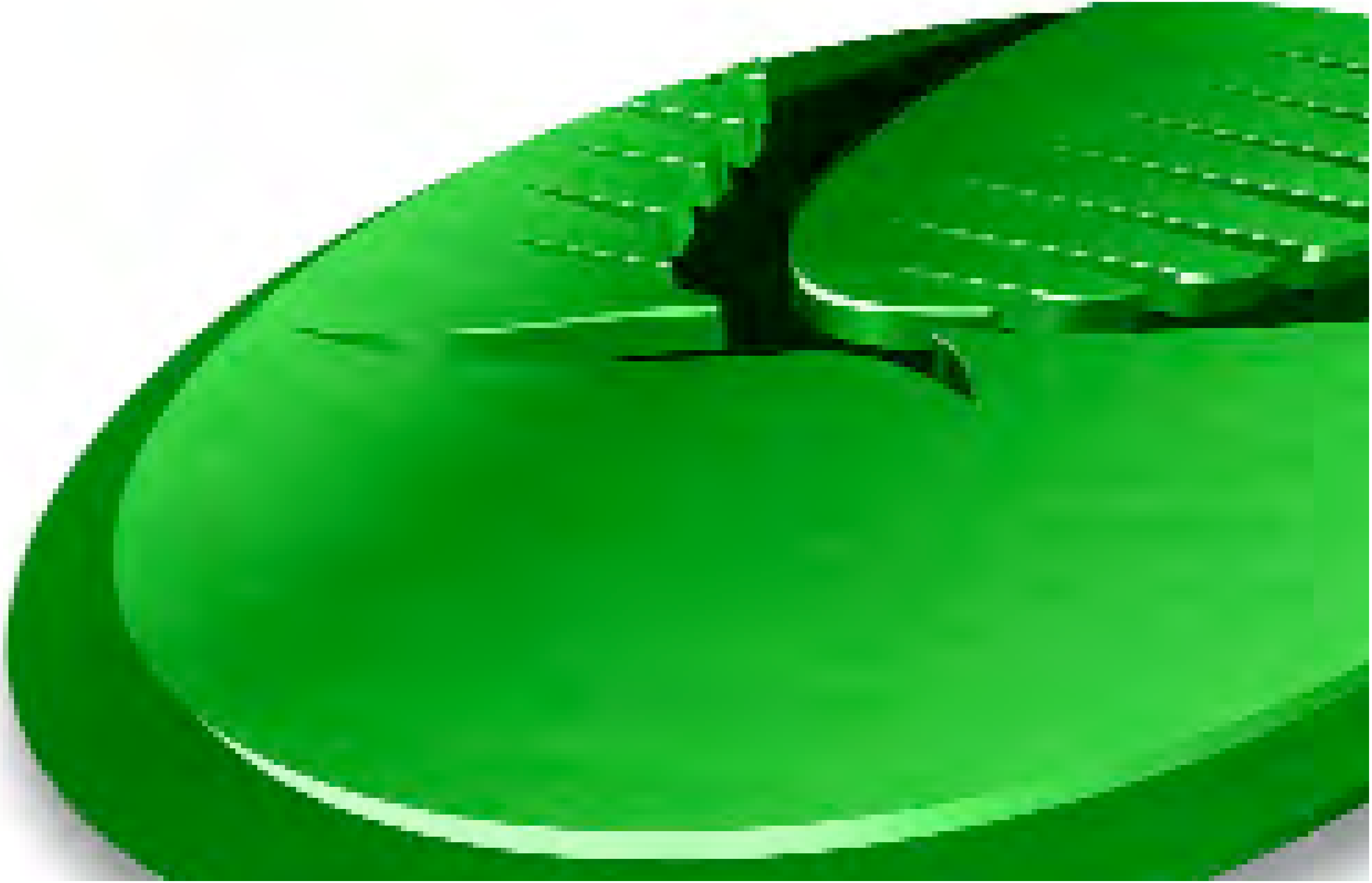
# HARGREAVES SERVICES PLC

(FORMERLY HARGREAVES (UK) HOLDINGS LIMITED)



# Highlights of the year's activity


Hargreaves Directors *(from left)*: Peter Dillon, Nigel Barraclough, Gordon Banham, Tim Ross, Kevin Dougan

## Flotation

In November 2005, the Company changed its name to Hargreaves Services and floated on the AIM market, raising £20 million net of expenses.

This has now provided the Group with significant financial resources enabling us to plan confidently for future growth.

The benefits of this resource can be seen already in this year's record increase both in turnover and profitability

The board was pleased to welcome Tim Ross as Non-Executive Chairman in November 2005.

A solicitor and formerly a main board director of George Wimpey plc, he brings a wealth of experience in construction, aggregates, waste disposal and opencast coal industry.

Tim is also Chairman of construction services company May Gurney, Deputy Chairman of Connaught plc, and a Non Executive Director of Ennstone plc, Lavendon Group plc and other private companies.

## Acquisitions

In June 2005, the Group acquired Monckton Coke & Chemical Company, the sole independent coke production plant in the UK. They have been making coke on the site at Royston, South Yorkshire for over 125 years and are leading the way in development and improvement to the environmental impact of the process.

Recent investment in an 11 megawatt combined heat & power plant enables export into the National Grid.

April 2006 saw the formation of a new joint venture company, Coal 4 Energy Ltd, in partnership with UK Coal.

The skills and experience of both these organisations have been applied the supply of coal and related products to the domestic and light industrial sectors.

# Contents

# Group profile

The Group provides materials and services, principally to the energy industry, plus other major material consumers. The Group is a mineral trading and handling group, and has substantial facilities at the ports of Immingham and Newport, where mineral imports from numerous overseas locations are received, processed and transported to their final destinations.

By moving materials and waste for itself and clients, the Group is the largest bulk haulier in the United Kingdom, and trades throughout the country via a network of companies and depots.

The acquisition during the year of The Monckton Coke & Chemical Company Limited, means the Group is the sole independent manufacturer of coke in the United Kingdom.

Much of the Group turnover is based upon long term index-linked contracts with major blue chip clients.

The Group is organised into separate divisions to reflect the above trading activities.

# Chairman's statement

**I was extremely pleased to be invited to become Chairman last year and am correspondingly delighted to be able to report record results to you now.**

**Group turnover (including share of joint ventures) of £155.0m *(2005: £87.6m)* and operating profit of £7.2m *(2005: £3.5m)* demonstrate the very significant progress achieved in the last year.**

Highlights of the year were:

The acquisition of The Monckton Coke & Chemical Company Ltd in June 2005 for a gross purchase consideration (including costs) of £13.9m.

Coinciding with my appointment in November, the flotation of the Company on the AIM market of the London Stock Exchange raised £20m net of expenses and enabled the Company to move forward with significant financial resources available for expansion.

In April 2006 Coal 4 Energy Ltd was established jointly with UK Coal PLC, to bring together the strength and experience of both companies in the supply of coal and related products to the light-industrial and domestic sectors. The new company is now the largest supplier to this market in the UK.

The Group is currently organised into four major trading divisions:

- Minerals
- Transport
- Industrial
- Monckton

Each Division is a significant player in its own market sector. Taken together, the Divisions make up an unrivalled supply chain in the provision of carbon-based and related minerals. The Group is strongly focused on services to the energy sector and has developed into the largest independent UK supplier of solid fuels to the generators, foundries, cement and other chemical industries. The Group's investments at the ports of Immingham and Newport provide it with excellent geographic coverage, with corresponding logistical efficiencies by road, rail and water.

I am also pleased to report a significant increase in demand for products from abroad, notably Scandinavia. We anticipate further growth in overseas markets, with particularly bright prospects in Germany.

Since my appointment, I have been greatly impressed by the work ethic, motivation and loyalty of our employees at all levels. The work that the Group undertakes across a wide geographic area is physically demanding and frequently involves extremely tight deadlines. On behalf of the Board, I would like to thank each and every one of them, whose skill and effort are the backbone of the Group's success.

As indicated in the prospectus at the time of flotation, I am pleased to report that the Board has recommended a maiden dividend of 5p per share payable immediately after the Annual General Meeting on 10 October 2006.

Finally, I am pleased to report that order books are at record levels, with additional long-term contracts already secured with major blue chip companies. We are committed to expansion and anticipate significant progress in the coming year, by organic growth and selective acquisition.

Tim Ross
Chairman

7 September 2006

# Group Chief Executive's statement

**I am pleased to announce that the group turnover (including share of joint ventures) for the year ended 31 May 2006 was £155.0m (2005: £87.6m) an increase of 77%. Total operating profit was £7.2m (2005: £3.5m) an increase of 106% which fully achieved directors' expectations.**

**The Board have recommended the payment of a final dividend of 5p per share, in line with projections given at the time of flotation. This relates to performance in the second half of the year.**

**Review of operations**

During the year there were three significant events. First, the acquisition of The Monckton Coke & Chemical Company Ltd ('Monckton') in June 2005.

This was followed in November 2005 by the flotation of the group on the AIM market of the London Stock Exchange. After expenses, £20m was raised to help the group grow both organically and by acquisition.

Finally a joint venture company, Coal 4 Energy Limited, was formed with UK Coal PLC in April 2006, which is now the largest UK supplier of light industrial and domestic coal.

The Group operates with four reporting divisions, enabling a clearly focused management structure, with defined lines of reporting. The Group has successfully integrated Monckton since acquisition, and we are pleased to report its operating profit of £2.1m.

In addition the Group has achieved expansion within each division, with excellent progress in market share and profitability.

**Minerals Division**

The Minerals Division is principally concerned with the import and subsequent sale of carbon based materials to end users. Main areas of site operations are the port of Immingham and the port of Newport. The majority of imported material is for the power generation industry.

The large increases in oil and gas prices have made coal the favoured fuel for power generation, this coupled with the decline of UK production has increased the demand for imports. The Division was well positioned at Immingham and Newport to take advantage of this increased activity, particularly the recent completion of new facilities by Associated British Ports at Immingham which has allowed the group to contract for additional tonnage. During the year there was substantially increased activity by the Division with growth in materials imported for its own account, and materials handled for others.

The increased volumes, coupled with contained overheads, has led to an excellent result, with both sales and operating profits considerably increased.

The Division is headed by Steve Anson, and is now believed to be the largest importer of coal into the UK (excluding direct imports by generators and steel producers). It adds value to products by processing, prior to despatch by road or rail.

The increasing variety and volume of materials, comprising coal, anthracite, coke, petcoke, biomass, pumice, shale, ash, and aggregates all contribute to the growth achieved. The commencement of the Coal 4 Energy joint venture with UK Coal in April 2006 will additionally enhance volumes for the future.

**Industrial Division**

The Industrial Division is principally concerned with the handling, processing and managing of carbon based products. There are sizeable operations at a number of customer locations, particularly in the power generation industry. This provides the customer with an essential part of the comprehensive supply chain offered by the Group. The handling of coal stocks, integrated with biomass feed, and ash disposal makes for a complete service. During the year sales increased, margins were maintained and overheads contained. The result was satisfactory progress.

# Group Chief Executive's statement *(continued)*

**Transport Division**

This Division is principally concerned with bulk haulage, and is the largest bulk haulier in the UK. The Division is headed by Paul Young. The Division's customer base is largely major blue chip companies, for whom dedicated haulage, often on long-term index-linked contracts, provides a substantial base load of work.

The year produced a good result, despite cost pressures, particularly diesel fuel and tyres. The market was reasonably buoyant, but remains competitive.

A number of substantial contracts were won, and the 2005 introduction of the Working Time Directive was successfully dealt with at an operational level.

The Division has also had considerable benefit from the haulage of materials for other parts of the Group. The ability to react swiftly to market opportunities, plus investment in modern vehicles and leading technology to control vehicle movements, all contribute to the efficiencies that give customer satisfaction.

**The Monckton Coke & Chemical Company Limited ('Monckton')**

This company is the last independent coke producer in the UK, and was acquired from UK Coal on 17 June 2005. Since acquisition a five year contract has been signed with a major UK customer, sales contracts negotiated directly with Scandinavian customers and up to a ten year contract agreed for the supply of coal. Capital expenditure of £0.5m has enabled the combined heat and power plant, which produces electricity for sale to the National Grid from excess gas generated, to increase efficiency and allow the plant to meet new environmental regulations.

The result of the above has been to significantly increase both margin and profit, and the acquisition has been successfully integrated into the Group. The recently announced purchase of a tyre crumbing plant at a cost of £1.0m will bring additional revenue by processing used tyres, which now are restricted from input into landfill. Revenue is generated by charging for the tyre disposal, and by sale of the processed crumbed product. The product may also be used as a coal substitute into the coking ovens, which in addition to being converted into coke, will give rise to additional gas for electricity production. This operation will only be fully commissioned for the financial year 2007/08.

**Joint Ventures**

Hargreaves Coal Combustion Products Ltd, which assists coal fired generating stations with the sale of ash as a bi-product, continued to grow, and is now recognised as a UK leader in this field.

Hargreaves (Bulk Liquid Transport) Ltd, which operates a substantial fleet of road tankers, had a successful year, retaining its sizeable contracts and achieving further profitable growth. In May 2006 it acquired the business of Gilbraith Tankers Ltd a long established and well reputed road tanker business based in the North West. This has increased both volume and geographic spread.

Coal 4 Energy Ltd is a joint venture with UK Coal PLC, and commenced trading in April 2006. The company is selling to the light industrial and domestic markets, coal previously supplied by each partner. The synergy by way of more efficient distribution, reduced overhead, and common marketing will allow the company to prosper.

ThyssenKrupp Metallurgical Supplies Ltd enjoyed another satisfactory year of operations.

# Group Chief Executive's statement *(continued)*

**Employees**

The Group results, growth and future prosperity rely on the skill, dedication and motivation of all employees. By the nature of what we do, there are tight deadlines over wide geographic areas.

The work is often hard and dirty, and only by the efforts of our people at all levels are our customers expectations fully met. The Group Board joins me in thanking new and existing employees for the part they have played in the continued growth and success of the Group.

Numbers employed have increased from 495 in 2005 to 585 in 2006 and we welcome these new colleagues to the Group.

**Group Board**

We welcome Tim Ross, who was appointed in November 2005 as Non-Executive Chairman. With his experience, background and other relevant directorships he adds greatly to the Group's expertise, and his sound advice is proving invaluable.

Our Non-Executive Vice-Chairman, County Councillor Robert Young, chose to stand down in November 2005 when the Group floated. As former owner his knowledge and wisdom have been of immense use. Fortunately he has agreed to remain available on a part-time consultancy basis. We thank him for his support and contribution over many years.

**Current trading and outlook**

The markets in which the Group trades and has core competence are always subject to fluctuations, but remain strong. Further sustained and profitable growth of the Group is anticipated.

The Group acquired Norec Limited on the 1st September 2006, in line with the announcements in July 2006 that discussions were taking place. Norec employs in excess of 510 people and specialises in the provision of labour and equipment to major industrial users on long term contracts. This £5.5m investment demonstrates the commitment of the Group Board to a policy of substantial and continued growth within the areas of its expertise.

I look forward to being able to report continued quality growth across all divisions in the future.

Gordon Banham
Group Chief Executive

7 September 2006

# Financial review

**The trading results for the year ended 31 May 2006 are a record for the Group. Group turnover (including share of joint ventures) reached £155.0m *(2005: £87.6m)* and total operating profit was £7.2m (2005:£3.5m) increases of 77% and 106% respectively.**

**During the year, the Group achieved a number of objectives, particularly the acquisition of The Monckton Coke & Chemical Company Ltd ('Monckton') for a gross purchase consideration, including costs, of £13.9m in June 2005. Flotation on the AIM market, which raised £20.0m net of expenses in November 2005.**

**Finally a joint venture commenced in April 2006 in partnership with UK Coal PLC. In addition substantial organic growth was achieved throughout the year.**

The Group operates as three trading divisions within Hargreaves Services (UK) Ltd, plus Monckton and four joint venture companies.

The Minerals Division which imports, processes, handles and delivers carbon based minerals has achieved a very significant growth in volume. The investments in the Port of Immingham and Port of Newport have greatly increased capacity.

The Industrial Division provides equipment and labour services on site for major industrial customers, it has shown good growth, and outsourcing by blue chip clients has considerable future potential.

The Transport Division, which includes waste haulage, is the largest bulk haulier in the United Kingdom. It has a number of depots and operational centres, which allows the fleet to be cost effectively deployed over a wide geographic area. The Division increased its turnover, client base and operating profit during the year.

Monckton was acquired in June 2005, and is the last independent coke works in the United Kingdom. Since acquisition, a long term, index linked contract with the major UK customer has been secured, as has a long term raw material supply contract. In addition, exports to Scandinavian clients are now made directly. Capital expenditure of £0.5m has increased the efficiency of the combined heat and power plant, thus generating additional electricity from bi-product gas. Operating profit of £2.1m reflected the actions taken.

In August 2006 a tyre crumbing plant was purchased for £1.0m which it is planned to relocate to Monckton in due course. Changes in legislation mean that used tyres can no longer be put into landfill. Substantial income is generated from both receipts for acceptance of used tyres and sale of crumbed product. The product may potentially also be used as a coal substitute in the coking ovens, and this will additionally produce more gas for electricity generation, of which the surplus is sold to the National Grid. The tyre crumbing facility will only become fully operational in the 2007/08 financial year.

Existing joint ventures ThyssenKrupp Metallurgical Supplies Limited, and Hargreaves Coal Combustion Products Ltd traded well, and are significant players in their markets.

Hargreaves Bulk Liquid Transport Ltd, which operates a fleet of road tankers had a record year. In addition it acquired in May 2006 the fleet and assets of Gilbraith Tankers Ltd, a long established and well reputed company based in the North West. This increases volume, client base and geographic coverage.

A new joint venture company, Coal 4 Energy Ltd, in partnership with UK Coal PLC, commenced trading in April 2006. This amalgamates the light industrial and domestic coal sales of both companies, making it the largest UK supplier to these markets. Combined volume, more efficient distribution and reduced overhead will all play a part in the successful launch of this venture.

# Financial review *(continued)*

**Divisional performance**

The Divisions enjoy a considerable amount of inter-divisional trade as part of the integrated solutions provided to clients. This level of inter-divisional activity, cross utilisation of the overhead base and other facilities limits the usefulness of analysis beyond direct costs. Below are stated divisional results.

| | **2006 Minerals £000** | **2006 Industrial £000** | **2006 Transport £000** | **2006 Monckton £000** | **2006 Total £000** |
|---|---|---|---|---|---|
| Group turnover | **75,040** | **8,292** | **41,564** | **22,088** | **146,984** |
| Segment operating profit | **2,130** | **539** | **2,394** | **2,143** | **7,206** |
| Segment profit before tax | **2,063** | **420** | **2,277** | **2,033** | **6,793** |
| Common costs | | | | | **(1,320)** |
| Group profit before taxation | | | | | **5,473** |

| | 2005 Minerals £000 | 2005 Industrial £000 | 2005 Transport £000 | 2005 Monckton £000 | 2005 Total £000 |
|---|---|---|---|---|---|
| Group turnover | 33,924 | 7,236 | 38,091 | - | 79,251 |
| Segment operating profit | 1,795 | 476 | 857 | - | 3,128 |
| Segment profit before tax | 2,088 | 312 | 345 | - | 2,745 |
| Common costs | | | | | (397) |
| Group profit before taxation | | | | | 2,348 |

Profitability during the year was substantially increased due to volume increases against a largely fixed overhead base.

# Financial review *(continued)*

**Key financial performance indicators**
The group monitors a range of key performance indicators. Group wide examples are:

| | **2006** | 2005 |
|---|---|---|
| • Turnover (including group share of joint ventures) | **£155.0m** | £87.6m |
| • Gross margin | **11.6%** | 12.4% |
| • Interest cover | **3.9** | 3.3 |
| • Profit before tax/turnover | **3.7%** | 3.0% |
| • Effective tax rate | **33.3%** | 37.3% |
| • Cash (absorbed by)/generated from operations | **(£0.2m)** | £3.3m |
| • Gearing ratio | **24%** | 274% |

Further comment on a number of the above key performance indicators can be found in this Financial Review.

In addition there are a significant number of further key performance indicators which are used to measure the business on a more detailed basis, and these are listed here for information.

- Tonnage handled per week/month
- Tonnage sold
- Purchase price per tonne
- Sales value per tonne
- Quality of coal
- Waste handled by type and average weight
- Number of loads per month
- Revenue and contribution per vehicle
- Road traffic accident analysis
- Non-road traffic accident analysis
- Staff turnover levels
- Injury claims

**Gross profit**

Overall gross profit percentage of 11.6% *(2005: 12.4%)* represents a small reduction from the previous period. This is entirely due to the changed mix in sales, particularly the high volume, lower margin, quantity of mineral sales. In absolute terms, gross profit of £17.0m *(2005: £9.8m)* shows an increase of 73%.

**Total operating profit**

Total operating profit of £7.2m *(2005: £3.5m)* represents an increase of 106% due to increased volumes, contained overheads, and the acquisition of Monckton.

# Financial review *(continued)*

**Interest and profit before taxation**

Net interest charges of £1.8m *(2005: £1.0m)* reflect the restructuring of finances following flotation on the AIM market in November 2005. This included £455,000 of finance costs on shares classified as liabilities which were incurred prior to the flotation of the company. The flotation, at which point these shares were redeemed, raised £20m net of expenses. Interest is covered 3.9 times by total operating profit and 5.6 times by EBITDA (earnings before interest, tax, depreciation and amortisation).

The record group profit of £5.9m *(2005: £2.3m)* before taxation (and finance costs on shares classified as liabilities) was fully up to Directors' expectations. Group profit before taxation was £5.5m *(2005: £2.3m)*.

**Cash flow**

EBITDA of £10.1m *(2005: £5.6m)* was generated from operating activities. The flotation proceeds were substantially used to redeem debt, principally loans and preference shares (including exit dividends) arising on the management buyout in 2004 and then on the acquisition of Monckton in 2005 - and also to reduce working capital. Contracted finance lease payments of £2.4m *(2005: £2.6m)* represent investment in fixed assets.

**Net worth**

The capital and reserves of the Group have increased to £26.3m *(2005: £4.4m)*, principally due to the net proceeds from flotation of £20m, plus retained earnings.

**Dividend**

The Group's stated policy is to pay an interim and final dividend, split one third/two thirds each year. Accordingly the Board have proposed a final dividend for this year, as the Group was only listed in November 2005, half way through the financial year. The final dividend proposed of 5p per share is ahead of that projected in the prospectus.

**Post balance sheet event**

On the 1st September 2006, the Group acquired Norec Ltd for a consideration of £5.5m from existing funds. Norec currently employs 510 people and provides equipment and labour on site to major industrial companies. This substantial acquisition for the Industrial Division emphasises the desire of the Group to expand both organically and by strategic acquisition.

Peter M Dillon
Group Financial Director

7 September 2006

# Statement on risks relating to the Group's business

## This statement is an integral part of the business review.

**The Group may face increased competition**

The Group may face significant competition, both actual and potential, including competition from competitors with greater capital resources than those of the Group.

**The Group may need access to capital in the future**

The Group's capital requirements depend on numerous factors. If its capital requirements vary materially from its current plans, the Group may require further financing.

**The Group's future turnover and operating results may fluctuate substantially from period to period**

The financial results of the Group can be materially affected in any particular financial period by the timing of large contracts. The timing of winning and commencing such contracts is inherently unpredictable, potentially causing substantial fluctuations in actual results compared with expectations or plans.

**The Group's results may be affected by movements in commodity markets**

A large part of the Group's business is associated with the supply of coal to the electricity supply industry (ESI) and the conversion of coal into coke. In the ESI, coal competes with other commodity fuels, principally gas in volume terms. In the current markets, gas prices and electricity prices are such that coal remains an economically competitive fuel. This pricing differential may change and the ESI may reduce its demand for coal in favour of alternative fuels.

**Reliance on key customers**

The Group's ten largest customers in the year ended 31 May 2006, accounted for approximately 50% per cent of turnover with largest individual customer representing approximately 15% per cent. The profitability of these customers is substantially less than 50%.

# Statement on risks relating to the Group's business *(continued)*

**Reliance on key suppliers**

Hargreaves Mineral Services ('HMS') and Monckton purchase substantial tonnages of coal each year: HMS imports coal principally from mines in Russia and Columbia at prices fixed to international indices, and Monckton purchases nearly all of its coal from UK Coal PLC's Maltby colliery. HMS and Monckton require specific types of coal in order to meet their respective supply and production needs. If either division was unable to source coal from the existing suppliers, it may be unable to obtain coal of the correct specification or in the time required or at an acceptable price.

**Dependence on key personnel**

The Group's success depends to a significant extent upon a limited number of key employees. The loss of one or more key employees could have a material adverse effect on the Group. No assurance can be given that the loss of any executive officer of the Group would not have a material and adverse effect on the business, financial condition or results of operations of the Group. The Group has endeavoured to ensure its key employees are incentivised, but the retention of such staff cannot be guaranteed. The Group has key man insurance policies for all executive Directors.

**Management of growth**

The Group's plans to continue its growth will place additional demands on its management, customer support, marketing, administrative and technological resources. If the Group is unable to manage its growth effectively, its business, operations or financial condition may deteriorate.

**Currency risk**

The Group buys and sells from and to suppliers and customers based outside the United Kingdom and consequently dealings with these customers and suppliers may be in foreign currencies which will be subject to exchange rate fluctuations. Where considered prudent, the Group hedges its foreign currency exposure actively, principally US dollars.

**Environmental regulation**

The Group's activities and markets in which it operates are, and will continue to be, subject to environmental regulation (including environmental impact assessments and permitting), in particular where it processes coal for the production of coke and supplies coal fired stations. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment.

Prior to the acquisition of Monckton the Company commissioned environmental due diligence on the site at Royston which identified areas of contaminated land and a separate report provided estimates of the costs of remediation. A provision is carried for such costs in the accounts.

**Health and safety**

Following the implementation of the Working Time Directive the Company has delivered training modules to its drivers and has reviewed the hours of work stipulated in their contracts of employment. Whilst it is the Company's intention to adopt and maintain best practice, there is a possibility that there will be breaches of the Directive during what are the early months following its implementation.

Peter M Dillon
Group Financial Director

7 September 2006

# Group board

**The Board of Hargreaves Services plc at the end of the financial year comprises the following directors.**

**Timothy Ross (aged 57)***
***Non-Executive Chairman***

Tim read law at Oxford University and qualified as a solicitor, working in the City of London and as a company legal adviser, before attending London Business School and moving into general management. He has considerable experience of the construction, aggregates, waste disposal and opencast coal industries. He was a main board director of George Wimpey PLC from 1991 to 1996 and is currently non-executive chairman of May Gurney Integrated Services plc and deputy chairman of Connaught plc He is also a non-executive director of Ennstone plc and Lavendon Group plc, as well as a number of private companies.
Tim is the Senior Independent Non-Executive Director.

**Gordon Banham (aged 42)**
***Group Chief Executive***

Gordon was Managing Director of his family firm, F Banham Limited, until 1994 when he negotiated its sale to Charrington Fuels, Gordon being appointed as General Manager of the combined businesses. On the acquisition of Charringtons by the CPL Group in 1995, Gordon was made Distribution Director responsible for the enlarged group's coal distribution activities. Gordon joined Hargreaves in 2001, subsequently being appointed as Group Chief Executive.

**Peter Dillon FCA FCT (aged 62)**
***Group Financial Director.***

Peter is a Chartered Accountant and Foundation Fellow of the Institute of Corporate Treasurers. In 1984, he became personal assistant to the Group Chairman of British Benzol plc, and in 1990 joined Young Group plc in a similar capacity. He became a major shareholder in Silver Knight Exhibitions Limited in 1985 which he helped float as MICE Group in 1994. Subsequently he was appointed to the MICE board as UK Managing Director and left to join Hargreaves as Group Finance Director in early 2003.

**Kevin Dougan MIQ (aged 51)**
***Group Contracts Director***

Kevin spent the early part of his career with British Coal, specialising in opencast coal mining eventually becoming Assistant Regional Engineer. In 1986, Kevin joined Andrew Golightly Limited as Contracts Director, subsequently joining the Group in 1995 as a divisional director, and was appointed to the Group Board in April 2004.

**Nigel Barraclough FCA (aged 41)***
***Non-Executive Director***

Nigel is a Chartered Accountant, joined the Board as the representative of Barings at the time of the management buyout in April 2004. Nigel is an investment manager with YFM Group Limited, a venture capital fund management group, responsible for venture capital investments and for portfolio companies. He has extensive experience of mergers and acquisitions and also as a non-executive director.

* Current member of Audit and Remuneration Committees.


*(From left) Peter Dillon; Nigel Barraclough; Gordon Banham; Tim Ross; Kevin Dougan*

# Advisers

***Independent Auditors***

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Quayside House
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Newcastle upon Tyne
NE1 3DX

***Bankers***

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Keel Row House
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Newcastle upon Tyne
NE1 2NG

***Legal Advisers***

Walker Morris
Kings Court
12 King Street
Leeds
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***Nominated Adviser and Stock Broker***

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34 Lisbon Street
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***Registered Office***

West Terrace
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Durham
DH7 9PT

# Directors' report

**The directors present their report and the audited financial statements for the year ended 31 May 2006.**

**Principal activities**

The principal activities of the Group are the provision of haulage services, waste transportation, mineral import and processing, together with coke manufacture and related activities.

On 18 November 2005 the company changed its name to Hargreaves Services plc.

On 30 November 2005 the company's shares were listed on the Alternative Investment Market (AIM).

**Business review**

The results for the year are set out on page 24.

Information that fulfils the requirements of the business review can be found in the accompanying information.
In particular:

- A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year, and of its position at the end of the year, is included in the Group Chief Executive's statement and the Financial Review. Key performance indicators have been included in the Financial Review where appropriate; and

- The principal risks and uncertainties facing the business have been included in a separate statement 'Statement on risks relating to the Group's business' on page 11. This includes information on environmental matters and employee issues.

**Dividends**

The directors recommend a full year dividend of 5p per share to be paid to shareholders on the register on 15 September 2006. The shares will be ex-dividend on 13 September 2006. This dividend has not been recognised within creditors as it was not declared and approved before the year end.

**Policy and practice on payment of creditors**

The group does not operate a defined code of practice regarding payment to suppliers. The group determines conditions of payment for its own supply of goods and services. It is the group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice. Average creditor days at 31 May 2006 for the group were 34 *(2005: 37)*. It is not meaningful to disclose a similar statistic for the company since it does not trade in its own right.

**Directors and directors' interests**

The directors who held office during the year were as follows:

TS Ross
(appointed 3 November 2005)

R Young
(resigned 3 November 2005)

GFC Banham
N Barraclough
PM Dillon
KJ Dougan

# Directors' report *(continued)*

**Directors and directors' interests** *(continued)*

The directors who held office at the end of the financial year had the following disclosable interests in the shares of the company according to the register of directors' interests:

| | Class of share | Interest at end of year | Interest at beginning of year or date of appointment |
|---|---|---|---|
| GFC Banham | Ordinary | 4,000,000 | 400,000 |
| PM Dillon | Ordinary | 2,000,000 | 200,000 |
| KJ Dougan | Ordinary | 875,000 | 87,500 |
| TS Ross | Ordinary | 3,086 | - |
| N Barraclough | Ordinary | - | - |

The interests of PM Dillon are held by a trust of which he is a potential beneficiary. The interests of TS Ross are held through a pension trust of which he is a potential beneficiary.

Details of directors' emoluments are set out in the Corporate Governance and Remuneration Report.
All the directors benefited from qualifying third party indemnity provisions in place during the year and at the date of this report.

According to the register of directors' interests, no rights to subscribe for shares in group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year and up to the date of this report except as indicated below:

| Shareholder | Exercise price per share | Period during which option is exercisable | Number of options granted |
|---|---|---|---|
| GFC Banham | 218p | 1 March 2009 to 1 September 2009 | 4,288 |
| PM Dillon | 218p | 1 March 2009 to 1 September 2009 | 4,288 |
| KJ Dougan | 218p | 1 March 2009 to 1 September 2009 | 4,288 |

These options were granted under the Savings Related Share Option Scheme on 22 December 2005 and are outstanding at the end of the year. None of the share options have been exercised.

**Significant shareholdings**

At 30 August 2006 the company had been notified or was aware of the following shareholders with 3% or more of the issued share capital of the company:

| Shareholder | Number of ordinary shares in which interested | % of issued share capital |
|---|---|---|
| The Bank of New York (Nominees) Limited | 725,000 | 3.1% |
| The Bank of New York (Nominees) Limited 585665 Acct | 742,000 | 3.1% |
| HSBC Global Custody Nominee (UK) Limited 981673 Acct | 1,548,336 | 6.5% |
| Nick Vikentiou | 875,000 | 3.7% |
| HSBC Global Custody Nominee (UK) Limited 981685 Acct | 1,352,000 | 5.7% |
| Robert Young | 2,000,000 | 8.4% |
| Cavendish Nominees Limited BEGF(N) Acct | 1,050,284 | 4.4% |
| Giltspur Nominees Limited BUNs Acct | 1,060,568 | 4.5% |
| GFC Banham | 4,000,000 | 16.8% |
| PM Dillon | 2,000,000 | 8.4% |
| KJ Dougan | 875,000 | 3.7% |

**Political and charitable contributions**

The group made no political contributions during the year. Donations to UK charities amounted to £41,619.

# Directors' report *(continued)*

**Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Research and development**

The group does not undertake significant levels of research and development expenditure.

**Financial instruments**

Financial risk management objectives and policies and an indication of exposure to financial risk are set out in note 23. Accounting policies on financial instruments are included in note 1.

**International financial reporting standards (IFRS)**

For reporting periods beginning on or after 1 January 2007 the consolidated accounts of the Group must comply with IFRS. The first accounts to which these new standards will apply will be the interim accounts for the six months to 30 November 2007.

The impact on the accounts of the adoption of IFRS will depend on which of the new standards are applicable to the Group and the particular circumstances prevailing at the date of adoption. The Group has not yet completed the process of identifying all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented, nor has it completed its quantification of any differences which may arise. However, the Group has established a programme which aims to ensure the timely identification and implementation of any changes required to Group financial accounting and reporting arrangements.

**Employees**

Applications for employment by disabled persons are always fully considered. Employment policies are designed to provide opportunities irrespective of colour, ethnic or national origin, nationality, sex or marital status. In the event of employees becoming disabled every effort is made, including appropriate training, to ensure that their employment with the company continues.

The directors recognise the importance of good communications and good relations with employees.

**Annual general meeting**

The business of the AGM is set out in the notice on page 63. The AGM is to be held on 10th October 2006.

**Independent auditors**

KPMG LLP resigned as auditors of the company during the year and the directors appointed KPMG Audit Plc to fill the vacancy arising.

In accordance with s384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company and to authorise the directors to agree their remuneration is to be proposed at the forthcoming Annual General Meeting.

By order of the board

S MacQuarrie
Company secretary

7 September 2006

# Corporate governance and remuneration report

**The Group has increased in size significantly in recent years and in recognition of this has both considerably strengthened the Board of Directors, and also introduced a level of corporate governance. Being listed on AIM, the Group is not required to report on corporate governance matters, but this statement is intended to provide information on how the Group has applied the principles and spirit of corporate governance.**

## The Group Board

The Group is headed by an effective Board, which both controls and leads the Group. A biography of each director and details of the membership of the Committees of the Group Board is provided on page 13.

The Group Board currently comprises three executive directors, and two non-executive directors. The Group Board meets at least six times per year, receiving appropriate information from management on a timely basis, and making further detailed enquiries where necessary which enables the Board to discharge its duties.

The Group Board has a schedule of matters which are specifically reserved to it for decision. All directors have access to the advice and services of the company secretary, who is responsible to the Group Board for ensuring that Group Board procedures are followed and for compliance with applicable rules and regulations.

## Health and safety

The Group Board ensures that Health and Safety issues for employees, customers and the public, are of foremost concern in all Group activities. The Group Chief Executive, supported by external advice, is charged with overall responsibility. The Group encourages both internal and external training through a formal network of full time officers and Health and Safety nominated "champions" at all levels. Statistical analysis is used to highlight any areas where additional training or improved working practices would be beneficial, and positive action is promptly implemented.

## Remuneration Committee

From the beginning of the year through to 3 November 2005 the Remuneration Committee consisted of the two non-executive directors, Robert Young and Nigel Barraclough. Robert Young resigned on 3 November 2005 and Tim Ross was appointed on this date. From 3rd November 2005 to the year end the Remuneration Committee consisted of Tim Ross and Nigel Barraclough. Other directors attend as requested, but do not vote on their own remuneration. The Remuneration Committee has access to independent advice where considered necessary.

The policy of the Committee is to review the remuneration of the executive directors, and is structured to attract, retain and motivate executive directors. The total remuneration package is designed to align the interests of the executive directors with those of the shareholders. The remuneration strategy, policy and approach for all staff is also reviewed annually by the Committee.

## Components of remuneration

### *Basic salary*

This is a fixed cash sum, payable monthly. Salaries are reviewed annually by the Remuneration Committee in the light of individual performance experience in the role and market comparisons.

# Corporate governance and remuneration report *(continued)*

***Bonus***

Executive directors participate in an annual incentive bonus scheme linked to the actual achievement of operating profit targets set by the Remuneration Committee. Such bonus is capped at 50% of salary. No bonus counts in the calculation of pension entitlement.

***Benefits in kind and pensions***

In addition to basic salary, Gordon Banham, Peter Dillon and Kevin Dougan are entitled to the following benefits: paid holiday, company car, contributions to a personal pension plan and life assurance.

**Directors' remuneration**

Remuneration was as follows:

| | **2006 Salary £000** | **2006 Bonus £000** | **2006 Benefits £000** | **2006 Total £000** | 2005 Total £000 | **2006 Pension £000** | 2005 Pension £000 |
|---|---|---|---|---|---|---|---|
| Gordon Banham | **198** | **72** | **19** | **289** | 117 | **21** | 16 |
| Peter Dillon | **174** | **58** | **8** | **240** | 148 | **10** | - |
| Kevin Dougan | **130** | **40** | **-** | **170** | 116 | - | - |
| Robert Young | **60** | **-** | **23** | **83** | 266 | **-** | - |
| Tim Ross | **29** | **-** | **-** | **29** | - | **-** | - |
| Nigel Barraclough | **20** | **-** | **-** | **20** | 12 | **-** | - |
| John Huntington | **-** | **-** | **-** | **-** | 21 | **-** | - |
| | **611** | **170** | **50** | **831** | 680 | **31** | 16 |

**Directors' service contracts**

The directors have entered into letters of appointment with the Company and the principal terms are as follows:

| **Date** | **Name** | **Position** | **Commencement of period of office** | **Remuneration £** | **Termination** |
|---|---|---|---|---|---|
| 24 November 2005 | Tim Ross | Non-executive Chairman | 30 November 2005 | 50,000 | 12 months' notice |
| 24 November 2005 | Nigel Barraclough | Non-executive Director | 30 April 2004 | 30,000 | 12 months' notice |
| 24 November 2005 | Gordon Banham | Group Chief Executive | 1 October 2001 | 240,000 | 12 months' notice |
| 24 November 2005 | Peter Dillon | Group Finance Director | 1 April 2003 | 192,000 | 12 months' notice |
| 24 November 2005 | Kevin Dougan | Group Contracts Director | 23 June 1997 | 120,000 | 12 months' notice |

The services of Tim Ross are provided by Crosswater Resources Limited, a company in which Mr Ross has a significant interest. The remuneration for Nigel Barraclough is paid to his employers, YFM Private Equity Limited.

**Directors' share options**

Details of the Directors' share options, held under the Savings related Share Option Scheme, are noted in the Directors' Report on page 16.

**Going concern**

After making appropriate enquiries, the directors can confirm that, in their opinion, the Group and the Company have adequate resources for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the financial statements.

# Corporate governance and remuneration report (*continued)*

**Internal control**

Management has considerable autonomy to run and develop the business of the Group. A well designed system of internal reporting and control is necessary. The Group Board has overall responsibility for the system of internal control within the Group. The Audit Committee, on behalf of the Group Board, has undertaken a review of its effectiveness. The system is designed to provide reasonable, but not absolute, assurance that the assets of the Group are safeguarded, that proper accounting records are maintained, and that reliable financial information is produced.

All subsidiary undertakings are required to adhere to specified internal control procedures.

The Group Board receives regular reports on internal control matters and does not believe that there is currently a need for an internal audit function. However, this matter is subject to periodic review.

Further control is exercised by monthly monitoring of performance by comparison to budgets, forecasts and cash targets, both by subsidiary management and by the Group Board. Regular visits by divisional and main board directors to the Group's subsidiaries are an integral part of the control system. During these visits business issues, risks, internal controls, financial results, and future prospects are discussed with operational management.

Monitoring of compliance with the Group's system of internal control is undertaken by all levels of management and reinforced by the role fulfilled by the Audit Committee.

**Audit Committee**

The Group Board has established an Audit Committee comprising the non-executive directors, who meet at least three times a year, with the external auditors attending by invitation at least twice a year. The Committee provides a forum by which the external auditors report to the Group Board. From the beginning of the year to 3 November 2005 the members were Robert Young and Nigel Barraclough. From 3 November 2005 to the end of the year the members were Tim Ross and Nigel Barraclough.

The Audit Committee is responsible for reviewing the scope and results of the audit together with its cost effectiveness. The objectivity of the auditors is enhanced by ensuring that they have direct access to the Group Board. Non-audit work undertaken by the auditors is limited to work that requires detailed knowledge derived from the statutory audit or work where the fees involved are not considered to be material.

**Savings related Share Option Scheme**

The Sharesave Scheme is a savings-related share option scheme and was implemented in December 2005.

All employees (including full time directors) of the company or any participating member of the Group whose earnings are subject to income tax and who have the requisite minimum period of continuous employment are eligible to participate.

The exercise price of an option shall be fixed by the company but shall not be normally less than the market value of a share on the date invitations are issued to eligible employees In a case of an option to subscribe for shares the exercise price may not be less than the nominal value of a share.

Participants may, at the absolute discretion of the Committee be invited to apply for three, five or seven year options. All options must be linked to a contractual savings scheme entered into by each participant with the savings institution nominated by the company and approved by the HMRC. Participants may save between £5 and £250 per month (or weekly equivalent), such sums to be deducted from the relevant participant's pay.

# Corporate governance and remuneration report *(continued)*

**Savings related Share Option Scheme** *(continued)*

At the end of the chosen savings period, a bonus is payable.

No option shall be granted under the Sharesave Scheme on any date if, as a result, the total number of shares issued or issuable pursuant to options and other rights granted under the Sharesave Scheme and any other employees share scheme established by the company on or after Admission, would exceed 10 percent of the issued ordinary share capital of the company on that date of grant.

Ordinary shares issued pursuant to the Sharesave Scheme shall rank pari passu in all respects with the ordinary shares already in issue.

In normal circumstances, options may be exercised during the period of six months commencing on the maturity (that is the relevant bonus date) of the savings contract. Options will become exercisable immediately on the death of a participant for a period of 12 months after the date of death or the bonus date, whichever is earlier. If a participant ceases to be an employee on reaching the age of 65 or at such other age at which that employee is bound to retire in accordance with the terms of his contract of employment or ceases to be in employment due to injury, disability, redundancy, or as a result of the sale of the business or subsidiary by which the participant is employed, options will become exercisable for a period of six months. If a participant has held an option for at least three years, it will become exercisable for a period of six months. Options will also become exercisable on an employee's attaining the age of 60 if he should continue in employment and on a change in control, reconstruction, amalgamation or voluntary winding-up of the company.

An option will lapse six months following the bonus date, except if the participant dies, in which case an option will lapse 12 months following death, if later.

**Executive Long Term Incentive Plan**

A scheme is under consideration by the Remuneration Committee whereby share options will be granted to certain Senior Executives. These awards will be subject to performance conditions. The Remuneration Committee is taking appropriate professional advice.

# Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards.

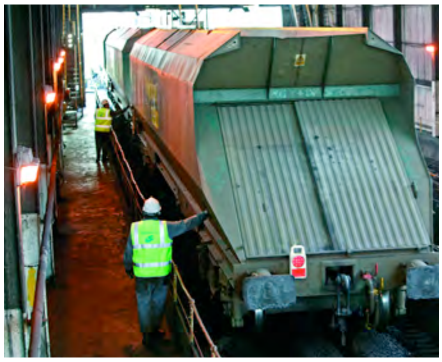
The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial state-ments;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors' are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG Audit Plc

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

## Independent auditors' report to the members of Hargreaves Services plc (formerly Hargreaves (UK) Holdings Limited)

We have audited the group and parent company financial statements (the "financial satements") of Hargreaves Services plc for the year ended 31 May 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 22.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Group Chief Executive's statement, the Statement on risks relating to the Group's business and the Financial Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 May 2006 and of the group's profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

**KPMG Audit Plc**
*Chartered Accountants*
*Registered Auditor*

7 September 2006

# Consolidated profit and loss account
# for the year ended 31 May 2006

| | Note | **2006** £000 | **2006** £000 | 2005 £000 | 2005 £000 |
|---|---|---|---|---|---|
| **Turnover: group and share of joint ventures** | 2 | | **155,001** | | 87,570 |
| Less: share of turnover of joint ventures continuing operations | | | **(8,017)** | | (8,319) |
| **Group turnover** | | | **146,984** | | 79,251 |
| **Group turnover** | 2 | | | | |
| Continuing operations | | **124,896** | | 79,251 | |
| Acquisitions | | **22,088** | | - | |
| | | | **146,984** | | 79,251 |
| Cost of sales | | | **(129,955)** | | (69,414) |
| **Gross profit** | | | **17,029** | | 9,837 |
| Administrative expenses | | | **(10,177)** | | (6,749) |
| **Group operating profit** | 2 | | | | |
| Continuing operations | | **4,709** | | 3,088 | |
| Acquisitions | | **2,143** | | - | |
| | | | **6,852** | | 3,088 |
| Share of operating profit in joint ventures | | | **380** | | 460 |
| **Total operating profit** | | | **7,232** | | 3,548 |
| Profit/(loss) on sale of fixed assets continuing operations | | | **60** | | (77) |
| Interest receivable | 6 | | **74** | | 10 |
| Other finance costs | 7 | | **(20)** | | - |
| Interest payable and similar charges - group | 8 | | | | |
| Finance costs on shares classified as liabilities (pre-flotation finance costs) | | **(455)** | | - | |
| Other | | **(1,382)** | | (1,090) | |
| | | | **(1,837)** | | (1,090) |
| Interest payable and similar charges - joint ventures | | | **(36)** | | (43) |
| **Profit on ordinary activities before taxation** | 2-5 | | **5,473** | | 2,348 |
| Tax on profit on ordinary activities | 9 | | **(1,823)** | | (876) |
| **Profit for the financial year** | 21 | | **3,650** | | 1,472 |
| **Earnings per share** | 11 | | | | |
| Ordinary shares | | | **20.32p** | | 9.43p |
| A Ordinary shares | | | **29.71p** | | 9.43p |
| **Diluted earnings per share** | 11 | | | | |
| Ordinary shares | | | **20.21p** | | 9.43p |
| A ordinary shares | | | **29.71p** | | 9.43p |

The group had no discontinued operations. Earning per share relate entirely to continuing operations.

# Consolidated balance sheet at 31 May 2006

| | Note | **2006** | | 2005 | |
|---|---|---|---|---|---|
| | | **£000** | **£000** | £000 | £000 |
| **Fixed assets** | | | | | |
| Intangible assets - goodwill | 12 | | **5,745** | | 364 |
| Tangible assets | 13 | | **21,146** | | 12,506 |
| Investments | 14 | | | | |
| Investments in joint ventures | | | | | |
| Share of gross assets | | **7,328** | | 2,585 | |
| Share of gross liabilities | | **(6,431)** | | (1,886) | |
| | | **897** | | 699 | |
| Other investments | | **83** | | 83 | |
| | | | **980** | | 782 |
| | | | **27,871** | | 13,652 |
| **Current assets** | | | | | |
| Stocks | 15 | **15,055** | | 3,671 | |
| Debtors | 16 | **21,167** | | 15,328 | |
| Cash at bank and in hand | | **15,022** | | 2,633 | |
| | | **51,244** | | 21,632 | |
| **Creditors:** amounts falling due within one year | 17 | **(26,904)** | | (16,299) | |
| **Net current assets** | | | **24,340** | | 5,333 |
| **Total assets less current liabilities** | | | **52,211** | | 18,985 |
| **Creditors:** amounts falling due after more than one year | 18 | | **(21,521)** | | (12,931) |
| **Provisions for liabilities and charges** | 19 | | **(4,064)** | | (1,654) |
| **Net assets excluding pension liabilities** | | | **26,626** | | 4,400 |
| **Net pension liability** | 24 | | **(328)** | | - |
| **Net assets including pension liabilities** | | | **26,298** | | 4,400 |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **2,368** | | 3,000 |
| Share premium account | 21 | | **19,082** | | - |
| Other reserves | 21 | | **29** | | 20 |
| Capital redemption reserve | 21 | | **1,530** | | - |
| Profit and loss account | 21 | | **3,289** | | 1,380 |
| **Shareholders' funds** *(2005: £1,946,000 non-equity on the FRS 4 basis)* | | | **26,298** | | 4,400 |

These financial statements were approved by the board of directors on 7 September 2006 and were signed on its behalf by:

**GFC Banham**
Director

**PM Dillon**
Director

# Balance sheet
# at 31 May 2006

| | Note | 2006 | | 2005 | |
|---|---|---|---|---|---|
| | | **£000** | **£000** | £000 | £000 |
| **Fixed assets** | | | | | |
| Investments | 14 | | **4,582** | | 4,581 |
| **Current assets** | | | | | |
| Debtors | 16 | **22,769** | | 953 | |
| Cash at bank and in hand | | **15,000** | | - | |
| | | **37,769** | | 953 | |
| **Creditors:** amounts falling due within one year | 17 | **(18,130)** | | (403) | |
| **Net current assets** | | | **19,639** | | 550 |
| **Total assets less current liabilities** | | | **24,221** | | 5,131 |
| **Creditors:** amounts falling due after more than one year | 18 | | - | | (1,900) |
| **Net assets** | | | **24,221** | | 3,231 |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **2,368** | | 3,000 |
| Share premium account | 21 | | **19,082** | | - |
| Capital redemption reserve | 21 | | **1,530** | | - |
| Profit and loss account | 21 | | **1,241** | | 231 |
| **Shareholders' funds** *(2005: £1,946,000 non-equity on the FRS 4 basis)* | | | **24,221** | | 3,231 |

These financial statements were approved by the board of directors on 7 September 2006 and were signed on its behalf by:

**GFC Banham**
Director

**PM Dillon**
Director

# Consolidated cash flow statement for the year ended 31 May 2006

| | Note | **2006** **£000** | 2005 £000 |
|---|---|---|---|
| **Cash flow statement** | | | |
| **Cash flow from operating activities** | 25 | **(215)** | 3,321 |
| **Returns on investments and servicing of finance** | 26 | **(2,508)** | (905) |
| **Taxation** | | **(895)** | (14) |
| **Capital expenditure** | 26 | **(2,067)** | (134) |
| **Acquisitions** | 26 | **(3,376)** | (567) |
| Cash (outflow)/inflow before financing | | **(9,061)** | 1,701 |
| **Financing** | 26 | **21,450** | 650 |
| **Increase in cash in the year** | | **12,389** | 2,351 |
| **Reconciliation of net cash flow to movement in net debt** | 27 | | |
| **Increase in cash in the year** | | **12,389** | 2,351 |
| Net cash inflow from financing | | **(2,985)** | (623) |
| Change in net debt resulting from cash flows | | **9,404** | 1,728 |
| Release/(accrual of) premium on redemption of loan stock | | **135** | (182) |
| New finance leases | | **(3,880)** | (2,269) |
| **Movement in net debt in the year** | | **5,659** | (723) |
| **Net debt at the start of the year** | | **(12,073)** | (11,350) |
| **Net debt at the end of the year** | | **(6,414)** | (12,073) |

Following the adoption of the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure' the Group has, with effect from 1 June 2005, reclassified certain elements of share capital from shareholders' funds to liabilities (note 1.10).

# Consolidated statement of total recognised gains and losses for the year ended 31 May 2006

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Profit for the financial year** | | |
| Group | **3,377** | 1,145 |
| Share of joint ventures | **273** | 327 |
| | **3,650** | 1,472 |
| Effect of adoption of FRS 25 on 1 June 2005 *(with comparatives not restated)* | **(166)** | - |
| | **3,484** | 1,472 |
| Actuarial loss arising on retirement benefit scheme | **(50)** | - |
| Deferred tax arising on losses in retirement benefit scheme | **15** | - |
| **Total recognised gains and losses relating to the financial year** | **3,449** | 1,472 |

## Reconciliations of movements in shareholders' funds
***for the year ended 31 May 2006***

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 £000** | 2005 £000 | **2006 £000** | 2005 £000 |
| **Profit for the financial year** | **3,650** | 1,472 | **2,707** | 452 |
| Effect of adoption of FRS 25 on 1 June 2005 *(with comparatives not restated)* | **(2,087)** | - | **(2,087)** | - |
| Dividends and finance costs of non-equity shares (comparatives on FRS 4 basis) | **-** | (331) | **-** | (331) |
| Other recognised losses | **(35)** | - | **-** | - |
| Net finance costs and dividends credited back to reserves *(comparatives on FRS 4 basis)* | **-** | 138 | **-** | 138 |
| Conversion of debt to equity | **391** | - | **391** | - |
| New share capital subscribed (net of issue costs) | **19,979** | 27 | **19,979** | 27 |
| **Net addition to shareholders' funds** | **21,898** | 1,306 | **20,990** | 286 |
| Opening shareholders' funds | **4,400** | 3,094 | **3,231** | 2,945 |
| **Closing shareholders' funds** | **26,298** | 4,400 | **24,221** | 3,231 |

# Notes
## *(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently, in dealing with items which are considered material in relation to the group's financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. The adoption of FRS 21 'Events after the balance sheet date' does not affect the comparative numbers. As a result of its adoption the 2006 proposed dividend is not included in creditors as it was not declared and approved before the year end.

The corresponding amounts in these financial statements are, other than those covered by the exception permitted by FRS 25, restated in accordance with the new policies. FRS 25 permits the corresponding amounts not to be restated and the Group has adopted this approach. The financial instruments policy set out below (1.10) provides further details of the current year and comparative year bases and of the change booked on 1 June 2005.

### *1.1 Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

### *1.2 Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 May. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The company's result for the year is disclosed in note 21.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.3 Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

In the company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost.

### *1.4 Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

### *1.5 Tangible fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|---|---|---|
| Freehold land and buildings | - | 2%- 4% per annum |
| Leasehold improvements | - | 15% per annum |
| Motor vehicles and plant | - | 10%-20% per annum |
| Furniture and equipment | - | 25% per annum |
| Fixtures and fittings | - | 15% per annum |

### *1.6 Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### *1.7 Pension scheme*

The group operates a group personal pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the financial period.

Following the acquisition of The Monckton Coke & Chemical Co Ltd on 17 June 2005, the Group operates a concessionary fuel retirement benefit scheme.

The retirement benefit scheme liabilities are measured using the projected unit method. The concessionary fuel retirement benefit scheme is an unfunded retirement benefit and as such there are no assets in the scheme. The retirement benefit deficit is recognised in full, the movement in the scheme deficit is split between operating charges, finance items and in the statement of total recognised gains and losses, actuarial gains and losses.

### *1.8 Stocks*

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.9 Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### *1.10 Classification of financial instruments issued by the Group*

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Both the Group and the company have taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with FRS 25. The adjustments necessary to implement this policy have been made as at 1 June 2005 with the net adjustment to net assets, after tax, taken through the current period reconciliation of movements in shareholders' funds. Corresponding amounts for year 2005 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable in 2005). The main differences between the comparative year and current year bases of accounting are shown below:

## Effect on the group balance sheet at 1 June 2005

| | **At 31 May 2005** | **Reclassification** | **At 1st June 2005** |
|---|---|---|---|
| | £000 | £000 | £000 |
| Shares classified as liabilities | | | |
| – falling due after more than one year | - | 2,087 | 2,087 |
| Share capital | 3,000 | (1,921) | 1,079 |
| Profit and loss account | 1,380 | (166) | 1,214 |

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.10 Classification of financial instruments issued by the Group* (continued)

### Effect on the company balance sheet at 1 June 2005

| | At 31 May 2005 | Reclassification | At 1st June 2005 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Shares classified as liabilities – falling due after more than one year | - | 2,087 | 2,087 |
| Share capital | 3,000 | (1,921) | 1,079 |
| Profit and loss account | 231 | (166) | 65 |

The nature of the main effects upon the balance sheets at 1 June 2005 and upon the current year consolidated profit and loss account, statement of total recognised gains and losses and cash flow statement are as follows:

- The ordinary shares, A ordinary shares, A preference shares and B preference shares in existence at 1 June 2005 are treated as part of shareholders' fund in comparative periods. The A preference shares and B preference shares and elements of the ordinary and the A ordinary shares are treated as liabilities at the start of the current period, increasing net debt and reducing reported share capital and net assets at the start of the current period. As a consequence, the reconciliation of net cash flow to the movement in net debt in the current year is also affected. At 31 May 2006 the only class of share in existence is equity ordinary shares.

- Finance payments in respect of these shares do not affect the profit for the financial year in the comparative year but are charged in the profit and loss account as interest in the current year. Any cumulative unpaid finance payments in respect of these shares are now classified as liabilities and therefore reduce net assets. In respect of elements of FRS 4 non-equity shares, the cash flow statement is unaffected as the finance payments are dealt with as servicing of finance in both years in accordance with FRS 1. In respect of elements of FRS 4 equity shares that are classified as liabilities, the finance payments, which would now be included in servicing of finance, would have been included in dividends paid.

The comparative year disclosures follow FRS 4 as applicable. This includes the analysis of comparative periods' shareholders' funds into equity and non-equity components. FRS 4 used 'equity' as a sub-set of shareholders' funds, whereas FRS 25 applies the term 'equity' to issued financial instruments other than those, or those components classified as liabilities.

The effect on the current period of the new policy is to present £455,000 as interest charges in 2006 which would hitherto have been included as £455,000 in non-equity dividends and thereto to reduce profit on ordinary activities before taxation by this amount in the year ended 31 May 2006.

The main effects on the primary statements in the comparative year, had FRS 25 been adopted, would have been similar to those stated above. In particular, the 2005 non-equity dividends and related finance charges of £331,000 (note 10) which were charged to equity in 2005, would have been treated as interest payable and similar charges in 2005 had FRS 25 been adopted.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

### *1.11 Financial instruments*

The group uses financial instruments to manage its exposures to fluctuations in foreign currency exchange rates and interest rates. Derivative instruments utilised by the group include forward rate agreements and forward currency contracts. Exchange differences are dealt with in the profit and loss account.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

### *1.12 Turnover*

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Turnover is recognised on delivery of goods and services.

### *1.13 Employee share schemes*

The cost of awards to employees that take the form of shares or rights to shares is recognised over the period of the employee's related performance in accordance with UITF 17. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

### *1.14 Dividends on shares presented within shareholders' funds*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### *1.15 Cash*

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

# Notes *(continued)*

## 2 Segmental information and acquired operations

The table below sets out information for each of the Group's industry segments. The origination and destination of all operations is in the United Kingdom.

| | Minerals 2006 £000 | Industrial 2006 £000 | Transport 2006 £000 | Monckton 2006 £000 | Total 2006 £000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Total sales | 75,040 | 8,407 | 51,167 | 22,651 | 157,265 |
| Inter-segment sales | - | (115) | (9,603) | (563) | (10,281) |
| **Sales to third parties** | 75,040 | 8,292 | 41,564 | 22,088 | 146,984 |
| **Group operating profit** | 2,130 | 539 | 2,394 | 2,143 | 7,206 |
| Share of operating profit in joint ventures | 197 | - | 183 | - | 380 |
| Profit on sale of fixed assets | - | - | 60 | - | 60 |
| Share of non-operating items of joint ventures | 4 | - | (36) | - | (32) |
| Net interest | (268) | (119) | (324) | (110) | (821) |
| **Segment profit before taxation** | 2,063 | 420 | 2,277 | 2,033 | 6,793 |
| Common costs | | | | | (1,320) |
| **Group profit before taxation** | | | | | 5,473 |
| **Net assets** | | | | | |
| Segment net assets | 3,750 | 421 | 4,232 | 4,523 | 12,926 |
| Unallocated net assets | | | | | 12,475 |
| | | | | | 25,401 |
| Joint ventures | | | | | 897 |
| **Total net assets** | | | | | 26,298 |

Unallocated net assets include goodwill, cash and deferred consideration.

The Monckton Coke & Chemical Company Ltd ('Monckton') was acquired on 17 June 2005, this is separately disclosed in the above table.

# Notes *(continued)*

## 2 Segmental information and acquired operations *(continued)*

| | Minerals 2005 £000 | Industrial 2005 £000 | Transport 2005 £000 | Monckton 2005 £000 | Total 2005 £000 |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Total sales | 34,526 | 9,164 | 42,362 | - | 86,052 |
| Inter-segment sales | (602) | (1,928) | (4,271) | - | (6,801) |
| **Sales to third parties** | 33,924 | 7,236 | 38,091 | - | 79,251 |
| Group operating profit | 1,795 | 476 | 857 | - | 3,128 |
| Share of operating profit in joint ventures | 337 | - | 123 | - | 460 |
| Profit/(loss) on sale of fixed assets | - | 29 | (106) | - | (77) |
| Share of non-operating items of joint ventures | - | - | (43) | - | (43) |
| Net interest | (44) | (193) | (486) | - | (723) |
| **Segment profit before taxation** | 2,088 | 312 | 345 | - | 2,745 |
| Common costs | | | | | (397) |
| **Group profit before taxation** | | | | | 2,348 |
| **Net assets** | | | | | |
| Segment net assets/(liabilities) | (2,595) | 583 | 4,126 | - | 2,114 |
| Unallocated net assets | | | | | 1,587 |
| | | | | | 3,701 |
| Joint ventures | | | | | 699 |
| **Total net assets** | | | | | 4,400 |

Unallocated net assets include goodwill and cash.

The 2006 results include the following relating to the acquisition of Monckton Coke & Chemical Company Limited which took place in June 2005.

| | **2005 £000** |
|---|---|
| Turnover | **22,088** |
| Cost of sales | **(18,473)** |
| Gross profit | **3,615** |
| Administrative expenses | **(1,472)** |
| Operating profit | **2,143** |

# Notes *(continued)*

## 3 Notes to the profit and loss account

| | 2006 £000 | 2005 £000 |
|---|---|---|
| ***Profit on ordinary activities before taxation is stated after charging:*** | | |
| Depreciation and other amounts written off fixed assets: | | |
| Owned | **2,083** | 470 |
| Leased | **842** | 1,622 |
| Amortisation of goodwill | **314** | 38 |
| Hire of plant and machinery - rentals payable under operating leases | **3,792** | 3,336 |
| Hire of other assets - operating leases | **277** | 287 |

***Auditors' remuneration***

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Group** | | |
| Statutory audit | **75** | 48 |
| Further assurance services | **253** | - |
| | **328** | 48 |

The above auditors' remuneration disclosures are based on amounts receivable in respect of services to the company and its subsidiary undertakings. Of the above amount £211,000 *(2005: £nil)* was charged directly to share premium account as issue costs arising on the issue of shares and £18,000 was charged to goodwill as part of acquisition costs *(2005: £nil)*.

| **Company** | 2006 £000 | 2005 £000 |
|---|---|---|
| Audit services | **5** | 5 |

## 4 Remuneration of directors

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Directors' emoluments | **644** | 233 |
| Company contributions to money purchase pension schemes | **31** | 16 |
| Amounts paid to third parties in respect of directors' services | **187** | 447 |
| | **862** | 696 |

# Notes *(continued)*

## 4 Remuneration of directors *(continued)*

| | Number of directors 2006 | Number of directors 2005 |
|---|---|---|
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | **2** | 1 |

The aggregate emoluments of the highest paid director were £289,000 *(2005: £266,000)* including company pension contributions of £19,000 *(2005: £nil)*.
All of the directors benefited from third party indemnity provisions.
Further information on directors' emoluments can be found in the Corporate Governance and Remuneration Report.

## 5 Staff numbers and costs

The average number of persons employed by the group and company (including directors) during the year, analysed by category, was as follows:

| | Group Number of employees | | Company Number of employees | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| Directors | **12** | 10 | **5** | 5 |
| Maintenance and washery | **15** | 14 | **-** | - |
| Traffic and administration | **124** | 105 | **-** | - |
| Drivers | **296** | 285 | **-** | - |
| Production | **156** | 81 | **-** | - |
| | **603** | 495 | **5** | 5 |

The aggregate payroll costs of these persons were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 £000** | 2005 £000 | **2006 £000** | 2005 £000 |
| Wages and salaries | **14,428** | 11,051 | **-** | - |
| Social security costs | **1,463** | 1,087 | **-** | - |
| Other pension costs (note 24) | **209** | 134 | **-** | - |
| | **16,100** | 12,272 | **-** | - |

# Notes *(continued)*

## 6 Interest receivable

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| Bank interest | **69** | - |
| Other | **5** | 10 |
| | **74** | 10 |

## 7 Other finance costs

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| Interest on pension scheme liability | **20** | - |

## 8 Interest payable and similar charges

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| On bank loans and invoice discounting advances | **877** | 415 |
| Finance charges payable in respect of finance leases and hire purchase contracts | **329** | 308 |
| Interest payable and other finance charges on loan notes | **176** | 357 |
| Other | **-** | 10 |
| | **1,382** | 1,090 |
| Finance costs on shares classified as liabilities (note 10) | **455** | - |
| | **1,837** | 1,090 |

As more fully explained in note 1.10 the classification of payments/charges as interest payable and similar charges are determined on different bases in the current and comparative years due to the transitional provisions of FRS 25.

# Notes *(continued)*

## 9 Taxation

**Analysis of charge in period**

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **£000** | **£000** | £000 | £000 |
| *UK corporation tax* | | | | |
| Current tax on income for the period | **1,580** | | 618 | |
| Share of joint ventures' current tax | **49** | | 80 | |
| Adjustment in respect of prior years | **(145)** | | 100 | |
| *Total current tax* | | **1,484** | | 798 |
| *Deferred tax (see note 19)* | | | | |
| Origination of timing differences | **317** | | 68 | |
| Share of joint ventures' deferred tax | **22** | | 10 | |
| *Total deferred tax* | | **339** | | 78 |
| Tax on profit on ordinary activities | | **1,823** | | 876 |

**Factors affecting the tax charge for the current period**

The current tax charge for the period is lower *(2005: higher)* than the standard rate of corporation tax in the UK of 30% *(2005: 30%)*. The differences are explained below.

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| *Current tax reconciliation* | | |
| Profit on ordinary activities before tax | **5,473** | 2,348 |
| Current tax at 30% *(2005: 30%)* | **1,642** | 704 |
| Effects of: | | |
| Finance charges on shares classified as liabilities (current year only) | **115** | - |
| Expenses not deductible for tax purposes | **243** | 128 |
| Capital allowances for period in excess of depreciation - group | **(315)** | (57) |
| - share of joint ventures | **(52)** | (30) |
| Small companies tax rates | **(49)** | (7) |
| Tax losses utilised | **-** | (40) |
| Tax losses carried forward in joint venture | **31** | - |
| Chargeable gain | **14** | - |
| Adjustment in respect of prior years | **(145)** | 100 |
| Total current tax charge (see above) | **1,484** | 798 |

*Factors affecting the tax charge for future periods*

The group has unrelieved UK corporation tax losses of approximately £nil *(2005: £370,000)* available to carry forward against profits from the same trade.

# Notes *(continued)*

## 10 Dividends and finance costs

As more fully explained in note 1.10 the classification of payments/deductions as dividends are determined on a different bases in the current and comparative years.

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| ***Dividends on ordinary shares*** | | |
| Proposed dividend of 5p per share *(2005: £nil)* | **1,184** | - |

The above amount has not been included within creditors as it was not approved before the year end.

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| ***Dividends and finance charges on other classes of shares*** | | |
| Premium payable on redemption of A preference shares | **76** | 153 |
| Dividends on A preference shares | **76** | 153 |
| Dividends on B preference shares | **12** | 25 |
| Dividends on A convertible preferred ordinary shares | **291** | - |
| | **455** | 331 |
| Charged to interest payable and similar charges | **455** | - |
| Charged to shareholders' funds *(2005: on FRS 4 basis)* | **-** | 331 |
| | **455** | 331 |

## 11 Earnings per share

All earnings per share disclosures relate to continuing operations as the group had no discontinued operations in either 2005 or 2006.
Up until 30 November 2005 two classes of ordinary share were in existence, £1 ordinary shares and £1 A ordinary shares. With effect from 30 November 2005 the A ordinary shares converted into ordinary shares. Also on this date the ordinary shares (including those arising on the conversion of the A ordinary shares) were each subdivided into 10 ordinary shares of 10p each (see note 20 for further details).

Earnings per share for each class of ordinary share are as follows:

| | **2006** | 2005 |
|---|---|---|
| **Ordinary shares** | | |
| Basic earnings per share | **20.32p** | 9.43p |
| Diluted earnings per share | **20.21p** | 9.43p |
| **A ordinary shares** | | |
| Basic earnings per share | **29.71p** | 9.43p |
| Diluted earnings per share | **29.71p** | 9.43p |

# Notes *(continued)*

## 11 Earnings per share *(continued)*

The calculation of earnings per share is based on the profit for the year *(after deduction of non-equity dividends in the comparative year on an FRS 4 basis)* and on the weighted average number of shares in issue and ranking for dividend in the year.

**Ordinary shares**

| | **2006** | 2005 |
|---|---|---|
| | **£000** | £000 |
| Profit for the year | **3,650** | 1,472 |
| Deduction of non-equity dividends *(2005: FRS 4 basis)* | **-** | (331) |
| Profit after deduction of non-equity dividends | **3,650** | 1,141 |
| Weighted average number of shares | **17,962,000** | 12,105,000 |
| Earnings per ordinary share (pence) | **20.32p** | 9.43p |

On 30 November 2005 the company's ordinary shares of £1 each were subdivided into ten ordinary shares of 10p each. The weighted average number of shares in both 2005 and 2006 has been adjusted as if the subdivision had occurred at the beginning of 2005.

Diluted earnings per share is based on the profit for the year of £3,650,000 above and on 18,058,000 ordinary shares, being the weighted average number of ordinary shares in issue in the year adjusted to the dilutive effect of the share options outstanding.

### *A ordinary shares*

Immediately prior to flotation on 30 November 2005 an exit dividend of £291,000 was payable on this class of share in accordance with the Articles of Association. From this date the A ordinary shares converted into ordinary shares. The dividend rights of the Ordinary and A ordinary shares were identical in all other respects. The calculation of the additional earnings per A ordinary share arising on this dividend in 2006 is as follows:

| | **2006** |
|---|---|
| Exit dividend | **£291,000** |
| Weighted average number of A ordinary shares in issue | **2,191,000** |
| Additional earnings per A ordinary share | **13.28p** |

The earnings per A ordinary shares for the 2006 year comprises the earnings per share to 30 November 2005 (the date on which they were converted) of 16.43p (based on a half year profit of £2,018,000 and a weighted number of shares of 12,280,000), plus the additional earnings per A ordinary share of 13.28p above. There is no dilutive effect on the A ordinary shares.

In 2005 the earnings per share on the A ordinary shares was identical to that of the ordinary shares at 9.43p

# Notes *(continued)*

## 12 Intangible fixed assets

| | Goodwill £000 |
|---|---|
| **Group** | |
| ***Cost*** | |
| At beginning of year | 404 |
| Additions (note 28) | 5,695 |
| At end of year | 6,099 |
| ***Amortisation*** | |
| At beginning of year | 40 |
| Charge for the year | 314 |
| At end of year | 354 |
| ***Net book value*** | |
| **At 31 May 2006** | **5,745** |
| At 31 May 2005 | 364 |

Goodwill of £5,695,000 arising on the acquisition of The Monckton Coke & Chemical Company Limited is being amortised over 20 years. The business is long standing and well established and the directors believe that the group will continue to derive financial benefit over this period.

Goodwill of £61,000 arising on the acquisition of R Hanson & Son Limited in June 2004 is being amortised over 10 years which, in the opinion of the directors, represents its useful economic life.

Goodwill of £343,000 arising on the acquisition of Hargreaves (UK) Limited in 2004 is being amortised over 10 years which, in the opinion of the directors, represents its useful economic life.

The company had no goodwill.

# Notes *(continued)*

## 13 Tangible fixed assets

| | Freehold land and buildings and leasehold improvements | Furniture and equipment | Motor vehicles and plant | Fixtures and fittings | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Group** | | | | | |
| ***Cost*** | | | | | |
| At beginning of year | 1,843 | 3,693 | 15,948 | 127 | 21,611 |
| Additions | 485 | 2,117 | 3,812 | 6 | 6,420 |
| On acquisition (note 28) | 359 | - | 5,199 | - | 5,558 |
| Disposals | (47) | (70) | (529) | - | (646) |
| At end of year | 2,640 | 5,740 | 24,430 | 133 | 32,943 |
| ***Depreciation*** | | | | | |
| At beginning of year | 373 | 2,049 | 6,591 | 92 | 9,105 |
| Charge for year | 191 | 556 | 2,164 | 14 | 2,925 |
| On disposals | - | (31) | (202) | - | (233) |
| At end of year | 564 | 2,574 | 8,553 | 106 | 11,797 |
| ***Net book value*** | | | | | |
| **At 31 May 2006** | **2,076** | **3,166** | **15,877** | **27** | **21,146** |
| At 31 May 2005 | 1,470 | 1,644 | 9,357 | 35 | 12,506 |
| *Depreciation in 2005* | *88* | *488* | *1,508* | *8* | 2,092 |

Included in the net book values of motor vehicles and furniture and equipment is £7,623,000 *(2005: £9,500,000)* in respect of assets held under finance lease and similar hire purchase contracts. Depreciation for the year on these assets was £842,000 *(2005: £1,622,000).*

Included in the net book value of freehold land and buildings and leasehold improvements is £1,485,000 *(2005:£1,227,000)* in respect of freehold land and buildings.

The company has no tangible fixed assets.

# Notes *(continued)*

## 14 Fixed asset investments

| | Interests in joint ventures £000 | Loans to joint ventures £000 | Other investments (listed) £000 | Total £000 |
|---|---|---|---|---|
| **Group** | | | | |
| ***Cost*** | | | | |
| At beginning and end of year | 67 | 63 | 20 | 150 |
| ***Share of post acquisition reserves*** | | | | |
| At beginning of year | 632 | - | - | 632 |
| Retained profits for the financial year | 207 | - | - | 207 |
| Redemption of preference shares | (9) | - | - | (9) |
| At end of year | 830 | - | - | 830 |
| ***Net book value*** | | | | |
| **At 31 May 2006** | **897** | **63** | **20** | **980** |
| At 31 May 2005 | 699 | 63 | 20 | 782 |

The group's other investments are listed and have a market value at the end of the year of £15,000 *(2005: £15,000)*.

**Company**

| | Group undertakings £000 | Joint ventures £000 | Total £000 |
|---|---|---|---|
| **Shares at cost** | | | |
| ***Cost and net book value*** | | | |
| At beginning of year | 4,581 | - | 4,581 |
| Additions | - | 1 | 1 |
| At end of year | 4,581 | 1 | 4,582 |

# Notes *(continued)*

## 14 Fixed asset investments *(continued)*

The principal undertakings in which the company's interest at the year end is more than 20% are as follows:

| | **Principal activity** | **Class and percentage of** | **shares held Group** | **Company** |
|---|---|---|---|---|
| ***Subsidiary undertakings*** | | | | |
| Hargreaves (UK) Limited | Holding company | Ordinary | 100% | 100% |
| Hargreaves Transport Limited | Asset management | Ordinary | 100% | - |
| Hargreaves (UK) Services Limited | Haulage, mineral import and processing | Ordinary | 100% | - |
| The Monckton Coke & Chemical Company Limited | Manufacture of coke | Ordinary | 100% | - |

In addition to the above the group has approximately 10 dormant subsidiary undertakings.

| | | | | |
|---|---|---|---|---|
| ***Joint ventures*** | | | | |
| ThyssenKrupp Metallurgical Supplies Limited | Mineral distribution | Ordinary | 50% | - |
| Hargreaves (Bulk Liquid Transport) Limited | Haulage | Ordinary | 50% | - |
| | | Preference | 50% | - |
| Hargreaves Coal Combustion Products Limited | Management and sale of ash products | Ordinary | 48% | - |
| | | Preference | 50% | - |
| Coal 4 Energy Limited | Light industrial and domestic coal sales | Ordinary | 50% | - |

***Joint ventures***

The total of the group's profit before taxation from interests in joint ventures was £344,000 *(2005: £417,000)*.

# Notes *(continued)*

## 14 Fixed asset investments *(continued)*

The amounts included in respect of joint ventures comprise the following:

| | **Joint ventures total 2006 £000** | Joint ventures total 2005 £000 |
|---|---|---|
| Share of turnover of joint ventures | **8,017** | 8,319 |
| Share of assets | | |
| Share of fixed assets | **830** | 430 |
| Share of current assets | **6,498** | 2,155 |
| | **7,328** | 2,585 |
| Share of liabilities | | |
| Due within one year | **(4,805)** | (1,523) |
| Due after one year | **(1,626)** | (363) |
| | **(6,431)** | (1,886) |
| Share of net assets | **897** | 699 |

## 15 Stocks

| | **Group** | |
|---|---|---|
| | **2006 £000** | 2005 £000 |
| Raw materials and consumables | **15,055** | 3,671 |

The company has no stocks.

## 16 Debtors

| | **Group 2006 £000** | **Company 2006 £000** | Group 2005 £000 | Company 2005 £000 |
|---|---|---|---|---|
| Trade debtors | **16,468** | **-** | 12,994 | - |
| Amounts due from group undertakings | **-** | **22,670** | - | 692 |
| Amounts owed by joint venture undertakings | **2,057** | **99** | 444 | - |
| Other debtors | **545** | **-** | 679 | 260 |
| Prepayments and accrued income | **2,097** | **-** | 1,211 | 1 |
| | **21,167** | **22,769** | 15,328 | 953 |

# Notes *(continued)*

## 17 Creditors: amounts falling due within one year

| | **Group 2006 £000** | **Company 2006 £000** | Group 2005 £000 | Company 2005 £000 |
|---|---|---|---|---|
| Bank loans *(note 18)* | **14** | **-** | 12 | - |
| Obligations under finance leases and hire purchase contracts *(note 18)* | **1,901** | **-** | 1,763 | - |
| Amounts owed to group undertakings | **-** | **18,130** | - | 196 |
| Amounts owed to joint venture undertakings | **-** | **-** | 1,093 | - |
| Trade creditors | **13,028** | **-** | 7,351 | - |
| Corporation tax | **1,550** | **-** | 716 | - |
| Other taxes and social security | **985** | **-** | 700 | - |
| Other creditors | **375** | **-** | 295 | - |
| Accruals and deferred income | **6,437** | **-** | 4,176 | 14 |
| Dividends | **-** | **-** | 193 | 193 |
| Deferred consideration | **2,614** | **-** | - | - |
| | **26,904** | **18,130** | 16,299 | 403 |

## 18 Creditors: amounts falling due after more than one year

| | **Group 2006 £000** | **Company 2006 £000** | Group 2005 £000 | Company 2005 £000 |
|---|---|---|---|---|
| Invoice discounting advances | **10,834** | **-** | 8,290 | - |
| Bank loans | **5,006** | **-** | 421 | - |
| Secured loan stock | **-** | **-** | 1,900 | 1,900 |
| Obligations under finance leases and hire purchase contracts | **3,681** | **-** | 2,320 | - |
| Deferred consideration | **2,000** | **-** | - | - |
| | **21,521** | **-** | 12,931 | 1,900 |

The invoice discounting facilities are committed 36 month facilities from June 2005 which permit the refinancing of the current debt. In accordance with the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure' these liabilities have been classified according to the maturity date of the longest permitted refinancing. Without these committed facilities these amounts would have been classified as falling due within one year. The invoice discounting advances are secured by fixed and floating charges over the group's assets. The gross amount of debts which were subject to invoice discounting advances at 31 May 2006 were £11,404,000 *(2005: £9,211,000)*.

The bank loan of £414,000 is secured against certain of the group's properties, bears interest at 1.5% above base rate and is repayable over 20 years.

The term loan of £4,600,000 is secured on certain of the Group's properties and assets. It matures on 10th June 2010 and bears interest at 2.5% above base rate.

# Notes *(continued)*

## 18 Creditors: amounts falling due after more than one year *(continued)*

The maturity of obligations under finance leases and hire purchase contracts is as follows:

| | **Group 2006 £000** | Group 2005 £000 |
|---|---|---|
| Within one year | **1,901** | 1,763 |
| In the second to fifth years | **3,681** | 2,320 |
| | **5,582** | 4,083 |

The above are secured on the specific assets to which they relate.

Analysis of debt (comprising loans, invoice discounting advances and finance leases)

| | **Group 2006 £000** | **Company 2006 £000** | Group 2005 £000 | Company 2005 £000 |
|---|---|---|---|---|
| Debt can be analysed as falling due: | | | | |
| In one year, or less, or on demand | **1,915** | **-** | 1,775 | - |
| Between 1 and 2 years | **12,749** | **-** | 9,167 | - |
| Between 2 and 5 years | **6,428** | **-** | 2,504 | 1,000 |
| In more than 5 years | **344** | **-** | 1,260 | 900 |
| | **21,436** | **-** | 14,706 | 1,900 |

## 19 Provisions for liabilities and charges

| **Group** | **Deferred taxation £000** | **Other provisions £000** | **Total £000** |
|---|---|---|---|
| At beginning of year | 1,032 | 622 | 1,654 |
| Arising on acquisition | 544 | 1,582 | 2,126 |
| Charge to profit and loss account (note 9) | 317 | - | 317 |
| Utilised during the year | - | (33) | (33) |
| At end of year | 1,893 | 2,171 | 4,064 |

# Notes *(continued)*

## 19 Provisions for liabilities and charges *(continued)*

The elements of deferred taxation are as follows:

| | At beginning of year £000 | On acquisition £000 | Amount included in STRGL £000 | Profit and loss for year £000 | At end of year £000 |
|---|---|---|---|---|---|
| Difference between accumulated depreciation and capital allowances | 1,143 | 753 | - | 206 | 2,102 |
| Tax losses | (111) | - | - | 111 | - |
| Short term timing differences | - | (209) | - | - | (209) |
| Provision for liabilities | 1,032 | 544 | - | 317 | 1,893 |
| Pension (note 24) | - | (126) | (15) | - | (141) |
| | 1,032 | 418 | (15) | 317 | 1,752 |

Other provisions at the end of the year comprise:

1 A net £589,000 relating to assessments by HM Customs & Excise which the group continues to resist. The assessments are connected with the purchase by group companies of alleged unlawful fuel from third party suppliers. The group, having taken legal advice, continues to appeal the assessments and has argued that it is the victim of a fraud by third party suppliers. The original gross liability arising on this issue is £1,122,000. Certain Directors of the company have indemnified the Group to a maximum of £500,000 in respect of this issue, leaving the net figure as the best estimate of the likely cash outflow.

2 A £1,582,000 ground/groundwater contamination provision which relates to Monckton's obligation to address ground and groundwater contamination at its sites. The provision is based on estimates of volumes of contaminated soil and historical contract costs of ground contamination treatment. The costs will usually be payable on the decommissioning of the site.

The company has no provisions for liabilities and charges.

# Notes *(continued)*

## 20 Called up share capital

| | | 2006 | 2005 |
|---|---|---|---|
| | | **£000** | £000 |
| ***Authorised*** | | | |
| 47,500,000 | Ordinary shares of 10p each | **4,750** | - |
| 1,000,000 | Ordinary shares of £1 each | **-** | 1,000 |
| 250,000 | A Cumulative convertible participating preferred ordinary shares of £1 each | **-** | 250 |
| 1,750,000 | A Cumulative redeemable preference shares of £1 each | **-** | 1,750 |
| 250,000 | B Preference shares of £1 each | **-** | 250 |
| | | **4,750** | 3,250 |
| ***Allotted, called up and fully paid*** | | | |
| 23,675,437 | Ordinary shares of 10p each | **2,368** | - |
| 1,000,000 | Ordinary shares of £1 each | **-** | 1,000 |
| 220,000 | A Cumulative convertible participating preferred ordinary shares of £1 each | **-** | 220 |
| 1,530,000 | A Cumulative redeemable preference shares of £1 each | **-** | 1,530 |
| 250,000 | B Preference shares of £1 each | **-** | 250 |
| | | **2,368** | 3,000 |

During the year the following changes to the group's and company's share capital took place.

By or pursuant to the resolutions of the Company passed on 3 November 2005 (which were conditional on Admission to AIM and therefore effective from 30 November 2005);

- the authorised share capital of the Company was increased to £4,750,000 by the creation of an additional 1,500,000 ordinary shares of £1 each;
- 50,270 A preference shares of £1 each in the capital of the Company were converted into 50,270 A ordinary shares of £1 each;
- 200,000 B preference shares of £1 each in the capital of the Company were converted into 200,000 ordinary shares of £1 each;
- Each of the issued and authorised but unissued A ordinary shares of £1 each in the capital of the Company was redesignated as an ordinary share of £1 each;
- Each of the issued A preference shares and B preference shares of £1 each in the capital of the company was (remaining after the conversion referred to above) was redeemed in full and cancelled and redesignated as an ordinary share of £1 each.
- Each of the issued and authorised but unissued ordinary shares of £1 each in the capital of the Company was subdivided into ten ordinary shares of 10 pence each;
- On 23 November 2005, 125,000 ordinary shares of 10 pence each were issued at 40p each. On 30 November 8,847,737 ordinary shares of 10p each were issued at 243p each.

# Notes *(continued)*

## 20 Called up share capital *(continued)*

**Analysis of non-equity shareholders' funds (comparative only)**

Under FRS 4 non-equity interests in shareholders' funds in 2005 are analysed by class of share as follows:

| Group and Company | 2005<br>£000 |
|---|---|
| A Cumulative redeemable preference shares | 1,696 |
| B Preference shares | 250 |
| | 1,946 |

## 21 Share premium and reserves

| Group | Share premium account<br>£000 | Capital redemption reserve<br>£000 | Other reserves<br>£000 | Profit and loss account<br>£000 |
|---|---|---|---|---|
| At beginning of year | - | - | 20 | 1,380 |
| Profit for the year | - | - | - | 3,650 |
| Effect of adoption of FRS 25 on 1 June 2006 | - | - | - | (167) |
| Premium on share issues, less expenses | 19,082 | - | - | - |
| Actuarial loss recognised in the pension scheme | - | - | - | (50) |
| Deferred tax arising on losses in the pension scheme | - | - | - | 15 |
| Transfers | - | 1,530 | 9 | (1,539) |
| **At end of year** | 19,082 | 1,530 | 29 | 3,289 |

| Company | Share premium account<br>£000 | Capital redemption reserve<br>£000 | Profit and loss account<br>£000 |
|---|---|---|---|
| At beginning of year | - | - | 231 |
| Profit for the year | - | - | 2,707 |
| Effect of adoption of FRS 25 on 1 June 2006 | - | - | (167) |
| Premium on share issues, less expenses | 19,082 | - | - |
| Transfers | - | 1,530 | (1,530) |
| At end of year | 19,082 | 1,530 | 1,241 |

As more fully explained in note 1.10, classifications within shareholders' funds are determined on different bases in 2006 and 2005 due to the transitional provisions of FRS 25. The adjustments to reserves to reflect this new policy and its consequential effects on the profit and loss are dealt with as a movement, above, in the current year.

The company's profit for the financial year was £2,707,000 *(2005: £121,000)*.

# Notes *(continued)*

## 22 Commitments

(a) The Group has capital commitments totalling £400,000 *(2005: £nil)* at the end of the financial year.

(b) Annual commitments under non-cancellable operating leases are as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| **Group** | **£000** | **£000** | £000 | £000 |
| Operating leases which expire: | | | | |
| Within one year | **-** | **71** | - | 72 |
| In the second to fifth years inclusive | **168** | **790** | 112 | 1,501 |
| Over five years | **55** | **-** | - | - |
| | **223** | **861** | 112 | 1,573 |

The company has no operating lease commitments.

(c) The Group has in place a portfolio of purchase commitments with both UK and overseas coal and mineral suppliers. The aggregate future purchase commitments total £234m over periods ranging up to 2015. The Group has sales contracts in existence to utilise these purchase commitments.

## 23 Financial instruments

The group's financial instruments comprise borrowings (principally invoice discounting advances, bank loans and obligations under finance leases), cash and various items, such as trade debtors, trade creditors etc, that arise directly from its operations, together with certain derivatives, such as forward rate agreements and forward exchange contracts. The main purpose of these financial instruments is to raise finance for the group's operations and to manage interest rate and currency risks arising from operations. In 2005 shares other than equity shares are also classified as financial instruments for these purposes.

Forward currency contracts are entered into to manage the currency risks arising from group purchases of minerals. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The group has taken advantage of the exemptions available under FRS 13 not to provide numerical disclosures in relation to short term debtors and creditors.

The main risks arising from the group's financial instruments are: interest rate risk, liquidity risk, and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the year.

### *Interest rate risk*

The group finances its operations through a mixture of retained profits, share capital, bank borrowings and finance leases. The group's principal borrowings are invoice discounting and bank loans at floating interest rates and finance leases at fixed interest rates. The issue of share capital during the year has significantly reduced the Group's gearing.

### *Liquidity risk*

As regards liquidity, throughout the year the group's policy has been to maintain a mix of short, medium and long term facilities. Flexibility is achieved by the use of a group invoice discounting arrangement. It is the group's policy to maintain undrawn agreed borrowing facilities in order to provide flexibility in the management of the group's liquidity.

# Notes *(continued)*

## 23 Financial instruments *(continued)*

***Foreign currency risk***

A significant proportion of the group's purchases are from overseas. These purchases are mainly priced in US dollars and euros. The group's policy is to eliminate currency exposure purchases at the time of purchase, through forward foreign currency contracts. All sales of the UK businesses are denominated in sterling.

***Interest rate risk profile of financial assets***

| | **Floating rate assets 2006 £000** |
|---|---|
| **Currency** | |
| Sterling | **14,772** |
| US dollar | **85** |
| Euro | **165** |
| | **15,022** |

| | Floating rate assets 2005 £000 |
|---|---|
| **Currency** | |
| Sterling | 2,633 |
| US dollar | - |
| Euro | - |
| | 2,633 |

The above assets comprise cash held in bank accounts. There were no fixed rate financial assets. The above accrue interest at rates set by the UK, European and US central banks.

# Notes *(continued)*

## 23 Financial instruments *(continued)*

***Interest rate risk profile of financial liabilities***

| | Floating rate liabilities 2006 £000 | Fixed rate liabilities 2006 £000 | Total liabilities 2006 £000 |
|---|---|---|---|
| Liabilities | **15,854** | **5,582** | **21,436** |

All of the above are denominated in sterling

| | Floating rate liabilities 2005 £000 | Fixed rate liabilities 2005 £000 | Total liabilities 2005 £000 |
|---|---|---|---|
| Liabilities | 8,723 | 5,983 | 14,706 |

All of the above are denominated in sterling.

The above liabilities comprise bank loans, invoice discounting advances, secured loan stock (2005 only) and finance leases. The maturity of these is as detailed in notes 18 and 19.

In addition to the above, in 2005 the Group also had in issue £1,530,000 in A cumulative redeemable preference shares carrying a coupon rate of 10% per annum and a redemption premium of 10% per annum and £250,000 of B cumulative redeemable preference shares carrying a coupon rate of 10% per annum and no redemption premium.

| ***Fixed rate liabilities*** | **Weighted average interest rate 2006 %** | **Weighted average fixed rate period 2006 years** | Weighted average interest rate 2005 % | Weighted average fixed rate period 2005 years |
|---|---|---|---|---|
| Liabilities other than shares | **7.13** | **4** | 11.2 | 6 |
| Shares | **-** | **-** | 19 | 4 |

The floating rate financial liabilities comprise mainly bank loans and invoice discounting advances that bear interest at rates based on the rates set by the UK and European Central Banks. Fixed rate liabilities include the majority of the group's obligations under finance leases and hire purchase contracts.

# Notes *(continued)*

## 23 Financial instruments *(continued)*

***Maturity of financial liabilities and undrawn borrowing facilities***

The maturity of the group's financial liabilities at 31 May 2006 and 2005 is disclosed in note 18.

The group has various undrawn committed borrowing facilities. The undrawn facilities available at 31 May in respect of which all conditions precedent had been met were as follows:

| | **2006 £000** | 2005 £000 |
|---|---|---|
| Expiring between 1 and 2 years | **9,500** | 2,500 |

These undrawn facilities comprise a £9,000,000 *(2005: £nil)* promissory note discounting agreement, a £500,000 *(2005: £nil)* asset finance revolving credit facility and an undrawn invoice discounting facility of £nil *(2005:£2,500,000)*.

***Forward transactions***

At the end of the year the group had in total, outstanding forward contract transactions as follows:

| | **2006 $000 In currency** | **2006 £000 Sterling equivalent** |
|---|---|---|
| US dollars | **30,132** | **16,999** |

| | 2005 $000 In currency | 2005 £000 Sterling equivalent |
|---|---|---|
| US dollars | 2,780 | 1,501 |

***Fair values of financial assets and liabilities***

Other than forward exchange contracts as at 31 May 2006, the fair values of financial assets and liabilities are not considered to be materially different from the book values. The fair value of the forward exchange contracts is estimated to be £875,000 *(2005: £25,000)* as at 31st May 2006.

## 24 Pension scheme

The group operates a group personal pension scheme. The pension cost charge for the year represents contributions payable by the group to the employees' funds and amounted to £207,000 *(2005: £134,000)*. There were no outstanding or prepaid contributions, at either the beginning or end of the financial year.

# Notes *(continued)*

## 24 Pension scheme *(continued)*

The Group acquired a concessionary fuel retirement benefit scheme on the acquisition of The Monckton Coke & Chemical Company Limited on 17 June 2005.

The Group provides for concessionary fuel retirement benefits, for the current members of the scheme, payable at retirement on attaining the age of 60. The amounts payable are determined in the employee terms and conditions and are subject to a qualifying period of service. The costs of the concessionary fuel benefits are determined by a qualified actuary on the basis of triennial valuations.

The latest full actuarial valuation was carried out on 31 December 2003 and updated for FRS 17 purposes to 31 May 2006.

The major assumptions used in this valuation were:

| | **2006** |
|---|---|
| Average retirement age | **60 years** |
| Rate of leaving services | **2.5%** |
| Coal price inflation | **2.0%** |
| Discount rate applied to scheme liabilities | **5.1%** |
| Inflation assumption | **3.0%** |

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Concessionary fuel is an unfunded retirement benefit and as such there are no assets in the scheme.

**Summary of scheme liabilities**

| | **2006**<br>**£000** |
|---|---|
| Present value of scheme liabilities | **(469)** |
| Deferred tax asset | **141** |
| Net scheme liabilities | **(328)** |

**Movement in deficit during the year**

| | **2006**<br>**£000** |
|---|---|
| Deficit in scheme at beginning of year | **(421)** |
| Current service cost | **(2)** |
| Contributions paid | **24** |
| Other finance cost | **(20)** |
| Actuarial loss | **(50)** |
| Deficit in the scheme at the end of the year | **(469)** |

**Analysis of other pension costs charged in arriving at operating profit**

| | **2006**<br>**£000** |
|---|---|
| Current service cost | **(2)** |

# Notes *(continued)*

## 24 Pension scheme *(continued)*

**Analysis of amounts included in other finance costs**

| | 2006 £000 |
|---|---|
| Interest on pension scheme liabilities | **(20)** |

**Analysis of amount recognised in statement of total recognised gains and losses**

| | 2006 £000 |
|---|---|
| Experience gains and losses arising on scheme liabilities | **(18)** |
| Changes in assumptions underlying the present value of scheme liabilities | **(32)** |
| Actuarial loss recognised in statement of total recognised gains and losses | **(50)** |

**History of experience gains and losses**

| | 2006 |
|---|---|
| Experience gains and losses on scheme liabilities: | |
| Amount (£000) | **(18)** |
| Percentage of year end present value of scheme liabilities | **4%** |
| Total amount recognised in statement of total recognised gains and losses: | |
| Amount (£000) | **(50)** |
| Percentage of year end present value of scheme liabilities | **11%** |

## 25 Reconciliation of operating profit to operating cash flows

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Group operating profit | **6,852** | 3,088 |
| Depreciation and amortisation | **3,239** | 2,130 |
| Increase in stocks | **(7,916)** | (2,078) |
| Increase in debtors | **(1,364)** | (3,261) |
| (Decrease)/increase in creditors | **(1,026)** | 3,442 |
| Net cash (outflow)/inflow from operating activities | **(215)** | 3,321 |

# Notes *(continued)*

## 26 Analysis of cash flows

| | 2006 | 2006 | 2005 | 2005 |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Returns on investment and servicing of finance** | | | | |
| Interest received | **70** | | - | |
| Interest paid | **(1,145)** | | (661) | |
| Interest element of finance lease rental payments | **(329)** | | (244) | |
| Loan stock redemption premium | **(287)** | | - | |
| Dividend and redemption premiums paid on shares classified as liabilities | **(817)** | | - | |
| | | **(2,508)** | | (905) |
| **Capital expenditure** | | | | |
| Purchase of tangible fixed assets | **(2,540)** | | (627) | |
| Sale of tangible fixed assets | **473** | | 493 | |
| | | **(2,067)** | | (134) |
| **Acquisitions** (note 28) | | | | |
| Purchase of subsidiary undertakings | **(2,532)** | | (434) | |
| Overdraft acquired with subsidiary | **(844)** | | (133) | |
| | | **(3,376)** | | (567) |
| **Financing** | | | | |
| Issue of equity shares | **21,550** | | 27 | |
| Share issue costs | **(1,570)** | | - | |
| Redemption of preference shares | **(1,530)** | | - | |
| Capital element of finance lease rental payments | **(2,381)** | | (2,635) | |
| Net invoice discounting advances | **2,544** | | 3,274 | |
| New loan | **4,600** | | - | |
| Repayment of secured loans | **(13)** | | (16) | |
| Repayment of secured loan stock | **(1,750)** | | - | |
| | | **21,450** | | 650 |

# Notes *(continued)*

## 27 Analysis of net debt

| | At beginning of year £000 | Cash flow £000 | Non-cash Changes £000 | At end of year £000 |
|---|---|---|---|---|
| Cash in hand, at bank | 2,633 | 12,389 | - | 15,022 |
| Finance leases | (4,083) | 2,381 | (3,880) | (5,582) |
| Invoice discounting advances | (8,290) | (2,544) | - | (10,834) |
| Bank and other loans due within one year | (12) | 13 | (15) | (14) |
| Bank and other loans due after more than one year | (2,321) | (2,835) | 150 | (5,006) |
| Total | (12,073) | 9,404 | (3,745) | (6,414) |

Non-cash changes arise from the inception of finance leases and release of the accrued premium on redemption of loan stock.

# Notes *(continued)*

## 28 Acquisitions

The company acquired the entire issued share capital of The Monckton Coke & Chemical Company Limited on 17 June 2005. The resulting goodwill of £5,695,000 was capitalised and will be amortised over 20 years, the period over which the directors anticipate the group to derive continuing economic benefit.

| | **Book and fair value** £000 |
|---|---|
| **Fixed assets** | |
| Tangible | 5,558 |
| **Current assets** | |
| Stock | 3,468 |
| Debtors | 4,314 |
| **Total assets** | 13,340 |
| **Liabilities** | |
| External creditors | (3,086) |
| Intercompany creditors | (6,803) |
| Provisions | (2,000) |
| **Total liabilities** | (11,889) |
| **Net assets** | 1,451 |
| **Goodwill** | 5,695 |
| **Net purchase consideration and costs of acquisition** | 7,146 |
| Analysed as: | |
| Gross consideration before adjustment for intercompany loan | 13,949 |
| Intercompany loan | (6,803) |
| Net consideration | 7,146 |
| Satisfied by: | |
| Cash | 8,835 |
| Deferred consideration outstanding at 31 May 2006 | 4,614 |
| Deferred consideration paid by 31 May 2006 | 500 |
| Repayment of intercompany loan | (6,803) |
| | 7,146 |

The subsidiary undertaking acquired during the year contributed £2.9m to the Group's net operating cashflows, paid £0.1m in respect of net returns on investments and servicing of finance and utilised £0.9m for capital expenditure.

# Notes *(continued)*

## 29 Contingent liabilities

One of the group companies has agreed to indemnify a supplier in respect of a claim for damages made by a third party who was the owner of a vessel which transported cargoes of coal which it had bought. The damages claimed are in the sum of $302,988.22. To date this claim has not been settled and no claims have been made in respect of the indemnity provided by the company to the supplier. The directors are confident that no material loss will result from this issue.

One of the Group companies is in dispute with a customer over contract supply issues. Having taken legal advice, the company strenuously denies liability and no provision has been made in the financial statements.

The company and certain of its subsidiary undertakings have debenture and composite arrangements in connection with banking facilities. The company acts as a guarantor, or surety, for various subsidiary undertakings in leasing, banking and other agreements entered into by them in the normal course of business. The company's maximum unprovided liability in respect of these is £19,436,000 *(2005: £12,806,000)*.

## 30 Employee share scheme

The group has issued options under the Savings Related Share Option Scheme during the year. Details are as follows:

| | Number of options |
|---|---|
| At beginning of year | - |
| Granted during year | 165,758 |
| Lapsed during year | (1,714) |
| Exercised during year | - |
| At end of year | 164,044 |

The exercise period is from 1 March 2009 to 1 September 2009. The weighted average exercise price is 218p. Further details of the Savings Related Share Option Scheme are included in the Corporate Governance and Remuneration report.

# Notes *(continued)*

## 31 Related party disclosures

On 30 April 2004 the company advanced funds of £250,000 to Mr R Young. This was fully repaid on redemption of the 'B' preference shares in November 2005. This amount was unsecured and incurred interest at 4% per annum. Interest receivable for the year on this amount is £5,000 *(period ended 31 May 2005: £10,000)* and is included in interest receivable in note 6.

As disclosed in note 14 the Group has four joint venture undertakings, ThyssenKrupp Metallurgical Supplies Limited, Hargreaves (Bulk Liquid Transport) Limited, Hargreaves Coal Combustion Products Limited and Coal 4 Energy Limited. Transactions with these undertakings during the year and balances outstanding at the end of the year were as follows:

| | **Purchases from £000** | **2006 Sales to £000** | **Balance outstanding debtor/(creditor) £000** |
|---|---|---|---|
| ThyssenKrupp Metallurgical Supplies Limited | **2,116** | **263** | **33** |
| Hargreaves (Bulk Liquid Transport) Limited | **239** | **1,847** | **222** |
| Hargreaves Coal Combustion Products Limited | **14** | **1,651** | **523** |
| Coal 4 Energy Limited | **2** | **1,881** | **1,279** |

| | Purchases from £000 | 2005 Sales to £000 | Balance outstanding debtor/(creditor) £000 |
|---|---|---|---|
| ThyssenKrupp Metallurgical Supplies Limited | 5,091 | 620 | (1,093) |
| Hargreaves (Bulk Liquid Transport) Limited | 399 | 16 | 165 |
| Hargreaves Coal Combustion Products Limited | 40 | 832 | 279 |

## 32 Post balance sheet events

The Group acquired Norec Limited on the 1 September 2006, in line with the announcements in July 2006 that discussions were taking place. Norec employs in excess of 510 people, and specialises in the provision of labour and equipment to major industrial users on long term contracts. This £5.5m investment demonstrates the commitment of the Group Board to a policy of substantial and continued growth within the areas of its expertise.

# Hargreaves Services plc

*(incorporated under the Companies Act 1985 with registered number 4952865)*

# Notice of Annual General Meeting

**Notice is hereby given that the Annual General Meeting of Hargreaves Services plc (the "Company") will be held at The Trevor Bennett Suite, Level 3, Milburn Stand, Newcastle United Football Club, St James' Park, Newcastle upon Tyne NE1 4ST on Tuesday 10 October 2006 at 12.00 noon for the following purposes:**

**Ordinary Business**

**1** To consider and adopt the accounts for the year ended 31 May 2006 and the directors' and auditors' reports thereon.

**2** To declare a final dividend of 5 pence per ordinary share of 10 pence each for the year ended 31 May 2006, payable on 18 October 2006 to those shareholders on the register of members at the close of business on 15 September 2006.

**3** To re-appoint Tim Ross as a director of the Company in accordance with article 29.2 of the Company's articles of association, who was appointed to the board of the Company following the date of the last annual general meeting of the Company.

**4** To re-elect Gordon Banham as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-election.

**5** To re-elect Peter Dillon as a director of the Company in accordance with article 34 of the Company's articles of association, who offers himself for re-election.

**6** To authorise the directors of the Company to fix, or to determine the method for fixing, the remuneration of the auditors.

**Special Business**

To consider and, if thought fit, pass the following resolutions, of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions.

**Ordinary Resolutions**

**7** To reappoint KPMG Audit Plc as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

**8** That the directors be and are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the said Act) up to an aggregate nominal amount of £789,000 (being approximately one third of the issued share capital of the Company as at the date of this notice) provided that this authority shall expire on the earlier of the date falling fifteen months from the passing of this resolution and the date of the next annual general meeting of the Company save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

**Special Resolutions**

**9** That, subject to the passing of resolution 8 above, the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by resolution 8 above as if sub-section(1) of section 89 of the said Act did not apply to any such allotment provided that this power shall be limited to:

**(a)** the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the law of, or the requirements of, any recognised regulatory body or any stock exchange in any territory; and

**(b)** the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £237,000 (being approximately 10 per cent. of the issued share capital of the Company as at the date of this notice);

and shall expire on the earlier of the date falling fifteen months from the passing of this resolution and the date of the next annual general meeting of the Company save that the Company may, before the expiry of any power contained in this resolution 9, make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

**10** That the Company is hereby generally and unconditionally authorised for the purpose of section 166 of the Companies Act 1985 to make one or more market purchases (within the meaning of section 163(3) of the said Act) of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the directors may from time to time determine provided that:

**(a)** the maximum aggregate number of Ordinary Shares authorised by this resolution to be purchased is 2,370,000 (representing approximately ten per cent. of the Company's issued share capital as at the date of this notice);

**(b)** the minimum price which may be paid for such Ordinary Shares is 10 pence per share (exclusive of expenses);

**(c)** the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is not more than five per cent. above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and

**(d)** unless previously revoked or varied, the authority conferred by this resolution shall expire on the earlier of the date falling fifteen months from the passing of this resolution and the date of the next annual general meeting of the Company save that the Company may, before such expiry, make a contract or contracts to purchase Ordinary Shares wholly or partly after such expiry as if the power conferred by this resolution had not expired.

Registered office:
West Terrace
Esh Winning
Durham
DH7 9PT

By order of the Board

Stephen MacQuarrie
Company Secretary

15 September 2006

Notes:

1 Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of the member. A proxy need not be a member of the Company.

2 An instrument of proxy is enclosed. To be valid, an instrument of proxy must be completed, signed and deposited or sent to (by hand or by post) Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4TU not less than 48 hours before the time fixed for the meeting (together, where relevant, with a notarially certified copy of any power of attorney or other authority under which it is signed). Completion of an instrument of proxy does not preclude a member from attending the meeting and voting thereat.

3 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those persons entered on the register of members at 6.00pm on 8 October 2006 (being not more than 48 hours before the time fixed for the meeting) will be entitled to attend and vote at the meeting in respect of the numbers of shares registered in their names at that time. Changes after that time and date shall be disregarded in determining the rights of any person to attend and vote.

4 Copies of contracts of service of the directors with the Company and the register of directors' interests will be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting.

5. Special notice has been received by the Company in respect of resolution 7.

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Hargreaves

# HARGREAVES SERVICES PLC

(FORMERLY HARGREAVES (UK) HOLDINGS LIMITED)

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31ST MAY 2006

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