

C.A. Blackwell (Contracts) Limited

Annual Report and Financial Statements

Registered number 00570590

31 May 2020



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Strategic Report

The directors present their Strategic Report for the year ended 31 May 2020.

Principal activities and business review

The principal activity of the Company continued to be that of specialist earth moving, infrastructure construction and civil engineering.

The results for the Company show turnover of £19.6m for the year to 31 May 2020 (2019: £54.1m) and a loss before tax (after exceptional costs of £nil (2019: £7.3m)) for the year of £2.6m (2019: loss of £6.4m).

The recognition of £7.3m in exceptional costs in the prior year related to £0.7m losses on legacy contracts and £6.6m attributable to the liquidation of a customer, Wolf Minerals Limited, in October 2018. This exceptional cost related to the impairment of trade debtors and work in progress balances as well as redundancy and demobilisation costs.

The Company had net liabilities of £9,803,000 at 31 May 2020 (2019: £8,621,000).

Whilst the timing of contracts, in particular delays to the HS2 project, has led to a material reduction in revenue, the directors are satisfied that the Company is well positioned to take advantage of earthmoving projects in major infrastructure over the next few years.

Business model

The Company is part of a group that delivers key projects and services in the industrial and property sectors in the UK. The Company provides specialist earth moving, civil engineering and infrastructure construction services.

Key financial performance indicators

The company monitors a range of key performance indicators. Examples are:

	2020	2019
Turnover (£000)	19,612	54,063
Gross margin (%)	4.1%	(5.8%)
Loss before tax/turnover (%)	(13.4)%	(11.8)%

In addition, there are a significant number of further key performance indicators which are used to measure the business on a more detailed basis, including:

- Aged debtor analysis
- Debtor day reports
- Staff turnover levels
- Injury claims

Strategic Report *(continued)*

Risks and uncertainties

The risks and uncertainties facing the Company are inherently linked to those of the Hargreaves Services plc group. The principal risks and uncertainties of the group which includes those of this company are discussed in detail in the Risk Management section of the group financial statements. Those that have particular importance for this company are:

- Contractual Risk
- Recruitment & Retention of Key Individuals
- Regulatory & Legislative Compliance
- Environmental Risk
- Fraud
- IT Security
- Liquidity & Credit Risk

Current trading and outlook

The Company was acquired by Hargreaves Services plc in January 2016 and the financial backing this group provides enables the company to tender on much larger projects than they were previously able. The directors acknowledge that operations within the civil engineering business have been challenging, resulting in several years of losses. As a result, the Directors have refocused the business on its core competencies, specifically to concentrate on major linear earthworks contracts, where the Company is a leading specialist. This strategic decision increases the Company's dependency on securing subcontractor positions on major infrastructure projects which would typically be in the transport infrastructure sector but, in the Directors' opinion, improves the outlook for future profitability and reduces contractual risk.

The Company has not seen a significant impact on its trading and results for the year ended 31 May 2020 as a result of Covid-19 however the Directors continue to monitor the situation closely. Our focus has been to safeguard the health and wellbeing of our employees, support our communities and continue to provide a reliable service to customers and suppliers, including many operating in critical industries.

By order of the board



NK Fraser
Director

West Terrace
Esh Winning
Co Durham
DH7 9PT

10 August 2020

Directors' Report

The directors present their Directors' Report for the year ended 31 May 2020.

Proposed dividend

The directors do not recommend the payment of a dividend (2019: £nil).

Current trading and outlook

The current trading and outlook for the Company is disclosed within the Strategic Report.

Directors

The directors who held office during the year, and to the date of this report, were:

GW Pugh	(resigned 2 August 2019)
NK Fraser	
Hargreaves Corporate Director Limited	(resigned 30 March 2020)
SL Anson	(resigned 31 December 2019)
PJ Smith	(resigned 28 January 2020)
GFC Banham	(resigned 30 March 2020)

Directors' Interests

No director had a beneficial interest in the share capital of any subsidiary of Hargreaves Services plc. Except as disclosed below, no director (other than those whose interests are disclosed in the financial statements of Hargreaves Services plc) had interests in the share capital of Hargreaves Services plc.

Except as disclosed below, no director (other than those whose interests are disclosed in the financial statements Hargreaves Services plc) was granted, or exercised, any options to subscribe in the shares of Hargreaves Services plc during the year ended 31 May 2020.

All of the Directors benefited from the Group's qualifying third-party indemnity provisions.

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, sexual orientation 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.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Directors' Report *(continued)*

Going Concern

The Company is party to a group composite debenture arrangement with certain of the companies in the Hargreaves Services plc group. This is in respect of the banking arrangements of Hargreaves Services plc (as outlined further in the Hargreaves Services plc group accounts) which are secured by means of both fixed and floating charges over all assets and undertakings of the Company.

The Hargreaves Group has material assets and financial resources at its disposal together with robust risk management and capital allocation processes. Committed banking facilities are in place until 31 July 2021 and the Board is confident that suitable new facilities will be secured to replace them. A rigorous process of reviewing cash flow forecasts and testing for a range of challenging downside sensitivities has been undertaken. Those sensitivities take account of severe but plausible downside scenarios as a result of the impact of Covid-19.

Only remedies to these downsides which are entirely within the Group's control have been assumed to be achievable mitigations to those sensitivities. At all times, the Group's banking covenants, and cash headroom have remained intact under this stress testing process. Therefore, and after making appropriate enquiries, including reviewing budgets and strategic plans, the Group's Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board of Hargreaves Services plc continues to adopt the going concern basis in preparing the Annual Report and Accounts of Hargreaves Services plc.

As a result of the above, the financial statements of the Company have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company, Hargreaves Services plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Hargreaves Services plc not seeking repayment of the amounts currently due to the group and providing additional financial support during that period. Hargreaves Services plc has indicated it will continue to make available such funds as are needed by the company, and that it will not seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Auditor

The Audit Committee of Hargreaves Services plc reviews and makes recommendations with regard to the appointment of the external auditors. In making this recommendation the Committee considers auditor effectiveness, independence and partner rotation.

KPMG LLP resigned as auditor during the year and following a robust and competitive tender process during the year PricewaterhouseCoopers LLP were appointed as auditor of the company.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

By order of the board



NK Fraser
Director

West Terrace
Esh Winning
Co Durham
DH7 9PT

10 August 2020

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors are responsible for preparing the Annual 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditors' report to the members of C.A. Blackwell (Contracts) Limited

Report on the audit of the financial statements

Opinion

In our opinion, C.A. Blackwell (Contracts) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 May 2020; the Profit and Loss Account and Other Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusion relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent auditors' report to the members of C.A. Blackwell (Contracts) Limited *(Continued)*

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 May 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of C.A. Blackwell (Contracts) Limited *(Continued)*

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Nicholas Cook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
10 August 2020

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 May 2020

	<i>Note</i>	2020 £000	2019 £000
Turnover	2	19,612	54,063
Cost of sales		(18,802)	(57,224)
		<hr/>	<hr/>
Gross profit/(loss)		810	(3,161)
Other operating income		564	-
Administrative expenses		(3,255)	(3,141)
		<hr/>	<hr/>
Operating loss		(1,881)	(6,302)
Analysed As:			
Operating (loss)/profit (before exceptional items)		(1,881)	1,003
Exceptional Items – Cost of sales		-	(7,305)
		<hr/>	<hr/>
Exceptional Items	4	-	(7,305)
Operating loss (after exceptional items)		(1,881)	(6,302)
<hr/>			
Interest payable and similar expenses	7	(748)	(93)
		<hr/>	<hr/>
Loss before taxation		(2,629)	(6,395)
Tax on loss	8	1,389	796
		<hr/>	<hr/>
Loss for the financial year		(1,240)	(5,599)
		<hr/>	<hr/>

All results are derived from continuing operations.

There was no other comprehensive income or expenditure in either the current or previous year in addition to the results for the current or previous year shown above.


Balance Sheet

at 31 May

	Note	2020 £000	(Restated) 2019* £000	£000
Fixed assets				
Tangible assets	9	1,468		11,346
Right-of-use assets	10	7,077		-
Investments	11	888		888
Deferred tax asset	12	577		-
		10,010		12,234
Current assets				
Stocks	13	36	507	
Debtors	14	4,287	5,498	
Contract assets	15	10,979	17,735*	
Investments	16	117	117	
Cash at bank and in hand		908	121	
		16,327	23,978	
Creditors: amounts falling due within one year	17	(29,878)	(38,348)	
Net current liabilities		(13,551)		(14,370)
Total assets less current liabilities		(3,541)		(2,136)
Creditors: amounts falling after more than one year	18	(3,229)		(4,401)
Provisions for liabilities	19	(3,033)		(2,084)*
Net liabilities		(9,803)		(8,621)
Capital and reserves				
Called up share capital	23	896		896
Revaluation reserve	23	-		32
Capital contribution reserve	23	154		80
Profit and loss account		(10,853)		(9,629)
Shareholders' deficit		(9,803)		(8,621)

* Contract assets and provisions for liabilities at 31 May 2019 has been restated by increasing the carrying value by £1,819,000 to gross up for the provision against the amounts recoverable on contracts which is included within Provisions for liabilities.

The financial statements on pages 9 to 35 were approved by the board of directors on 10 August 2020 and were signed on its behalf by:


NK Fraser

Director

Registered number: 00570590

Statement of Changes in Equity

	Called up share capital £000	Revaluation reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 June 2018	896	32	52	(4,030)	(3,050)
Total comprehensive expense for the year					
Loss for the year	-	-	-	(5,599)	(5,599)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive expense for the year	-	-	-	(5,599)	(5,599)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Transactions recorded directly in equity					
Equity settled share-based payments	-	-	28	-	28
Tax on equity settled share-based payments	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total transactions recorded directly in equity	-	-	28	-	28
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 May 2019	896	32	80	(9,629)	(8,621)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 June 2019	896	32	80	(9,629)	(8,621)
Total comprehensive expense for the year					
Loss for the year	-	-	-	(1,240)	(1,240)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive expense for the year	-	-	-	(1,240)	(1,240)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Transactions recorded directly in equity					
Equity settled share-based payments	-	-	74	-	74
Tax on equity settled share-based payments	-	-	-	-	-
Revaluation reserve recycled to profit and loss account	-	(32)	-	32	-
Effect of adoption of IFRS 16: Leases	-	-	-	(16)	(16)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total transactions recorded directly in equity	-	(32)	74	16	58
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 May 2020	896	-	154	(10,853)	(9,803)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

C.A. Blackwell (Contracts) Limited (the “Company”) is a private company limited by shares and is incorporated, domiciled and registered in England, within the UK. The registered address is West Terrace, Esh Winning, Durham, DH7 9PT.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Hargreaves Services plc includes the Company in its consolidated financial statements. The consolidated financial statements of Hargreaves Services plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Companies House.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosure of a third balance sheet as required under IFRS1 when correcting for a prior period error.

As the consolidated financial statements of Hargreaves Services plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed within this note.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 June 2019 and have had an effect on the financial statements:

IFRS 16, Leases

None of the other standards, interpretations and amendments effective for the first time from 1 June 2019 have had a material effect on the financial statements.

Notes (continued)

1 Accounting policies (continued)

Changes resulting from adoption of IFRS 16

The company transitioned to IFRS 16 using the modified retrospective approach and as a result the cumulative effect of initial application is recognised in retained earnings at 1 June 2019. The prior period figures were not adjusted.

On adoption of IFRS 16, the company elected to apply the relief provisions available and has not reviewed contracts under the definition of a lease per IFRS 16, which had previously not been classified as leases under the principles of IAS 17. Therefore, only contracts entered into or modified on or after 1 June 2019 have the definition of a lease per IFRS 16 applied.

In addition, the company decided to apply recognition exemptions to leases with a term not exceeding 12 months and leases where the underlying assets are of low value.

For leases classified as operating leases under IAS 17, these lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 June 2019. The company has used the following practical expedients permitted by IFRS 16 when applying this for the first time to leases previously classified as operating leases:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Applied the exemption not to recognise liabilities for leases with less than 12 months of lease term remaining
- Excluded initial direct costs for the measurement of right-to-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Right-of-use assets are measured at either:

- Their carrying amount as if IFRS 16 has been applied since commencement, discounted using the lessee's incremental borrowing rate at the date of initial application
- An amount equal to the lease liability, adjusted for any prepaid or accrued lease payments

No adjustments are required on transition to IFRS 16 for leases where the company acts as a lessor, except for a sub-lease. A reassessment of the classification of a sub-lease is required under IFRS 16.

The company recognised lease liabilities in relation to leases that were classified as 'operating leases' under the principles of IAS 17 - Leases. On transition, an additional £8,025,000 (2019 - £Nil) of right-of-use assets and £6,751,000 (2019 - £Nil) of lease liabilities were recognised.

	As originally reported 31 May 2019 £ 000
Note	
Operating lease commitments at 31 May 2019	587
Operating lease commitments discounted at the incremental borrowing rate	564
Exemption for short term leases	(110)
Reassessment of lease terms	290
Finance lease liabilities recognised at 31 May 2019	6,007
Lease liabilities recognised at 1 June 2019	6,751

Notes (continued)

1 Accounting policies (continued)

Leases (continued)

The difference between the right-of-use assets on transition of £8,025,000 and the lease liabilities of £6,751,000 relates to the existing difference between the assets and liabilities of £1,290,000 on finance leases recognised last year, the remaining £16,000 has been taken to the Statement of Changes in equity.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 June 2019. The weighted average rate applied was 3.7%.

The change in accounting policy affected the following items in the balance sheet on 1 June 2019:

- plant and machinery – decrease by £7,297,000
- right-of-use assets – increase by £8,025,000
- deferred tax assets – increase by £nil
- lease liabilities – increase by £6,751,000

The net impact on retained earnings on 1 June 2019 was a decrease of £16,000 after taking account of £1,290,000 difference already incurred in retained earnings from existing finance leases.

Sub leases

If an underlying asset is re-leased by the company to a third party and the company retains the primary obligation under the original lease, the transaction is deemed to be a sublease. The company continues to account for the original lease (the head lease) as a lessee and accounts for the sublease as a lessor (intermediate lessor). When the head lease is a short-term lease, the sublease is classified as an operating lease. Otherwise, the sublease is classified using the classification criteria applicable to Lessor Accounting in IFRS 16 by reference to the right-of-use asset in the head lease (and not the underlying asset of the head lease).

After classification lessor accounting is applied to the sublease.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

Notwithstanding net current liabilities of £13,551,000 at 31 May 2020 and a loss for the year then ended of £1,240,000, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company, Hargreaves Services plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's ultimate parent company, Hargreaves Services plc not seeking repayment of the amounts currently due to the group, which at 31 May 2020 amounted to £23,370,000 and providing additional financial support during that period. Hargreaves Services plc will continue to make available such funds as are needed by the company, and that it will not seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful economic lives as follows of each part of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Leasehold buildings - over the term of the lease (minimum 2% per annum, straight line)

Furniture, equipment, motor vehicles
and plant - 10% to 50% per annum, straight line

Depreciation of right of use assets is based on the same categorisation as above.

Investments

Investments in subsidiary undertakings are stated at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as fixed assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

Stock, work in progress and amounts recoverable on contracts

Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes direct materials and labour together with a proportion of appropriate overheads.

Long term contract work in progress is stated at cost incurred, net of amounts transferred to cost of sales in respect of work recorded as turnover. Profit on long term contracts is taken as work is carried out provided that the final outcome can be assessed with reasonable certainty. Full provision is made for all known or expected losses as soon as they are foreseen.

Amounts due on long term contract work not yet invoiced together with retentions are included in debtors as amounts recoverable on contracts.

Notes (continued)

1 Accounting policies (continued)

Contract assets

Contract assets represent amounts for which the Company has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprises costs incurred plus attributable margin.

Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Employee benefits

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

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Company

Financial instruments issued by the Company 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 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; 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.

Financial Instruments

Financial Assets

Financial assets classified as "loans and receivables" under IAS 39 (being trade and other receivables) are now classified within the "amortised cost" category according to IFRS 9.

The Company classifies financial assets under the following measurement categories:

- Measured at amortised cost (non-derivative financial assets);
- Measured subsequently at fair value through either profit or loss or comprehensive income.

All financial assets in the business are classified as level 3 whereby the fair value is based on inputs for the asset that are not based on observable market data (unobservable inputs).

Non-derivative financial assets

Non-derivative financial assets include trade and other receivables and contract assets, as defined by IFRS 15. Neither of these two categories contain a significant financing element and, as such, expected credit losses are measured under IFRS 9 using the simplified impairment approach. This approach requires expected lifetime losses to be recognised upon the initial recognition of the asset.

At initial recognition, the Company measures a non-derivative financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The Company subsequently measures trade and other receivables and contract receivables at amortised cost.

Derivative Financial Instruments

The Company uses forward foreign currency contracts to manage its exchange rate risk. The Company also uses derivative sale and purchase contracts to mitigate the risk of fluctuating coal and fuel prices and exchange rate risk.

Derivative financial instruments are recognised initially at fair value and are subsequently remeasured to fair value at each reporting date and changes therein are accounted for as described as follows.

Notes (continued)

1 Accounting policies (continued)

Non-Financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its Cash Generating Unit ("CGU") exceeds its estimated recoverable amount. Impairment losses are recognised in the profit and loss account. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intra-Group Financial Instruments

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.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors. These are initially recognised at fair value and subsequently measured at amortised cost.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover is recognised when control over a product or service is transferred to the Company's customer. The value attributed to turnover is measured based on the consideration specified in the contract and excludes any amounts collected on behalf of third parties. In circumstances where consideration is not clearly defined in the contract, the turnover is subject to variability. When turnover is variable, the Company estimates the amount of consideration to be recovered. Turnover is only recognised to the extent that it is highly probable that a significant reversal in a future period will not occur. When an amendment to an existing contract arises, the Company reviews the nature of the modification and whether or not it reflects a separate or new performance obligation to be satisfied, or whether it is an amendment to an existing performance obligation.

Turnover is measured excluding value added tax, for goods and services supplied to external customers in line with the fulfilment of contractual performance obligations. All directly attributable expenses in respect of goods supplied and services provided are recognised in the profit and loss account in the period to which they relate. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust its transaction price for the time value of money.

Depending on the nature of the product or service delivered and the timing of when control is passed onto the customer, the Company will account for turnover both over time and at a point in time. Where turnover is measured over time, the Company uses the input method to measure progress of delivery.

Construction Contract Revenue

When the outcome of individual contracts can be estimated reliably, contract revenue and costs are recognised as revenue and expenses respectively over time by reference to the fulfilment of performance obligations using the input method of estimating progress of delivery at the reporting date. Costs are recognised as incurred, and revenue is recognised using the input method. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Revenue includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. Revenue includes an assessment of any variable consideration which may become receivable based upon relevant performance measures. Variable consideration is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognized. Provision is made for all known or expected losses on contracts as soon as they are foreseen. These provisions are reviewed throughout the contract life and are adjusted as required. However, the nature of the risks on contracts are such that it is often not possible to resolve them until the end of the contract and therefore the provisions may not reverse until the contract is concluded.

Government grants

The Company has received UK Government monies under the Coronavirus Job Retention Scheme, as this scheme involves the transfer of resources from the UK Government to the Company this is considered to be a government grant. The scheme is intended to compensate for staff costs and therefore amounts received are recognised in the profit and loss account over the same period to which the staff costs relate. The income received is presented net of the staff costs within the profit and loss account.

Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

Expenses (continued)

Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

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.

Share based payments

The share option programme allows employees to acquire shares of the parent company, Hargreaves Services plc.

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.

Where the company's parent grants rights to its equity instruments to the company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the company accounts for these share-based payments as equity-settled.

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.

Taxation

Tax on the profit or loss for the year comprises both current deferred tax. Tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Exceptional items

Exceptional items are defined as items of income and expenditure which are material and unusual in nature and which are considered to be of such significance that they require separate disclosure on the face of the profit and loss account. Any future movement on items previously classified as exceptional will also be classified as exceptional.

Notes (continued)

1 Accounting policies (continued)

Accounting estimates and judgements

Construction contract revenue

IFRS 15, Revenue from Contracts with Customers, is applicable to these financial statements, commencing on 1 June 2018, for the first time. Whilst it applies to all revenue recognition, it has replaced IAS 11, "Construction Contracts", and represents a key area of judgement. Management must assess the performance obligations under each contract and the point at which those obligations have been fulfilled, allocating the transaction price as necessary to each obligation. The estimates and judgements which management must carry out to assess the total expected costs on a contract remain necessary under IFRS 15. The Company has control and review procedures in place to monitor, and evaluate, regularly, the estimates being made to ensure that they are consistent and appropriate. This includes reviewing the independent certification of the value of work done, the progress of work against contracted timescales and the costs incurred against plan. In particular, management makes judgements on the expected recoverability of value recorded in respect of performance obligations which have been completed but not yet agreed with the customer and on the likelihood of the entitlement to any variable consideration. Differences arising on the ultimate completion of the contract and any unforeseen changes or events as the contract progresses may result in material changes to expected financial outcomes. The transition to IFRS 15 has had no impact on the measurement of revenue in the comparative period. Construction contract revenue in the year ended 31 May 2020 was £18,399,000 (2019: £54,063,000).

Contract provision

The Company has made provisions against contract assets which require judgements to be made regarding recoverable amounts. The nature of these items are such that their timing and quantum is uncertain and so the Directors have made judgements based upon the facts as they are known at the date of this report. The view has been taken that all of these items could potentially occur within the next twelve months and so all of the provision has been classified as current. The carrying value of contract provisions at 31 May 2020 is £3,033,000 (2019: £2,084,000).

2 Turnover

All turnover arises in the United Kingdom from the company's principal activity and is recognised over time.

	2020 £000	2019 £000
Construction contract revenue	18,399	54,063
Rendering of services	1,213	-
	<u>19,612</u>	<u>54,063</u>

Notes (continued)

3 Administrative expenses and auditor's remuneration

	2020 £000	2019 £000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	54	32

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Hargreaves Services plc.

Operating profit

Arrived at after charging:

	2020 £000	2019 £000
Depreciation expense	988	17
Depreciation on right-of-use assets – Land and buildings	99	-
Depreciation on right-of-use assets – Motor vehicles and plant	1,287	-
Operating leases (2019 only)	-	336

There were no expenses relating to short-term or low values leases in the year ending 31 May 2020.

Other operating income includes the profit on sale of tangible fixed assets of £523,000 (2019: £nil) and profit on disposal of right-of-use assets of £41,000 (2019: £nil).

4 Exceptional Items

During the year exceptional items of £nil were recognised in relation to losses on legacy contracts (2019: £0.7m). In the prior year the company incurred an additional exceptional item of £6.6m following the cessation of trade and insolvency of a major customer, Wolf Minerals (UK) Limited.

	2020 £000	2019 £000
Loss on legacy contracts	-	675
Write down of trade debtors, work in progress, redundancy and demobilisation costs	-	6,630
	-	7,305

Notes (continued)

5 Staff costs

Staff costs, including directors' remuneration, were as follows:

	2020 £000	2019 £000
Wages and salaries	7,088	11,027
Social security costs	720	940
Share-based payments (note 25)	74	28
Other pension costs (note 21)	386	414
	<u>8,268</u>	<u>12,409</u>

The average number of employees, including the directors, during the year was as follows:

	2020 Number	2019 Number
Contract staff	127	189
Office and management staff	18	15
Directors	3	6
	<u>148</u>	<u>210</u>

6 Directors' remuneration

	2020 £000	2019 £000
Remuneration	673	930
Company pension contributions to defined contribution pension schemes	31	83
	<u>704</u>	<u>1,013</u>

During the year retirement benefits were accruing to 3 directors employed by this company, (2019: 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £173,000 for the year (2019: £390,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £13,000 for the year (2019: £39,000).

The remuneration of certain directors in the year was borne by a fellow subsidiary undertaking of the ultimate holding company, Hargreaves Services plc, and the details of that remuneration are disclosed in Hargreaves Services plc's accounts.

Included in the table above is remuneration in respect of 2 (2019: 2) directors who work across the group. An amount of £236,000 (2019: £360,000) in relation to directors remuneration and £14,000 (2019: £51,000) in relation to pension scheme contributions were recharged from Hargreaves (UK) Services Limited for services provided to C.A. Blackwell by these directors, who are employed by Hargreaves (UK) Services Limited.

Notes (continued)

7 Interest payable and similar expenses

	2020 £000	2019 £000
On bank loans and overdrafts	524	93
Lease liabilities*	224	-
	<u>748</u>	<u>93</u>

*The company initially applied IFRS 16 at 1 June 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. In 2019 interest expense relating to lease liabilities is for finance lease under IAS 17 while in 2020 the interest expense is for lease liabilities under IFRS 16.

8 Taxation

Recognised in the profit and loss account:

	2020 £000	2019 £000	2019 £000
<i>UK corporation tax</i>			
Adjustments to group relief	(487)	(1,587)	
Adjustments to group relief in respect of prior years	1	(440)	
	<u></u>	<u></u>	
Total current tax		(486)	(2,027)
<i>Deferred tax (note 20)</i>			
Origination and reversal of temporary timing differences	(904)	1,050	
Adjustment in respect of prior years	(34)	181	
Effect of rate changes	35	-	
	<u></u>	<u></u>	
		(903)	1,231
		<u></u>	<u></u>
Tax on loss		(1,389)	(796)

Reconciliation of effective tax rate:

Loss for the year	(1,240)	(5,599)
Total tax credit	(1,389)	(796)
	<u></u>	<u></u>
Loss before taxation	(2,629)	(6,395)
Tax using the UK corporation tax rate of 19% (2019: 19%)	(500)	(1,215)
Unrecognised tax losses	(877)	710
Increase/(reduction) in rate on deferred tax balances	35	(36)
Non-deductible (income)/expenses	(14)	4
Over provided in prior years	(33)	(259)
	<u></u>	<u></u>
Total tax credit	(1,389)	(796)

Notes (continued)

8 Taxation (continued)

Factors that may affect future tax expenses

The rate of tax for the current and prior year was 19%. On 16 March 2016 it was announced that the main rate of UK Corporation Tax would reduce to 17% on 1 April 2020. This change was substantively enacted on 6 September 2016. Following the March 2020 budget, the corporate tax rate will now remain at 19% and did not reduce to 17% in April 2020 as previously announced. The deferred tax balances at 31 May 2020 and 31 May 2019 have been calculated based on the rate substantively enacted at the balance sheet date of 19% (2019: 17%).

9 Tangible fixed assets

	Freehold and leasehold land and buildings £000	Furniture, equipment and fixtures £000	Motor vehicles and plant £000	Total £000
Cost				
At 1 June 2019 (Restated)*	362	160	23,572	24,094
Additions	-	65	286	351
Disposals	-	-	(9,651)	(9,651)
Transfers to Right-of-use assets	-	-	(8,432)	(8,432)
At 31 May 2020	362	225	5,775	6,362
Depreciation				
At 1 June 2019 (Restated)*	103	142	12,503	12,748
Charge for the year	7	66	915	988
On disposals	-	-	(7,707)	(7,707)
Transfers to Right-of-use assets	-	-	(1,135)	(1,135)
At 31 May 2020	110	208	4,576	4,894
Net book value				
At 31 May 2020	252	17	1,199	1,468
At 31 May 2019	259	18	11,069	11,346

*The cost and depreciation at 1 June 2019 have been restated to correct for an opening balance error. The impact of the adjustment is to increase overall cost and accumulated depreciation at 1 June 2019 by £12,501,000 each. There is nil impact on the overall net book value at 31 May 2019.

On 31 May 2019 certain assets within Motor vehicles and plant were acquired from another company within the Hargreaves Services plc Group. These assets were transferred at book value. During the year the Group reorganised its plant activities resulting in the disposal of plant by the Company.

Included in the total net book value of motor vehicles and plant and furniture and equipment is £nil (2019: £7,613,000) in respect of assets held under finance leases and similar hire purchase contracts. The assets held under finance lease were transferred from Hargreaves (UK) Services Limited on 31 May 2019 therefore the depreciation for the year ended 31 May 2019 was £nil. From 1 June 2019 and following the adoption of IFRS 16, leases, leased assets are presented as a separate line item in the balance sheet (note 10).

Notes (continued)

10 Right-of-use assets

	Land and buildings £000	Motor vehicles and plant £000	Total £000
<i>Cost</i>			
On transition to IFRS 16 at 1 June 2019	136	967	1,103
Additions	131	1,097	1,228
Disposals	(88)	(1,632)	(1,720)
Transfer from fixed assets	-	8,432	8,432
At end of year	179	8,864	9,043
<i>Depreciation</i>			
On transition to IFRS 16 at 1 June 2019	56	319	375
Charge for year	99	1,287	1,386
On disposals	(88)	(842)	(930)
Transfer from fixed assets	-	1,135	1,135
At end of year	67	1,899	1,966
<i>Net book value</i>			
At 31 May 2020	112	6,965	7,077

*In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in plant and machinery and the liabilities as part of the group's borrowings. For adjustment recognised on adoption of IFRS 16 on 1 June 2019, please see note 20.

11 Investments

	Investments in subsidiary undertakings £000
<i>Cost</i>	
At 1 June 2019 and 31 May 2020	888
<i>Impairment</i>	
At 1 June 2019 and 31 May 2020	-
<i>Net book value</i>	
At 31 May 2019 and 31 May 2020	888

Notes (continued)

11 Investments (continued)

The investments of the company relate to the following:

Company name	Principal activity	Country of incorporation	Class of shares held	Ownership	
				2020	2019
<i>Subsidiary undertakings</i>					
HBR Limited	Land remediation and civil engineering and building works	UK*	Ordinary	100%	100%
Geofirma Soils Engineering Limited	Soil stabilisation	UK*	Ordinary	100%	100%

*The above companies have Registered offices at West Terrace, Esh Winning, Durham, DH7 9PT.

In the opinion of the directors the investments are worth at least the amounts stated in the balance sheet, based on carrying value of underlying assets.

12 Deferred taxation

Recognised deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Fixed assets	-	-	(364)	(337)	(364)	(337)
Tax value of loss carry forwards	931	-	-	-	931	-
Temporary timing differences	9	2	-	-	9	2
Share options	1	9	-	-	1	9
Tax assets/(liabilities)	941	11	(364)	(337)	577	(326)

Movement in deferred tax during the year:

	31 May 2019 £000	Recognised in income £000	Recognised in equity £000	31 May 2020 £000
Fixed assets	(337)	(27)	-	(364)
Tax value of loss carry forwards	-	931	-	931
Temporary timing differences	2	7	-	9
Share options	9	(8)	-	1
Tax assets/(liabilities)	(326)	903	-	577

Notes (continued)

12 Deferred taxation (continued)

Movement in deferred tax during the prior year:

	31 May 2018 £000	Recognised in income £000	Recognised in equity £000	31 May 2019 £000
Fixed assets	2	(339)	-	(337)
Tax value of loss carry forwards	896	(896)	-	-
Temporary timing differences	-	2	-	2
Share options	7	2	-	9
	<hr/>	<hr/>	<hr/>	<hr/>
Tax assets	905	(1,231)	-	(326)
	<hr/>	<hr/>	<hr/>	<hr/>

13 Stocks

	2020 £000	2019 £000
Raw materials and consumables	36	507
	<hr/>	<hr/>

Raw materials recognised as cost of sales in the year amounted to £1,206,000 (2019: £3,470,000).

There was no write-down on inventories and no reversals of previous write-downs in either the current or prior year.

14 Debtors

	2020 £000	2019 £000
Trade debtors	2,164	2,264
Amounts owed by group undertakings	1,498	1,328
Prepayments and accrued income	139	319
Group relief receivable	486	1,587
	<hr/>	<hr/>
	4,287	5,498
	<hr/>	<hr/>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes (continued)

15 Contract assets

	2020 £000	(Restated) 2019* £000
At 1 June	17,735	17,184
Transfers from contract assets recognised at the beginning of the year to receivables	(9,318)	(7,361)
Increase related to services provided in the year	3,781	8,913
Reclassified from Contract Provisions	(97)	-
Impairments on contract assets	(1,122)	(1,001)
At 31 May	10,979	17,735

* Contract assets at 31 May 2019 has been restated by increasing the carrying value by £1,819,000 to gross up for the provision against the amounts recoverable on contracts which is now included within Provisions for liabilities.

At 31 May 2020 aggregate costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £71,252,000 (2019: £126,770,000). Progress billings and advances received from customers under open construction contracts amounted to £61,867,000 at 31 May 2020 (2019: £111,874,000).

Contract liabilities being advances for which related work has not started, and billings in excess of costs incurred and recognised profits are included as deferred income and amounted to £21,000 at 31 May 2020 (2019: £13,000).

Contract assets include £1,574,000 (2019: £2,348,000) relating to retentions, of which, of which £635,000 (2019: £1,922,000) are expected to be recovered in more than 12 months.

16 Current asset investments

	2020 £000	2019 £000
Other investments	117	117

Notes (continued)

17 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	979	3,808
Amounts owed to group undertakings	23,370	24,317
Other taxation and social security	1,291	1,092
Other creditors	-	306
Accruals and deferred income	2,599	6,893
Deferred tax liabilities (note 12)	-	326
Lease liabilities (note 20)*	1,639	1,606
	<u>29,878</u>	<u>38,348</u>

*The company initially applied IFRS 16 at 1 June 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. In 2019 lease liabilities relate to finance leases under IAS 17 while in 2020 lease liabilities are measured under IFRS 16.

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Lease liabilities (note 20)	<u>3,229</u>	<u>4,401</u>

On 31 May 2019 certain assets held under finance leases were transferred from Hargreaves (UK) Services Limited, see note 9 for further detail.

Notes (continued)

19 Provisions

	Contract Provisions £000
At beginning of year (Restated)*	2,084
Utilised during the year	(232)
Reclassified to Contract assets	(97)
Made during the year	1,278
	<hr/>
At end of year	3,033
	<hr/>

* The Provisions balance at 31 May 2019 has been restated by increasing the carrying value by £1,819,000 to gross up for the amounts recoverable on contracts which is included within Contract assets.

The contract provisions of £3,033,000 (2019: £2,084,000) represent losses expected to arise, but not yet incurred on construction contracts. The remaining provision is expected to be utilised within the next 12 months.

20 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2020 £000	2019 £000
Creditors falling due after more than one year		
Right-of-use liabilities (2019: Finance lease liabilities)	3,229	4,401
	<hr/>	<hr/>
Creditors falling due within less than one year		
Right-of-use liabilities (2019: Finance lease liabilities)	1,639	1,606
	<hr/>	<hr/>

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2020 £000	Carrying amount 2020 £000	Face value 2019 £000	Carrying amount 2019 £000
Lease liabilities	Sterling	3.7%	2019-2023	4,868	4,868	6,007	6,007

Notes (continued)

20 Interest bearing loans and borrowings (continued)

Amounts recognised in the profit and loss account

The profit and loss account shows the following amounts relating to leases:

	2020 £000	2019 £000
<i>Depreciation charge of right-of-use</i>		
Buildings	99	-
Motor vehicles and plant	1,287	-
	<u>1,386</u>	<u>-</u>
	224	-
Interest expense (included in finance cost)	-	-
Expenses relating to short-term leases (included in administrative expenses)	-	-
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	-	-
	<u>224</u>	<u>-</u>

Future minimum lease payments at 31 May 2020 are as follows*:

	2020 £000	2019 £000
Within one year	1,780	1,804
In the second to fifth years	3,369	4,646
	<u>5,149</u>	<u>6,450</u>
Total gross payments	(281)	(443)
Less future finance expenses		
	<u>4,868</u>	<u>6,007</u>

*In 2019 the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in tangible assets and the liabilities as part of the company's borrowings. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

The total cash outflow for leases in 2020 was £2,466,000 (2019: £nil).

21 Employee benefits

The company operates a group personal pension scheme. The pension cost charge for the year represents contributions payable by the company to the employees' funds and amounted to £386,000 (2019: £414,000). The amount of contributions outstanding within accruals and deferred income at 31 May 2020 was £25,000 (2019: £50,000).

Notes (continued)

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020 £000	2019 £000
Less than one year	-	255
Between one and five years	-	332
	<hr/>	<hr/>
	-	587
	<hr/>	<hr/>

During the year to 31 May 2019, £336,000 was recognised as an expense in the profit and loss account in respect of operating leases.

From 1 June 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (see note 1).

23 Capital and reserves

	2020 £000	2019 £000
Share capital		
<i>Allotted, called up and fully paid</i>		
3,584,000 Ordinary shares of £0.25 each	896	896
	<hr/>	<hr/>

Capital contribution reserve

The capital contribution reserve comprises cumulative share-based payments.

24 Contingent liabilities

The Company is party to a group composite debenture arrangement with certain of the companies in the Hargreaves Services plc group. This is in respect of the banking arrangements of Hargreaves Services plc (as outlined further in the Hargreaves Services plc group accounts) which are secured by means of both fixed and floating charges over all assets and undertakings of the Company. The total amount drawn on the group banking facility at 31 May 2020 was £32,000,000 (2019: £27,000,000).

The Company has performance bonds and guarantees in place in relation to various performance obligations under certain contracts. The total value of these bonds at 31 May 2020 is £5.0m (2019: £4.8m).

The Company is in receipt of a pre-action protocol letter alleging that it is responsible for defects caused by an inadequate design on a contract which was completed in 2016. This was a design and build contract where the design element had been novated to the Company although the design was carried out by an independent third party. The matter has been referred to the Company's insurers and a pre-action protocol letter has been sent by the Company to the design consultants whom the Board and their advisors consider are responsible for any defective design. The Board considers that should the design be proven to be faulty, whilst the Company would have liability under the contract, any loss would be recovered through its action against the design consultancy. Substantial Professional Indemnity insurance cover is held both by the Company and the design consultancy, however should the costs of rectification of any proven defect exceed that insurance cover and the design consultancy not have sufficient resources to meet the costs, then the Company may suffer a loss, although it is not possible at this stage to be able to quantify any possible loss.

Notes (continued)

25 Employee share schemes

The terms and conditions of the Hargreaves Services plc Group Long-Term Incentive plans that affect the Company's employees are set out in the table below:

	Date of grant	Employees entitled	Number of shares granted	Vesting conditions	Contractual life
Deferred bonus scheme C	August 2016	Senior employees	135,034	3 years' service	3 years
Deferred bonus scheme F	February 2019	Senior employees	60,240	3 years' service	3 years

Deferred Bonus Scheme

The options outstanding at 31 May 2020 have an exercise price of £nil and a weighted average contractual life of 24 months.

There were 29,191 options exercised in the year (2019: 6,918) with a weighted average market value of 271p (2019: 313p).

Further detail relating to the Share Option Schemes can be found in the financial statements of Hargreaves Services plc.

The total share-based payments charge for the year ending 31 May 2020 was £74,000 (2019: £28,000).

26 Related Party Transactions

In these financial statements, the company has applied the exemption available under FRS 101 regarding disclosures in respect of transactions with wholly owned subsidiaries within the group. At the year ended 31 May 2019 there were no balance outstanding with, or sales to/purchased from any other related parties. At the current year end, the company had no balances outstanding with, or sales to/purchases from any other related parties, other than those listed below:

	2020		Balance outstanding debtor/ (creditor) £000
	Purchases from £000	Sales to £000	
Tower Regeneration Limited	-	231	-

Notes *(continued)*

27 Ultimate parent undertaking and controlling party

The Company is a subsidiary undertaking of Hargreaves Services plc. Hargreaves Services plc is the Company's ultimate controlling party.

The Company's immediate controlling party is C.A. Blackwell Group Limited which has a registered address at West Terrace, Esh Winning, Durham, DH7 9PT.

The only group in which the results of the Company are consolidated is that headed by Hargreaves Services plc. The consolidated financial statements of this company are available to the public and may be obtained from their registered address West Terrace, Esh Winning, Durham, DH7 9PT.