

HARGREAVES SERVICES PLC
Registered number 4952865

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
31ST MAY 2007

SATURDAY



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Contents

Highlights of the year	2
Chairman's statement	5
Group Chief Executive's statement	6
Financial review	9
Statement on risks relating to the Group's business	13
Group board	15
Advisers	16
Directors' report	17
Corporate governance and remuneration report	20
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	24
Independent auditors' report to the members of Hargreaves Services plc	25
Consolidated profit and loss account	26
Consolidated balance sheet	27
Balance sheet	28
Consolidated cash flow statement	29
Consolidated statement of total recognised gains and losses	30
Reconciliations of movements in shareholders' funds	30
Notes	31
Notice of Annual General Meeting	67

Highlights of the year

ACQUISITIONS AND GROWTH

- September 2006

Norec acquired and integrated into Hargreaves Industrial Services

Hargreaves Raw Materials Services GmbH formed in Germany to meet growing European market

- February 2007

Maltby Colliery acquired together with substantial, long term contracts

Remaining 50% share of Hargreaves Bulk Liquid Transport acquired and Gilbraith Tankers integrated into the Group

- April 2007

Simon Bulk Warehousing and Distribution acquired together with substantial contract with ConocoPhillips

Highlights of the year

FINANCIAL HIGHLIGHTS

	2007 £m	2006 £m	Increase %
● Turnover	265.3	155.0	71.2%
● Operating profit	10.4	7.2	44.4%
● Post tax profit	5.7	3.6	58.3%
● Earnings per share	23.1p	* n/a	

* Due to flotation in November 2005

Hargreaves Services plc

Chairman's statement

I am delighted to report an excellent result for the year ended 31 May 2007, driven by strong organic growth and successful acquisitions

Group turnover (including share of joint ventures) of £265.3m (2006 £155.0m) and operating profit of £10.4m (2006 £7.2m) illustrate the considerable progress that has been achieved

Highlights of the year were the acquisition of Norec Limited, in September 2006, for a gross purchase consideration (including expenses) of £7.4m and the acquisition of the Maltby Colliery, in February 2007, for a consideration (including pension deficit and expenses) of £31.0m. Finally, the acquisition of the business and assets of Simon Bulk Warehousing and Distribution was made in April 2007 at a cost of £4.2m (including expenses).

As the result of these and other smaller acquisitions we welcomed more than 1,000 new employees to the Group. All these acquisitions have been duly integrated and have performed in accordance with expectations. We look forward to a full year's contribution from each in 2007/2008.

During the year we established a new presence in Dusseldorf and commenced trading operations in coal, coke and other minerals, to customers in Germany and other European markets.

The newly-acquired Maltby Colliery is the leading UK supplier of low-sulphur coal, with Monckton Coke Works, the only independent UK coke producer, one of its principal outlets. Each operates as a Division in its own right and, combined with the various operations in our established Minerals, Transport and Industrial Services Divisions, together make up an unrivalled supply chain in the provision of carbon-based and related minerals.

The Group remains strongly focused on services to the energy sector and now comprises the largest independent supplier of solid fuels to the generators, whilst additionally enjoying very strong market positions in supplies to the foundry, cement and chemical industries.

The Group's excellent port facilities at Immingham and Newport enable extremely efficient distribution of imported products by road, rail and water as well as the export of specialist products, notably to Scandinavia.

I continue to be greatly impressed by the work ethic, motivation and loyalty of our employees at all levels. I would like to thank each and every one of them, whose skills and efforts are at the heart of the Group's success.

In the light of the Group's continuing success, the Board has recommended a final dividend of 6p per share payable immediately after the Annual General Meeting on 3 October 2007, in addition to the interim dividend of 3p per share paid earlier in the year.

We continue to enjoy good visibility of earnings, with order books at record levels and with additional long term contracts already secured with major blue chip companies. We remain firmly committed to expansion and anticipate further significant progress, both by organic growth and selective acquisition, in the year ahead.

Tim Ross
Chairman
3 September 2007

Group Chief Executive's statement

It gives me pleasure to announce that the Group turnover (including share of joint ventures) for the year ended 31 May 2007 was a record at £265.3m (2006 £155.0m), an increase of 71.2%.

Total operating profit was £10.4m (2006 £7.2m) an increase of 44.4% which met Directors' expectations.

The Board have recommended the payment of a final dividend of 6p per share in addition to the interim dividend already paid of 3p per share.

Review of operations

During the year the Group grew significantly both organically and by acquisition.

In September 2006, Norec Limited, a successful industrial services provider employing in excess of 500 people, was purchased. In February 2007 the Group acquired the assets of Maltby Colliery from UK Coal. In April 2007 the Group acquired the business and assets of Simon Bulk Warehousing and Distribution. This company has a long term contract with ConocoPhillips for the transport and storage of petroleum coke. This activity is being integrated into the Industrial Division.

The Group now operates in five reporting divisions thus giving a clear focussed management structure with defined lines of reporting. The Group has successfully integrated the new acquisitions which are contributing to profits.

The Group also achieved expansion in the year within its pre-existing Divisions, making 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. The main areas of site operations are the ports of Immingham and Newport. The majority of imported material is for the power generation industry.

In September 2006 the Group commenced trading from a new office in Dusseldorf, Germany, through a new company, Hargreaves Raw Material Services GmbH. I am pleased to report that this operation has been successful and substantial quantities of material have been imported, principally from China, through European ports for distribution throughout Continental Europe. In addition, quantities of blast furnace coke have been imported from Poland to satisfy market demand. The results of this venture have exceeded expectations and contributed to profits earlier than expected.

Coal remains a competitive fuel for power generation and despite the mild winter, supply volumes have been maintained. The strategic locations at Immingham and Newport, helped by the recent new terminal facility opened by Associated British Ports at Immingham, have allowed the Group to import and contract for sale additional tonnage. This Division has substantially increased its volumes during the year and contained its overheads. This has produced an excellent result with 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, rail or water.

Increasing variety and volume of materials comprising coal, anthracite, coke, petcoke, pumice, shale, ash and aggregates all contribute to the growth achieved.

Industrial Division

The Industrial Division, headed by Greg Kelley, Managing Director of Norec Limited, is principally concerned with providing labour and expertise in the power generation, chemical and port industries around the UK. The acquisition of Norec Limited allowed the existing Industrial Division to be integrated to provide a larger and more efficient operation with sizeable activities throughout the UK.

During the year Norec Limited was successfully integrated leading to sales increases, margin improvement and reduced overheads. The result was very 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 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 remained competitive.

In February 2007 the Group acquired the remaining 50% of the share capital of Hargreaves (Bulk Liquid Transport) Limited and integrated it into main fleet operations. The tanker operation has successfully integrated the business of Gilbraith Tankers Limited, acquired in May 2006.

The Division has considerably benefited from haulage of materials for the other part of the Group. The ability to react swiftly to market opportunities plus investment in modern vehicles and leading technology to control vehicle movements together with increased volumes from the tanker business all contribute increased efficiency and economies of scale.

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

The Company, headed by Mick Gore, is the last independent coke producer in the UK and has long term contracts for the supply of its specialist product to a major UK customer and substantial exports to Scandinavian customers. The combined heat and power plant produces electricity for sale to the National Grid from excess gas generated by the coking process. The Company has operated successfully during the year and produced a satisfactory profit.

The Monckton Rubber Technologies tyre crumbing plant which was purchased for £1.0m has been commissioned in the latter part of the financial year and is processing waste tyres which are now restricted from input into landfill. Revenue is generated by charging for tyre disposal and by sale of processed rubber crumb produced. The operation is about to complete commissioning trials and is expected to make a full contribution for the financial year 2007/2008.

Maltby Colliery Limited

In February 2007 the Group acquired the business and assets of Maltby Colliery from UK Coal plc. Maltby Colliery is a deep mine producing specialist coal, mining approximately 1,250,000 tonnes per annum. The Group negotiated a three-year contract, at close to international prices, with Drax Power Station for approximately 60% of production. A further 25% of production is used by Monckton Coke and Chemical Company Limited, due to the specialist coking properties of the coal.

The Group has recruited Alan Houghton OBE, to act as adviser and director at Maltby. It is expected that the mine will achieve production targets for 2007/2008 and is already making a worthwhile contribution to operating profits.

Joint Ventures

Hargreaves Coal Combustion Products Limited, which assists coal fired generating stations by the sale of ash as a bi-product, has continued to grow and is now recognised as the UK leader in this field. During the year a further development was the obtaining of the UK licence for Lytag from Cemex. Lytag is a lightweight aggregate used in the construction industry.

Coal4Energy Limited, our joint venture with UK Coal plc, commenced trading in April 2006. The Company is selling to the light industrial and domestic markets, previously supplied independently by each partner. The synergy, by way of more efficient distribution, reduced overhead and common marketing, has allowed the Company to prosper. It is the largest UK supplier to these markets and has produced satisfactory results.

ThyssenKrupp Metallurgical Services Limited had a satisfactory year of operations however with the advent of Hargreaves Raw Material Services GmbH the Group is now able to directly source the relevant raw materials from its own German operations, accordingly this joint venture was dissolved with effect from 31 May 2007.

Group Chief Executive's statement (*continued*)

Employees

Numbers employed have increased from 585 in 2006 to 1,900 in 2007. The principal reasons for this very large increase have been the acquisition of Norec Limited, Maltby Colliery and Simon Distribution together with organic growth. I would like to take the opportunity to welcome all new employees and I am pleased to report that the integration into the Group has been successful.

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

By the nature of what we do, we operate to tight deadlines over wide geographical areas and the growth and future prosperity of the Group relies on the skills, dedication and motivation of all our employees.

Group Board

The Group Board has remained unchanged during the year, however we expect our Financial Director, Peter Dillon, to retire at 31 December 2007 and active steps have been put in place to recruit his replacement.

Current trading and outlook

The markets in which the Group trades and has core competencies are subject to fluctuations but remain strong.

Further consistent and profitable growth of the Group is anticipated. The Group Board remains committed to a policy of substantial and continued growth within the areas of its expertise.

I am confident of being able to report continued growth across all companies and divisions in the future.

Gordon Banham
Group Chief Executive
3 September 2007

Financial review

The trading results for the year ended 31 May 2007 are a record for the Group. Group turnover was £265.3m (2006 £155.0m) and total operating profit was £10.4m (2006 £7.2m), increases of 71.2% and 44.4% respectively.

As well as organic expansion, the Group made major acquisitions during the year. These are as fully explained in the Chairman's and Chief Executive's reports.

Part of the funding for the Maltby acquisition was raised by a share placing which realised £10.0m after expenses.

The joint venture, Coal4Energy Limited, which commenced in April 2006 in partnership with UK Coal plc, became firmly established and achieved expectations. Finally the establishment of Hargreaves Raw Material Services GmbH in Dusseldorf, Germany, in September 2006 has been successful and has contributed to Group profits within the current financial year.

The Group operates as five trading divisions, three of which are within Hargreaves (UK) Services Limited. Additionally there are currently three joint venture companies.

The Minerals Division, which imports, processes, handles and delivers carbon based minerals, has achieved a very significant growth in volume, aided by improvements to our facilities at Immingham and Newport.

The Industrial Division now incorporates Norec which has been successfully integrated. It provides equipment and labour on site for major industrial customers, particularly power generators and ports. The Division has shown good growth and reinforces the view that blue chip clients continue to wish to outsource material handling and maintenance.

The Transport Division, which includes waste haulage and tanker operations, is the largest bulk haulier in the UK. 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 profits.

Monckton, which was acquired in June 2005, is the sole independent coke works in the UK. The long-term index-linked contract with a major UK customer has been successfully supplied. In addition, exports to Scandinavian clients are made directly and have increased in volume. Operating profits of £2.8m reflect the actions taken.

The tyre crumbing plant, purchased for £1.0m in August 2006, has been refurbished and is currently starting to produce significant quantities of material. Changes in legislation mean that used tyres can no longer be put into landfill.

Substantial revenues are generated from both receipts for used tyre disposal and from sales of the subsequently crumbed product. The plant will be fully operational in the 2007/08 financial year.

Hargreaves Coal Combustion Products Limited, a joint venture company specialising in the disposal of ash for generators, further extended its activity by obtaining the UK licence for Lytag to distribute lightweight aggregates exclusively in the UK. Trading volumes increased and the Company made a very worthwhile contribution to the Group profits.

The joint venture company, Coal4Energy Limited, in partnership with UK Coal plc traded well. The amalgamation of light industrial and domestic coal sales of both companies has made it the largest UK supplier to these markets. The combined volume, more efficient distribution and reduced overhead have all played a part in the successful trading of this Company.

Hargreaves (Bulk Liquid Transport) Limited which operates a fleet of road tankers and acquired, in May 2006, the fleet and assets of Gilbraith Tankers Limited has, in February 2007, become a wholly-owned subsidiary of the Group, and is now managed as part of the Transport Division. This has resulted in an ability to give wider geographic coverage and reduced overhead cost, the major benefits of which will be felt in 2007/08.

The joint venture, ThyssenKrupp Metallurgical Services Limited, has traded successfully during the year. However, it was dissolved by mutual consent at 31 May 2007. The products previously supplied by ThyssenKrupp will in future be supplied by Hargreaves Raw Material Services GmbH, the Group's Germany subsidiary.

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 activities, cross-utilisation of the overhead base and other facilities limit the usefulness of analysis beyond direct costs. Below are the stated divisional results.

	2007 Minerals £000	2007 Industrial £000	2007 Transport £000	2007 Monckton £000	2007 Maltby £000	2007 Total £000
Group turnover	134,321	25,039	44,105	27,411	9,229	240,105
Segment operating profit	3,018	1,080	2,425	2,785	1,159	10,467
Segment profit before tax	3,036	944	2,327	2,437	1,086	9,830
Common costs						(1,203)
Group profit before taxation						8,627
	2006 Minerals £000	2006 Industrial £000	2006 Transport £000	2006 Monckton £000	2006 Maltby £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

Profitability during the year was increased due to volume increases against a largely fixed overhead base, together with acquisitions.

Financial review (*continued*)

Key financial performance indicators

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

	2007	2006
• Turnover (including group share of joint ventures)	£265.3m	£155.0m
• Gross margin	11.2%	11.6%
• Interest cover	5.0	3.9
• Profit before tax/turnover	3.6%	3.7%
• Effective tax rate	33.8%	33.3%
• Cash generated from/(absorbed by) operations	£8.4m	(£0.2m)

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 | • Revenue and contribution per vehicle |
| • Tonnage sold | • Road traffic accident analysis |
| • Purchase price per tonne | • Non-road traffic accident analysis |
| • Sales value per tonne | • Staff turnover levels |
| • Quality of coal | • Injury claims |
| • Waste handled by type and average weight | • Daily and weekly coke production |
| • Number of loads per month | • Daily and weekly crumb production |
| • Aged debtor analysis | • Daily and weekly coal production |
| • Debtor day reports | |

Gross profit

Overall gross profit percentage of 11.2% (2006: 11.6%) represents a small reduction from the previous period. This is entirely due to the continuing change in mix of sales, particularly the high volume, low margin, quantity of mineral sales. In absolute terms gross profit of £26.9m (2006: £17.0m) sees an increase of 58.2%.

Total operating profit

Total operating profit of £10.4m (2006: £7.2m) represents an increase of 44.4% due to increased volumes, contained overheads and the acquisition of Norec, Maltby Colliery and Simon Distribution.

Financial review (*continued*)

Interest and profit before taxation

Net interest charges of £1.7m (2006 £1.8m) reflect the cost of acquisitions less cash generated by operations. Interest is covered 5.0 times by total operating profits and 7.7 times EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation).

The record Group profits of £9.2m (2006 £5.8m), before goodwill and taxation, exceeded Directors' expectations. Included were contributions from Norec Limited, Maltby Colliery and Simon Distribution for part of the financial year.

Cash flow

EBITDA of £16.0m (2006 £10.1m) was generated from operational activities. During the year £10.0m was raised (net of expenses) from a share placing and was used to meet part of the purchase consideration of Maltby Colliery.

Net worth

The capital and resources of the Group have increased to £41.8m (2006 £26.3m) due to both retained earnings and the proceeds from a share placing.

Dividend

The Group's stated policy is to pay an interim and final dividend split one-third/two-thirds each year. Accordingly the Board authorised the payment of an interim dividend of 3p per share paid in February 2007 and propose a final dividend for the year of 6p (2006 5p per share), an increase of 20%.

Peter Dillon
Group Financial Director
3 September 2007

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 from organisations 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 2007, 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%

Mining activities

The Group's future mining of coal, following the acquisition of Maltby Colliery, may be subject to significant fluctuations

The financial results of the Group can be materially affected in any financial period due to underground geological conditions inherent in deep mining. This can affect the short-term extraction of coal and is not predictable

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 obtains nearly all of its coal from 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 sources, 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.

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.

Health and safety

Following the implementation of the Working Time Directive the Group has delivered training modules to its drivers and has reviewed the hours of work stipulated in their contracts of employment.

Peter M Dillon
Group Financial Director
3 September 2007

Group board

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

Timothy Ross (aged 58)*
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 open-cast coal industries. He was a main board director of George Wimpey PLC from 1991 to 1996. He is currently non-executive chairman of May Gurney Integrated Services plc and Superglass Holdings plc. He is also deputy chairman of Connaught plc and a non-executive director of Ennstone plc and Lavendon Group plc. Tim is the Senior Independent Non-Executive Director.

Gordon Banham (aged 43)
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 63)
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 plc in 1994 which he left to join Hargreaves as Group Financial Director.

Kevin Dougan MIQ (aged 52)
Group Contracts Director

Kevin spent the early part of his career with British Coal, specialising in open-cast 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 42)*
Non-Executive Director

Nigel is a Chartered Accountant and joined the Board 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

Advisers

Independent Auditors

KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Bankers

Royal Bank of Scotland
2nd Floor
Keel Row House
1 Sandgate
Newcastle upon Tyne
NE1 2NG

Legal Advisers

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

Nominated Adviser and Stock Broker

Brewin Dolphin Securities
34 Lisbon Street
Leeds
LS1 4LX

Registered Office

West Terrace
Esh Winning
Durham
DH7 9PT

Directors' report

The directors present their report and the audited financial statements for the year ended 31 May 2007

Principal activities

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

Business review

The results for the year are set out on page 26

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 13. This includes information on environmental matters and employee issues

Dividends

The directors recommend a final dividend of 6p per share to be paid to shareholders on the register on 14 September 2007. The shares will be ex-dividend on 12 September 2007. 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 2007 for the group were 38 (2006: 34). 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
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
GFC Banham	Ordinary	4,000,000	4,000,000
PM Dillon	Ordinary	1,400,000	2,000,000
KJ Dougan	Ordinary	700,000	875,000
TS Ross	Ordinary	3,086	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.

Shareholder	Exercise price per share	Period during which option is exercisable	Number of options granted
GFC Banham	-	1 June 2009 to 30 November 2009	25,543
KJ Dougan	-	1 June 2009 to 30 November 2009	15,964

These options were granted under the Long Term Incentive Plan on 8 November 2006 and are outstanding at the end of the year. None of the share options have been exercised.

Significant shareholdings

At 10 August 2007 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	1,000,000	3.8%
HSBC Global Custody Nominee (UK) Limited 981673 Acct	1,160,102	4.4%
HSBC Global Custody Nominee (UK) Limited 981685 Acct	1,013,032	3.9%
Giltspur Nominees Limited BUNs Acct	1,156,212	4.4%
GFC Banham	4,000,000	15.2%
PM Dillon	1,400,000	5.3%

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £58,635.

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. A quarterly house magazine is sent to all employees.

Annual general meeting

The business of the AGM is set out in the notice on page 67. The AGM is to be held on 3 October 2007.

Independent auditors

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
3 September 2007



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 15

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 referred 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

The Remuneration Committee consists of the two non-executive directors, 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

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

Corporate governance and remuneration report *(continued)*

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

	2007 Salary £000	2007 Bonus £000	2007 Benefits £000	2007 Total £000	2006 Total £000	2007 Pension £000	2006 Pension £000
Gordon Banham	249	100	22	371	289	35	21
Peter Dillon	198	79	29	306	240	20	10
Kevin Dougan	144	58	1	203	170	-	-
Tim Ross	50	-	-	50	29	-	-
Nigel Barraclough	31	-	-	31	20	-	-
Robert Young	-	-	-	-	83	-	-
	<u>672</u>	<u>237</u>	<u>52</u>	<u>961</u>	<u>831</u>	<u>55</u>	<u>31</u>

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	31,000	12 months' notice
24 November 2005	Gordon Banham	Group Chief Executive	1 October 2001	249,000	12 months' notice
24 November 2005	Peter Dillon	Group Finance Director	1 April 2003	198,000	12 months' notice
24 November 2005	Kevin Dougan	Group Contracts Director	23 June 1997	144,000	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 and Long Term Incentive Plan, are noted in the Directors' Report on page 18

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 two non-executive directors, Tim Ross and Nigel Barraclough, 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.

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 per cent 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 ('LTIP')

The LTIP scheme was implemented in November 2006

The scheme was designed to allow awards to be made to eligible employees selected by the Remuneration Committee

The vesting of an award granted to an executive director of the Company shall, or in the case of an award granted to any other Group employee may be subject to the

satisfaction of one or more Performance Conditions. The Remuneration Committee may determine or recommend to the Trustee that the vesting of an award will be subject to any other objective condition in addition to the Performance Conditions

No option shall be granted under the LTIP 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 LTIP scheme and any other employee share scheme established by the Company on or after admission, would exceed 10% (5% excluding other share schemes) of the issued ordinary share capital of the Company on date of grant

Ordinary shares issued pursuant to the LTIP scheme shall rank *pari passu* in all respects with the ordinary shares already in issue

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

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 and applicable law (UK Generally Accepted Accounting Practice)

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 statements,
- prepare the financial statements on a 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

We have audited the group and parent company financial statements (the 'financial statements') of Hargreaves Services plc for the year ended 31 May 2007 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, the Reconciliations of Movements in Shareholders' Funds 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 Directors' 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 24. 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 2007 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

KPMG Audit Plc
3 September 2007

Chartered Accountants
Registered Auditor

Consolidated profit and loss account for the year ended 31 May 2007

	Note	2007 £000	2006 £000
Turnover group and share of joint ventures	2	265,274	155,001
Less: share of turnover of joint ventures continuing operations		(25,169)	(8,017)
Group turnover		<u>240,105</u>	<u>146,984</u>
Group turnover	2		
Continuing operations		173,881	146,984
Acquisitions		<u>66,224</u>	-
Cost of sales		240,105 (213,164)	146,984 (129,955)
Gross profit		<u>26,941</u>	<u>17,029</u>
Administrative expenses		(17,049)	(10,177)
Group operating profit	2		
Continuing operations		7,265	6,852
Acquisitions		<u>2,627</u>	-
		9,892	6,852
Share of operating profit in joint ventures - and in associates		413 76	380 -
Total operating profit		<u>10,381</u>	<u>7,232</u>
Profit on sale of fixed assets - continuing operations			
Group		25	60
Joint ventures		30	-
Interest receivable	6	358	74
Other finance costs - group	7	(97)	(20)
Interest payable and similar charges - group	8		
Finance costs on shares classified as liabilities (pre-flotation finance costs)		-	(455)
Other		<u>(1,971)</u>	<u>(1,382)</u>
		(1,971)	(1,837)
Interest payable and similar charges - joint ventures		<u>(99)</u>	<u>(36)</u>
Profit on ordinary activities before taxation	2-5	<u>8,627</u>	<u>5,473</u>
Tax on profit on ordinary activities	9	<u>(2,918)</u>	<u>(1,823)</u>
Profit on ordinary activities after taxation		<u>5,709</u>	<u>3,650</u>
Minority interests	29	<u>(73)</u>	<u>-</u>
Profit for the financial year		<u>5,636</u>	<u>3,650</u>
Earnings per share	11		
Ordinary shares		23.12p	20.32p
A ordinary shares		-	29.71p
Diluted earnings per share	11		
Ordinary shares		22.73p	20.21p
A ordinary shares		-	29.71p

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

Consolidated balance sheet at 31 May 2007

	Note	2007 £000	2006 £000
Fixed assets			
Intangible assets - goodwill	12	13,052	5,745
- negative goodwill	12	(73)	-
Tangible assets	13	63,178	21,146
Investments	14		
Investments in joint ventures			
Share of gross assets		5,000	7,328
Share of gross liabilities		(4,119)	(6,431)
		881	897
Investments in associates		58	-
Other investments		20	83
		959	980
		77,116	27,871
Current assets			
Stocks	15	35,027	15,055
Debtors	16	38,406	21,167
Cash at bank and in hand		11,779	15,022
		85,212	51,244
Creditors amounts falling due within one year	17	(63,096)	(26,904)
Net current assets		22,116	24,340
Total assets less current liabilities		99,232	52,211
Creditors amounts falling due after more than one year	18	(38,477)	(21,521)
Provisions for liabilities and charges	19	(12,339)	(4,064)
Net assets excluding pension liabilities		48,416	26,626
Net pension liability	24	(6,588)	(328)
Net assets including pension liabilities		41,828	26,298
Capital and reserves			
Called up share capital	20	2,627	2,368
Share premium account	21	29,177	19,082
Other reserves	21	29	29
Merger reserve	21	1,022	-
Capital redemption reserve	21	1,530	1,530
Profit and loss account	21	7,293	3,289
Shareholders' funds		41,678	26,298
Minority interest	29	150	-
		41,828	26,298

These financial statements were approved by the board of directors on 3 September 2007 and were signed on its behalf by

GFC Banham
Director

PM Dillon
Director



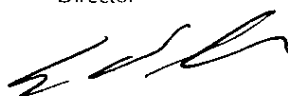
Balance sheet at 31 May 2007

	Note	2007	2006
		£000	£000
Fixed assets			
Investments	14	13,790	4,582
Current assets			
Debtors	16	60,713	22,769
Cash at bank and in hand		-	15,000
		<u>60,713</u>	<u>37,769</u>
Creditors amounts falling due within one year	17	<u>(18,734)</u>	<u>(18,130)</u>
Net current assets		<u>41,979</u>	<u>19,639</u>
Total assets less current liabilities		<u>55,769</u>	<u>24,221</u>
Creditors amounts falling due after more than one year	18	<u>(13,927)</u>	<u>-</u>
Net assets		<u>41,842</u>	<u>24,221</u>
Capital and reserves			
Called up share capital	20	2,627	2,368
Share premium account	21	29,177	19,082
Capital redemption reserve	21	1,530	1,530
Merger reserve	21	1,022	-
Profit and loss account	21	7,486	1,241
Shareholders' funds		<u>41,842</u>	<u>24,221</u>

These financial statements were approved by the board of directors on 3 September 2007 and were signed on its behalf by

GFC Banham
Director

PM Dillon
Director



Consolidated cash flow statement for the year ended 31 May 2007

	Note	2007 £000	2006 £000
Cash flow statement			
Cash flow from operating activities	25	8,405	(215)
Returns on investments and servicing of finance	26	(1,647)	(2,508)
Taxation		(2,245)	(895)
Capital expenditure	26	(7,869)	(2,067)
Acquisitions	26	(33,616)	(3,376)
Dividends paid on shares classified in shareholders' funds		(1,972)	-
		<u>(38,944)</u>	<u>(9,061)</u>
Cash outflow before financing		(38,944)	(9,061)
Financing	26	<u>25,877</u>	<u>21,450</u>
(Decrease)/increase in cash in the year		<u>(13,067)</u>	<u>12,389</u>
Reconciliation of net cash flow to movement in net debt			
	27		
(Decrease)/increase in cash in the year		(13,067)	12,389
Net cash inflow from financing		<u>(15,205)</u>	<u>(2,985)</u>
Change in net debt resulting from cash flows		(28,272)	9,404
Release of premium on redemption of loan stock		-	135
Release of loan arrangement fees		46	-
New finance leases		(1,931)	(3,880)
Loans and finance leases acquired with subsidiary		<u>(1,867)</u>	<u>-</u>
Movement in net debt in the year		(32,024)	5,659
Net debt at the start of the year		<u>(6,414)</u>	<u>(12,073)</u>
Net debt at the end of the year		<u>(38,438)</u>	<u>(6,414)</u>

Consolidated statement of total recognised gains and losses for the year ended 31 May 2007

	2007 £000	2006 £000
Profit for the financial year		
Group	5,308	3,377
Share of joint ventures	272	273
Share of associates	56	-
	<u>5,636</u>	<u>3,650</u>
Effect of adoption of FRS 25 on 1 June 2005	-	(166)
Exchange differences on consolidation	(4)	-
	<u>5,632</u>	<u>3,484</u>
Actuarial gain/(loss) arising on retirement benefit schemes	108	(50)
Deferred tax arising on gains/(losses) in retirement benefit schemes	(32)	15
	<u>5,708</u>	<u>3,449</u>
Total recognised gains/(losses) relating to the financial year		

Reconciliations of movements in shareholders' funds for the year ended 31 May 2007

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Profit for the financial year	5,636	3,650	8,217	2,707
Dividends on shares classified in shareholders' funds	(1,972)	-	(1,972)	-
	<u>3,664</u>	<u>3,650</u>	<u>6,245</u>	<u>2,707</u>
Retained profit	3,664	3,650	6,245	2,707
Effect of adoption of FRS 25 on 1 June 2005	-	(2,087)	-	(2,087)
Other recognised gains/(losses)	76	(35)	-	-
Conversion of debt to equity	-	391	-	391
New share capital subscribed (net of issue costs)	11,376	19,979	11,376	19,979
Credit in relation to share based payment	268	-	-	-
Exchange differences on consolidation	(4)	-	-	-
	<u>15,380</u>	<u>21,898</u>	<u>17,621</u>	<u>20,990</u>
Net addition to shareholders' funds	15,380	21,898	17,621	20,990
Opening shareholders' funds	26,298	4,400	24,221	3,231
	<u>41,678</u>	<u>26,298</u>	<u>41,842</u>	<u>24,221</u>
Closing shareholders' funds	41,678	26,298	41,842	24,221

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 standard has been adopted for the first time

- FRS 20 'Share based payments',
The accounting policies under this new standard are set out below. FRS 20 has had no material effect on the comparative figures therefore no prior year adjustment has been made

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.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. 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 associates and 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.

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.

Negative goodwill arising on consolidation is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

In the company's financial statements, investments in subsidiary undertakings, associates 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.

The assets and liabilities and profit and loss accounts of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Notes (continued)

1 Accounting policies (continued)

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

Mineral reserves	-	12.5% per annum
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 Post retirement benefits

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 and Maltby Colliery on 26 February 2007, the Group operates two concessionary fuel retirement benefit schemes.

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

In addition following the acquisition of Maltby Colliery, the Group is a member of two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/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.

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.

Notes (continued)

1 Accounting policies (continued)

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

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 Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting

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 principally all operations is in the United Kingdom.

	Minerals 2007 £000	Industrial 2007 £000	Transport 2007 £000	Monckton 2007 £000	Maltby 2007 £000	Total 2007 £000
Turnover						
Total sales	140,454	26,807	56,388	27,415	12,148	263,212
Inter-segment sales	(6,133)	(1,768)	(12,283)	(4)	(2,919)	(23,107)
Sales to third parties	134,321	25,039	44,105	27,411	9,229	240,105
Group operating profit	3,018	1,080	2,425	2,785	1,159	10,467
Share of operating profit in joint ventures	302	-	111	-	-	413
- and in associates	76	-	-	-	-	76
Profit on sale of fixed assets	-	-	55	-	-	55
Share of non-operating items of joint ventures and associates	(22)	-	(43)	-	-	(65)
Net interest	(338)	(136)	(221)	(348)	(73)	(1,116)
Segment profit before taxation	3,036	944	2,327	2,437	1,086	9,830
Common costs						(1,203)
Group profit before taxation						8,627
Net assets						
Segment net assets	3,550	5,020	11,457	9,967	17,106	47,100
Unallocated net assets						(6,211)
Joint ventures						40,889
Associates						881
Total net assets						41,828

Unallocated net assets include goodwill, bank loans and deferred consideration

The 2007 results include the following relating to the acquisition of Maltby Colliery which took place in February 2007

	2007 £000
Turnover	9,229
Cost of sales	(6,273)
Gross profit	2,956
Administrative expenses	(1,797)
Operating profit	1,159

Notes (continued)

2 Segmental information and acquired operations (continued)

	Minerals 2006 £000	Industrial 2006 £000	Transport 2006 £000	Monckton 2006 £000	Maltby 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	<u>75,040</u>	<u>8,292</u>	<u>41,564</u>	<u>22,088</u>	<u>-</u>	<u>146,984</u>
Group operating profit	<u>2,130</u>	<u>539</u>	<u>2,394</u>	<u>2,143</u>	<u>-</u>	<u>7,206</u>
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	<u>2,063</u>	<u>420</u>	<u>2,277</u>	<u>2,033</u>	<u>-</u>	<u>6,793</u>
Common costs						(1,320)
Group profit before taxation						<u>5,473</u>
Net assets						
Segment net assets	<u>3,750</u>	<u>421</u>	<u>4,232</u>	<u>4,523</u>	<u>-</u>	<u>12,926</u>
Unallocated net assets						12,475
Joint ventures						25,401
Total net assets						<u>897</u> <u>26,298</u>

Unallocated net assets include goodwill, cash and deferred consideration

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

	2006 £000
Turnover	22,088
Cost of sales	(18,473)
Gross profit	3,615
Administrative expenses	(1,472)
Operating profit	<u>2,143</u>

Notes (continued)

3 Notes to the profit and loss account

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation and other amounts written off fixed assets		
Owned	3,592	2,083
Leased	1,438	842
Amortisation of goodwill	575	314
Hire of plant and machinery - rentals payable under operating leases	4,706	3,792
Hire of other assets - operating leases	223	277

Auditors' remuneration

	2007 £000	2006 £000
Group		
Audit of these financial statements	31	25
Audit of financial statements of subsidiaries pursuant to legislation	110	70
Other services pursuant to such legislation	407	253
Services relating to recruitment and remuneration	36	-
Other services relating to taxation	40	-
	<u>624</u>	<u>348</u>

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 £nil (2006 £211,000) was charged directly to share premium account as issue costs arising on the issue of shares and £325,000 was charged to goodwill as part of acquisition costs (2006 £18,000).

4 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	880	644
Company contributions to money purchase pension schemes	55	31
Amounts paid to third parties in respect of directors' services	81	187
	<u>1,016</u>	<u>862</u>

Notes (continued)

4 Remuneration of directors (continued)

	2007 £000	2006 £000
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	<u>2</u>	<u>2</u>

The aggregate emoluments of the highest paid director were £371,000 (2006 £289,000) excluding company pension contributions of £35,000 (2006 £21,000)

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	
	2007	2006	2007	2006
Directors	17	12	5	5
Maintenance and washery	137	15	-	-
Traffic and administration	504	124	-	-
Drivers	273	296	-	-
Production	897	156	-	-
	<u>1,828</u>	<u>603</u>	<u>5</u>	<u>5</u>

The aggregate payroll costs of these persons were as follows

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Wages and salaries	38,714	14,428	-	-
Social security costs	4,013	1,463	-	-
Other pension costs (note 24)	470	209	-	-
	<u>43,197</u>	<u>16,100</u>	<u>-</u>	<u>-</u>

Notes (continued)

6 Interest receivable

	2007 £000	2006 £000
Bank interest	358	69
Other	-	5
	<u>358</u>	<u>74</u>

7 Other finance costs

	2007 £000	2006 £000
Expected return on pension scheme assets	(168)	-
Interest on pension scheme liability	265	20
	<u>97</u>	<u>20</u>

8 Interest payable and similar charges

	2007 £000	2006 £000
On bank loans and invoice discounting advances	1,532	877
Finance charges payable in respect of finance leases and hire purchase contracts	439	329
Interest payable and other finance charges on loan notes	-	176
	<u>1,971</u>	<u>1,382</u>
Finance costs on shares classified as liabilities (note 10)	-	455
	<u>1,971</u>	<u>1,837</u>

Notes (continued)

9 Taxation

Analysis of charge in period

	2007	2006
£000	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	2,443	1,580
Share of joint ventures' current tax	71	49
Share of associates' current tax	20	-
Adjustment in respect of prior years	(294)	(145)
<i>Foreign tax</i>	2,240	1,484
Current tax on income for the period	243	-
Total current tax	2,483	1,484
<i>Deferred tax (see note 19)</i>		
Origination of timing differences	209	317
Share of joint ventures' deferred tax	37	22
Share of associates' deferred tax	-	-
Adjustment in respect of previous years	189	-
Total deferred tax	435	339
Tax on profit on ordinary activities	2,918	1,823

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%)
The differences are explained below

	2007	2006
£000	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	8,627	5,473
Current tax at 30% (2006 30%)	2,588	1,642
<i>Effects of</i>		
Finance charges on shares classified as liabilities	-	115
Expenses not deductible for tax purposes	424	243
Capital allowances for period in excess of depreciation - group	(387)	(315)
- share of joint ventures	(1)	(52)
Small companies tax rates	(32)	(49)
Higher tax rates on overseas earnings	73	-
Tax losses utilised	(41)	-
Tax losses carried forward in joint venture	-	31
Chargeable gain	-	14
Other timing differences	153	-
Adjustment in respect of prior years	(294)	(145)
Total current tax charge (see above)	2,483	1,484

Factors affecting the tax charge for future periods

The group has unrelieved UK corporation tax losses of approximately £nil (2006 £nil) available to carry forward against profits from the same trade

Notes (continued)

10 Dividends and finance costs

The aggregate amount of dividends comprises

	2007 £000	2006 £000
Dividends on ordinary shares		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	1,184	-
Interim dividends paid in respect of the current year	788	-
Aggregate amount of dividends paid in the financial year	<u>1,972</u>	<u>-</u>
Proposed dividend of 6p per share (2006 5p per share)	<u>1,576</u>	<u>1,184</u>

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

	2007 £000	2006 £000
Dividends and finance charges on other classes of shares		
Premium payable on redemption of A preference shares	-	76
Dividends on A preference shares	-	76
Dividends on B preference shares	-	12
Dividends on A convertible preferred ordinary shares	-	291
	<u>-</u>	<u>455</u>
Charged to interest payable and similar charges	-	455
Charged to shareholders' funds	-	-
	<u>-</u>	<u>455</u>

11 Earnings per share

All earnings per share disclosures relate to continuing operations as the group had no discontinued operations in either 2006 or 2007

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.

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

	2007	2006
Ordinary shares		
Basic earnings per share	23.12p	20.32p
Diluted earnings per share	<u>22.73p</u>	<u>20.21p</u>
A ordinary shares		
Basic earnings per share	-	29.71p
Diluted earnings per share	-	<u>29.71p</u>

Notes (continued)

11 Earnings per share (continued)

The calculation of earnings per share is based on the profit for the year and on the weighted average number of shares in issue and ranking for dividend in the year

Ordinary shares

	2007 £000	2006 £000
Profit for the year	<u>5,636</u>	<u>3,650</u>
Weighted average number of shares	24,372,457	17,962,000
Earnings per ordinary share (pence)	<u>23.12p</u>	<u>20.32p</u>

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 2006 has been adjusted as if the subdivision had occurred at the beginning of the earliest period presented.

The calculation of diluted earnings per share is based on the profit for the year and on the weighted average number of ordinary shares in issue in the year adjusted for the dilutive effect of the share options outstanding.

	2007 £000	2006 £000
Profit for the year	<u>5,636</u>	<u>3,650</u>
Weighted average number of shares	24,798,490	18,058,000
Diluted earnings per ordinary share (pence)	<u>22.73p</u>	<u>20.21p</u>

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. 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 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	<u>13.28p</u>

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 was no dilutive effect on the A ordinary shares.

All of the A ordinary shares were converted to ordinary shares with effect from 30 November 2005. The company has only one class of ordinary share from this date.

Notes (continued)

12 Intangible fixed assets

Group	Goodwill £000	Negative goodwill £000	Total £000
Cost			
At beginning of year	6,099	-	6,099
Additions (note 28)	7,893	(84)	7,809
At end of year	13,992	(84)	13,908
Amortisation			
At beginning of year	354	-	354
Charge for the year	586	(11)	575
At end of year	940	(11)	929
Net book value			
At 31 May 2007	13,052	(73)	12,979
At 31 May 2006	5,745	-	5,745

Goodwill of £6,336,000 arising on the acquisition of Norec 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 £1,529,000 arising on the acquisition of the remaining 50% of Hargreaves (Bulk Liquid Transport) 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. As part of this acquisition the Group have acquired goodwill of £28,000.

Negative goodwill of £84,000 has arisen on the acquisition of Mineral Resources Europe GmbH. This is being written off over 5 years in line with the estimated life of the attributable assets.

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

Group	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Minerals £000	Total £000
Cost						
At beginning of year	2,640	5,740	24,430	133	-	32,943
Additions	853	1,890	7,835	14	-	10,592
On acquisition (note 28)	15,021	29	15,520	31	6,638	37,239
Disposals	-	(339)	(1,473)	-	-	(1,812)
At end of year	<u>18,514</u>	<u>7,320</u>	<u>46,312</u>	<u>178</u>	<u>6,638</u>	<u>78,962</u>
Depreciation						
At beginning of year	564	2,574	8,553	106	-	11,797
Charge for year	315	801	3,779	14	121	5,030
On disposals	-	(167)	(876)	-	-	(1,043)
At end of year	<u>879</u>	<u>3,208</u>	<u>11,456</u>	<u>120</u>	<u>121</u>	<u>15,784</u>
Net book value						
At 31 May 2007	<u>17,635</u>	<u>4,112</u>	<u>34,856</u>	<u>58</u>	<u>6,517</u>	<u>63,178</u>
At 31 May 2006	<u>2,076</u>	<u>3,166</u>	<u>15,877</u>	<u>27</u>	<u>-</u>	<u>21,146</u>
Depreciation in 2006	<u>191</u>	<u>556</u>	<u>2,164</u>	<u>14</u>	<u>-</u>	<u>2,925</u>

Included in the net book values of motor vehicles and furniture and equipment is £8,732,424 (2006 £7,623,000) in respect of assets held under finance lease and similar hire purchase contracts. Depreciation for the year on these assets was £1,438,435 (2006 £842,000).

Included in the net book value of freehold land and buildings and leasehold improvements is £16,709,872 (2006 £1,485,000) in respect of freehold land and buildings.

The company has no tangible fixed assets.

Notes (continued)

14 Fixed asset investment

	Interests in associates £000	Interests in joint ventures £000	Loans to joint ventures £000	Other investments (listed) £000	Total £000
Group					
Cost					
At beginning of year	-	67	63	20	150
Additions	2	-	-	-	2
Repayments	-	-	(63)	-	(63)
Disposal	-	(66)	-	-	(66)
	<u>2</u>	<u>1</u>	<u>-</u>	<u>20</u>	<u>23</u>
Share of post acquisition reserves					
At beginning of year	-	830	-	-	830
Retained profits for the financial year	56	272	-	-	328
Disposals	-	(222)	-	-	(222)
At end of year	<u>56</u>	<u>880</u>	<u>-</u>	<u>-</u>	<u>936</u>
Net book value					
At 31 May 2007	<u>58</u>	<u>881</u>	<u>-</u>	<u>20</u>	<u>959</u>
At 31 May 2006	<u>-</u>	<u>897</u>	<u>63</u>	<u>20</u>	<u>980</u>

The group's other investments are listed and have a market value at the end of the year of £33,000 (2006 £15,000)

Company	Group undertakings £000	Joint ventures £000	Associates £000	Total £000
Shares at cost				
Cost and net book value				
At beginning of year	4,581	1	-	4,582
Additions	9,206	-	2	9,208
At end of year	<u>13,787</u>	<u>1</u>	<u>2</u>	<u>13,790</u>

Notes (continued)

14 Fixed asset investments (continued)

The principal undertakings, all of which are incorporated in the United Kingdom unless otherwise stated, 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%	-
Norec Limited	Contract management services	Ordinary	100%	100%
Hargreaves (Bulk Liquid Transport) Limited	Haulage	Ordinary	100%	50%
		Preference	100%	50%
Maltby Colliery Limited	Coal mining	Ordinary	100%	-
Hargreaves Raw Material Services GmbH*	Import and sale of carbon based materials	Ordinary	77.5%	-
Mineral Resources Europe GmbH*	Import and sale of carbon based materials	Ordinary	77.5%	-

* Incorporated in Germany

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

Joint ventures

ThyssenKrupp Metallurgical Supplies Limited	Mineral distribution	Ordinary	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%	50%

Associates

Hargreaves Building Products Limited	Ash management	Ordinary	25%	25%
Lyttag Limited	Sales of aggregate product	Ordinary	25%	-

Associates and joint ventures

The total of the group's profit before taxation from interests in associates and joint ventures was £455,000 (2006 £344,000)

Notes (continued)

14 Fixed asset investments (continued)

The amounts included in respect of joint ventures comprise the following

	Associates total 2007 £000	Associates total 2006 £000	Joint ventures total 2007 £000	Joint ventures total 2006 £000
Share of turnover	<u>571</u>	<u>-</u>	<u>25,169</u>	<u>8,017</u>
Share of assets				
Share of fixed assets	62	-	17	830
Share of current assets	<u>457</u>	<u>-</u>	<u>4,983</u>	<u>6,498</u>
	519	-	5,000	7,328
Share of liabilities				
Due within one year	(461)	-	(4,119)	(4,805)
Due after one year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,626)</u>
	(461)	-	(4,119)	(6,431)
Share of net assets	<u>58</u>	<u>-</u>	<u>881</u>	<u>897</u>

15 Stocks

	Group 2007 £000	Group 2006 £000
Raw materials and consumables	<u>35,027</u>	<u>15,055</u>
The company has no stocks		

16 Debtors

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Trade debtors	31,143	-	16,468	-
Amounts due from group undertakings	-	60,611	-	22,670
Amounts owed by joint venture and associate undertakings	2,820	99	2,057	99
Other debtors	1,826	3	545	-
Prepayments and accrued income	<u>2,617</u>	<u>-</u>	<u>2,097</u>	<u>-</u>
	<u>38,406</u>	<u>60,713</u>	<u>21,167</u>	<u>22,769</u>

Notes (continued)

17 Creditors amounts falling due within one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Bank loans and overdrafts (note 18)	9,839	-	14	-
Obligations under finance leases and hire purchase contracts (note 18)	1,901	-	1,901	-
Amounts owed to group undertakings	-	18,553	-	18,130
Trade creditors	22,492	-	13,028	-
Corporation tax	1,851	-	1,550	-
Other taxes and social security	3,855	-	985	-
Other creditors	1,926	-	375	-
Accruals and deferred income	19,232	181	6,437	-
Deferred consideration	2,000	-	2,614	-
	<u>63,096</u>	<u>18,734</u>	<u>26,904</u>	<u>18,130</u>

18 Creditors amounts falling due after more than one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Invoice discounting advances	15,238	-	10,834	-
Bank loans	18,455	13,927	5,006	-
Obligations under finance leases and hire purchase contracts	4,784	-	3,681	-
Deferred consideration	-	-	2,000	-
	<u>38,477</u>	<u>13,927</u>	<u>21,521</u>	<u>-</u>

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 2007 were £16,040,000 (2006: £11,404,000).

The bank loan of £407,000 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 £4,136,000 is secured on certain of the Group's properties and assets, it matures on 10 June 2010 and bears interest at 2.5% above base rate.

A second term loan of £13,927,000 is also secured on certain of the Group's properties and assets. It matures on 26 February 2012 and bears interest at 2.0% 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 2007 £000	Group 2006 £000
Within one year	1,901	1,901
In the second to fifth years	4,784	3,681
	<u>6,685</u>	<u>5,582</u>

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

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

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Debt can be analysed as falling due				
In one year, or less, or on demand	11,740	-	1,915	-
Between 1 and 2 years	17,154	-	12,749	-
Between 2 and 5 years	20,991	13,927	6,428	-
In more than 5 years	332	-	344	-
	<u>50,217</u>	<u>13,927</u>	<u>21,436</u>	<u>-</u>

19 Provisions for liabilities and charges

Group

	Deferred taxation £000	Other provisions £000	Total £000
At beginning of year	1,893	2,171	4,064
Arising on acquisition	221	7,656	7,877
Charge to profit and loss account (note 9)	398	-	398
	<u>2,512</u>	<u>9,827</u>	<u>12,339</u>

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 charge for year £000	At end of year £000
Difference between accumulated depreciation and capital allowances	2,102	201	-	388	2,691
Short term timing differences	(209)	(81)	-	111	(179)
Provision for liabilities	1,893	120	-	499	2,512
Pension (note 24)	(141)	(2,651)	32	(64)	(2,824)
	<u>1,752</u>	<u>(2,531)</u>	<u>32</u>	<u>435</u>	<u>(312)</u>

Other provisions at the end of the year comprise

- 1 A net £589,000 relating to assessments by HM Revenue and Customs 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 gross liability arising on this issue is £1,122,000. Certain Directors 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 ground water 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.
- 3 A £7,656,000 restoration provision which relates to Maltby's obligation to restore the site after coal mining. 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

	2007 £000	2006 £000
Authorised		
47,500,000 Ordinary shares of 10p each	4,750	4,750
Allotted, called up and fully paid		
26,270,532 (2006 23,675,437) Ordinary shares of 10p each	2,627	2,368

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

On 22 January 2007, the Company issued 225,095 ordinary 10p shares in partial payment for the acquisition of 50% of the ordinary share capital of Hargreaves (Bulk Liquid Transport) Limited

On 26 February 2007, the Company issued 2,370,000 ordinary 10p shares in a rights issue

21 Share premium and reserves

Group	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Merger reserve £000	Profit and loss account £000
At beginning of year	19,082	1,530	29	-	3,289
Profit for the year	-	-	-	-	5,636
Dividends on shares classified in shareholders' funds	-	-	-	-	(1,972)
Premium on share issues, less expenses	10,095	-	-	-	-
Actuarial gain recognised in the pension scheme	-	-	-	-	108
Deferred tax arising on gain in the pension scheme	-	-	-	-	(32)
Credit in relation to share based payments	-	-	-	-	268
Exchange differences on consolidation	-	-	-	-	(4)
Merger reserve arising on acquisition	-	-	-	1,022	-
At end of year	29,177	1,530	29	1,022	7,293

Company	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
At beginning of year	19,082	1,530	-	1,241
Profit for the year	-	-	-	8,217
Dividends on shares classified in shareholders' funds	-	-	-	(1,972)
Premium on share issues, less expenses	10,095	-	-	-
Merger reserve arising on acquisition	-	-	1,022	-
At end of year	29,177	1,530	1,022	7,486

The company's profit for the financial year was £8,217,000 (2006 £2,707,000)

Notes (continued)

22 Commitments

- a) The Group has capital commitments totalling £1,661,000 (2006: £400,000) at the end of the financial year
b) Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
Group	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	7	1,170	-	71
In the second to fifth years inclusive	189	4,225	168	790
Over five years	55	1,791	55	-
	<u>251</u>	<u>7,186</u>	<u>223</u>	<u>861</u>

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 £91m 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.

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.

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 2007 £000
Currency	
Sterling	10,664
US dollar	610
Euro	505
	<u>11,779</u>
	Floating rate assets 2006 £000
Currency	
Sterling	14,772
US dollar	85
Euro	165
	<u>15,022</u>

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 2007 £000	Fixed rate liabilities 2007 £000	Total liabilities 2007 £000
Liabilities - Sterling	34,438	6,685	41,123
- Euro	9,094	-	9,094
	<u>43,532</u>	<u>6,685</u>	<u>50,217</u>
	Floating rate liabilities 2006 £000	Fixed rate liabilities 2006 £000	Total liabilities 2006 £000
Liabilities - Sterling	15,854	5,582	21,436

The above liabilities comprise bank loans, invoice discounting advances and finance leases. The maturity of these is as detailed in notes 18 and 19.

Fixed rate liabilities

	2007		2006	
	Weighted average interest rate %	Weighted average fixed rate period Years	Weighted average interest rate %	Weighted average fixed rate period Years
Liabilities other than shares	<u>6.76</u>	<u>4</u>	<u>7.13</u>	<u>4</u>

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 2007 and 2006 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

	2007 £000	2006 £000
Expiring between 1 and 2 years	<u>8,300</u>	<u>9,500</u>

These undrawn facilities comprise a £8,300,000 (2006 £9,000,000) promissory note discounting agreement and a £nil (2006 £500,000) asset finance revolving credit facility

Forward transactions

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

	2007 \$000 In currency	2007 £000 Sterling equivalent
US dollars	<u>25,721</u>	<u>12,997</u>
	2006 \$000 In currency	2006 £000 Sterling equivalent
US dollars	<u>30,132</u>	<u>16,999</u>

Fair values of financial assets and liabilities

Other than forward exchange contracts as at 31 May 2007 the difference between fair values and book values of financial assets and liabilities are not considered to be materially different from the book values. The difference between fair value and book value of the forward exchange contracts is estimated to be £294,000 (2006 £875,000) as at 31 May 2007

24 Pension schemes and other retirement benefits

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 £158,000 (2006 £207,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year

Notes (continued)

24 Pension schemes and other retirement benefits (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 2004 and updated for FRS 17 purposes to 31 May 2007.

The major assumptions used in these valuations were

	2007	2006
Average retirement age	60 years	60 years
Rate of leaving services	2.5%	2.5%
Coal price inflation	2.1%	2.0%
Discount rate applied to scheme liabilities	5.4%	5.1%
Inflation assumption	3.1%	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

	2007	2006
Present value of scheme liabilities	(469)	(469)
Deferred tax asset	141	141
Net scheme liabilities	(328)	(328)

Movement in deficit during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of year	(469)	(421)
Current service cost	(7)	(2)
Contributions paid	18	24
Other finance cost	(24)	(20)
Actuarial loss	13	(50)
Deficit in the scheme at the end of the year	(469)	(469)

Analysis of other pension costs charged in arriving at operating profit

	2007 £000	2006 £000
Current service cost	(7)	(2)

Notes (continued)

24 Pension schemes and other retirement benefits (continued)

Analysis of amounts included in other finance costs

	2007 £000	2006 £000
Interest on pension scheme liabilities	(24)	(20)

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

	2007 £000	2006 £000
Experience gains and losses arising on scheme liabilities	-	(18)
Changes in assumptions underlying the present value of scheme liabilities	13	(32)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	13	(50)

History of experience gains and losses

	2007	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)	13	(50)
Percentage of year end present value of scheme liabilities	3%	11%

The Group acquired another concessionary fuel retirement benefit scheme and two defined benefit schemes on the acquisition of Maltby Colliery on 26 February 2007

The Group operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 31 December 2003 and was updated for FRS 17 purposes to 31 May 2007 by a qualified independent actuary. The major assumptions used in these valuations were:

	2007
Rate of increase in salaries	3.20%
Rate of increase in pensions in payment and deferred pensions	3.20%
Discount rate applied to scheme liabilities	4.90%
Inflation assumption	3.20%

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.

Notes (continued)

24 Pension schemes and other retirement benefits (continued)

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were

	Value at 2007 £000
Equities	8,787
Bonds	2,929
Other – Cash	-
Total market value of assets	11,716
Present value of scheme liabilities	(20,658)
Deficit in the scheme – pension liability	(8,942)
Related deferred tax asset	2,682
Net pension liability	(6,260)

The expected rates of return on the assets in the scheme were

	Long term rate of return 2007
Equities	7.4%
Bonds	5.0%
Other – Cash	5.5%

Notes (continued)

24 Pension schemes and other retirement benefits (continued)

Movement in deficit during the year

	2007 £000
Deficit in scheme on acquisition	(8,837)
Current service cost	(305)
Contributions paid	178
Other finance cost	(73)
Actuarial gain	95
Deficit in the scheme at the end of the year	<u>(8,942)</u>

Analysis of other pension costs charged in arriving at operating profit

	2007 £000
Current service cost	<u>(305)</u>

Analysis of amounts included in other finance income/costs

	2007 £000
Expected return on pension scheme assets	168
Interest on pension scheme liabilities	(241)
	<u>(73)</u>

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

	2007 £000
Actual return less expected return on scheme assets	<u>95</u>

History of experience gains and losses

	2007
Difference between the expected and actual return on scheme assets	
Amount (£000)	95
Percentage of year end scheme assets	0.8%
Experience gains and losses on scheme liabilities	
Amount (£000)	-
Percentage of year end present value of scheme liabilities	-
Total amount recognised in statement of total recognised gains and losses,	
Amount (£000)	95
Percentage of year end present value of scheme liabilities	0.5%

25 Reconciliation of operating profit to operating cash flows

	2007 £000	2006 £000
Group operating profit	9,892	6,852
Depreciation and amortisation	5,605	3,239
Increase in stocks	(13,254)	(7,916)
Increase in debtors	(4,914)	(1,364)
Increase/(decrease) in creditors	10,808	(1,026)
Credit in relation to share based payments	268	-
Net cash inflow/(outflow) from operating activities	<u>8,405</u>	<u>(215)</u>

Notes (continued)

26 Analysis of cash flows

	2007 £000	2007 £000	2006 £000	2006 £000
Returns on investment and servicing of finance				
Interest received	324		70	
Interest paid	(1,532)		(1,145)	
Interest element of finance lease rental payments	(439)		(329)	
Loan stock redemption premium	-		(287)	
Dividend and redemption premium paid on shares classified as liabilities	-		(817)	
		<u>(1,647)</u>		<u>(2,508)</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(8,661)		(2,540)	
Sale of tangible fixed assets	794		473	
Purchase of investment in associate	(2)		-	
		<u>(7,869)</u>		<u>(2,067)</u>
Acquisitions (note 28)				
Purchase of subsidiary undertakings	(36,157)		(2,532)	
Overdraft acquired with subsidiary	-		(844)	
Cash acquired with subsidiary undertakings	2,464		-	
Receipt in respect of minority interest	77		-	
		<u>(33,616)</u>		<u>(3,376)</u>
Financing				
Issue of equity shares	11,115		21,550	
Share issue costs	(783)		(1,570)	
Redemption of preference shares	-		(1,530)	
Capital element of finance lease rental payments	(1,947)		(2,381)	
Net invoice discounting advances	3,656		2,544	
New loans	15,000		4,600	
Repayment of secured loans	(1,164)		(13)	
Repayment of secured loan stock	-		(1,750)	
		<u>25,877</u>		<u>21,450</u>

Notes (continued)

27 Analysis of net debt

	At beginning of year £000	Cash flow £000	Acquisition (excluding cash and overdrafts) £000	Non-cash changes £000	At end of year £000
Cash in hand, at bank	15,022	(3,243)	-	-	11,779
Overdrafts	-	(9,824)	-	-	(9,824)
Finance leases	(5,582)	1,947	(1,119)	(1,931)	(6,685)
Invoice discounting advances	(10,834)	(3,656)	(748)	-	(15,238)
Bank and other loans due within one year	(14)	14	-	(15)	(15)
Bank and other loans due after more than one year	(5,006)	(13,510)	-	61	(18,455)
Total	(6,414)	(28,272)	(1,867)	(1,885)	(38,438)

Non-cash changes arise from the inception of finance leases and the release of loan arrangement fees

28 Acquisitions

The Group acquired the entire issued share capital of Norec Limited on 1 September 2006. The resulting goodwill of £6,336,000 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	
Intangible	764
Current assets	
Debtors	4,271
Cash	1,371
Total assets	6,406
Liabilities	
External creditors	(2,172)
Provisions	(3,173)
Total liabilities	(5,345)
Net assets	1,061
Goodwill	6,336
Net purchase consideration and costs of acquisition	7,397
Analysed as	
Gross consideration	7,397
Satisfied by	
Cash	5,897
Deferred consideration paid by 31 May 2007	1,500
	7,397

Notes (continued)

28 Acquisitions (continued)

The group also acquired the trade and assets of Maltby Colliery on 26 February 2007 resulting in goodwill of £nil

	Book value £000	Revaluations £000	Fair value £000
Fixed assets			
Tangible	12,694	17,839	30,533
Current assets			
Debtors	5,171	(1,358)	3,813
Cash			
Total assets	<u>17,865</u>	<u>16,481</u>	<u>34,346</u>
Liabilities			
Provisions	(6,186)	(7,656)	(13,842)
Total liabilities	<u>(6,186)</u>	<u>(7,656)</u>	<u>(13,842)</u>
Net assets			<u>20,504</u>
Goodwill			-
Net purchase consideration and costs of acquisition			<u>20,504</u>
Satisfied by cash			<u>20,504</u>

This subsidiary undertaking acquired during the year contributed £4,112,000 to the group's net operating cashflows, paid £nil in respect of net returns on investments and servicing of finance and utilised £4,150,000 for capital expenditure

Prior to the acquisition, Maltby Colliery was part of a division of UK Coal plc

Notes (continued)

28 Acquisitions (continued)

The Group also acquired an additional 50% of the issued share capital of Hargreaves (Bulk Liquid Transport) Limited taking its shareholding to 100%. The resulting goodwill of £1,529,000 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	
Intangible	14
Tangible	856
Current assets	
Stock	17
Debtors	855
Cash	5
Total assets	<u>1,747</u>
Liabilities	
External creditors	(1,389)
Provisions	(78)
Total liabilities	<u>(1,467)</u>
Net assets	<u>280</u>
Goodwill	<u>1,529</u>
Net purchase consideration and costs of acquisition	<u>1,809</u>
Satisfied by	
Cash	764
Shares	1,045
	<u>1,809</u>

Notes (continued)

28 Acquisitions (continued)

The Group also acquired the entire share capital of Mineral Resources Europe GmbH through its 77.5% owned subsidiary, Hargreaves Raw Material Services GmbH. The resulting negative goodwill of £84,000 is being written off over 5 years in line with the estimated life of the attributable assets.

	Book and fair value £000
Fixed assets	
Tangible	15
Current assets	
Stock	2,870
Debtors	6,345
Cash	1,083
Total assets	<u>10,313</u>
Liabilities	
External creditors	(9,566)
Total liabilities	<u>(9,566)</u>
Net assets	<u>747</u>
Goodwill	<u>(84)</u>
Net purchase consideration and costs of acquisition	<u>663</u>
Satisfied by	
Cash	<u>663</u>

Notes (continued)

28 Acquisitions (continued)

The Group also acquired the trade and certain assets of the Simon Bulk Warehousing and Distribution division from Humber Sea Terminal Limited on 30 March 2007 resulting in goodwill of £nil

	Book value £000	Revaluations £000	Fair value £000
Fixed assets			
Tangible	3,000	1,215	4,215
Net assets			4,215
Goodwill			-
Net purchase consideration and cost of acquisition			<u>4,215</u>
Satisfied by			
Cash			<u>4,215</u>

29 Minority interests

	Group	
	2007 £000	2006 £000
At beginning of year	-	-
Acquisitions of subsidiary undertakings	77	-
Retained profit for year	73	-
At end of year	<u>150</u>	<u>-</u>

30 Contingent liabilities

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 £21,443,000 (2006 £19,436,000)

31 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	164,044
Granted during year	295,499
Lapsed during year	(20,664)
Exercised during year	-
At end of year	<u>438,879</u>

The exercise period for 143,380 of the options is from 1 March 2009 to 1 September 2009 and the weighted average exercise price of these is 218p. The exercise period for the remaining 295,499 options is from 1 July 2010 to 1 January 2011 and the weighted average exercise price is 524p. Further details of the Savings Related Share Option Scheme are included in the Corporate Governance and Remuneration report.

Notes (continued)

31 Employee share schemes (continued)

Long Term Incentive Plan ('LTIP')

At 31 May 2007 the group had an LTIP scheme, that granted options on 8 November 2006. Further details of the LTIP scheme are included in the Corporate Governance and Remuneration Report.

The details of the grant is as follows, whereby all options are settled by physical delivery of shares.

Date of grant	entitled	Number of shares granted	Exercise period
November 2006	Senior employees	92,593	June 2009 - November 2009

No options were exercised during the period.

Details of options granted in the period

The fair value of the options granted during the year have been measured using the Black Scholes valuation model, the exercise prices above and the weighted average inputs shown below.

	2007
Share price at date of grant (pence)	391.5
Expected option life (years)	3
Volatility	40%
Risk free interest rate	5.35%

Volatility was calculated with reference to the group's daily share price volatility. The average share price in the year was 452 pence.

The group recognised a total expense of £82,000 in respect of the equity-settled LTIP share scheme.

Equity settled share option schemes - Norec

At 31 May 2007 the group had a share option scheme, that granted options in September 2006, to the senior management team of the Norec business.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares.

Date of grant	Employees entitled	Exercise price	Number of shares granted	Exercise period
Sep 2006	Senior employees	393.5p	96,572	Sep 2007 – Sep 2017

No options were exercised during the period.

Details of options granted in the period

The fair value of the options granted during the year have been measured using the Black Scholes valuation model, the exercise prices above and the weighted average inputs shown below.

	2007
Share price at date of grant (pence)	3.91
Expected option life (years)	5.5
Volatility	40%
Risk free interest rate	5.35%

The group recognised a total expense of £101,000 in respect of these equity-settled share options.

Notes (continued)

32 Related party disclosures

As disclosed in note 14 the Group had four joint venture undertakings, ThyssenKrupp Metallurgical Supplies Limited, Hargreaves (Bulk Liquid Transport) Limited, Hargreaves Coal Combustion Products Limited and Coal4Energy Limited in the year ended 31 May 2006. During the current year the Group has acquired an additional 50% of Hargreaves (Bulk Liquid Transport) Limited and hence it ceased to be a joint venture undertaking. Transactions with these undertakings during the year and balances outstanding at the end of the year were as follows:

2007			
	Purchases from	Sales to	Balance outstanding
	£000	£000	debtor/(creditor)
			£000
ThyssenKrupp Metallurgical Supplies Limited	15	1,133	374
Hargreaves (Bulk Liquid Transport) Limited	-	1,615	-
Hargreaves Coal Combustion Products Limited	4	945	268
Coal4Energy Limited	37	16,726	2,174
	<u>56</u>	<u>18,819</u>	<u>3,826</u>

2006			
	Purchases from	Sales to	Balance outstanding
	£000	£000	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
Coal4Energy Limited	2	1,881	1,279
	<u>2,371</u>	<u>3,642</u>	<u>2,057</u>

During the year the Group had two associates, Hargreaves Building Products Limited and Lytag Limited. Transactions with these undertakings during the year and balances outstanding at the end of the year were as follows:

2007			
	Purchases from	Sales to	Balance outstanding
	£000	£000	debtor/(creditor)
			£000
Hargreaves Building Products Limited	-	1	1
Lytag Limited	-	4	3
	<u>-</u>	<u>5</u>	<u>4</u>

33 Post balance sheet events

Change to corporation tax rates

On 21 March 2007 the Chancellor announced that the standard rate of corporation tax in the UK would be reduced from 30% to 28% with effect from 1 April 2008. As the change in tax rates had not been substantively enacted at the balance sheet date they have not been used in the calculation of the deferred tax liability. The impact of this change, when enacted, is expected to be immaterial.

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 Strand, Newcastle United Football Club, St James' Park, Newcastle upon Tyne, NE1 4ST on Wednesday 3 October 2007 at 12 noon for the following purposes

Ordinary Business

- 1 To consider and adopt the accounts for the year ended 31 May 2007 and the directors' and auditors' reports thereon
- 2 To declare a final dividend of 6 pence per ordinary share of 10 pence each for the year ended 31 May 2007, payable on 11 October 2007 to those share holders on the register of members at the close of business on 14 September 2007
- 3 To re-elect Kevin Dougan as a director of the Company in accordance with article 34 of the Company's articles of association who offers himself for re-election
- 4 To re-elect Nigel Barraclough 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-appoint 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
- 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 resolution 7 will be proposed as an ordinary resolution and resolutions 8, 9 and 10 will be proposed as special resolutions

Ordinary Resolution

- 7 That the directors be and are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ('the Act') to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £875,000 (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

- 8 That subject to the passing of resolution 7 above, the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by resolution 7 above, as if sub section (1) of section 89 of the 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 share holders 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 £262,700 (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 8 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

- 9 That the Company is hereby generally and unconditionally authorised for the purpose of section 166 of the Act to make one or more market purchases (within the meaning of section 163 (3) of the 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 2 627,000 (representing approximately 10 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

- 10 That the Company may send or supply any document or information which requires or is authorised to be sent or supplied to a shareholder or any other person by the Company under a provision of the Companies Acts (as defined in section 2 of the Companies Act 2006) or pursuant to the Articles of Association of the Company or to any other rules or regulations to which the Company may be subject by electronic means (as defined in section 1168 of the Companies Acts) including by making it available on a website and the provisions of schedule 5 to the Companies Act 2006 shall apply, whether or not any document or information is required or authorised to be sent by the Companies Act 2006 and this resolution shall supersede any provision in the Company's Articles of Association to the extent that it is inconsistent with this resolution

Registered office
West Terrace
Esh Winning
Durham
DH7 9PT

By order of the Board

Stephen MacQuarrie
Company Secretary

3 September 2007

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 at 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 1 October 2007 (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

