THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take, you should consult an independent professional adviser authorised for the purposes of the Financial Services and Markets Act 2000 ("FSMA") (as amended) who specialises in advising on the acquisition of shares and other securities in the United Kingdom. The whole of the text of this document should be read. Prospective investors should carefully consider the section entitled "Risk Factors" in Part II of this document before taking any action.

This document comprises an admission document drawn up in accordance with the rules of the AIM market of the London Stock Exchange ("AIM"). This document does not constitute an offer of transferable securities to the public within the meaning of section 102B of FSMA and does not require a prospectus within the meaning of section 85 of FSMA and is not a prospectus as defined in the AIM rules. Application has been made for the whole of the ordinary share capital of the Company in issue following the Placing to be admitted to AIM. It is expected that Admission will become effective and that dealings will commence on AIM on 30 November 2005.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document.

Hargreaves Services plc

(Incorporated under the Companies Act 1985 with registered number 4952865)

Placing of 9,547,737 Ordinary Shares at 243p per share
Admission to trading on AIM

arranged by Nominated Adviser and Broker

Brewin Dolphin Securities
Corporate Finance

The Directors, whose names are set out on page 3 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Brewin Dolphin Securities Ltd, a member of the London Stock Exchange, authorised and regulated by the Financial Services Authority, is acting as nominated adviser and broker to the Company. Persons receiving this document should note that, in connection with the Placing and Admission, Brewin Dolphin Securities Ltd is acting for the Company and no one else and it will not be responsible to any other person for providing the protections afforded to clients of Brewin Dolphin Securities Ltd, nor for providing advice in relation to the Placing.

This document does not constitute an offer to sell nor the solicitation of an offer to buy any securities other than pursuant to the Placing described herein. Nor does it constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction or to any person in which or to whom it is unlawful to make such offer or solicitation.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Timothy Stuart Ross	*Non-executive Chairman*
	Gordon Frank Colenso Banham	*Group Chief Executive*
	Peter Marshall Dillon	*Group Financial Director*
	Kevin James Stewart Dougan	*Group Contracts Director*
	Nigel Mark Barraclough	*Non-executive Director*
Company Secretary	Stephen Nigel MacQuarrie	
	all of:	
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DEFINITIONS

The following definitions apply throughout this document unless otherwise stated or the context otherwise requires:

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission to AIM of the entire ordinary share capital of the Company in issue and to be issued (including the Placing Shares) and such admission becoming effective
"AIM"	the AIM market of the London Stock Exchange
"AIM Rules"	the rules for AIM companies and their nominated advisers, as issued by the London Stock Exchange, as amended from time to time
"Articles"	the Company's articles of association adopted conditional upon Admission
"Board" or "Directors"	the directors of the Company from Admission, or a duly authorised committee thereof, whose names are set out on page 3 of this document
"Brewin Dolphin"	Brewin Dolphin Securities Ltd
"Company"	Hargreaves Services plc or its businesses as the context requires
"CREST"	the electronic share settlement system operated by CRESTCo
"CRESTCo"	CRESTCo Limited, the operator (as defined in the Uncertificated Securities Regulations 2001) of the system for trading shares in uncertificated form known as CREST
"CREST Regulations"	the Uncertified Securities Regulations 2001 (SI 2001/3755) (as amended)
"Combined Code"	the Combined Code on Corporate Governance published by the Financial Reporting Council
"Enlarged Share Capital"	the issued share capital of the Company following Admission, comprising the Existing Ordinary Shares and the Placing Shares
"ESI"	the electricity supply industry being the power generators who supply electricity to the UK National Grid and elsewhere
"Existing Ordinary Shares"	the 14,827,700 Ordinary Shares in issue at the date of this document
"Group" or "Hargreaves"	the Company together with its subsidiaries
"HTSL"	Hargreaves Transport Services Limited
"HUL"	Hargreaves (UK) Limited
"HUL Group"	HUL together with its subsidiaries, being the Group prior to the MBO in April 2004;
"Issue Price"	243 per share
"London Stock Exchange"	London Stock Exchange plc
"Monckton"	The Monckton Coke & Chemical Company Limited
"New Ordinary Shares"	the 8,847,737 new Ordinary Shares to be issued in the Placing
"Official List"	the Official List of the UKLA
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company

"Placing"	the conditional placing by Brewin Dolphin of the Placing Shares and the Sale Shares at the Issue Price, pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 24 November 2005 between the Company, Brewin Dolphin, the Directors and the Selling Shareholders details of which are set out in paragraph 10 of Part IV of this document
"Placing Shares"	the 8,847,737 New Ordinary Shares to be issued pursuant to the Placing
"Sale Shares"	the 700,000 Existing Ordinary Shares being placed on behalf of the Selling Shareholders
"Selling Shareholders"	Baring English Growth Fund (North) LP and Baring English Growth Fund (Midlands) LP
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000

KEY INFORMATION

The following information is extracted from and should be read in conjunction with the full text of this document. This summary is not complete and does not contain all of the information which a prospective investor should consider before making any investment decision with respect to the Ordinary Shares. Prospective investors should read the whole of this document, including the Risk Factors set out in Part II.

OVERVIEW

Hargreaves is one of the UK's leading providers of bulk materials and services to the electricity generating industry and other bulk materials consumers. The Group sources and supplies bulk minerals, principally coal and other carbon products, owns and operates the only independent coke works in the UK, provides handling and processing services of bulk materials through its port facilities and provides outsourced bulk materials handling. Hargreaves' bulk road haulage fleet and expertise underpins all of these activities and enables the Group to benefit from economies of scale brought by an integrated infrastructure.

The Directors believe that the following are key strengths underpinning the Group's prospects following Admission:

- a management team with a track record of delivering both organic and acquisition led growth;
- good long term demand in the markets underlying the Group's businesses;
- good visibility of earnings based upon contracted sales and supplies and long term customer relationships;
- significant barriers to entry for new market entrants;
- a track record of strong positive cash generation; and
- substantial growth opportunities both organically and through acquisitions.

BACKGROUND

The Group was founded in 1994 with the acquisition of a haulage business from RJB Mining plc. During the 1990s, Hargreaves acquired a further four bulk haulage businesses and from 2001, with the appointment of the current Group Chief Executive, Gordon Banham, began implementing a strategy of diversifying the Group's activities into higher value services.

In April 2004, the current management team completed a management buyout of Hargreaves from its founders and on 17 June 2005, Hargreaves completed the acquisition of Monckton, the only independent coke producer in the UK, from UK Coal plc.

HARGREAVES STRATEGY AND BUSINESS MODEL

The Group is aiming to build an integrated business that brings together a comprehensive range of bulk material sourcing, processing and handling services to meet the increasingly demanding needs of British industry. Hargreaves' key differentiator is that it is a logistics supply business which takes ownership of product and product supply. In addition, it adds value through its materials production and processing operations. The integrated business model creates significant economies of scale, and the Directors believe that the strategy of becoming a large player in specialised markets should lead to the securing of greater purchasing power and improved margins. The Group's activities are managed through four divisions: Hargreaves Mineral and Industrial Services ("HMIS"); Monckton Coke Works ("Monckton"); Hargreaves Waste Services ("HWS") and Hargreaves Transport Services ("HTS").

HMIS specialises in the provision of minerals to industrial, wholesale and public sector clients, as well as providing a range of bulk materials handling, processing and recovery services to major electricity generators. HMIS sources and distributes coal and is able to land entire shiploads of imported products at port facilities operated by the Group. HMIS operates two port facilities, at Immingham on the East coast and Newport in South Wales, representing a major barrier to entry to new entrants in this market.

Monckton is the only independent producer of metallurgical coke in the UK producing around 200,000 tonnes of coke per annum which are sold to producers of soda ash, ferro-alloys and to the domestic heating market. At Monckton, gas by-products are used to fuel an on-site combined heat and power generation unit to heat and power the site with excess electricity being sold into the National Grid.

HWS is a growing provider of logistical support services to the UK waste industry. HWS currently services 11 waste transfer stations and 25 civic amenity sites, and handles industrial and domestic waste. HWS's customers are either waste management companies or local authorities. Increasing demand, coupled with the rising cost of compliance with health and safety legislation and increases in fuel costs, is leading waste management companies and local authorities to further outsource waste handling and transportation.

HTS is one of the largest bulk road hauliers in the UK, with a fleet of approximately 200 owned trucks and up to a further 140 sub-contracted trucks. HTS integrates into all parts of the group and provides the base infrastructure which links many of the Group's activities. It gives the Group flexibility to be able to move resources around the divisions to where they are most needed at any particular time. The division has long term contracts with large customers, many of which are index linked to fuel and inflation and which provide a substantial base load of work.

Hargreaves' strategy

Hargreaves' strategy is to develop complementary businesses which can grow based upon the strengths and economies of scale of the integrated infrastructure.

In each of Hargreaves' core markets the Board is committed to developing businesses which are already, or are capable of becoming, market leaders.

Following Admission, Hargreaves' strategy will continue to be:

- increasing tonnages of coal and other minerals sourced and supplied by the Group, including increasing port capacity as and when opportunities arise;
- seeking opportunities to provide outsourced haulage services using the economies of scale provided by Hargreaves' large integrated transport infrastructure to offer a competitive alternative;
- investing in the management infrastructure of HWS to enable it to pursue further outsourcing opportunities in the growing waste services sector; and
- making acquisitions of businesses which increase market share and take Hargreaves into new and complementary areas or offer synergies by leveraging off Hargreaves' existing infrastructure.

SUMMARY FINANCIAL INFORMATION

Financial track record

The financial track record of the Group is summarised below and has been extracted from the accountant's reports, which are set out in Part III of this document. **However, you should read the whole document and not just rely on this summarised information.**

Hargreaves was the subject of a management buyout in April 2004 and acquired Monckton on 17 June 2005, and therefore the summary financial information below is presented separately for the Group prior to the acquisition of Monckton for the three years ended 31 May 2005, and for Monckton for the three years and nine months ended 30 September 2005.

	Year ended 31 May 2003 £'000	Year ended 31 May 2004 £'000	Year ended 31 May 2005 £'000
Turnover, group and share of joint ventures	61,677	65,708	87,570
Gross profit	8,038	8,373	9,837
Total operating profit before exceptional costs	1,933	2,757	3,548
Profit on ordinary activities before tax	1,003	870	2,348
Net assets	4,627	4,360	4,400
Net debt	(10,940)	(9,678)	(12,073)
Cash flow from operating activities	4,490	3,593	3,321

Monckton

	Year ended 31 December 2002 £000	Year ended 31 December 2003 £000	Year ended 31 December 2004 £000	9 months ended 30 September 2005 £000
Turnover	15,891	16,965	19,837	17,445
Gross profit	576	999	1,276	2,536
Operating (loss) / profit	(635)	321	251	1,403
(Loss) / profit on ordinary activities before taxation	(712)	294	210	1,355
Net assets	362	579	744	1,653
Net funds	277	490	471	(3,222)
Cash flow from operating activities	5,211	130	44	(3,481)

Current trading and prospects

The Directors entered the new financial year with confidence, completing the acquisition of Monckton in the first month of the financial year, and believe that the market outlook for the provision of Hargreaves' services is positive.

The Directors believe that the Group will benefit in the financial year to 31 May 2006 from the recent acquisition of Monckton, and the further development of the Group's other businesses. The Group exhibits good levels of visible earnings by virtue of contracted revenues and long standing customer and supplier relationships, and the Directors believe that current trading levels are, at least, in line with budgets.

The Directors remain confident of the prospects of the Group for the current financial year.

REASONS FOR THE PLACING AND ADMISSION

The Company has reached a stage in its development where the Directors consider that its strategic objectives can most readily be achieved as a publicly quoted company. The Board believes that a quotation on AIM will provide the Company with access to new sources of funds and provide a value to the Company's shares which should facilitate the Company in achieving its growth aspirations whether organically or by acquisition. In addition, the Directors believe that Admission should provide liquidity in the Company's shares which, in conjunction with the Sharesave Scheme, should assist the Company in attracting, motivating and retaining employees of the appropriate calibre.

RISK FACTORS

Investing in the Company involves a degree of risk. Your attention is drawn to the risk factors set out in Part II of this document.

PLACING STATISTICS

Issue Price	243p
Number of Ordinary Shares in issue prior to the Placing	14,827,700
Number of Placing Shares being placed on behalf of the Company	8,847,737
Number of Sale Shares being sold by the Selling Shareholders	700,000
Percentage of enlarged issued share capital being placed	40%
Number of Ordinary Shares in issue upon Admission	23,675,437
Market capitalisation of the Company at the Issue Price	£57.5m
Estimated net proceeds of the Placing receivable by the Company	£20.0m

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of the Admission Document	24 November 2005
Admission and dealings in the Ordinary Shares commence on AIM	30 November 2005
Delivery of shares into CREST accounts	30 November 2005
Definitive share certificates for Ordinary Shares to be despatched no later than	7 December 2005

PART I: INFORMATION ON HARGREAVES AND THE PLACING

HISTORY AND BACKGROUND

Hargreaves is a leading provider of materials and services to the energy industry and other large material consumers. The Group's activities include mineral trading and coke production, handling and processing of materials through port facilities, and bulk road haulage.

The Group was founded in 1994 with the acquisition of a haulage business from RJB Mining plc. At that time the business had approximately 20 trucks and was focussed on the haulage of coal principally in the North East of England. During the 1990s Hargreaves acquired a further four businesses and by 2001 had approximately 250 trucks and its operations were nationwide. In 1999, Hargreaves Waste Services was established and won its first contract for waste haulage.

In 2001, Gordon Banham joined the Group,and continued the strategy of buying smaller haulage businesses and he also began implementing a strategy of diversifying the Group's activities into higher value services. In 2001, Hargreaves commenced port services at Immingham, and in 2002, at Newport; this marked a step change in the Group's capacity to supply the energy industry with carbon based products and handling services. In 2003 a number of joint ventures were established.

In April 2004, the current management team completed a management buyout of Hargreaves from its founders in which Barings English Growth Fund invested £3.5 million in debt and equity, and the management team invested approximately £1 million. On 17 June 2005, Hargreaves completed the acquisition of Monckton from UK Coal plc for a cash consideration of £12 million, of which £4 million is deferred. Monckton, established over 100 years ago, is the only independent coke producer in the UK and is an important strategic addition to the Group as part of its carbon product supply offering. The acquisition of Monckton brings the total number of employees in the Group to almost 600.

THE MARKET

Hargreaves provides bulk materials handling, transport and management services in four main areas: supply of carbon products to the electricity industry, other industries and domestic markets; production and supply of coke; supply and transportation of bulk products for the construction and building materials sector and waste services. Demand for Hargreaves products and services is linked with demand in these underlying markets.

Supply of carbon products

Electricity supply industry ("ESI")

In 2004, the UK national grid required 350 TWh of electricity, of which around 127 TWh was supplied by large coal fired power stations. Coal fired power stations in the UK burned approximately 51 million tonnes of coal in 2004.

The outlook for coal demand from the ESI is complex, being pulled up by the rising price of oil and gas in recent years and improvements in clean coal technologies, whilst facing an uncertain future as legislation on carbon dioxide emission comes into force over the next two decades and introduces new and potentially increasing costs. However, in the Directors' opinion, demand for coal from the ESI will be supported by lack of capacity from other forms of electricity generation and the lead times inherent in installing that capacity. In addition, demand for coal is further supported whilst coal fired electricity generation remains economically competitive with gas. This view is reinforced by approximately half of the UK's coal fired power generating capacity having installed or presently installing flue gas desulphurisation (FGD) technology enabling the use of higher sulphur content coal. FGD requires significant investment and is indicative of a continued reliance on coal for at least the 10 year payback period expected for an investment of this type.

Approximately 60 per cent of the coal used in electricity generation is imported through 11 major ports, of which Hargreaves operates at two: Immingham on the East coast serving predominantly the Aire Valley power stations and Newport on the West coast serving power stations in Southern England and Wales. Capacity at these ports for landing large shipments of coal is limited as is land on the port estate used for storing, processing and handling coal prior to onward transport. In addition, a significant proportion of these ports are already operating at full capacity or are largely dedicated to a particular power generator or steel producer, meaning that, in the Directors' opinion, there are limited opportunities for competitors to establish new points of entry to the UK market. The Directors believe that UK production of coal will continue to decline in the long term, and consequently, demand for imported coal and the handling and processing of such coal will increase, providing the Group with opportunities for growth.

In addition to coal, a number of power stations already burn or are trialling biomass fuels. At present these represent a small proportion of the total fuel requirement but may become more important as regulations concerning the use of renewable fuels for the production of electricity penalise fossil fuel combustion. Typical sources of biomass include olive residue, palm kernel expeller or pelleted wood pulp.

Other industries and domestic markets

In addition to ESI coal, the other UK markets for coal are the industrial and domestic markets. The industrial market comprises principally the cement industry, hospitals, prisons and schools. Relative to ESI, this is a small market and, although it is declining, Hargreaves' market share has increased over recent years.

The domestic market for coal is estimated at 500,000 tonnes per annum and includes the household market and specialist applications such as steam locomotives. Customers for domestic coal include coal merchants and wholesalers. Higher margins are achieved with domestic grade coal than with ESI and industrial grade coal. The domestic market has been declining for a number of years, although Hargreaves market share has increased.

Supply and transportation of bulk products for the construction and building materials sector

The construction industry and the building materials industry have significant demand for quarried products and recycled aggregates. There is therefore a market for the supply of such products, and the associated handling services and road haulage. In this sector, the bulk haulage industry has historically been dominated by small operators with limited geographical coverage and by dedicated fleets managed by a quarry or mine operator. Regulation and competition are, the Directors believe, driving a process of consolidation and increasing interest in outsourcing.

Market consolidation

The bulk haulage industry has historically been dominated by small operators with limited geographical coverage. Regulation and competition are, the Directors believe, driving a process of consolidation. Between 1994 and 2004, Hargreaves acquired six haulage operators.

Bulk haulage operators are affected by a number of areas of regulation including the Working Time Directive, health and safety laws and operator licences. Smaller operators may be unwilling or unable to make the investment in the systems, vehicles and training necessary to meet these standards and so opportunities arise to compete for business or takeover existing operations. In addition, customers, especially those for whom health and safety is a major risk, may be more inclined to place their business with a larger business than with a smaller operator with less sophisticated compliance systems.

Outsourcing

In a number of industries, operators have historically maintained their own small dedicated fleets of vehicles. The burden of regulation of running such fleets, recent rises in diesel prices and the inherent inefficiency in running a dedicated fleet, which may have a relatively high proportion of empty miles and periods when trucks are not in use, can combine to create a significant cost burden on such businesses. Hargreaves has been successful in convincing such operators that a more modern fleet managed by Hargreaves, taking advantage of its infrastructure, can be run at a lower cost. The Directors believe that there are considerable opportunities for growth in this area.

Recycled aggregates

Recycled aggregates taken by the construction and building sector include ash from the combustion of coal in electricity generation. Coal fired power stations in the UK produce around 6.5 million tonnes of ash per annum. Around 3.5 million tonnes per annum of ash is sold either directly by the power stations or through agents, typically to the construction and building materials sector for use in block making, grouting, as a sub-base in road construction and as a stabiliser for land development. The Directors believe that tightening environmental legislation may lead to increased opportunities for ash sales if targets rise for recycling such materials. In addition, the construction and building materials sector also has demand for extracted materials quarried in the UK or imported for use in brick making, block making and road building.

Production and supply of coke

Coke produced from coal can be categorised as foundry, blast furnace or metallurgical. Metallurgical coke is used principally in the production of ferro-alloys. The Hargreaves Group includes the only independent producer of metallurgical coke in the UK, producing around 200,000 tonnes per annum. Around 40 per cent of production is used in soda ash production in the UK and 40 per cent is used in ferro-alloy production in Scandinavia, with the balance going into the steel industry or domestic heating products. The Directors believe that the market for metallurgical coke is stable, although there is some evidence that demand slightly exceeds capacity, but the investment required and environmental issues are prohibitive for new coking plants.

Blast furnace coke used in the production of steel is generally sourced or manufactured directly by steel manufacturers. Foundries in the UK have demand for approximately 50,000 tonnes per annum of foundry coke, of which Hargreaves supplies around half by import from China through a joint venture company.

Waste Services

Waste services in the UK are becoming increasingly affected by environmental legislation. Declining landfill capacity and landfill tax are driving up the costs of managing municipal waste and reducing the commercial viability of disposal of waste to landfill sites. Waste management companies and local authorities are looking for ways to increase their own efficiency, offer better services, increase recycling and reduce costs. As a result there are opportunities to supply outsourced services in waste handling and transport in order to assist waste management companies and local authorities to achieve these efficiencies.

HARGREAVES STRATEGY AND BUSINESS MODEL

The Group is aiming to build an integrated business that brings together a comprehensive range of bulk material sourcing, processing and handling services to meet the increasingly demanding needs of British industry. Hargreaves' key differentiator is that it is a logistics supply business which takes ownership of product and product supply. In addition, it adds value through its materials production and processing operations. The integrated business model creates economies of scale, and the Directors believe that the strategy of becoming a large player in specialised markets should lead to the securing of greater purchasing power and better margins. The Group's activities are managed through four divisions:

Hargreaves Mineral and Industrial Services ("HMIS")

Hargreaves Mineral Services specialises in the provision of minerals to industrial, wholesale and public sector clients, as well as providing a range of bulk materials handling, processing and recovery services to major clients in the electricity supply industry (ESI).

HMIS sources and distributes coal to the ESI, cement manufacturers, other industrial users (including schools, prisons and hospitals) and the domestic markets by road and rail. Key customers include the coal fired power stations at Ferrybridge and Eggborough, with contract lengths of up to three years. HMIS is able to land entire shiploads of imported products at port facilities operated by the Group and the Directors believe this allows HMIS purchasing power similar to the power generators themselves for coal graded for the ESI. However, purely importing such coal offers little opportunity to add value and little, if any, profit margin. Instead HMIS sources and imports "run of mine" coal, and adds value by processing this for ESI, industrial and domestic applications. This ability coupled with the Group's importing and handling operations and integrated distribution network, means that Hargreaves can offer electricity generators a competitively priced ESI grade product as well as supplying the industrial and the higher margin domestic markets. HMIS has experienced an increasing share of the industrial and domestic markets, exploiting the competitive advantages offered by the Group's bulk haulage operations and geographical coverage of England and Wales.

HMIS's services include sizing and sorting of coal, operating a stock control process, handling, storing, washing, blending and removing contaminants.

HMIS operates two port facilities, at Immingham on the East coast and Newport in South Wales, giving good geographical coverage across England and Wales for the provision of services including handling cargoes from quayside to onward movement by road or rail, and the provision of substantial open and covered storage. HMIS holds shipping slots for the next four years.

The opening of a second international terminal at Immingham, scheduled for Summer 2006, will create opportunities to bring in more cargoes of bulk materials thereby creating further economies of scale. HMIS's existing facilities at Immingham are currently running at around 50 per cent of their potential maximum capacity, meaning it has capacity to deal with the expected increases in volumes.

HMIS also blends biomass with ESI grade coal as an alternative fuel for power generation. Power generated by the power station using such fuel is eligible to be sold into the UK National Grid with the benefit of Renewable Obligation Certificates, thus improving power station profitability. HMIS manages the supply chain from sourcing the biomass through to loading and controlling the conveyors that feed the furnaces. HMIS can supply, install and manage the plant and workforce, tailored as necessary, to enable power stations to convert to and run on a biomass blended fuel as well as handling ash removal. HMIS currently has biomass handling contracts with Ferrybridge and Eggborough power stations, the Group's infrastructure allowing it to offer flexible responses to meet short term or seasonal demands.

Other materials such as shale, fireclay, sand, colorants and clay additives are supplied to brick manufacturers which help maintain plant and fleet utilisation rates over any seasonality in the coal supply businesses. Petroleum coke is imported from the USA, and foundry coke through ThyssenKrupp Metallurgical Supplies Ltd (a joint venture with ThyssenKrupp MinEnergy GmbH). A second joint venture, Hargreaves Coal Combustion Products (HCCP), is the largest UK specialist in the management and sale of combustion by-products such as furnace bottom ash and pulverised fuel ash for use in the construction sector.

The Directors believe that the ability to combine expertise in the sourcing of materials with reliable, cost-effective, in-house transport and technical support gives Hargreaves a competitive advantage in the marketplace. Turnover for the year ended 31 May 2005 (excluding internal customers) was approximately £41.3 million and in addition the joint venture companies had turnover of approximately £4.3 million, an increase of 50 per cent and 5 per cent respectively over the year ended 31 May 2004.

Monckton Coke Works ("Monckton")

Monckton, which is based near Barnsley, was acquired from UK Coal plc on 17 June 2005 and is the only independent producer of metallurgical coke in the UK. The coke works operate 24 hours a day, 365 days a year producing around 200,000 tonnes of coke per annum for use in the production of soda ash (used in glass production), specialist ferro-alloys and steel. Monckton also supplies coke for domestic heating.

At Monckton waste gases are used to fuel an on-site combined heat and power generation unit producing around 5 to 6 MWh of electricity, and with the capacity to produce 11 MWh, of which approximately 1MWh is used to heat and power the site, with excess electricity being sold into the UK National Grid.

Monckton also finds markets for other by-products of the coke making process which principally comprise ammonia, benzole and tar.

The Monckton site has potential for diversification, including the possible conversion and refurbishment of nine currently unused coke ovens for the use of alternative fuels or incineration of hazardous waste. In addition, the site has space for depot operations, and a rail head which is currently unused. Hargreaves is currently investigating these opportunities and discussing the issues with the local authority and the Environment Agency.

Monckton's turnover for the year ended 31 December 2004 was £19.8m, up from £17.0 million in 2003.

Hargreaves Waste Services ("HWS")

HWS is a growing provider of logistical support services to the UK waste industry. The waste business was established in 1999 and in the year ended 31 May 2005 achieved a turnover of £8.9 million, up from £5.4 million in 2004.

HWS currently services 11 waste transfer stations and 25 civic amenity sites, and handles industrial and domestic waste. The majority of this revenue is under contracts which have between 2 and 6 years to run.

HWS's customers are either waste management companies or local authorities. Areas covered include East Yorkshire, Hull, Humberside, Cheshire, Staffordshire, Denbighshire, Tyneside, Northumberland, Lincolnshire, Scunthorpe, Barnsley and Derbyshire.

In addition to waste transport services, HWS provides tailor-made waste handling services, thereby offering an integrated service to the contracting waste management company or local authority. The Group has invested in training and in specialist vehicles and equipment in order to provide its waste management customers with expertise and reliability in this specialist field.

Environmental legislation is driving major changes in waste management with increasing landfill tax and declining landfill capacity. Waste authorities are faced with finding ways of diverting waste away from traditional landfill. The separation of waste for different means of disposal or recycling is creating an increasing demand for handling, processing and transporting waste (both number of journeys and mileage). This increasing demand, coupled with the rising cost of compliance with health and safety legislation and increases in fuel costs, is leading waste management companies and local authorities to outsource waste handling and transportation.

The Directors believe that this sector offers significant potential for further outsourcing contracts to be won, and that HWS is well placed to expand its services both geographically and through further contract wins in the regions in which it is currently operating.

Hargreaves Transport Services ("HTS")

HTS is one of the largest bulk road hauliers in the UK, with a fleet of approximately 200 owned trucks and up to a further 140 sub-contracted trucks. HTS's trucks are mainly articulated 44 tonne tipper trucks although the fleet includes a variety of specialist vehicles to meet the needs of its customers. The business is headquartered in Durham and has access to more than 10 depots across the country. HTS provides services nationwide for customers requiring bulk haulage of coal, a range of other power generation products, aggregates, ash, animal feed, grain, fertiliser and road salt.

HTS places a strong emphasis on its quality ethos, seeking to make it a competitive advantage. In order to achieve a high standard of customer service, Hargreaves invests in premium quality new vehicles. The average age of Hargreaves' trucks is around three years, and trucks are generally not kept beyond seven years. HTS employs dedicated driver training staff helping to maintain the Group's commitments on safety. Planning teams oversee service delivery from initial vehicle inspection through to monitoring of performance. Vehicle movements are monitored by tracking technology, enabling real-time, on-line monitoring.

HTS performs haulage services both for external customers and for Group companies including joint ventures, a significant feature of Hargreaves' integrated service business model. The division has long term contracts with large customers, many of which are index linked and which provide a substantial base load of work. In the year ended 31 May 2005, HTS achieved a turnover of £29.1 million (excluding internal customers) up from £26.8 million in the year ended 31 May 2004.

A competitive cost advantage is achieved when supplying outsourcing services as HTS's vehicles can reduce costs by minimising the number of 'empty miles' travelled on return journeys, where no revenues would be earned, by arranging for other customers' loads to be carried on the return journey wherever practicable. In addition, by employing subcontractors two advantages are yielded: workload fluctuations can be managed and subcontractors can be tasked to perform Group internal transport requirements rather than external work, thus reducing the risk of losing a contract to a competitor. Hargreaves has also been able to realise economies of scale by outsourcing elements of its fleet maintenance operations.

In addition, a joint venture, Hargreaves (Bulk Liquid Transport) Limited (HBLT), operates a fleet of approximately 70 tankers for the transportation of oils and phenols for customers in the petrochemical industries. In the year ended 31 May 2005, HBLT had turnover of approximately £4.1 million.

The Directors believe that there is significant potential to increase the Group's market share of outsourcing contracts across the UK, as large companies seek to achieve transportation savings and reduce risk whilst ensuring quality and reliability of bulk transport services.

Strategy

Hargreaves strategy is to develop complimentary businesses which can grow, based upon the strengths and economies of scale of the integrated infrastructure.

In each of Hargreaves core markets: supply and importation of materials, ash products, bulk building and construction materials, coke production and waste, the Board is committed to developing businesses which are already, or are capable of becoming, market leaders.

Following Admission, Hargreaves' strategy will continue to be:

- increasing tonnages of coal and other minerals sourced and supplied by the Group, including increasing port capacity as and when opportunities arise;
- seeking opportunities to provide outsourced haulage services using the economies of scale provided by Hargreaves' large integrated transport infrastructure to offer a competitive alternative;
- investing in the management infrastructure of HWS to enable it to pursue further outsourcing opportunities in the growing waste services sector; and
- making acquisitions of businesses which increase market share, and take Hargreaves into new and complementary areas or offer synergies by leveraging off Hargreaves' existing infrastructure.

Barriers to entry

The Directors believe that Hargreaves' established national infrastructure presents a competitive advantage over smaller less well diversified competitors, and provides considerable barriers to entry. The port facilities at Immingham and Newport, which the Directors believe are well placed geographically, have limited facilities that a potential competitor or new entrant could access.

The Monckton coke production facilities supply the vast majority of the UK market capacity for metallurgical coke. The Directors believe that a new entrant or competitor developing a production site in the UK would face significant delays in obtaining planning approval due to the environmentally sensitive nature of coke production. Additionally, the prohibitive capital expenditure required for a new coke production facility would outweigh the benefits of any revenues received once in production and restrict a competitor's ability to compete on price.

The Directors believe that the bulk haulage industry is not an attractive industry when an operator undertakes solely to provide bulk haulage services to its customers. The Group makes bulk haulage operations economically viable by taking ownership of a greater proportion of the supply chain as it combines its bulk haulage operations with other areas of the Group's activities. By endeavouring to eliminate 'empty miles', for example by delivering coal to and removing ash from power stations, the Group's transport fleet's proportion of revenue generating journeys is increased.

Additionally, the existence of the haulage capabilities of the Group helps support the activities of the Group's other divisions. The infrastructure needed to execute this efficiently and with a high quality of service has required significant investment, and the Directors believe that such an investment, and the necessary time and skill required to replicate operations equally attractive to customers as Hargreaves' operations, represents a significant barrier to anyone looking to compete in Hargreaves' markets.

The Group's business and its relationships with customers and suppliers have been built over many years. Part of the Group's ethos is to gain a reputation for its quality of service and reliability. The Directors believe that the relationships and reputation which it has built would be difficult to replicate and represent a further barrier to new entrants.

Regulation

The Group's activities and the markets in which it operates are, and will continue to be, subject to regulation.

In common with other road hauliers and waste carriers the Group requires certain statutory licences from regulatory bodies confirming that the Group companies are appropriate persons to carry on business as road hauliers or waste carriers and that the Group's vehicles, equipment and operating centres are of an appropriate standard.

The Group's materials handling and coke production activities are subject to various regulations concerning emissions to the environment from industrial processes. The sites from which these activities are carried on must hold permits in order to continue their operations and these permits often contain an improvement plan designed to reduce emissions to the environment. These improvement plans, in particular that relating to the Monckton coke works site, will necessitate investment expenditure by the Group.

The operation by Group employees of heavy goods vehicles and large items of plant and equipment carry certain health and safety risks as do industrial processes such as coke production. Consequently, the Group has to comply with a wide range of health and safety legislation.

SUMMARY FINANCIAL INFORMATION

Financial track record

The financial track record of the Group is summarised below and has been extracted from the accountant's reports, which are set out in Part III of this document. **However, you should read the whole document and not just rely on this summarised information.**

Hargreaves was the subject of a management buyout in April 2004 and acquired Monckton on 17 June 2005, and therefore the summary financial information below is presented separately for the Group prior to the acquisition of Monckton for the three years ended 31 May 2005, and for Monckton for the three years and nine months ended 30 September 2005 (set out in Part III (c) of this document). Furthermore, the summary financial information for the Group prior to the acquisition of Monckton set out immediately below is extracted from the report on Hargreaves Services plc for the year ended 31 May 2005 (set out in Part III (a) of this document) and from the financial information on Hargreaves (UK) Limited for the two years ended 31 May 2004 (set out in Part III (b) of this document).

	Year ended 31 May 2003 £'000	Year ended 31 May 2004 £'000	Year ended 31 May 2005 £'000
Turnover, group and share of joint ventures	61,677	65,708	87,570
Gross profit	8,038	8,373	9,837
Total operating profit before exceptional costs	1,933	2,757	3,548
Profit on ordinary activities before tax	1,003	870	2,348
Net assets	4,627	4,360	4,400
Net debt	(10,940)	(9,678)	(12,073)
Cash flow from operating activities	4,490	3,593	3,321

From 2003 to 2005, Group turnover increased by £25.9 million, equivalent to approximately 42 per cent. A large part of this is as a result of significant contract wins by HMIS for the supply of coal, and processing and transportation thereof, to Ferrybridge and Eggborourgh power stations. Also during the period, the Group acquired a small bulk haulage operation and trading commenced in the joint venture companies HBLT and HCCP. Gross profit increased in the period, although margins fell slightly from 13.0 per cent. in 2003 to 11.2 per cent. in 2005 reflecting the increased proportion of turnover related to mineral sales. Conversely, operating margins increased from 3.1 per cent. to 4.1 per cent. due to operational gearing and active overhead control. Profit on ordinary activities before tax fell in 2004 due to exceptional provisions for non-recurring costs of £942,000.

The Group has produced strong positive operating cash flows throughout the three years. Cash has been invested in working capital and in repaying finance leases on trucks and other materials handling equipment. The apparent decline in reported cash flow from operating activities reflects rising working capital balances needed to support the increases in turnover.

Monckton

	Year ended 31 December 2002 £000	Year ended 31 December 2003 £000	Year ended 31 December 2004 £000	9 months ended 30 September 2005 £000
Turnover	15,891	16,965	19,837	17,445
Gross profit	576	999	1,276	2,536
Operating (loss) / profit	(635)	321	251	1,403
(Loss) / profit on ordinary activities before taxation	(712)	294	210	1,355
Net Assets	362	579	744	1,653
Net funds	277	490	471	(3,222)
Cash flow from operating activities	5,211	130	44	(3,481)

Monckton's turnover has risen by a cumulative average growth rate of 13.5 per cent. per annum from 2002 to 2005 partly due to rising coke prices. In addition, Monckton has increased the volumes of coke sold to existing customers and established new customer relationships. Monckton has enjoyed relatively consistent coal input prices from 2002 to 2005. In 2004, operating profit was adversely affected following production problems at Maltby Colliery which supplies coal to the coke works and one-off repairs to the combined heat and power generator. Monckton has generated positive operating cash flows in the period, although this has been heavily influenced by working capital management under UK Coal plc's ownership, and in 2005, by an intentional build up of raw material stocks to guard against a repeat of the supply problems suffered in 2004. Since taking ownership in June 2005, Hargreaves has renegotiated certain major sales and supply contracts and has instigated a programme of efficiency improvements.

Current trading and prospects

The Directors entered the new financial year with confidence, completing the acquisition of Monckton in the first month of the financial year, and believe that the market outlook for the provision of Hargreaves' services is positive.

The Directors believe that the Group will benefit in the financial year to 31 May 2006 from the recent acquisition of Monckton, and the further development of the Group's other businesses. The Group exhibits good levels of visible earnings by virtue of contracted revenues and long standing customer and supplier relationships, and the Directors believe that current trading levels are, at least, in line with budgets.

The Directors remain confident of the prospects of the Group for the current financial year.

Financial reporting and dividend policy

The Company's financial year ends on 31 May each year. It is anticipated that the preliminary results for the Group will be announced during August each year and that interim results for the first half will be announced during February each year. It is intended to hold the Company's annual general meeting during September each year.

The Company intends to pursue a progressive dividend policy with interim dividends being paid in March and final dividends being paid in October of each year, roughly in the proportion of one third and two thirds of the total dividends for the year. The first dividend is intended to be a final dividend in respect of the year ending 31 May 2006.

DIRECTORS AND EMPLOYEES

Directors

Timothy Ross MA FIQ – Non-executive Chairman, aged 56 years

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

Gordon Banham - Group Chief Executive, aged 41 years

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 - Group Financial Director, aged 61 years

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. Subsequently he was appointed to the MICE board as UK Managing Director and left to join Hargreaves as Group Finance Director in early 2003.

Kevin Dougan MIQ - Group Contracts Director, aged 50 years

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

Nigel Barraclough - Non-executive Director, aged 40 years

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

Employee share schemes

The Directors recognise the vital role of all employees in contributing to the overall success of Hargreaves and the importance of the Group's ability to incentivise and motivate its employees. Therefore, the Directors believe that employees should be given the opportunity to participate and take a financial interest in the success of Hargreaves.

Hargreaves has established the Hargreaves Services 2005 Sharesave Scheme (the "Sharesave Scheme"). Following Admission, invitations to apply for options under the Sharesave Scheme will be made to all employees of the Group over Ordinary Shares to a maximum of 1.5 per cent. of the issued share capital at Admission. The Directors will make these invitations on the day following Admission. The exercise price for these options will be determined by reference to the closing price for an Ordinary Share on the day of Admission subject to a 10 per cent. discount.

A summary of the Sharesave Scheme is set out in paragraph 12 of Part IV of this document.

The Directors will note the guidelines set out by the Association of British Insurers when granting options. The number of options granted to subscribe for new Ordinary Shares (and which have been exercised or remain exercisable) under the Sharesave Scheme and any other employee share scheme of the Company cannot exceed such number as represents in aggregate 10 per cent. of the Company's issued Ordinary Shares from time to time.

CORPORATE GOVERNANCE

The Board recognises the importance of sound corporate governance whilst taking into account the size and nature of the Group. As the Group grows, the Directors intend that the Company should develop policies and procedures which reflect the Combined Code, as they consider appropriate to a company of its size. The Board will take into account the guidance issued by the Quoted Companies Alliance.

An Audit Committee has been established which is composed of Tim Ross and Nigel Barraclough and will be chaired by Nigel Barraclough. It will meet at least twice each year and will be responsible for making recommendations to the Board on the appointment of the auditors and the audit fee, for reviewing the conduct and control of the annual audit and for reviewing the operation of the internal financial controls. It will also have responsibility for the proper reporting of the financial performance of the Group and for reviewing financial statements prior to publication.

The Board notes the guidance contained in the paper on internal controls issued by the Turnbull Committee, on behalf of the Institute of Chartered Accountants, and will review its arrangements as necessary in the light of this guidance.

A Remuneration Committee has been established which is composed of Tim Ross and Nigel Barraclough and will be chaired by Tim Ross. It will review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee will also determine the allocation of share options to employees. It is a rule of the Remuneration Committee that no director shall participate in discussions or decisions concerning his own remuneration. The remuneration of the non-executive directors will be decided by the Board.

The Company will adopt the Model Code for Directors' dealings as set out in the Listing Rules of the UK Listing Authority and as applicable to AIM companies and will take all reasonable steps to ensure compliance by Directors and relevant employees in due course.

THE PLACING

Reasons for the Placing and Admission

The Company has reached a stage in its development where the Directors consider that its strategic objectives can most readily be achieved as a publicly quoted company. The Board believes that a quotation on AIM will provide the Company with access to new sources of funds and provide a value to the Company's shares which should facilitate the Company in achieving its growth aspirations whether organically or by acquisition. In addition, the Directors believe that Admission should provide liquidity in the Company's shares which, in conjunction with the Sharesave Scheme, should assist the Company in attracting, motivating and retaining employees of the appropriate calibre.

Details of the Placing

Brewin Dolphin, as agent for the Company, has agreed conditionally to place firm a total of 8,847,737 New Ordinary Shares at the Issue Price, which will raise approximately £21.5 million for the Company before expenses. After expenses of approximately £1.5 million, the net proceeds receivable by the Company will amount to approximately £20.0 million. The New Ordinary Shares will represent 37 per cent of the Company's issued share capital following the Placing.

The New Ordinary Shares will rank *pari passu* in all respects with the Ordinary Shares in issue prior to the Placing, including the right to receive all dividends and distributions declared after Admission.

Brewin Dolphin has also agreed conditionally to place firm 700,000 Existing Ordinary Shares at the Issue Price on behalf of the Barings English Growth Fund.

The placing of the Placing Shares and the Sale Shares is fully underwritten by Brewin Dolphin.

The Placing is conditional, *inter alia*, on the Placing Agreement becoming unconditional in all respects and on Admission occurring not later than 30 November 2005 (or such later date as the Company and Brewin Dolphin may agree not being later than 16 December 2005). Further details of the Placing Agreement are set out in paragraph 10 of Part IV.

Use of Proceeds

The net proceeds of the Placing receivable by the Company of approximately £20.0 million will be used initially to redeem the A Preference Shares and secured loan stock held by Barings, together with related dividends and interest charges, and to pay an exit dividend in respect of the Existing Ordinary Shares, amounting to in aggregate £4.2 million, with the balance being available to reduce borrowing which the Group has incurred with rapid growth and recent acquistions. The reduction in debt will leave the Group with substantial facilities to support future organic growth and to pursue acquisition opportunities.

Orderly Market and Lock-in Arrangements

The Directors, senior management and family, who will together control 50 per cent. of the issued share capital of the Company upon Admission, have entered into orderly market arrangements with the Company and Brewin Dolphin in respect of the Ordinary Shares held by them at Admission including, in all cases, an undertaking not to dispose of any of such shares within the first twelve months following Admission (save with Brewin Dolphin's consent and in certain limited circumstances). Further details of these arrangements are provided in paragraph 10 of Part IV of this document.

The Directors, senior management and family have agreed that they will not dispose of any such Ordinary Shares other than through the Company's broker at the relevant time.

Admission and Dealings

Application has been made for the whole of the issued and to be issued ordinary share capital of the Company to be admitted to AIM. No application is being made for any of the Ordinary Shares to be admitted to the Official List or to the London Stock Exchange's market for listed securities.

It is anticipated that trading in the Ordinary Shares will commence at 8.00 am on 30 November 2005.

Where applicable, the posting of definitive share certificates in respect of the Ordinary Shares is expected to commence within five working days of Admission. The Ordinary Shares are in registered form and can also be held in uncertificated form. Prior to despatch of definitive share certificates in respect of any Ordinary Shares which are not settled in CREST, transfers of those Ordinary Shares will be certified against the register of members of the Company. No temporary documents of title will be issued.

Settlement and Crest

The Directors have organised with CRESTCo for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system, if the relevant shareholders so wish. CREST is a paperless settlement procedure, which allows securities to be evidenced without a certificate and transferred otherwise than by written instrument. The Articles permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Persons acquiring Ordinary Shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system member" (as defined in the CREST Regulations).

TAXATION

Your attention is drawn to the taxation information set out in paragraph 15 of Part IV of this document.

FURTHER INFORMATION

Your attention is drawn to the further information set out in Parts II to IV of this document, including the risk factors set out in Part II. You are advised to read the whole of this document rather than relying on the summary information set out on pages 6 to 9 of this document.

PART II: RISK FACTORS

Investing in the Company involves a degree of risk. You should carefully consider the risks and the other information contained in this document before you decide to invest in the Company. You should note that the risks described below are not the only risks faced by the Company, there may be additional risks that the Directors currently consider not to be material or of which they are not presently aware. If any of the following risks were to materialise, the Company's business, financial condition and results or operations could be materially adversely affected.

Risks relating to the Group's business

The Group may face increased competition

The Group may face significant competition, both actual and potential, including competition from competitors with greater capital resources than those of the Group. One or more of these competitors may be able to provide products or services which are more effective, economically viable or advanced than those provided by the Group or may undertake an aggressive pricing policy. There is no assurance that the Group will be able to compete successfully in such a marketplace and failure to do so could adversely affect the Group's operating results.

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. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictions in financing and operating activities. In addition, there can be no assurance that the Hargreaves will be able to raise additional funds when needed or that such funds will be available on terms favourable to it. If Hargreaves is unable to obtain additional financing as needed, the Group may be required to reduce the scope of its operations or anticipated expansion or to cease trading.

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 a small number 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. Delays in the award or cancellation of such contracts by customers could adversely affect the Group's businesses, operating results or financial condition.

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.

The Group purchases significant quantities of coal for its coke production and supply activities. The prices paid for such coal are also affected by the commodity markets which affect the supply of coal to the ESI.

Fluctuations in the price of electricity and coal could have a material impact on the Group's results.

Reliance on key customers

The Group's ten largest customers in the year ended 31 May 2005, before the acquisition of Monckton, accounted for approximately 48 per cent. of turnover with largest individual customer representing approximately 12 per cent. Monckton's top two customers in the year ended 31 December 2004 accounted for 56 per cent of turnover. If the Group were to lose one or more of these larger customers there may be a material adverse impact on the Group's results.

Reliance on key suppliers

HMIS and Monckton purchase substantial tonnages of coal each year: HMIS imports coal principally from mines in Russia and Columbia at prices fixed to international indices, and Monckton purchases nearly all of its coal from UK Coal plc's Maltby colliery. HMIS and Monckton require specific types of coal in order to meet their respective supply and production needs. If either division was unable to source coal from the existing suppliers, it may be unable to obtain coal of the correct specification or in the time required or at an acceptable price. In such circumstances the Group may not be able to honour supply agreements at all or may not be able to do so at historic profit margins, and there may be a material adverse impact on the Group's results.

Dependence on third party software

The Group licenses certain technologies used in its products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could adversely affect the Group's ability to provide its services while the Group seeks to implement alternative technology offered by other sources and require significant unplanned investments on its part. In addition, alternative technology may not be available on commercially reasonable terms.

Dependence on key personnel

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

Management of growth

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

Currency risk

The Group buys and sells from and to suppliers and customers based outside the United Kingdom and consequently dealings with these customers and suppliers may be in foreign currencies which will be subject to exchange rate fluctuations. The Group hedges all of 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 power stations. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment. Environmental legislation and permitting may evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their directors and employees.

Prior to the acquisition of Monckton the Company commissioned environmental due diligence on the site at Royston which identified areas of contaminated land and a separate report provided estimates of the costs of remediation. Although it is not the Directors' intention to cease production for the foreseeable future a provision has been made for such costs in the accounts of the Group.

Health and safety

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

Accounting principles and standards

Hargreaves prepares its financial statements in accordance with UK GAAP. Companies listed on AIM will have to comply with International Financial Reporting Standards ("IFRS") for each year beginning on or after 1 January 2007. Therefore Hargreaves will have to comply with IFRS from 1 June 2007 and will need to prepare comparable data in accordance with IFRS for the year ending 31 May 2007. A detailed analysis of the impact that conversion from UK GAAP to IFRS will have on Hargreaves' financial results has not been undertaken, but a high level comparison of IFRS principles and the Group's current accounting practices has been carried out. This review has not identified any significant adverse impacts on reported earnings, but the need to recognise the fair value of certain financial instruments is likely to lead to increased volatility in reported net assets. There are also differences in the presentation of financial statements under IFRS compared to UK GAAP.

Risks relating to the Placing

Equity investment

Investors should be aware that the value of the Ordinary Shares may be volatile and may go up as well as down and investors may not therefore recover their original investment.

Trading on AIM

No application is being made for the admission of the Ordinary Shares to the Official List. Admission to AIM should not be taken as to imply that there is a liquid market in the Ordinary Shares. AIM is a market designed for small and growing companies. Both types of company carry higher than normal financial risk and tend to experience lower levels of liquidity than larger companies.

Share price volatility

The share price of publicly traded companies can be highly volatile. The price at which Ordinary Shares will be issued and sold (as appropriate) in the Placing and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect the support services sector or quoted companies generally. These factors could include large purchases or sales of shares, currency fluctuations and general economic conditions.

Shares eligible for future sale

The Company cannot predict what effect, if any, future sales of Ordinary Shares, or the availability of Ordinary Shares for future sale, will have on the market price of Ordinary Shares. Sales of substantial numbers of Ordinary Shares in the public market, or the perception that such sales could occur, could adversely affect the market price of Ordinary Shares and may make it more difficult for investors to sell their Ordinary Shares at a time and price which they deem appropriate.

Current operating results as an indication of future results

The Company's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside of its control. Accordingly, investors should not rely on comparisons with the Company's results to date as an indication of future performance. It is possible that, in the future, the Company's operating results will fall below the expectations of securities analysts or investors. If this occurs, the trading price of the Company's shares may decline.

PART III: FINANCIAL INFORMATION

Financial information on the Group contained in this Part III reflects the management buyout of Hargreaves (UK) Limited in April 2004 and the acquisition of Monckton on 17 June 2005. As a result, the financial track record is presented separately for the Group up to its last financial year end (Part III (a)), for Hargreaves (UK) Limited prior to the management buyout (Part III (b)) and for Monckton which was acquired after the end of the Group's last financial year end (Part III (c)), as follows:

(a) HARGREAVES SERVICES PLC FOR THE 19 MONTHS ENDED 31 MAY 2005

(b) HARGREAVES (UK) LIMITED FOR THE TWO YEARS ENDED 31 MAY 2004

(c) THE MONCKTON COKE & CHEMICAL COMPANY LIMITED FOR THE THREE YEARS ENDED 31 DECEMBER 2004 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

KPMG

KPMG LLP
1 The Embankment
Neville Street
Leeds LS1 4DW
United Kingdom

The Directors
Hargreaves Services plc
West Terrace
Esh Winning
Co Durham
DH7 9PT

24 November 2005

Dear Sirs

Accountant's report on the consolidated historical financial information of Hargreaves Services plc for the 19 months ended 31 May 2005

Hargreaves Services plc

(the 'Company', and together with its subsidiary undertakings, the 'Group')

We report on the financial information set out on pages 26 to 50. This financial information has been prepared for inclusion in the AIM Admission Document dated 24 November 2005 of Hargreaves Services plc on the basis of the accounting policies set out in note 6.1. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 6.1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 24 November 2005, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 6.1 and in accordance with the applicable financial reporting framework as described in note 6.1.

Declaration

For the purposes of paragraph (a) of Schedule 2 of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule 2 of the AIM Rules.

Yours faithfully

KPMG LLP

HISTORICAL FINANCIAL INFORMATION OF HARGREAVES SERVICES PLC FOR THE 19 MONTHS ENDED 31 MAY 2005

The consolidated financial information set out below of Hargreaves Services plc (the 'Company', and together with its subsidiary undertakings, the 'Group') for the 19 months ended 31 May 2005 has been prepared by the directors of the Company on the basis set out in note 6.1.

1 Consolidated profit and loss accounts

for the 7 months ended 31 May 2004 and the year ended 31 May 2005.

	Note	**Year ended 31 May 2005**		7 months ended 31 May 2004	
		£000	**£000**	£000	£000
Turnover: group and share of joint ventures	*6.2*		**87,570**		6,315
Less: share of joint ventures turnover			**(8,319)**		(815)
Group turnover			**79,251**		5,500
Group turnover					
Continuing operations		**76,239**		5,500	
Acquisitions	*6.2*	**3,012**		-	
			79,251		5,500
Cost of sales			**(69,414)**		(4,671)
Gross profit			**9,837**		829
Administrative expenses			**(6,749)**		(540)
Group operating profit					
Continuing operations		**2,991**		289	
Acquisitions		**97**		-	
			3,088		289
Share of operating profit in joint ventures			**460**		41
Total operating profit			**3,548**		330
Loss on sale of fixed assets			**(77)**		-
Interest receivable	*6.6*		**10**		2
Interest payable and similar charges - Group	*6.7*		**(1,090)**		(105)
- joint ventures			**(43)**		(2)
Profit on ordinary activities before taxation	*6.3-6.5*		**2,348**		225
Tax on profit on ordinary activities	*6.8*		**(876)**		(104)
Profit for the financial year/period			**1,472**		121
Dividends and finance costs of non-equity shares	*6.9*		**(331)**		(28)
Retained profit for the year/period	*6.19*		**1,141**		93

The Group had no recognised gains or losses other than those included in the profit and loss account.

The comparative figures comprise the period from 4 November 2003 to 31 May 2004. The Company was dormant until 30 April 2004 on which date it acquired the Hargreaves (UK) Limited group of companies. The 2004 figures represent Group trading from 1 May 2004 to 31 May 2004.

2 Consolidated balance sheets

at 31 May 2004 and 2005

	Note	2005		2004	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets - goodwill	*6.10*		**364**		284
Tangible assets	*6.11*		**12,506**		12,066
Investments	*6.12*				
Investment in joint ventures					
Share of gross assets		**2,585**		2,410	
Share of gross liabilities		**(1,886)**		(2,018)	
		699		392	
Other investments		**83**		83	
			782		475
			13,652		12,825
Current assets					
Stocks	*6.13*	**3,671**		1,582	
Debtors	*6.14*	**15,328**		11,589	
Cash at bank and in hand		**2,633**		282	
		21,632		13,453	
Creditors: amounts falling due within one year	*6.15*	**(16,299)**		(11,897)	
Net current assets			**5,333**		1,556
Total assets less current liabilities			**18,985**		14,381
Creditors: amounts falling due after more than one year	*6.16*		**(12,931)**		(9,392)
Provisions for liabilities and charges	*6.17*		**(1,654)**		(1,895)
Net assets			**4,400**		3,094
Capital and reserves					
Called up share capital	*6.18*		**3,000**		2,973
Other reserves	*6.19*		**20**		-
Profit and loss account	*6.19*		**1,380**		121
Shareholders' funds			**4,400**		3,094
Analysis of shareholders' funds					
Equity			**2,454**		1,286
Non-equity	*6.18*		**1,946**		1,808
			4,400		3,094

3 Consolidated cash flow statements

for the 7 months ended 31 May 2004 and the year ended 31 May 2005

	Note	**Year ended 31 May 2005 £000**	7 months ended 31 May 2004 £000
Cash flow from operating activities	*6.22*	**3,321**	1,845
Returns on investments and servicing of finance	*6.23*	**(905)**	(73)
Taxation		**(14)**	-
Capital expenditure	*6.23*	**(134)**	96
Acquisitions	*6.23*	**(567)**	(4,387)
Cash inflow/(outflow) before financing		**1,701**	(2,519)
Financing	*6.23*	**650**	2,801
Increase in cash in the year/period		**2,351**	282

4 Reconciliation of net cash flow to movement in net debt

for the 7 months ended 31 May 2004 and the year ended 31 May 2005

	Note	**Year ended 31 May 2005 £000**	7 months ended 31 May 2004 £000
Increase in cash in the year/period		**2,351**	282
Net cash (inflow)/outflow from financing		**(623)**	172
Change in net debt resulting from cash flows		**1,728**	454
Net debt acquired with subsidiary undertakings		**-**	(11,720)
Accrued premium on redemption of loan stock		**(182)**	(15)
New finance leases		**(2,269)**	(69)
Movement in net debt in the year/period		**(723)**	(11,350)
Net debt at the start of the year/period		**(11,350)**	-
Net debt at the end of the year/period	*6.25*	**(12,073)**	(11,350)

5 Reconciliation of movements in shareholders' funds

for the 7 months ended 31 May 2004 and the year ended 31 May 2005

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Profit for the financial year/period	**1,472**	121
Dividends and finance costs of non-equity shares	**(331)**	(28)
Net finance costs and dividends credited back to reserves	**138**	28
New share capital subscribed	**27**	2,973
Net addition to shareholders' funds	**1,306**	3,094
Opening shareholders' funds	**3,094**	-
Closing shareholders' funds	**4,400**	3,094

6 Notes

(which form part of the financial information)

6.1 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 information.

Basis of preparation

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

Basis of consolidation

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

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

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, 10 years. This period has been chosen because in the opinion of the directors this represents the period over which the Company will derive economic benefit from the goodwill acquired.

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.

Tangible fixed assets and depreciation

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

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

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.

Pension scheme

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

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.

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.

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.

6.2 Analysis of turnover

The origin and destination of the Group's turnover is the United Kingdom.

Details of turnover (Group and share of joint ventures) by division is set out below:

		Year ended 31 May 2005		
		Total turnover £000	**Inter-divisional Turnover £000**	**Third party turnover £000**
Transport division	- Group	**33,515**	**(4,420)**	**29,095**
	- Joint venture	**4,055**	**-**	**4,055**
Industrial division	- Group	**43,686**	**(2,381)**	**41,305**
	- Joint venture	**4,264**	**-**	**4,264**
Waste division		**8,851**	**-**	**8,851**
		94,371	**(6,801)**	**87,570**

		7 months ended 31 May 2004		
		Total turnover £000	Inter-divisional Turnover £000	Third party turnover £000
Transport division	- Group	2,343	(229)	2,114
	- Joint venture	355	-	355
Industrial division	- Group	3,039	(287)	2,752
	- Joint venture	460	-	460
Waste division		634	-	634
		6,831	(516)	6,315

The 2005 results include the following relating to the acquisition of R Hanson & Son Limited in June 2004. Further details are included in note 6.24.

	2005 **£000**
Turnover	3,012
Cost of sales	(2,771)
Gross profit	241
Administrative expenses	(144)
Operating profit	97

6.3 Profit on ordinary activities before taxation

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
- audit	**48**	4
Depreciation and other amounts written off fixed assets:		
Owned	**470**	41
Leased	**1,622**	105
Amortisation of goodwill	**38**	2
Hire of plant and machinery - rentals payable under operating leases	**3,336**	155
Hire of other assets - operating leases	**287**	17

In addition to the auditors' remuneration disclosed above, KPMG LLP received £nil (2004: £40,000) in respect of other services connected with the acquisition of Hargreaves (UK) Limited which has been included within cost of investment.

6.4 Remuneration of directors

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Directors' emoluments	**233**	41
Company contributions to money purchase pension schemes	**28**	1
Amounts paid to third parties in respect of directors' services	**447**	14
	708	56

	Number of directors	
	Year ended 31 May 2005	7 months ended 31 May 2004
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

The aggregate emoluments of the highest paid director were £257,000 (7 months ended 31 May 2004: £20,000) including company pension contributions of £nil (7 months ended 31 May 2004: £nil).

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

	Class of share	**As at 31 May 2005**	**As at 31 May 2004**
GFC Banham	Ordinary	400,000	400,000
PM Dillon	Ordinary	200,000	200,000
KJ Dougan	Ordinary	87,500	87,500
R Young	B Preference	250,000	250,000

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

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or group companies.

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.

6.5 Staff numbers and costs

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

	Number of employees	
	Year ended 31 May 2005	7 months ended 31 May 2004
Directors	10	1
Maintenance and washery	14	1
Traffic and administration	105	6
Drivers	285	19
Production	81	6
	495	33

The aggregate payroll costs of these persons were as follows:

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Wages and salaries	**11,051**	702
Social security costs	**1,087**	64
Other pension costs	**134**	12
	12,272	778

6.6 Interest receivable

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Other (note 6.27)	**10**	2

6.7 Interest payable and similar charges

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
On bank loans and invoice discounting advances	**415**	29
Finance charges payable in respect of finance leases and hire purchase contracts	**308**	35
Interest payable and other finance charges on loan notes	**357**	30
Other	**10**	11
	1,090	105

6.8 Taxation

Analysis of charge in period

	Year ended 31 May 2005		7 months ended 31 May 2004	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period		**618**		7
Share of joint ventures' current tax		**80**		7
Adjustment in respect of prior years		**100**		-
Total current tax		**798**		14
Deferred tax (see note 6.17)				
Origination of timing differences	**68**		86	
Share of joint ventures' deferred tax	**10**		4	
Total deferred tax		**78**		90
Tax on profit on ordinary activities		**876**		104

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,348**	225
Current tax at 30% (2004: 30%)	**704**	68
Effects of:		
Expenses not deductible for tax purposes	**128**	44
Capital allowances for period in excess of depreciation - group	**(57)**	(52)
- share of joint ventures	**(30)**	(23)
Small companies tax rates	**(7)**	(8)
Tax losses utilised	**(40)**	(34)
Tax losses carried forward in joint venture	**-**	19
Adjustment in respect of prior years	**100**	-
Total current tax charge (see above)	**798**	14

Factors affecting the tax charge for future periods

The Group has unrelieved UK corporation tax losses of approximately £370,000 (2004: £337,000) available to carry forward against profits from the same trade.

6.9 Finance costs of non-equity shares

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Amortisation of premiums payable on redemption of A preference shares	**153**	13
Dividends on A preference shares	**153**	13
Dividends on B preference shares	**25**	2
	331	28

As a result of dividends declared by subsidiary undertakings during 2005 the Company now has sufficient distributable reserves to legally recognise the cumulative dividends to date of £193,000. These are included in note 6.15.

6.10 Intangible fixed assets

	Goodwill £000
Cost	
At beginning of period	-
Additions	286
At 31 May 2004	286
Additions (note 6.24)	61
Adjustment	57
At 31 May 2005	404
Amortisation	
At beginning of period	-
Charge for the period	2
At 31 May 2004	2
Charge for the year	38
At 31 May 2005	40
Net book value	
At 31 May 2005	**364**
At 31 May 2004	284

Goodwill 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 adjustment of £57,000 above relates to the final determination of acquisition costs on this acquisition.

Goodwill 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.

6.11 Tangible fixed assets

	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Total £000
Cost					
At beginning of period	-	-	-	-	-
On acquisition of Hargreaves (UK) Limited	1,704	3,341	15,060	97	20,202
Additions	-	3	136	-	139
Disposals	-	-	(607)	-	(607)
At 31 May 2004	1,704	3,344	14,589	97	19,734
Additions	139	471	2,462	30	3,102
Disposals	-	(122)	(1,103)	-	(1,225)
At 31 May 2005	1,843	3,693	15,948	127	21,611
Depreciation					
At beginning of period	-	-	-	-	-
On acquisition of Hargreaves (UK) Limited	278	1,581	6,021	83	7,963
Charge for period	7	26	112	1	146
On disposals	-	-	(441)	-	(441)
At 31 May 2004	285	1,607	5,692	84	7,668
Charge for year	88	488	1,508	8	2,092
On disposals	-	(46)	(609)	-	(655)
At 31 May 2005	373	2,049	6,591	92	9,105
Net book value					
At 31 May 2005	**1,470**	**1,644**	**9,357**	**35**	**12,506**
At 31 May 2004	1,419	1,737	8,897	13	12,066

Included in the net book values of motor vehicles and furniture and equipment is £9,500,000 (2004: £8,773,000) in respect of assets held under finance lease and similar hire purchase contracts. Depreciation for the year on these assets was £1,622,000 (7 months ended 31 May 2004: £105,000).

Included in the net book value of freehold land and buildings and leasehold improvements is £47,000 (2004: £47,000) in respect of freehold land and buildings.

6.12 Fixed asset investments

	Interests in joint ventures	Loans to joint ventures	Other investments (listed)	Total
	£000	£000	£000	£000
Cost				
At beginning of period	-	-	-	-
On acquisition of Hargreaves (UK) Limited	67	63	20	150
At 31 May 2004 and 31 May 2005	67	63	20	150
Share of post acquisition reserves				
At beginning of period	-	-	-	-
On acquisition of Hargreaves (UK) Limited	297	-	-	297
Profit for the financial period	28	-	-	28
At 31 May 2004	325	-	-	325
Retained profits for the financial year	327	-	-	327
Redemption of preference shares	(20)	-	-	(20)
At 31 May 2005	632	-	-	632
Net book value				
At 31 May 2005	**699**	**63**	**20**	**782**
At 31 May 2004	392	63	20	475

The Group's other investments are listed and have a market value at the end of the year of £15,000 (2004: £15,000).

The undertakings in which the Group'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 Services Limited	Haulage, mineral import and processing	Ordinary	100%	–
Hargreaves Waste Services Limited	Dormant	Ordinary	100%	–
Colman (Haulage) Limited	Dormant	Ordinary	100%	–
Hargreaves Industrial Services Limited	Dormant	Ordinary	100%	–
Hargreaves Transport Services Limited	Dormant	Ordinary	100%	–
R & A Fuels Limited	Dormant	Ordinary	100%	–
Squires Distribution Services Limited	Dormant	Ordinary	100%	–
La Jagua Coal Company Limited	Dormant	Ordinary	100%	–
Hargreaves Mineral Services Limited	Dormant	Ordinary	100%	–
R Hanson & Son Limited	Dormant	Ordinary	100%	–
Joint ventures				
ThyssenKrupp Metallurgical Supplies Limited	Mineral distribution	Ordinary	50%	–
Hargreaves (Bulk Liquid Transport) Limited	Haulage	Ordinary	50%	–
		Preference	50%	–
Hargreaves Coal Combustion Products Limited	Management and sale of ash products	Ordinary	48%	–
		Preference	50%	–

Joint ventures

The following information is relevant to an understanding of the Group's investment in its joint ventures.

The total of the Group's profit before taxation from interests in joint ventures was £417,000 (2004: £336,000).

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

	Joint ventures total 2005 £000	Joint ventures total 2004 £000
Share of turnover of joint ventures	**8,319**	815
Share of assets		
Share of fixed assets	**430**	476
Share of current assets	**2,155**	1,934
	2,585	2,410
Share of liabilities		
Due within one year	**(1,523)**	(1,448)
Due after one year	**(363)**	(570)
	(1,886)	(2,018)
Share of net assets	**699**	392

6.13 Stocks

	2005 £000	2004 £000
Raw materials and consumables	3,671	1,582

6.14 Debtors

	2005 £000	2004 £000
Trade debtors	**12,994**	9,448
Amounts due from group undertakings	**-**	-
Amounts owed by joint venture undertakings	**444**	348
Other debtors	**679**	631
Prepayments and accrued income	**1,211**	1,162
	15,328	11,589

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6.15 Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Bank loans	**12**	12
Obligations under finance leases and hire purchase contracts (note 6.16)	**1,763**	2,228
Amounts owed to joint venture undertakings	**1,093**	592
Trade creditors	**7,351**	6,308
Corporation tax	**716**	12
Other taxes and social security	**700**	1,059
Other creditors	**295**	215
Accruals and deferred income	**4,176**	1,471
Dividends	**193**	-
	16,299	11,897

6.16 Creditors: amounts falling due after more than one year

	2005	2004
	£000	£000
Invoice discounting advances	**8,290**	5,016
Bank loans	**421**	437
Secured loan stock	**1,900**	1,718
Obligations under finance leases and hire purchase contracts	**2,320**	2,221
	12,931	9,392

The invoice discounting facilities are committed 36 month facilities from 30 April 2004 which permit the refinancing of the current debt. In accordance with FRS 4 Capital Instruments 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 amount of debts which were subject to invoice discounting advances at 31 May 2005 were £9,211,000 (2004: £5,573,000).

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

The secured loan stock bears interest at 10% per annum and carries a cumulative annually compounded redemption premium of 10%. The loan stock is redeemable in tranches of £500,000 annually commencing 30 April 2008. During the period to 31 May 2004, loan stock of £1,750,000 was issued for cash, net of issue expenses of £47,000.

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

	2005	2004
	£000	£000
Within one year	**1,763**	2,228
In the second to fifth years	**2,320**	2,221
	4,083	4,449

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

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

	2005	2004
	£000	£000
Debt can be analysed as falling due:		
In one year, or less, or on demand	**1,775**	2,240
Between 1 and 2 years	**9,167**	1,404
Between 2 and 5 years	**2,504**	6,859
In more than 5 years	**1,260**	1,129
	14,706	11,632

6.17 Provisions for liabilities and charges

	Deferred taxation	**Other provisions**	**Total**
	£000	**£000**	**£000**
At beginning of period	-	-	-
On acquisition of Hargreaves (UK) Limited	867	942	1,809
Charge to profit and loss account	86	-	86
At 31 May 2004	953	942	1,895
On acquisition of R Hanson & Son Limited	11	-	11
Charge to profit and loss account	68	-	68
Utilised during the year	-	(320)	(320)
At 31 May 2005	1,032	622	1,654

At 31 May 2004, included within other provisions was £320,000 in respect of a claim by DEFRA against the Group relating to work carried out during the foot and mouth epidemic of 2001/2002. This claim has been agreed during the year to 31 May 2005.

The balance of the other provisions, being £622,000, relates to assessments by HM Customs and Excise which the Group continues to resist. The directors of the Group are taking legal and professional advice on this matter. The provision represents the directors' best estimate of the likely cash outflows that may arise.

The elements of deferred taxation are as follows:

	2005	2004
	£000	£000
Difference between accumulated depreciation and capital allowances	**1,143**	1,054
Tax losses	**(111)**	(101)
	1,032	953

The Company has no provisions for liabilities and charges.

6.18 Called up share capital

	2005	2004
	£000	£000
Authorised		
Equity:		
Ordinary shares of £1 each	**1,000**	1,000
A Cumulative convertible participating preferred ordinary shares of £1 each	**250**	250
Non-equity:		
A Cumulative redeemable preference shares of £1 each	**1,750**	1,750
B Preference shares of £1 each	**250**	250
	3,250	3,250
Allotted, called up and fully paid		
Equity:		
Ordinary shares of £1 each	**1,000**	973
A Cumulative convertible participating preferred ordinary shares of £1 each	**220**	220
Non-equity:		
A Cumulative redeemable preference shares of £1 each	**1,530**	1,530
B Preference shares of £1 each	**250**	250
	3,000	2,973

The principal rights attaching to the issued classes of shares are as follows:

Dividends

Profits are applied in paying dividends in the following order:

- a 10% cumulative preference dividend on the A and B preference shares;
- a cumulative preferential participating dividend on the ordinary and A ordinary shares. The level of dividend increases from 0% for the periods ended 31 May 2004 and 2005 to 10% for 2006 and 2007, 15% for 2008, 20% for 2009 and 15% for subsequent periods.
- an equity dividend to the ordinary and A ordinary shares at the recommendation of the Board.

Interest is payable on any unpaid preference and participating preferred dividends.

Return of capital

On a return of capital, assets will be distributed in the following order:

- arrears of and interest on preference dividends followed by preference share capital;
- arrears of and interest on A ordinary participating preferred dividends followed by A ordinary share capital;
- arrears of and interest on A ordinary participating preferred dividends followed by ordinary share capital;
- any surplus pari passu to the ordinary and A ordinary shares.

Conversion

The A ordinary shares may be converted to ordinary shares on sale of the Company or if the holders of 51% of the A ordinary shares give notice to this effect.

Redemption

The A and B preference shares are redeemable in instalments of 250,000 shares and 35,715 shares respectively on 1 June 2006 and six monthly thereafter with the balance on 1 June 2009. The A preference shares are redeemable at a cumulative compound premium of 10% per annum and the B preference shares at par.

Voting

The preference shares are non-voting. The ordinary and A ordinary shares carry one vote unless the Company is in arrears on the payment of preference dividend, participating preferred dividend, preference share redemption or loan stock interest or repayment; or in material breach of its Articles or the Investment agreement; or on a resolution to remove the investor director when the A shares carry additional votes.

Analysis of non-equity shareholders' funds

Non-equity interests in shareholders' funds are analysed by class of share as follows:

	2005	2004
	£000	£000
A Cumulative redeemable preference shares	1,696	1,558
B Preference shares	250	250
	1,946	1,808

6.19 Reserves

	Other reserves	**Profit and loss account**
	£000	**£000**
At beginning of period	-	-
Retained profit for the period	-	93
Finance costs on non-equity shares	-	28
At 31 May 2004	-	121
Retained profit for the year	-	1,141
Finance costs on non-equity shares	-	153
Prior period dividends now recognised	-	(15)
Redemption of preference shares in joint venture	20	(20)
At 31 May 2005	20	1,380

6.20 Commitments

(a) There were no capital commitments at 31 May 2005 (2004: £nil).

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

	2005		2004	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**-**	**72**	-	112
In the second to fifth years inclusive	**112**	**1,501**	112	668
	112	**1,573**	112	780

6.21 Pension scheme

The Group operates a Group personal pension scheme. The pension cost charge for the year to 31 May 2005 represents contributions payable by the Group to the employees' funds and amounted to £134,000 (2004: £12,000). There were no outstanding or prepaid contributions, at either the beginning or end of the financial year and period.

6.22 Reconciliation of operating profit to operating cash flows

	Year ended 31 May 2005 £000	7 months ended 31 May 2004 £000
Group operating profit	**3,088**	289
Depreciation and amortisation	**2,130**	148
(Increase)/decrease in stocks	**(2,078)**	422
(Increase)/decrease in debtors	**(3,261)**	573
Increase in creditors	**3,442**	413
Net cash inflow from operating activities	**3,321**	1,845

6.23 Analysis of cash flows

	Year ended 31 May 2005		7 months ended 31 May 2004	
	£000	**£000**	£000	£000
Returns on investment and servicing of finance				
Interest received	**-**		2	
Interest paid	**(661)**		(40)	
Interest element of finance lease rental payments	**(244)**		(35)	
		(905)		(73)
Capital expenditure				
Purchase of tangible fixed assets	**(627)**		(70)	
Sale of tangible fixed assets	**493**		166	
		(134)		96
Acquisitions (note 6.24)				
Purchase of subsidiary undertakings	**(434)**		(4,387)	
Overdraft acquired with subsidiary	**(133)**		-	
		(567)		(4,387)
Financing				
Issue of equity shares	**27**		1,193	
Issue of preference shares	**-**		1,780	
Capital element of finance lease rental payments	**(2,635)**		(508)	
Invoice discounting advances	**3,274**		(1,816)	
New secured loan	**-**		450	
Repayment of secured loans	**(16)**		(1)	
Issue of secured loan stock	**-**		1,703	
		650		2,801

6.24 Acquisitions

On 30 April 2004 the Company acquired the entire issued share capital of Hargreaves (UK) Limited. The resulting goodwill of £286,000 was capitalised and will be written off over 10 years which, in the opinion of the directors, represents its useful economic life. The book value of the net assets acquired and their fair value are set out below:

	Book value £000	Other adjustments £000	Fairvalue £000
Fixed assets			
Intangible - net negative goodwill	**(24)**	**24**	**-**
Tangible	**12,239**	**-**	**12,239**
Investments	**447**	**-**	**447**
Current assets			
Stock	**2,004**	**-**	**2,004**
Debtors	**12,162**	**-**	**12,162**
Total assets	**26,828**	**24**	**26,852**
Provisions	**(1,809)**	**-**	**(1,809)**
Finance leases	**(4,888)**	**-**	**(4,888)**
Invoice discounting advances	**(6,832)**	**-**	**(6,832)**
Other creditors	**(9,088)**	**-**	**(9,088)**
Total liabilities	**(22,617)**	**-**	**(22,617)**
Net assets	**4,211**	**24**	**4,235**
Goodwill			**286**
			4,521
Satisfied by - cash			**4,387**
- expenses included in creditors at 31 May 2004			**134**
			4,521

In accordance with FRS7 positive and negative goodwill in the consolidated accounts of Hargreaves (UK) Limited has been removed in calculating the fair value of the net assets acquired.

The Group's cashflows in respect of operating activities, returns on investments and servicing of finance and capital expenditure and the financing cashflows from finance leases, invoice discounting and secured loans all arose from the acquired operations.

For the period from 1 June 2003 to 30 April 2004 Hargreaves (UK) Limited had a consolidated profit for the financial period of £376,000. Its consolidated profit for the financial year ended 31 May 2003 was £877,000. The consolidated profit and loss account of Hargreaves (UK) Limited for the 11 months ended 30 April 2004 can be summarised as follows:

	£000
Group turnover	54,126
Group operating profit	1,294
Total operating profit: group and share of joint ventures	1,483
Profit on sale of tangible fixed assets	32
Profit on ordinary activities before taxation	616
Tax on profit on ordinary activities	(240)
Profit for the financial period	376

The Group acquired the entire issued share capital of R Hanson & Son Limited in June 2004. The resulting goodwill has been capitalised and is being amortised over 10 years, the period over which the directors anticipate the Group to derive continuing economic benefit.

	Book value £000	**Adjustment £000**	**Fairvalue £000**
Fixed assets			
Intangible -goodwill	40	(40)	-
Tangible	206	-	206
Current assets			
Stock	11	-	11
Debtors	468	-	468
Total assets	725	(40)	685
Provisions for deferred tax	(11)	-	(11)
Bank overdraft	(133)	-	(133)
Other creditors	(225)	-	(225)
Total liabilities	(369)	-	(369)
Net assets	356	(40)	316
Goodwill			61
Satisfied by cash			377

The adjustment arises because previously purchased goodwill in the balance sheet of R Hanson & Son Limited is not a separately identifiable asset and is therefore subsumed into the goodwill arising on acquisition. The consideration comprised £377,000 of cash and an overdraft of £133,000 was assumed as a result of the acquisition.

6.25 Analysis of net debt

	At beginning of period £000	Cash flow £000	Acquisition of subsidiary £000	Non- cash changes £000	At 31 May 2004 £000	Cash flow	Non-cash changes	At 31 May 2005
Cash in hand, at bank	-	282	-	-	282	2,351	-	2,633
Finance leases	-	508	(4,888)	(69)	(4,449)	2,635	(2,269)	(4,083)
Invoice discounting advances	-	1,816	(6,832)	-	(5,016)	(3,274)	-	(8,290)
Bank and other loans due within one year	-	(12)	-	-	(12)	16	(16)	(12)
Bank and other loans due after more than one year	-	(2,140)	-	(15)	(2,155)	-	(166)	(2,321)
Total	-	454	(11,720)	(84)	(11,350)	1,728	(2,451)	(12,073)

In both periods non-cash changes arise from the inception of finance leases and accrual of premium on redemption of loan stock.

6.26 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, at 31 May 2005, is £12,806,000 (2004: £9,914,000).

6.27 Related party disclosures

On 30 April 2004 the Company advanced funds of £250,000 to Mr R Young. This amount is unsecured, bears interest at 4% per annum and is repayable following the redemption of the B preference shares. Interest receivable for the year ended 31 May 2005 on this amount is £10,000 (period ended 31 May 2004: £2,000) and is included in interest receivable in note 6.6.

As disclosed in note 6.12 the Group has three joint venture undertakings, ThyssenKrupp Metallurgical Supplies Limited, Hargreaves (Bulk Liquid Transport) Limited and Hargreaves Coal Combustion Products Limited. Transactions with these undertakings during the year and balances outstanding at the end of the year were as follows:

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

	2004		
	Purchases from £000	Sales to £000	Balance outstanding debtor/ (creditor) £000
ThyssenKrupp Metallurgical Supplies Limited	129	52	(580)
Hargreaves (Bulk Liquid Transport) Limited	3	8	221
Hargreaves Coal Combustion Products Limited	54	6	115

6.28 Post balance sheet events

On 17 June 2005 the Company purchased the entire issued share capital of The Monckton Coke & Chemical Company Limited for a cash consideration of £12 million. This was payable £8 million on completion, with £2 million payable on the first anniversary of completion and £2 million payable on the second anniversary of completion.

On 18 November 2005, prior to the admission of the Company to the Alternative Investment Market of the London Stock Exchange, Hargreaves (UK) Holdings Limited re-registered as a public limited company and changed its name to Hargreaves Services plc.

By a resolution passed on 3 November 2005 (i) the authorised share capital of the Company was increased from £3,250,000 to £4,750,000 by the creation of an additional 1,500,000 new Ordinary Shares of £1 each; (ii) 34,561 of the issued "A" Preference Shares of £1 each of the Company held by Baring English Growth Fund (North) LP were converted into 34,561 "A" Ordinary Shares of £1 each; (iii) 15,709 of the issued "A" Preference Shares of £1 each of the Company held by Baring English Growth Fund (Midlands) LP were converted into 15,709 "A" Ordinary Shares of £1 each; (iv) each of the authorised but unissued and each of the issued "A" Ordinary Shares of the Company were redesignated as Ordinary Shares; (v) 200,000 of the issued "B" Preference Shares of £1 each of the Company were converted into 200,000 Ordinary Shares of £1 each; (vi) each of the issued "A" Preference Shares of £1 each and "B" Preference Shares of £1 each of the Company remaining following conversion were redeemed in full, cancelled, and redesignated as Ordinary Shares of £1 each; (vii) each of the issued and each of the authorised but unissued Ordinary Shares of £1 each of the Company were subdivided into 10 Ordinary Shares of 10.0p each.

KPMG

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The Directors
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24 November 2005

Dear Sirs

Accountant's report on the consolidated historical financial information of Hargreaves (UK) Limited for the two years ended 31 May 2004

Hargreaves (UK) Limited

('HUL', and together with its subsidiary undertakings, the 'HUL Group')

We report on the financial information set out on pages 51 to 70. This financial information has been prepared for inclusion in the AIM Admission Document dated 24 November 2005 of Hargreaves Services plc on the basis of the accounting policies set out in note 6.1. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 6.1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 24 November 2005, a true and fair view of the state of affairs of the HUL Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 6.1 and in accordance with the applicable financial reporting framework as described in note 6.1.

Declaration

For the purposes of paragraph (a) of Schedule 2 of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule 2 of the AIM Rules.

Yours faithfully

KPMG LLP

HISTORICAL FINANCIAL INFORMATION OF HARGREAVES (UK) LIMITED FOR THE TWO YEARS ENDED 31 MAY 2004

The consolidated financial information set out below of Hargreaves (UK) Limited ('HUL', and together with its subsidiary undertakings, the 'HUL Group') for the two years ended 31 May 2004 has been prepared by the directors of the company on the basis set out in note 6.1.

1 Consolidated profit and loss accounts

for the two years ended 31 May 2004

	Note	**2004** £000	2003 £000
Turnover: group and share of joint ventures	*6.2*	**65,708**	61,677
Less: share of joint ventures' turnover		**(6,082)**	(6,897)
Group turnover		**59,626**	54,780
Cost of sales (including exceptional costs of £942,000 (2003: £nil))	*6.16*	**(51,253)**	(46,742)
Gross profit		**8,373**	8,038
Administrative expenses		**(6,787)**	(6,333)
Group operating profit		**1,586**	1,705
Share of operating profit in joint ventures		**229**	228
Total operating profit: group and share of joint ventures		**1,815**	1,933
Analysed as:			
Total operating profit before exceptional costs		**2,757**	1,933
Group exceptional cost of sales	*6.16*	**(942)**	-
Total operating profit: group and share of joint ventures		**1,815**	1,933
Profit on sale of tangible fixed assets		**32**	145
Interest payable and similar charges - Group	*6.6*	**(952)**	(1,054)
- joint ventures		**(25)**	(21)
Profit on ordinary activities before taxation	*6.3-6.5*	**870**	1,003
Tax on profit on ordinary activities	*6.7*	**(344)**	(126)
Profit for the financial year		**526**	877
Dividends on non-equity shares	*6.8*	**(43)**	-
Retained profit for the year	*6.18*	**483**	877

All results derive from continuing operations. The HUL Group had no recognised gains or losses other than the result for the two years ending 31 May 2003 and 31 May 2004 as presented above.

2 Consolidated balance sheets

at 31 May 2003 and 2004

	Note	**2004**		2003	
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*6.9*				
Goodwill		**105**		122	
Negative goodwill		**(145)**		(176)	
Net goodwill			**(40)**		(54)
Tangible assets	*6.10*		**12,066**		13,543
Investments	*6.11*				
Investment in joint ventures					
Goodwill		**14**		-	
Share of gross assets		**2,410**		2,307	
Share of gross liabilities		**(2,018)**		(2,139)	
		406		168	
Other investments		**83**		25	
			489		193
			12,515		13,682
Current assets					
Stocks	*6.12*	**1,582**		1,708	
Debtors	*6.13*	**11,479**		9,708	
Cash at bank and in hand		**236**		3	
		13,297		11,419	
Creditors: amounts falling due within one year	*6.14*	**(11,883)**		(15,235)	
Net current assets/(liabilities)			**1,414**		(3,816)
Total assets less current liabilities			**13,929**		9,866
Creditors: amounts falling due after more than one year	*6.15*		**(7,674)**		(4,618)
Provisions for liabilities and charges	*6.16*		**(1,895)**		(621)
Net assets			**4,360**		4,627
Capital and reserves					
Called up share capital	*6.17*		**10**		760
Capital redemption reserve	*6.18*		**750**		-
Other reserve	*6.18*		**900**		900
Profit and loss account	*6.18*		**2,700**		2,967
Shareholders' funds (includes non-equity shareholders' funds of £nil *(2003: £750,000)*)	*6.17*		**4,360**		4,627

3 Consolidated cash flow statements

for the two years ended 31 May 2003 and 2004

	Note	**2004 £000**	2003 £000
Cash flow from operating activities	*6.21*	**3,593**	4,490
Returns on investments and servicing of finance	*6.22*	**(994)**	(1,054)
Taxation		**78**	(17)
Capital expenditure and financial investment	*6.22*	**(142)**	373
Acquisitions	*6.22*	**(115)**	-
Cash inflow before financing		**2,420**	3,792
Financing	*6.22*	**(2,187)**	(3,909)
Increase/(decrease) in cash in the year		**233**	(117)

4 Reconciliation of net cash flow to movement in net debt

for the two years ended 31 May 2003 and 2004

		2004 £000	2003 £000
Increase/(decrease) in cash in the year		**233**	(117)
Net cash outflows from financing		**1,437**	4,159
Change in net debt resulting from cash flows		**1,670**	4,042
New finance leases		**(408)**	(1,676)
Movement in net debt in the year		**1,262**	2,366
Net debt at the start of the year		**(10,940)**	(13,306)
Net debt at the end of the year	*6.24*	**(9,678)**	(10,940)

5 Reconciliation of movements in shareholders' funds

for the two years ended 31 May 2003 and 2004

	Year ended 31 May	
	2004 £000	2003 £000
Profit for the financial year	**526**	877
Dividends	**(43)**	-
	483	877
New share capital subscribed	**-**	250
Redemption of share capital	**(750)**	-
Net (reduction in)/addition to shareholders' funds	**(267)**	1,127
Opening shareholders' funds	**4,627**	3,500
Closing shareholders' funds	**4,360**	4,627

6 Notes

(which form part of the financial information)

6.1 Accounting policies

The following accounting policies have been applied consistently, in dealing with items which are considered material in relation to the HUL Group's financial information.

Basis of preparation

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

Basis of consolidation

The HUL Group was restructured in May 2001 when Hargreaves (UK) Limited (formerly Hargreaves (UK) Plc) acquired the share capital of Hargreaves Transport Services Limited by means of a share for share exchange. Ownership of two of Hargreaves Transport Services Limited's subsidiaries, Hargreaves Waste Services Limited and Hargreaves Industrial Services Limited were transferred to Hargreaves (UK) Limited on the same date. The directors consider that the criteria under FRS6 for the restructuring to be accounted for using the merger method were met for the above transactions. Under this method the figures are prepared on the basis that the HUL Group has always been in existence.

The consolidated financial information includes the financial information of HUL and its subsidiary undertakings made up to 31 May. Except as disclosed above the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

Goodwill and negative 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 in respect of acquisitions since 1 June 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, 10 years. This period has been chosen because in the opinion of the directors this represents the period over which HUL will derive economic benefit from the goodwill acquired.

Negative goodwill is recognised in the period in which non-monetary assets are recovered, whether through depreciation or sale.

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.

Tangible fixed assets and depreciation

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

Freehold land and buildings	-	2% - 4% per annum
Leasehold improvements	-	15% per annum
Motor vehicles and plant	-	10%-12% per annum
Furniture and equipment	-	25% per annum
Fixtures and fittings	-	15% per annum

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.

Pension scheme

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

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.

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.

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.

6.2 Analysis of turnover

The origin and destination of the HUL Group's turnover is the United Kingdom.

Details of turnover (Group and share of joint ventures) by division, is set out below:

		2004 **Total turnover £000**	**Inter-segment turnover £000**	**Third party turnover £000**
Transport division	- Group	**30,488**	**(3,725)**	**26,763**
	- Joint venture	**2,010**	**-**	**2,010**
Industrial division	- Group	**31,203**	**(3,716)**	**27,487**
	- Joint venture	**4,072**	**-**	**4,072**
Waste division		**5,376**	**-**	**5,376**
		73,149	**(7,441)**	**65,708**

		2003 Total turnover £000	Inter-segment turnover £000	Third party turnover £000
Transport division		31,282	(2,537)	28,745
Industrial division	- Group	23,120	(2,145)	20,975
	- Joint venture	6,897	-	6,897
Waste division		5,060	-	5,060
		66,359	(4,682)	61,677

6.3 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group - audit	**45**	44
Depreciation and other amounts written off tangible fixed assets:		
Owned	**742**	840
Leased	**1,259**	1,023
Net amortisation of goodwill - Group	**18**	(8)
- joint ventures	**2**	-
Hire of plant and machinery - rentals payable under operating leases	**2,100**	1,787
Hire of other assets - operating leases	**243**	412

6.4 Remuneration of directors

	2004	2003
	£000	£000
Directors' emoluments	**371**	143
Company contributions to money purchase pension schemes	**16**	17
Amounts paid to third parties in respect of directors' services	**141**	433
	528	593

	Number of directors	
	2004	2003
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2

The aggregate emoluments of the highest paid director were £220,000 *(2003:£398,000)* including company pension contributions of £nil *(2003: £nil)*.

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

	Class of share	**As at 31 May 2004**	**As at 31 May 2003**
GFC Banham	Preference	–	250,000
PM Dillon	Preference	–	50,000

The preference shares relating to PM Dillon were held by a trust of which he is a potential beneficiary.

The interests of the directors who held office at the end of the financial year in the shares of Hargreaves Services plc are disclosed in the financial information of that company as presented in Part III (a) of this document.

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.

6.5 Staff numbers and costs

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

	Number of employees	
	2004	2003
Directors	**5**	5
Maintenance and washery	**14**	16
Traffic and administration	**76**	96
Drivers	**233**	234
Production	**77**	74
	405	425

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	**8,429**	9,141
Social security costs	**769**	801
Other pension costs	**153**	142
	9,351	10,084

6.6 Interest payable and similar charges

	2004	2003
	£000	£000
On bank loans and overdrafts and invoice discounting advances	**377**	500
Finance charges payable in respect of finance leases and hire purchase contracts	**439**	442
Other interest payable	**136**	112
	952	1,054

6.7 Taxation

Analysis of charge in year

	2004		2003	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year	**20**		(10)	
Adjustments in respect of prior years	**(56)**		(9)	
		(36)		(19)
Share of joint ventures' current tax		**39**		49
Total current tax		**3**		30
Deferred tax (see note 6.16)				
Origination of timing differences	**265**		96	
Adjustments in respect of previous years	**67**		-	
	332		96	
Share of joint ventures' deferred tax	**9**		-	
Total deferred tax		**341**		96
Tax on profit on ordinary activities		**344**		126

Factors affecting the tax charge for the current year

The current tax charge for the year is lower *(2003: lower)* than the standard rate of corporation tax in the UK 30%, *(2003: 30%)*. The differences are explained below.

		2004	2003
		£000	£000
Current tax reconciliation			
Profit on ordinary activities before tax		**870**	1,003
Current tax at 30% (2003: 30%)		**261**	301
Effects of:			
Expenses not deductible for tax purposes		**106**	41
Capital allowances for period in excess of depreciation	- Group	**(159)**	(360)
	- share of joint ventures	**(49)**	-
Small companies and marginal tax rates		**(34)**	(13)
Net tax losses (utilised)/carried forward		**(106)**	70
Tax losses carried forward in joint venture		**40**	-
Adjustments to tax charge in respect of previous periods		**(56)**	(9)
Total current tax charge (see above)		**3**	30

Factors affecting the tax charge for future periods

The HUL Group has unrelieved UK corporation tax losses of approximately £337,000 *(2003: £827,000)* available to carry forward against profits from the same trade.

6.8 Dividends

Dividends on non-equity shares:

	2004	2003
	£000	£000
Final dividend paid	**43**	-

6.9 Intangible fixed assets

	Goodwill	Negative goodwill	Total
	£000	**£000**	**£000**
Cost			
At beginning of period	187	(392)	(205)
Adjustment	-	58	58
At 31 May 2003	187	(334)	(147)
Adjustment	-	32	32
At 31 May 2004	187	(302)	(115)
Amortisation			
At beginning of period	48	(133)	(85)
Charge/(credit) for the year	17	(25)	(8)
At 31 May 2003	65	(158)	(93)
Charge for the year	17	1	18
At 31 May 2004	82	(157)	(75)
Net book value			
At 31 May 2004	**105**	**(145)**	**(40)**
At 31 May 2003	122	(176)	(54)

The adjustment in 2003 arises following the final determination of fair value and consideration arising on 2002 acquisitions.

The adjustment in 2004 arises on changes to the final consideration paid in respect of acquisitions in earlier years.

6.10 Tangible fixed assets

	Freehold land and buildings and leasehold improvements £000	Furniture and equipment £000	Motor vehicles and plant £000	Fixtures and fittings £000	Total £000
Cost					
At beginning of period	1,711	2,411	14,741	82	18,945
Additions	154	444	1,802	13	2,413
Disposals	(200)	(82)	(1,972)	-	(2,254)
At 31 May 2003	1,665	2,773	14,571	95	19,104
Additions	96	482	422	2	1,002
Disposals	(49)	(128)	(689)	-	(866)
Transfers between categories	(8)	98	(84)	(6)	-
At 31 May 2004	1,704	3,225	14,220	91	19,240
Depreciation					
At beginning of period	156	840	3,933	58	4,987
Charge for year	73	162	1,616	12	1,863
On disposals	-	(50)	(1,239)	-	(1,289)
At 31 May 2003	229	952	4,310	70	5,561
Charge for year	86	577	1,329	9	2,001
On disposals	(30)	(65)	(293)	-	(388)
Transfers between categories	-	24	(23)	(1)	-
At 31 May 2004	285	1,488	5,323	78	7,174
Net book value					
At 31 May 2004	**1,419**	**1,737**	**8,897**	**13**	**12,066**
At 31 May 2003	1,436	1,821	10,261	25	13,543

In accordance with FRS 15 Tangible fixed assets the estimated useful lives and material residual values of the HUL Group's tangible fixed assets have been reviewed with effect from 1 June 2002. As a result of this review the residual values have been revised and certain assets which were previously depreciated over 5 years are now being depreciated over 8 years. In accordance with FRS 15 such revisions are being accounted for prospectively over the assets' remaining useful economic lives. The aggregate effect of this revision is to reduce the depreciation charge for the year to 31 May 2003 by £1,159,000.

At 31 May 2004, included in the net book values of motor vehicles and furniture and equipment is £8,773,000 *(2003: £9,561,000)* in respect of assets held under finance lease and similar hire purchase contracts. Depreciation for the year on these assets was £1,259,000 *(2003: £1,023,000)*.

At 31 May 2004, included in the net book value of freehold land and buildings and leasehold improvements is £47,000 *(2003: £55,000)* in respect of freehold land and buildings.

6.11 Fixed asset investments

	Interests in joint ventures £000	Loans to joint ventures £000	Other investments (listed) £000	Total £000
Cost				
At beginning of period	-	-	25	25
At 31 May 2003	-	-	25	25
Additions	83	63	-	146
Disposals	-	-	(5)	(5)
At 31 May 2004	83	63	20	166
Share of post acquisition reserves				
At beginning of period	-	-	-	-
At 31 May 2003	168	-	-	168
Profit for the financial year	156	-	-	156
Dividends paid	(1)	-	-	(1)
At 31 May 2004	323	-	-	323
Net book value				
At 31 May 2004	**406**	**63**	**20**	**489**
At 31 May 2003	168	-	25	193

The HUL Group's other investments are listed and have a market value at 31 May 2004 of £15,000 *(2003: £17,000)*.

The undertakings in which the HUL Group's interest at 31 May 2004 and 2003 is more than 20% are as follows:

	Principal activity	Class and percentage of shares held		
			Group	Company
Subsidiary undertakings				
Hargreaves Transport Limited	Asset management	Ordinary	100%	100%
Hargreaves Services Limited	Haulage, mineral import and processing	Ordinary	100%	100%
Hargreaves Waste Services Limited	Dormant	Ordinary	100%	100%
Colman (Haulage) Limited	Dormant	Ordinary	100%	-
Hargreaves Industrial Services Limited	Dormant	Ordinary	100%	100%
Hargreaves Transport Services Limited	Dormant	Ordinary	100%	100%
R & A Fuels Limited	Dormant	Ordinary	100%	100%
Squires Distribution Services Limited	Dormant	Ordinary	100%	100%
La Jagua Coal Company Limited	Dormant	Ordinary	100%	100%
Joint ventures				
ThyssenKrupp Metallurgical Supplies Limited	Mineral distribution	Ordinary	50%	50%
Hargreaves (Bulk Liquid Transport) Limited	Haulage	Ordinary	50%	50%
		Preference	50%	50%
Hargreaves Coal Combustion Products Limited	Management and sale of ash products	Ordinary	48%	48%
		Preference	50%	50%

6.12 Stocks

	2004	2003
	£000	£000
Raw materials and consumables	**1,582**	1,708

6.13 Debtors

	2004	2003
	£000	£000
Trade debtors	**9,448**	7,833
Amounts owed by ultimate parent undertaking	**141**	-
Amounts owed by joint venture undertakings	**348**	417
Other debtors	**381**	414
Prepayments and accrued income	**1,161**	1,014
Corporation tax	**-**	30
	11,479	9,708

6.14 Creditors: amounts falling due within one year

	2004	2003
	£000	£000
Bank loans	**12**	-
Invoice discounting advances	**-**	3,831
Obligations under finance leases and hire purchase contracts *(see note 6.15)*	**2,228**	2,494
Amounts owed to joint venture undertakings	**592**	-
Trade creditors	**6,308**	6,467
Corporation tax	**12**	-
Other taxes and social security	**1,059**	968
Other creditors	**215**	725
Accruals and deferred income	**1,457**	750
	11,883	15,235

The 2003 invoice discounting advances were secured on the related trade debts.

6.15 Creditors: amounts falling due after more than one year

	2004	2003
	£000	£000
Invoice discounting advances	**5,016**	-
Bank loans	**437**	-
Obligations under finance leases and hire purchase contracts	**2,221**	4,618
	7,674	4,618

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

The invoice discounting facilities, which were renegotiated during the year, are committed 36 month facilities from 30 April 2004 which permit the refinancing of the current debt. In accordance with *FRS 4 Capital Instruments* these liabilities have been classified according to the maturity dates 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 HUL Group's assets. The amount of debts which were subject to invoice discounting advances at 31 May 2004 was £5,573,000.

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

	2004	2003
	£000	£000
Within one year	**2,228**	2,494
In the second to fifth years	**2,221**	4,618
	4,449	7,112

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

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

	2004	2003
	£000	£000
Debt can be analysed as falling due:		
In one year, or less, or on demand	**2,240**	6,325
Between 1 and 2 years	**1,404**	2,004
Between 2 and 5 years	**5,891**	2,614
In more than 5 years	**379**	-
	9,914	10,943

6.16 Provisions for liabilities and charges

	Deferred tax £000	Other provisions £000	Total £000
At beginning of period	669	-	669
Charge to profit and loss account	96	-	96
Deferred tax asset - transferred from debtors	(144)	-	(144)
At 31 May 2003	621	-	621
Charge to profit and loss account	332	942	1,274
At 31 May 2004	**953**	**942**	**1,895**

In 2003 the HUL Group identified a contingent liability arising from a claim by DEFRA relating to work carried out during the foot and mouth epidemic in 2001/2002. This claim has now been agreed at £320,000 and this amount is included in other provisions at 31 May 2004 *(2003: £nil)*.

In 2003 the HUL Group identified a contingent liability arising from assessments by HM Customs & Excise, which the Group continues to resist. The directors of the Group are taking legal and professional advice on this matter and have, during the year, made a provision for this issue based on their best estimate of the outflows that may arise. Accordingly an amount of £622,000 *(2003: £nil)* has been included in other provisions at 31 May 2004.

The exceptional charge of £942,000 *(2003: £nil)* in the year to 31 May 2004 represents the level of provisions charged in the year to cover the issues referred to above. As a result of the exceptional costs the tax charge for the year to 31 May 2004 has been reduced by approximately £290,000. The exceptional costs have not resulted in any cashflows during the year.

The elements of deferred taxation are as follows:

	2004 £000	2003 £000
Difference between accumulated depreciation and capital allowances	**1,054**	754
Tax losses	**(101)**	(133)
Deferred tax liability	**953**	621

6.17 Called up share capital

	2004 £000	2003 £000
Authorised		
Equity: Ordinary shares of £1 each	**210**	210
Non-equity: Redeemable preference shares of £1 each	**1,300**	1,300
	1,510	1,510
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	**10**	10
Non-equity: Redeemable preference shares of £1 each	**-**	750
	10	760

The preference shares are non-voting (unless a dividend on them is more than three months in arrears) and have a preferential right to return of capital on a winding up. The preference shares were redeemed during the year at par.

6.18 Reserves

Group	**Other reserve £000**	**Capital redemption reserve £000**	**Profit and loss account £000**
At beginning of period	900	-	2,090
Retained profit for the year	-	-	877
At 31 May 2003	900	-	2,967
Retained profit for the year	-	-	483
Transfer on redemption of shares	-	750	(750)
At 31 May 2004	900	750	2,700

6.19 Commitments

(a) There were no contracted capital commitments at 31 May 2004 for which no provision had been made *(2003: £nil)*.

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

	2004		2003	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**-**	**112**	10	221
In the second to fifth years inclusive	**112**	**668**	112	622
	112	**780**	122	843

6.20 Pension scheme

The HUL Group operates a HUL Group personal pension scheme. The pension cost charge for the year represents contributions payable by the HUL Group to the employees' funds and amounted to £153,000 *(2003: £142,000)*. There were no outstanding or prepaid contributions, at either the beginning or end of either period.

6.21 Reconciliation of operating profit to operating cash flows

	2004 £000	2003 £000
Group operating profit	**1,586**	1,705
Depreciation and amortisation	**2,019**	1,855
Decrease in stocks	**126**	638
(Increase)/decrease in debtors	**(1,801)**	1,078
Increase/(decrease) in creditors	**721**	(786)
Increase in provisions	**942**	-
Net cash inflow from operating activities	**3,593**	4,490

6.22 Analysis of cash flows

	2004		2003	
	£000	**£000**	£000	£000
Returns on investments and servicing of finance				
Dividends received from joint ventures	**1**		-	
Interest paid	**(513)**		(612)	
Interest element of finance lease rental payments	**(439)**		(442)	
Preference dividends paid	**(43)**		-	
		(994)		(1,054)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(594)**		(737)	
Sale of tangible fixed assets	**510**		1,110	
Loans to joint ventures	**(63)**		-	
Sale of fixed asset investments	**5**		-	
		(142)		373
Acquisitions (note 6.23)				
Investments in joint ventures	**(83)**		-	
Additional consideration in respect of acquisitions in earlier years	**(32)**		-	
		(115)		-
Financing				
Repurchase of redeemable preferences shares	**(750)**		-	
Issue of redeemable preference shares	**-**		250	
Capital element of finance lease rental payments	**(3,071)**		(2,974)	
Invoice discounting advances	**1,185**		(1,185)	
New secured loan	**450**		-	
Repayment of secured loan	**(1)**		-	
		(2,187)		(3,909)

6.23 Acquisitions

During the year to 31 May 2004 the HUL Group paid additional consideration of £32,000 in respect of an acquisition made in an earlier year and established two joint ventures.

	£000
Share of net assets acquired in joint ventures	67
Goodwill arising on joint ventures	16
Goodwill arising on subsidiary undertakings	32
Purchase consideration and costs of acquisition (cash)	115

6.24 Analysis of net debt

	At beginning of period £000	Cash flow £000	Non- cash changes £000	At 31 May 2003 £000	Cash flow £000	Non-cash changes £000	At 31 May 2004 £000
Cash in hand, at bank	120	(117)	-	3	233	-	236
Finance leases	(8,410)	2,974	(1,676)	(7,112)	3,071	(408)	(4,449)
Invoice discounting advances	(5,016)	1,185		(3,831)	(1,185)	-	(5,016)
Bank loans due within one year	-	-	-	-	(12)	-	(12)
Bank loans due after more than one year	-	-	-	-	(437)	-	(437)
Total	(13,306)	4,042	(1,676)	(10,940)	1,670	(408)	(9,678)

Non-cash changes arise from the inception of finance leases.

6.25 Related party disclosures

The HUL Group pays certain expenditure on behalf of the directors during the year by way of a quasi-loan. All quasi-loans are unsecured and interest free with no fixed repayment dates.

At the beginning of the period, R Young was owed £1,748 by the HUL Group. The maximum balance due by R Young during the year to 31 May 2003 was £262,908. At the end of the year to 31 May 2003 R Young owed the HUL Group £13,216.

The maximum balance due by R Young during the year to 31 May 2004 and the balance at 31 May 2004 was £311,870 which was repaid in full on 30 April 2004.

As disclosed in note 6.11 the HUL Group has three joint venture undertakings, ThyssenKrupp Metallurgical Supplies Limited, Hargreaves (Bulk Liquid Transport) Limited and Hargreaves Coal Combustion Products Limited. Transactions with these undertakings during the years ended 31 May 2003 and 2004 and balances outstanding at the end of each year were as follows:

		2004	
	Purchases from £000	**Sales to £000**	**Balance outstanding debtor/ (creditor) £000**
ThyssenKrupp Metallurgical Supplies Limited	1,553	625	(580)
Hargreaves (Bulk Liquid Transport) Limited	39	94	221
Hargreaves Coal Combustion Products Limited	73	649	115

		2003	
	Purchases from £000	Sales to £000	Balance outstanding debtor/ (creditor) £000
ThyssenKrupp Metallurgical Supplies Limited	516	703	403
Hargreaves (Bulk Liquid Transport) Limited	-	-	-
Hargreaves Coal Combustion Products Limited	-	-	-

6.26 Contingent liabilities

HUL, its parent undertaking and certain of its subsidiary undertakings have debenture and composite arrangements in connection with loan and banking facilities. HUL 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. HUL's maximum unprovided liability in respect of these at 31 May 2004 is £11,664,000 *(2003: £7,112,000)*.

PART III (c): THE MONCKTON COKE & CHEMICAL COMPANY LIMITED FOR THE THREE YEARS ENDED 31 DECEMBER 2004 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

KPMG

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United Kingdom

The Directors
Hargreaves Services plc
West Terrace
Esh Winning
Co. Durham
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24 November 2005

Dear Sirs

Accountant's Report on the historical financial information of The Monckton Coke & Chemical Company Limited for the three years ended 31 December 2004 and for the nine months ended 30 September 2005

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

We report on the financial information set out on pages 71 to 87. This financial information has been prepared for inclusion in the admission document dated 24 November 2005 of Hargreaves Services plc on the basis of the accounting policies set out in note 6.1. This report is required by paragraph (a) of schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 6.1 to the financial information and in accordance with UK accounting standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 24 November 2005, a true and fair view of the state of affairs of The Monckton Coke & Chemical Company Limited as at the dates stated and of its profits and losses, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 6.1 and in accordance with the applicable financial reporting framework as described in note 6.1.

Declaration

For the purposes of paragraph (a) of Schedule 2 of the AIM Rules we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule 2 of the AIM Rules.

Yours faithfully

KPMG LLP

HISTORICAL FINANCIAL INFORMATION OF THE MONCKTON COKE & CHEMICAL COMPANY LIMITED FOR THE THREE YEARS ENDED 31 DECEMBER 2004 AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

The financial information set out below of The Monckton Coke & Chemical Company Limited ('Monckton') for the three years ended 31 December 2004 and for the nine months ended 30 September 2005 has been prepared by the directors of the Company on the basis set out in note 6.1

1 Profit and loss accounts

for the three years ended 31 December 2004 and the nine months ended 30 September 2005

	Notes	**2002 12 months £000**	**2003 12 months £000**	**2004 12 months £000**	**2005 9 months £000**
Turnover	*6.2*	15,891	16,965	19,837	17,445
Cost of sales		(15,315)	(15,966)	(18,561)	(14,909)
Gross profit		576	999	1,276	2,536
Administrative expenses		(1,214)	(705)	(1,070)	(1,133)
Other operating income		3	27	45	-
Operating (loss) / profit		(635)	321	251	1,403
Interest receivable and similar income		-	40	-	-
Interest payable and similar charges	*6.6*	(77)	(67)	(41)	(48)
(Loss) / profit on ordinary activities before taxation	*6.3*	(712)	294	210	1,355
Tax on (loss) / profit on ordinary activities	*6.7*	139	(77)	(45)	(446)
(Loss) / profit for the financial year/period		(573)	217	165	909
Dividends	*6.8*	(5,100)	-	-	-
Retained (loss) / profit for the financial year/period	*6.16*	(5,673)	217	165	909

Monckton has no recognised gains or losses other than those shown above and therefore no separate statement of total gains and losses has been presented.

Monckton's results derive from continuing operations.

2 Balance sheets

at 31 December 2002, 31 December 2003, 31 December 2004 and 30 September 2005

	Notes	2002 £000	2003 £000	2004 £000	2005 £000
Fixed assets					
Tangible fixed assets	*6.9*	6,787	6,336	5,771	5,511
Current assets					
Stocks	*6.11*	2,661	3,307	2,328	3,767
Debtors	*6.12*	2,410	3,176	2,484	5,205
Cash at bank		277	490	471	3
		5,348	6,973	5,283	8,975
Creditors: amounts falling due within one year	*6.13*	(8,767)	(10,121)	(7,899)	(10,387)
Net current liabilities		(3,419)	(3,148)	(2,616)	(1,412)
Total assets less current liabilities		3,368	3,188	3,155	4,099
Provision for liabilities and charges	*6.14*	(3,006)	(2,609)	(2,411)	(2,446)
Net assets		362	579	744	1,653
Capital and reserves					
Called up share equity capital	*6.15*	17	17	17	17
Profit and loss account	*6.16*	345	562	727	1,636
Equity shareholders' funds		362	579	744	1,653

3 Cash flow statements

for the three years ended 31 December 2004 and the nine months ended 30 September 2005

	Notes	2002 12 months £000	2003 12 months £000	2004 12 months £000	2005 9 months £000
Cash flow from operating activities	*6.18*	5,211	130	44	(3,481)
Returns on investment and servicing of finance		(77)	(27)	(41)	(48)
Taxation		-	254	-	-
Capital expenditure and financial investment		(243)	(144)	(22)	(164)
Equity dividends paid		(5,100)	-	-	-
Cash (outflow)/inflow before financing		(209)	213	(19)	(3,693)
Financing		-	-	-	3,225
(Decrease)/increase in cash in the year/period		(209)	213	(19)	(468)

4 Reconciliation of net cash flow to movement in net funds / (debt)

for the three years ended 31 December 2004 and the nine months ended 30 September 2005

	Notes	2002 £000	2003 £000	2004 £000	2005 £000
(Decrease) / increase in cash in the year / period		(209)	213	(19)	(468)
Changes in net funds / (debt) resulting from cash flows		(209)	213	(19)	(468)
Cashflow from movement in net debt		-	-	-	(3,225)
Movement in net funds / (debt) in the year / period		(209)	213	(19)	(3,693)
Net funds at beginning of year / period		486	277	490	471
Net funds / (debt) at end of year / period	*6.19*	277	490	471	(3,222)

5 Reconciliation of movement in shareholders' funds

for the three years ended 31 December 2004 and the nine months ended 30 September 2005

	2002 £000	2003 £000	2004 £000	2005 £000
(Loss) / profit for the financial year/period	(573)	217	165	909
Dividends	(5,100)	-	-	-
	(5,673)	217	165	909
Opening equity shareholders' funds	6,035	362	579	744
Closing equity shareholders' funds	362	579	744	1,653

6 Notes

(which form part of the financial information)

6.1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information of Monckton.

Basis of preparation

The financial information has been prepared under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom.

Basis of accounting

Trading accounts are made up to 30 September (2005) (2004, 2003, 2002: 31 December). For 2005, trading is shown for the 9 month period ended 30 September *(2004: 52 weeks ended 25 December 2004, 2003: 52 weeks ended 27 December 2003, 2002: 52 weeks ended 28 December 2002).*

Turnover

Turnover comprises of sales of manufactured fuel exclusive of value added tax.

Tangible fixed operating assets and depreciation

Freehold land is not depreciated. The cost, less estimated residual value, of other tangible fixed operating assets is written off by equal instalments over their expected useful lives. Heavy mining and other plant and equipment is depreciated at varying rates depending upon its expected usage. Indicative rates are as follows:

Freehold buildings	-	5 to 10% per annum
Plant & Machinery	-	10 to 33% per annum
Combined Heat & Power Plant	-	6%

Depreciation on the coke ovens is provided at 10% of the net book value.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Pension costs

Monckton operated a defined contribution scheme in 2005. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Monckton was a member of the UK Coal PLC defined contribution scheme in 2004, 2003, and 2002. The assets of the scheme were held separately from those of Monckton. Annual contributions payable were charged to the profit and loss account as incurred.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Ground and groundwater contamination

In accordance with FRS 12, a provision is established for ground and groundwater contamination from the point at which a legal or constructive obligation is identified and can be quantified.

Post retirement benefits other than pension

In accordance with UITF Abstract 6, Monckton accounts for concessionary fuel on an accruals basis.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities are translated at year end exchange rates and the resulting exchange rate differences are dealt with in the determination of profit for the financial year.

6.2 Turnover

	2002 £000	2003 £000	2004 £000	2005 £000
By Geographical market				
United Kingdom	13,567	11,504	12,692	10,580
European Community	2,295	2,744	4,252	4,931
Rest of Europe	29	2,717	2,893	1,934
	15,891	16,965	19,837	17,445

6.3 (Loss) / profit on ordinary activities before taxation

	2002 £000	2003 £000	2004 £000	2005 £000
(Loss) / profit on ordinary activities before taxation is stated after charging:				
Depreciation	578	595	587	440
Loss on disposal of fixed assets	-	-	1	-
Auditors' remuneration:				
- as auditors	-	-	-	-
- other services	-	-	-	20
Hire of plant and machinery	398	522	574	438

In 2004, 2003 and 2002, auditors' remuneration was paid by the then ultimate parent company, UK Coal PLC.

The auditors did not receive any remuneration for non-audit services *(2004: £nil, 2003: £nil, 2002: £nil)*.

6.4 Remuneration of directors

	2002 £000	2003 £000	2004 £000	2005 £000
Directors' emoluments	152	148	193	49
Contributions to money purchase pension schemes	12	12	20	4
	164	160	213	53

Emoluments of highest paid director:

	2002 £000	2003 £000	2004 £000	2005 £000
Total emoluments (excluding pension contributions)	n/a	88	132	n/a
Value of company pensions contributions to money purchase schemes	n/a	14	15	n/a
	n/a	102	147	n/a

The compensation payment, included in total emoluments above, paid to Mr. K. LeGeyt on retirement is £nil *(2004: £53,000, 2003: £nil, 2002: £nil)*.

In 2004, Mr M. Garness, Mr G. A. McPhie, Mr G. Spindler and Mr. C. Mawe were directors of the then ultimate parent company, UK Coal PLC and their emoluments were shown in the accounts of that company.

In 2003 and 2002, Mr M. Garness and Mr G. A. McPhie were directors of the then ultimate parent company, UK Coal PLC and their emoluments were shown in the accounts of that company.

None of the directors had any interest of the share capital of Monckton.

6.5 Staff numbers and costs

The average number of persons employed by Monckton (including directors) during the three years ended 31 December 2004 and the nine months ended 30 September 2005, analysed by category, was as follows:

	2002	2003	2004	2005
		Number of employees		
Production	85	85	56	68
Administrative	17	15	23	18
	102	100	79	86

The aggregate payroll costs of these persons were as follows:

	2002 £000	2003 £000	2004 £000	2005 £000
Wages and salaries	2,022	2,054	1,754	1,770
Social security costs	177	191	175	148
Other pension costs	84	80	64	51
	2,283	2,325	1,993	1,969

6.6 Interest payable and similar charges

	2002 £000	2003 £000	2004 £000	2005 £000
Unwinding of discounts on provisions	77	67	41	-
Finance charges on invoice discounting advances	-	-	-	48
	77	67	41	48

6.7 Tax on (loss) / profit on ordinary activities

Analysis of charge / (credit) in period:

	2002 £000	2003 £000	2004 £000	2005 £000
UK corporation tax				
Current tax on income for the year	(78)	(7)	(22)	422
Adjustment in respect of prior periods	176	168	244	-
Total current tax	98	161	222	422
Deferred tax				
Origination of timing differences	(237)	(84)	(177)	24
Total deferred tax	(237)	(84)	(177)	24
Tax on (loss) / profit on ordinary activities	(139)	77	45	446

Factors affecting the tax charge for the current year

The current tax (credit) / charge for 2005 is higher *(2004: higher, 2003: higher, 2002: higher)* than the standard rate of corporation tax in the UK 30% *(2004: 30%, 2003: 30%, 2002: 30%)*. The differences are explained below.

	2002 £000	2003 £000	2004 £000	2005 £000
Current tax reconciliation				
(Loss) / profit on ordinary activities before tax	(712)	294	210	1,355
Current tax at 30% *(2004: 30%, 2003: 30%, 2002: 30%)*	(214)	88	63	407
Effects of:				
Expenses not deductible for tax purposes	8	4	2	39
Adjustment to tax charge in respect of previous periods	176	168	244	-
Timing differences	128	(99)	(87)	(24)
Total current tax charge (see above)	98	161	222	422

6.8 Dividends

Dividends on non-equity shares:

	2002 £000	2003 £000	2004 £000	2005 £000
Final dividend paid	5,100	-	-	-

6.9 Tangible fixed assets

	Freehold land and buildings £000	Plant & Machinery £000	Mines & Surface Works £000	Total £000
Cost				
At 1 January 2002	1,131	14,511	64	15,706
Additions	-	243	-	243
At 1 January 2003	1,131	14,754	64	15,949
Additions	3	141	-	144
At 1 January 2004	1,134	14,895	64	16,093
Additions	-	23	-	23
Disposals	-	(11)	-	(11)
At 1 January 2005	1,134	14,907	64	16,105
Additions	-	180	-	180
At 30 September 2005	1,134	15,087	64	16,285
Depreciation				
At 1 January 2002	677	7,843	64	8,584
Charge for year	29	549	-	578
At 1 January 2003	706	8,392	64	9,162
Charge for year	30	565	-	595
At 1 January 2004	736	8,957	64	9,757
Charge for year	27	560	-	587
Disposals	-	(10)	-	(10)
At 1 January 2005	763	9,507	64	10,334
Charge for period	12	428	-	440
At 30 September 2005	775	9,935	64	10,774
Net book value				
At 30 September 2005	359	5,152	-	5,511
At 31 December 2004	371	5,400	-	5,771
At 31 December 2003	398	5,938	-	6,336
At 31 December 2002	425	6,362	-	6,787

6.10 Fixed asset investments

The investment represents the whole share capital of £2 of The Monckton Coke and Chemical Staff Pension Trustees Limited, a dormant company which is registered in England and Wales.

6.11 Stocks

	2002 £000	2003 £000	2004 £000	2005 £000
Raw materials	130	371	936	1,706
Finished goods	2,056	2,481	941	1,573
Engineering stores	475	455	451	488
	2,661	3,307	2,328	3,767

6.12 Debtors

	2002 £000	2003 £000	2004 £000	2005 £000
Trade debtors	2,156	3,087	2,431	5,058
Corporation tax repayable	39	-	-	-
Prepayments and accrued income	215	89	53	147
	2,410	3,176	2,484	5,205

6.13 Creditors: amounts falling due within one year

	2002 £000	2003 £000	2004 £000	2005 £000
Trade creditors	830	901	1,329	2,402
Invoice discounting advances	-	-	-	3,225
Corporation tax	-	-	-	422
Amounts owed to group undertakings	7,000	7,959	5,584	3,288
Other taxation and social security	566	762	777	190
Accruals and deferred income	371	499	209	566
Other creditors	-	-	-	294
	8,767	10,121	7,899	10,387

6.14 Provisions for liabilities and charges

The amounts provided for are set out below:

	Deferred tax	Post retirement benefits £000	Ground/ groundwater contam- ination £000	Gas plant decommiss- ioning £000	Total £000
At 1 January 2002	916	553	1,639	194	3,302
Created in year	(237)	-	-	-	(237)
Released in year	-	(28)	-	-	(28)
Utilised in year	-	(67)	-	(41)	(108)
Unwinding on discount	-	28	49	-	77
At 1 January 2003	679	486	1,688	153	3,006
Created in year	(84)	-	-	158	74
Released in year	-	(2)	(158)	-	(160)
Utilised in year	-	(67)	-	(311)	(378)
Unwinding on discount	-	17	50	-	67
At 1 January 2004	595	434	1,580	-	2,609
Created in year	(177)	21	-	-	(156)
Utilised in year	-	(57)	(26)	-	(83)
Unwinding on discount	-	17	24	-	41
At 1 January 2005	418	415	1,578	-	2,411
Created in year	24	7	4	-	35
Released in year	-	-	-	-	-
Utilised in year	-	-	-	-	-
Unwinding on discount	-	-	-	-	-
At 30 September 2005	442	422	1,582	-	2,446

In accordance with FRS 12 a brief description of the nature of Monckton's obligations, the expected timing of resulting outflows of economic benefit and an indication of the uncertainties surrounding each of the above provisions is provided below:

Concessionary fuel provides for retirement benefits payable to employees in the form of coke provided by Monckton. The amounts payable are defined in 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.

Ground / groundwater contamination provisions relate to Monckton's constructive obligation to address ground and groundwater pollutants at its operating sites. The provision is based on estimates of volumes of contaminated soil and the historical contract costs of ground contamination treatment. These costs will usually be incurred on the decommissioning of a site.

Gas plant decommissioning provision covers the cost of decommissioning plant and equipment that became obsolete on the commissioning of the Combined Heat and Power Plant during the year ended 31 December 1997. The provision is based on current cost payable to external contractors.

6.14 Provisions for liabilities and charges (continued)

The elements of deferred taxation are as follows:

	2002 £000	2003 £000	2004 £000	2005 £000
Difference between accumulated depreciation and capital allowances	841	909	753	777
Other timing differences	(162)	(314)	(335)	(335)
Deferred tax liability	679	595	418	442

6.15 Called up share capital

	2002 £000	2003 £000	2004 £000	2005 £000
Authorised				
340,000 Ordinary shares of 5p each	17	17	17	17
483,000 Ordinary class 3 shares of £1 each	483	483	483	483
	500	500	500	500
Allotted, called up and fully paid				
340,000 Ordinary shares of 5p each	17	17	17	17

6.16 Profit and loss account

	2002 £000	2003 £000	2004 £000	2005 £000
At beginning of period	6,018	345	562	727
Retained (loss) / profit for the year	(5,673)	217	165	909
At end of period	345	562	727	1,636

6.17 Pensions

Pension scheme

Monckton operates a defined contribution pension scheme for its employees.

Other retirement benefits

Monckton provides for concessionary fuel retirement benefits payable at retirement upon attaining the age of 60. The amounts payable are defined in 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 most recent actuarial valuation of the above schemes was at 31 December 2003. This valuation has been rolled forward to 31 December 2004. The valuation of the scheme used the projected unit method and was carried out by William M Mercer Ltd, a professionally qualified actuary.

Additional disclosures required for defined benefit schemes under FRS 17 'Retirement Benefits' transitional arrangements are set out below:

	2002	**2003**	**2004**	**2005**
	£000	**£000**	**£000**	**£000**
Principal actuarial assumptions				
Average retirement age	60 years	60 years	60 years	60 years
Rate of leaving service	2.5%	2.5%	2.5%	2.5%
Coal price inflation	1.4%	1.85%	1.8%	1.8%
Discount rate	5.5%	5.4%	5.3%	5.3%
Inflation	2.4%	2.85%	2.8%	2.8%

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

The net liability relating to this unfunded benefit is shown below:

	2002	**2003**	**2004**	**2005**
	£000	**£000**	**£000**	**£000**
Gross present value of scheme liabilities	(584)	(469)	(420)	(411)

A deferred tax asset of £123,000 *(2004: £126,000, 2003: £141,000, 2002: £175,000)* would offset the gross deficit if Monckton generates sufficient taxable profits before the deficit is accounted for.

The present value of scheme liabilities of £411,000 *(2004: £420,000, 2003: £469,000, 2002: £584,000)* compares to a provision per note 6.17 of £422,000 *(2004: £415,000, 2003: £434,000, 2002: £486,000)*. The latest updated actuarial valuation at 31 December 2004 revealed a deficit in the provision of £5,000 *(31 December 2003: deficit of £35,000, 31 December 2002: deficit of £98,000)*. This deficit is being accounted for under the rules of SSAP 24 and is being spread over the remaining service lives of the employees to which it relates.

6.17 Pensions (continued)

The following disclosures show the effect on the primary financial statements if FRS 17 was accounted for in full.

Net assets

	2002 £000	2003 £000	2004 £000	2005 £000
Net assets per balance sheet	362	579	744	1,653
Plus SSAP 24 provision	486	434	415	422
Net assets excluding SSAP 24 provision	848	1,013	1,159	2,075
FRS17 concessionary fuel reserve	(584)	(469)	(420)	(411)
Net assets including FRS 17	264	544	739	1,664
Reserves				
Profit and loss reserve per balance sheet	345	562	727	1,636
Plus SSAP 24 provision	486	434	415	422
Profit and loss reserve excluding SSAP 24 provision	831	996	1,142	2,058
FRS 17 concessionary fuel reserve	(584)	(469)	(420)	(411)
Profit and loss reserve including FRS 17 concessionary fuel reserve	247	527	722	1,647

	2002 £000	2003 £000	2004 £000	2005 £000
Amounts to be included within operating profit:				
Current service costs	29	18	6	3
Past service costs	-	-	-	-
	29	18	6	3

	2002 £000	2003 £000	2004 £000	2005 £000
Amounts to be included in the consolidated statement of total recognised gains and losses:				
Experience gains arising on scheme liabilities	245	17	42	-
Effects of changes in assumptions in present value of scheme	198	106	(9)	-
	443	123	33	-

6.17 Pensions (continued)

Movement in reserve during year

	2002 £000	2003 £000	2004 £000	2005 £000
Concessionary fuel reserve at beginning of period	(978)	(584)	(469)	(420)
Current service cost	(29)	(18)	(6)	(3)
Benefits paid to former employees during year	36	42	47	23
Interest on liabilities	(56)	(32)	(25)	(11)
Actuarial gains and losses recognised in STRGL	443	123	33	-
Concessionary fuel reserve at end of period	(584)	(469)	(420)	(411)

	2002 £000	2003 £000	2004 £000	2005 £000
History of experience gains and losses:				
Experience gains and losses on concessionary fuel reserve amount	245	17	42	-
Percentage of present value of scheme liabilities	25%	3%	10%	-
Total amounts included in consolidated statement of total recognised gains and losses amount	443	123	33	-
Percentage of present value of scheme liabilities	45%	21%	8%	-

6.18 Reconciliation of operating profit to operating cash flows

	2002 £000	2003 £000	2004 £000	2005 £000
Operating (loss) / profit	(635)	321	251	1,403
Depreciation	578	595	587	440
Decrease / (increase) in stocks	206	(646)	979	(1,439)
Decrease / (increase) in debtors	822	(805)	692	(2,721)
Increase / (decrease) in creditors	4,299	978	(2,444)	(1,175)
Increase / (decrease) in provisions	(59)	(313)	(21)	11
	5,211	130	44	(3,481)

6.19 Net funds / (debt) is comprised of

	2002 £000	2003 £000	2004 £000	2005 £000
Cash at bank	277	490	471	3
Invoice discount creditor	-	-	-	(3,225)
Net funds	277	490	471	(3,222)

6.20 Related party transactions

For the years ended 31 December 2002, 2003 and 2004, Monckton has taken advantage of the exemption not to disclose transactions with other entities that fall within the group of companies owned 90% by the then ultimate parent company, UK Coal Plc.

For the period ending 30 September 2005 Monckton has taken advantage of the exemption not to disclose transactions with other entities that fall within the group of companies owned 90% by the ultimate parent company Hargreaves Services plc.

6.21 Ultimate parent company

During 2002 three subsidiary companies, Harworth Guarantee Co. Ltd, UK Coal Holdings Ltd and Harworth Group Ltd were incorporated. On 26 March 2002 UK Coal PLC transferred its investment to Harworth Group Ltd by way of a capital contribution.

Monckton Coke & Chemical Company Limited, at 31 December 2002, 31 December 2003 and 31 December 2004, regarded UK Coal PLC as its ultimate parent company. According to the register kept by Monckton, Harworth Group Ltd had a 100% interest in the equity capital of Monckton Coke & Chemical Company Limited.

On 17 June 2005 the entire share capital of Monckton was acquired by Hargreaves Services plc. Hargreaves Services plc is the ultimate parent company.

PART IV: ADDITIONAL INFORMATION

The Company

1.1 The Company was incorporated and registered in England and Wales on 4 November 2003 under the Act as a private company limited by shares with the name Yorkshire Phoenix Limited and with registration number 4952865. The name of the Company was changed on 9 February 2004 to WM 0502 Limited and on 24 June 2004 to Hargreaves (UK) Holdings Limited. By a resolution passed on 11 November 2005, the Company was re-registered as a public limited company and changed its name to Hargreaves Services plc with effect from 18 November 2005.

1.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder. The liability of the members of the Company is limited.

1.3 The Company's registered office is at West Terrace, Esh Winning, Durham, DH7 9PT, which is also its head office and principal place of business.

1.4 The Company's telephone number is 0191 373 4485.

2 Subsidiaries

2.1 The Company's significant subsidiaries, all of which are registered in England and Wales and are wholly owned, are set out below:

Company	*Principal activities*
Hargreaves (UK) Limited (company number 4140051)	Intermediate holding company
Hargreaves Transport Limited (company number 2996297)	Asset management
Hargreaves (UK) Services Limited (company number 3735251)	Haulage, mineral import and processing
The Monckton Coke & Chemical Company Limited (company number 70960)	Coke production

3 Share Capital

3.1 The Company's authorised and issued share capital at the date of this document is and immediately following the Placing and Admission will be as follows:

	Immediately prior to Admission		**Immediately following Admission**	
	Amount	*Number of Ordinary Shares*	*Amount*	*Number of Ordinary Shares*
Authorised	£4,750,000.00	47,500,000	£4,750,000.00	47,500,000
Issued and fully paid	£1,482,770.00	14,827,700	£2,367,543.70	23,675,437

3.2 At the date of incorporation, the authorised share capital of the Company was £1,000 divided into 1,000 shares of £1.00 each, one of which was issued credited as fully paid to the subscriber to the Company's memorandum of association and which was subsequently transferred to Alexander Simpson on 10 November 2003 and to Peter Dillon on 30 April 2004.

3.3 On 29 April 2004, the share capital of the Company was increased by £3,249,000 to £3,250,000, comprising:

3.3.1 1,000,000 ordinary shares of £1 each;

3.3.2 250,000 cumulative convertible participating preferred 'A' ordinary shares of £1 each;

3.3.3 1,750,000 cumulative redeemable 'A' preference shares of £1 each; and

3.3.4 250,000 'B' preference shares of £1 each.

3.4 On 29 April 2004, 972,999 ordinary shares of £1 each were issued and allotted at par fully paid up.

3.5 On 30 April 2004, and in connection with the acquisition by the Company of the entire issued share capital of Hargreaves (UK) Limited (for more details of which, please refer to paragraph 10.4.1 below), 220,000 cumulative convertible participating preferred 'A' ordinary shares of £1 each, 1,530,000 cumulative redeemable 'A' preference shares of £1 each and 250,000 'B' preference shares of £1 each were issued and allotted at par fully paid up.

3.6 On 7 October 2004, 27,000 ordinary shares of £1 each were issued and allotted at par fully paid up.

3.7 By or pursuant to the resolutions of the Company passed on 3 November 2005 which are conditional on Admission:

3.7.1 the authorised share capital of the Company was increased to £4,750,000 by the creation of an additional 1,500,000 ordinary shares of £1 each;

3.7.2 50,270 'A' preference shares of £1 each in the capital of the Company were converted into 50,270 'A' ordinary shares of £1 each;

3.7.3 200,000 'B' preference shares of £1 each in the capital of the Company were converted into 200,000 ordinary shares of £1 each;

3.7.4 each of the issued and authorised but unissued 'A' ordinary shares of £1 each in the capital of the Company was redesignated as an ordinary share of £1 each;

3.7.5 each of the issued 'A' preference shares and 'B' preference shares of £1 each in the capital of the Company (remaining after the conversions referred to above) was redeemed in full and cancelled and redesignated as an ordinary share of £1 each;

3.7.6 each of the issued and authorised but unissued ordinary shares of £1 each in the capital of the Company was subdivided into ten ordinary shares of 10 pence each;

3.7.7 the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all and any powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount equal to £2,112,500. The authority expires (unless previously renewed, varied, or revoked by the Company in general meeting) at the earlier of the conclusion of the annual general meeting of the Company following the passing of the resolution and 15 months from the date of the resolution. The Company may, at any time prior to the expiry of the authority, make an offer or agreement which would or might require relevant securities to be allotted after expiry of the authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority had not expired;

3.7.8 the Directors were given power pursuant to section 95 of the Act (with such power expiring at the same time as the authority referred to in paragraph 3.4.7 above (the "Section 80 Authority")) to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the Section 80 Authority as if section 89(1) of the Act did not apply to any such allotment save that the power was limited to:

(a) the allotment of up to 12,500,000 ordinary shares of 10 pence each in connection with the Placing;

(b) the allotment of up to 125,000 ordinary shares of 10 pence each to Mr Steve Anson;

(c) the allotment of equity securities pursuant to a rights issue or equivalent offers; and

(d) (otherwise than pursuant to the above) allotment for cash of equity securities up to an aggregate nominal amount of equal to 5 per cent of the issued equity share capital immediately following Admission; and

3.7.9 the Sharesave Scheme was adopted; and

3.7.10 new memorandum and articles of association of the Company were adopted (for further details of which please refer to paragraph 4 below).

3.8 On 23 November 2005, 125,000 Ordinary Shares of 10 pence each were allotted to Mr Steve Anson conditional upon Admission.

3.9 On 23 November 2005 interim dividends were be declared by Hargreaves (UK) Services Limited, Hargreaves Transport Limited and HUL in order to provide the Company with sufficient distributable revenues to pay a participating dividend to equity shareholders and to redeem the 'A' preference shares and 'B' preference shares. Immediately before Admission, a dividend of £291,000 will be paid to equity shareholders in accordance with the articles of association of the Company which will be replaced on Admission by new articles of association which are summarised below.

3.10 The Company had 973,000 ordinary shares of £1 each, 220,000 'A' ordinary shares of £1 each, 1,530,000 'A' preference shares of £1 each and 250,000 'B' preference shares of £1 each in issue and fully paid on 1 June 2004 and 1,000,000 ordinary shares of £1 each, 220,000 'A' ordinary shares of £1 each, 1,530,000 'A' preference shares of £1 each and 250,000 'B' preference shares of £1 each in issue and fully paid on 31 May 2005. The Company has not used more than 10 per cent. of the issued share capital for the purchase of assets other than cash during the period 1 June 2004 up to and including 31 May 2005.

3.11 There are no shares in the Company which are held by, or on behalf of, the Company and none of the Company's subsidiaries holds any shares in the Company.

3.12 Other than as set out in paragraph 10 of this Part IV, no person has any rights or obligations to purchase the authorised but unissued share capital of the Company and no person has been given an undertaking by the Company to increase its authorised capital.

3.13 The International Security Identification Number for the Ordinary Shares is GB00B0MTC970. The Company's Registrars are responsible for keeping and maintaining the Company's register of members.

3.14 Save as set out in this document there are no options existing or agreed conditionally or unconditionally over the capital of the Company or any of the subsidiaries of the Company.

3.15 On completion of the Placing, the issued share capital of the Company shall be increased by 60 per cent.

3.16 The price of the Ordinary Shares issued pursuant to the Placing Agreement referred to at paragraph 10.2 of Part IV represents a premium of 233p over the nominal value of 10 pence per Ordinary Share.

3.17 *Takeovers offers and rights to acquire shares held by minority shareholders*

There are no mandatory takeover offers outstanding in respect of the Company and none have been made either in the last financial year (being the year ended 30 May 2005) or the current financial year of the Company.

No public takeover offers have been made by third parties in respect of the Company's issued share capital in the last financial year (being the year ended 30 May 2005) nor in the current financial year.

If a "takeover offer" (as defined in section 428(1) of the Act is made and the offeror, by virtue of acceptances of such offer, acquires or contracts to acquire not less than nine-tenths in value of the issued shares of any class to which the offer relates, then the offeror would have the right to acquire compulsorily the shares of the minority shareholders to which the offer relates and which the offeror has not already acquired for the offer price within a fixed period. In such circumstances, the minority shareholders also have the right to require the offeror to buy such shares at the offer price within a fixed period.

4 Memorandum and Articles of Association

Memorandum of Association

4.1 The objects of the Company are set out in full in clause 4 of its memorandum of association and include the carrying on of business as a holding company and as a general commercial company.

Articles of Association

4.2 The Articles, which were adopted, conditional on Admission, pursuant to a written resolution of the Company passed on 3 November 2005, contain provisions, *inter alia*, to the following effect:

4.2.1 *Share Capital*

The Company may by ordinary resolution:

(i) increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate its share capital into shares of larger amounts than its existing shares;

(iii) cancel any shares which have not been taken at the date of the passing of the resolution, or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and

(iv) sub-divide its shares, or any of them, into shares of smaller amounts than is fixed by the memorandum of association of the Company.

The Company may by special resolution reduce its share capital and any capital redemption reserve and any share premium account in any manner subject to the provisions of the Act. The Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholders. Subject to the provisions of the Act and the rights of holders of any class of shares, the Company may purchase its own shares, including redeemable shares.

4.2.2 *Voting*

Subject to any special terms as to voting upon which any shares for the time being may be held, on a show of hands every member who (being an individual) is present in person or by proxy not being himself a member or (being a corporation) is present by its duly appointed representative shall have one vote, and on a poll every member present in person, or by representative, or proxy, shall have one vote for every share in the capital of the Company held by him. A proxy need not be a member of the Company. Where, in respect of any shares, any registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under Section 212 of the Act, then not earlier than 14 days or 28 days if a member has a holding of less than 0.25 per cent. of any class of shares after service of such notice, the shares in question may be disenfranchised.

4.2.3 *AGM & EGM Procedures*

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next. Subject to the provisions of the Act, the annual general meeting shall be held at such time and place as the Directors may determine.

The Board may convene an extraordinary general meeting whenever it thinks fit. An extraordinary general meeting shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by Section 368 of the Act. At any meeting convened on such requisition or by such requisitionists no business shall be transacted except as stated by the requisition or proposed by the Board.

Subject to the provisions of the Act, an annual general meeting and a general meeting for the passing of a special resolution shall be called by at least twenty one clear days notice, and all other general meetings shall be called by at least fourteen clear days notice.

Shorter notice than that specified above may be deemed to have been given in the case of an annual general meeting by all the members entitled to attend and vote at the meeting; and in the case of any other meeting, by a majority number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4.2.4 *Dividends*

The Company may by ordinary resolution declare dividends provided that they shall be paid in accordance with the Act and out of profits available for distribution and shall not exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified by the profits of the Company and are permitted by the Act.

Subject to the rights of persons, if any, holding shares with special dividend rights, and unless the terms of issue otherwise provide, all dividends shall be apportioned and paid *pro rata* according to the amount paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is payable. Amounts paid or credited as paid in advance of calls shall not be regarded as paid on shares for this purpose.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. All dividends unclaimed for a period of 12 years after having been declared shall, if the Directors so resolve, be forfeited and shall revert to the Company.

Where, in respect of any shares, any registered holder or any other person appearing to be interested in the shares of the Company fails to comply with any notice given by the Company under Section 212 of the Act, then, provided that the shares concerned represent at least 0.25 per cent. in nominal value of the issued shares of the relevant class, the Company may withhold dividends on such shares.

There is no fixed date on which an entitlement to a dividend arises.

4.2.5 *Variation of Rights*

All or any of the special rights for the time being attached to any class of shares for the time being forming part of the capital of the Company may, subject to the provisions of the Act, be varied or abrogated with the consent in writing of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class, but not otherwise. To every such meeting all the provisions of the Articles of Association of the Company relating to general meetings or to the proceedings thereat shall, so far as applicable and with the necessary modifications, apply, except that the necessary quorum at any such meeting (other than an adjourned meeting) shall be two persons at least, holding or representing by proxy at least one third in nominal value of the issued shares of the class in question and that any holder of shares of the class in question present in person or by proxy may demand a poll.

4.2.6 *Transferability*

Transfers of Ordinary Shares, which are in registered form, shall be effected in the manner authorised by the Stock Transfer Act 1963. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The Directors may decline, without giving any reason, to recognise any instrument of transfer unless:

(i) the instrument of transfer (duly stamped) is deposited at the Company's registered office accompanied by the share certificate for the shares to which it relates and such other evidence as the Directors may reasonably require showing the right of the transferor to make the transfer;

(ii) the instrument of transfer is in respect of only one class of share;

(iii) the instrument of transfer is in favour of not more than four transferees; and

(iv) the instrument of transfer is in respect of a share in respect of which all sums presently payable to the Company have been paid.

Where, in respect of any shares, any registered holder or any person appearing to be interested in such shares fails to comply with any notice given by the Company under Section 212 of the Act, then, provided that the shares concerned represent at least 0.25 per cent. in nominal value of the issued shares of the relevant class, the Company may prohibit transfers of such shares or agreements to transfer any of such shares.

4.2.7 *Directors of the Company*

Unless otherwise determined by ordinary resolution, the number of directors (other than alternative directors) shall be not less than two and not more than eight. Subject to certain exceptions, a Director shall not vote (or be counted in the quorum) in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest and, if he shall do so, his vote shall not be counted.

The directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed at any other number shall be two.

Questions arising at any meeting shall be determined by a majority of votes. In case of an equality of votes the chairman of the meeting shall have a second or casting vote.

It shall not be necessary to give notice of a Board meeting to a Director who is absent from the United Kingdom unless he has requested the Board in writing that notices of Board meetings shall during his absence be given to him at his last known address or any other address given by him to the Company for this purpose.

Any Director or his alternate may validly participate in a meeting of the Board or a committee of the Board through the medium of conference telephone or any other form of communications equipment.

The directors may delegate any of their powers to committees consisting of one or more directors and one or more persons co-opted to the committee by the directors. Any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the directors. The meetings and proceedings of any such committee consisting of two or more directors shall be governed by the provisions of these Articles regulating the meetings and proceedings of the directors, so far as the same are applicable and are not superseded by any regulations imposed by the directors under this Article

Fees paid for the services of the Directors shall not exceed £250,000 (in aggregate) or such greater sum as determined by the Company in general meeting. This sum shall not include any sum received by a Director under a contract of employment with the Company. The Company may remunerate a Director who serves on any committee or devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, by way of salary, lump sum, percentage of profits or otherwise as the Directors or any committee authorised by the Directors, may determine.

At each annual general meeting of the Company, one-third of the Directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third, shall retire. A retiring Director is eligible for re-election.

Each Director (other than an alternate director) may appoint another Director or (subject to the approval of a majority of the Directors) any other person to be an alternate director of the Company, and may at any time remove an alternate director so appointed by him from office and, subject to any requisite approval, appoint another person in his place.

The Company may purchase and maintain for any Director insurance against any liability which by virtue of any law would otherwise attach to him in respect of any default, breach of duty or breach of trust of which he may be guilty in relation to the Company.

4.2.8 *Borrowing Powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled share capital, and (subject to the Act) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowings of the Company and its subsidiaries so as to ensure that the aggregate of the amounts borrowed by the Company and all its subsidiaries and remaining outstanding at any time shall not without previous sanction of an ordinary resolution of the Company exceed an amount equal to two and one half times the aggregate of the amount shown as standing to the credit of its capital and revenue reserves as defined in the Articles but excluding certain amounts as defined therein.

4.2.9 *Distribution of assets on liquidation*

If the Company shall be wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company or any other sanction required by the Act, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such values as he deems fair. The liquidator may also vest the whole or part of the assets of the Company in trustees on trust for the benefit of the members.

4.2.10 *Uncertificated Shares*

The Directors may implement such arrangements as they think fit in order for any class of shares to be held, evidenced and transferred in uncertificated form. The Company will not be required to issue a certificate to any person holding shares in uncertificated form.

4.2.11 *Pensions and gratuities*

Subject to the Act the Directors may exercise all powers of the Company to grant or pay pensions, annuities, gratuities or other allowances or benefits to any persons who are or have at any time been Directors of the Company or the relations, connections or dependants of any Director or former Director.

4.2.12 *Untraced Shareholders*

The Company may, after advertising its intention, sell any shares in the Company if the shares have been in issue for at least 12 years and during that period at least three cash dividends have become payable on them and have not been claimed or satisfied and the Company has not received any communication during the period of three months after the date of publication of the advertisement from the holder of the shares or any person entitled to them by transmission. Upon any such sale the Company will become indebted to the former holder of the shares or the person entitled to them by transmission for an amount equal to the net proceeds of the sale.

5 Directors' and Other Interests

5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company immediately prior to Admission and immediately following the Placing (assuming full subscription thereunder), such interests being those which are required to be notified by each Director to the Company under the provisions of section 324 or 328 of the Act or which are required to be entered in the register of interests required to be maintained pursuant to section 325 of the Act or which are interests of persons connected with the Director within the meaning of section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director will be as follows:

Name	**Immediately prior to Admission**		**Immediately following Admission**	
	Ordinary Shares		*Ordinary Shares*	
	Number	*%*	*Number*	*%*
Tim Ross	–	–	3,086	0.0
Gordon Banham	4,000,000	27.0	4,000,000	16.9
Peter Dillon*	2,000,000	13.5	2,000,000	8.5
Kevin Dougan	875,000	5.9	875,000	3.7
Nigel Barraclough	–	–	–	–

* Peter Dillon's interests in the share capital of the Company are held through an Isle of Man registered company, Golf Limited, which is owned by a trust of which Mr Dillon is a potential beneficiary.

5.2 None of the Directors or any member of their immediate families has any interest in any financial product (including, without limitation, a contract for difference or a fixed odds bet) whose value in whole or in part is determined directly or indirectly by reference to the Placing Shares.

6 Substantial Shareholders

6.1 In addition to the Directors, immediately prior to Admission and immediately following Admission, as far as the Company is aware, the only persons who will be directly or indirectly interested in 3 per cent. or more of the issued Ordinary Shares of the Company are as follows:

	Immediately prior to Admission		Immediately following Admission	
Name	*Number of Ordinary Shares*	*% of issued share capital*	*Number of Ordinary Shares*	*% of Enlarged Share Capital*
Baring English Growth Fund (Midlands) LP	844,590	5.7	625,841	2.6
Baring English Growth Fund (North) LP	1,858,110	12.5	1,376,859	5.8
Neil Sowerby	500,000	3.4	500,000	2.1
Nick Vikentiou	875,000	5.9	875,000	3.7
Paul Young	500,000	3.4	500,000	2.1
Robert Young	2,000,000	13.5	2,000,000	8.4

6.2 Save as disclosed and in so far as the Company has the information, the Directors are not aware of any person or persons who either alone or, if connected jointly will (directly or indirectly) exercise or could exercise control over the Company on Admission, where control means owning 30 per cent. or more of the voting rights attaching to the share capital of the Company.

7 Additional Information on the Directors

7.1 Other than directorships of Group companies, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

Name	*Current directorships or partnerships*	*Past directorships or partnerships*
Tim Ross	Edenhall Concrete Limited PD Edenhall Limited Edenhall Limited Edenhall Building Products Limited Churngold Construction Holdings Limited Ennstone plc Connaught plc Lavendon Group plc Crosswater Resources Limited Connaught ESOP Trustee Limited May Gurney Group Trustees Limited May Gurney Group Limited May Gurney Integrated Services plc Clifton College Services Limited Chamaeleo Limited Apollo Lifts Holdings Limited	Enneurope plc Costessy Developments Limited Costessy Properties Limited Crossview Consulting Limited Ennstone Facilities Management Limited Selborne Tile & Brick Limited Bear Scotland Limited Churngold Holdings Limited Compact Power Holdings PLC
Gordon Banham	Robertson Builders Limited	None
Nigel Barraclough	Hallco 622 Limited	Eclipse Colours Limited JDV Limited RMF Engineering Limited
Peter Dillon	Darrington Transport Limited Dillon & Co Chartered Accountants Hargreaves Development Services Limited L. C. Transport Lyon of Bedale Limited	Delegate Management Services Limited Event Registration Online Limited Expocentric Limited MICE Group PLC

Name	*Current directorships or partnerships*	*Past directorships or partnerships*
Peter Dillon (continued)	North East Land Development Limited Young's Haulage Limited 3C's Transport Limited	Park View Construction Limited Underbank Park Farm Developments Limited
Kevin Dougan	None	Hargreaves Development Services Limited Savant (Plant Sales) Limited

7.2 Tim Ross resigned as a director of Selborne Tile & Brick Limited on 29 April 2005 and on 5 October 2005 the company was placed into administration. Tim had served as an unpaid non-executive chairman.

Nigel Barraclough, in his capacity as a manager of venture capital funds, has been a non-executive director of eight companies which have gone into receivership whilst he was a director or within two years of his resignation: CNC Engineering Systems Limited, Nicholas Haines Limited, Kinetic Engineering & Design Limited, Facet North Holdings Limited, Stanleys Confectionery Limited, Morgan Machine Knife Limited and First Stop Stationery Limited.

Peter Dillon was a director of Park View Construction Limited. On 9 January 1992 administrative receivers were appointed to the company. Peter Dillon acted only as a formation director. An administrative error meant that Mr Dillon's resignation was not filed at Companies House.

Kevin Dougan was a director of Andrew Golightly (Roofing) Ltd when it went into voluntary liquidation in 1992.

7.3 Save as disclosed in paragraph 7.2 of this document none of the Directors has:

7.3.1 any unspent convictions in relation to indictable offences;

7.3.2 had any bankruptcy order made against him or entered into any voluntary arrangements;

7.3.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;

7.3.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.3.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

7.3.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or

7.3.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

7.4 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

7.5 Save as disclosed in this document, no Director (or member of his family) has any interest, beneficial or non-beneficial, in the share capital of the Company.

7.6 There are no outstanding loans or guarantees provided by the Company to, or for the benefit of, any of the Directors.

8 Directors' Service Contracts and Remuneration

8.1 Save as disclosed in this paragraph 8 there are no existing or proposed service or consultancy agreements between any Director and the Group.

8.2 In the year ended 31 May 2005 the total aggregate remuneration paid and benefits-in-kind granted to the Directors was £708,000. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ending 31 May 2006 are estimated to be £727,000 (excluding any discretionary payments which may be made under these arrangements).

8.3 There will be no variation in the total emoluments of the Directors as a result of the Placing.

8.4 There is no arrangement under which any Director has waived or agreed to waive future emoluments.

8.5 The services of the Directors are provided to the Company under the following agreements:

The following Non-Executive Directors entered into letters of appointment with the Company on the dates set opposite their names the main terms of which are:

Date	*Name*	*Position*	*Commencement of period of office*	*Fee (£)*	*Termination*
24 November 2005	Tim Ross	Non-executive Chairman	On Admission	50,000	12 months' notice
24 November 2005	Nigel Barraclough	Non-executive Director	30 April 2004	30,000	12 months' notice

On 24 November 2005 the Executive Directors entered into service agreements with the Company, the main terms of which are:

Date	*Name*	*Position*	*Commencement of period of office*	*Salary*	*Termination*
24 November 2005	Gordon Banham	Group Chief Executive	1 October 2001	240,000	12 months' notice
24 November 2005	Peter Dillon	Group Finance Director	1 April 2003	192,000	12 months' notice
24 November 2005	Kevin Dougan	Group Contracts Director	23 June 1997	120,000	12 months' notice

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. In addition, the executive Directors are entitled to a bonus of up to 50 per cent. of salary subject to the performance of the Group.

8.6 In addition to the above, the service agreements restrict the executive Directors from competing with the Company and/or soliciting customers for a period of 12 months after termination of employment. None of the employment contracts relating to the Directors referred to above contain a right to benefits (other than those due during the notice period due under the contract) upon termination.

9 Employees

9.1 As at the date of this document, the Group has approximately 574 employees located in the United Kingdom as follows:

	Number of Employees
Administrative	33
Maintenance and washing	14
Traffic and administration	105
Drivers	285
Production	137
	574

10 Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years immediately preceding the date of this document by members of the Group and are, or may be, material to the Group or have been entered into by members of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

10.1 *Nominated Adviser and Broker Agreement*

A nominated adviser and broker agreement dated 24 November 2005 between the (1) Company, (2) the Directors and (3) Brewin Dolphin pursuant to which the Company has appointed Brewin Dolphin to act as Nominated Adviser and Broker to the Company with effect from the date of Admission. The agreement provides that the Company will pay Brewin Dolphin an annual retainer of £35,000 for its services (in addition to the fee and commission payable under the Placing Agreement (see paragraph 10.2 below)) and contains certain usual undertakings on the part of the Directors and the Company to enable Brewin Dolphin to perform its obligations under the agreement. The agreement is for an initial term of two years, after which it is terminable by either party on three months' notice (such notice not to be given earlier than 21 months from the date of Brewin Dolphin's appointment).

10.2 *Placing Agreement*

A placing agreement between (1) the Directors, (2) the Company, (3) the Selling Shareholders and (4) Brewin Dolphin dated 24 November 2005. The agreement provides for the appointment of Brewin Dolphin as agent for the Company in respect of the placing of the New Ordinary Shares, and as agent for the Selling Shareholders in respect of the placing of the Sale Shares. BDS must use its reasonable endeavours to procure subscribers for the New Ordinary Shares and purchasers for the Sale Shares, in each case at the Issue Price. Subject to the terms and conditions of the agreement, BDS has agreed to subscribe/purchase as principal at the Issue Price any of the New Ordinary Shares and/or Sale Shares which are not otherwise subscribed/purchased by placees. The obligations of Brewin Dolphin under the Placing Agreement are conditional, amongst other things, on Admission becoming effective on or before 8.00 a.m. on Wednesday 30 November 2005 or such later time and/or date as Brewin Dolphin Securities may agree but in any event not later than 8.00 a.m. on 16 December 2005.

The agreement provides that Brewin Dolphin will be paid a corporate finance fee by the Company of £200,000 and commission based upon the aggregate value of the New Ordinary Shares at the Issue Price of up to 4 per cent (subject to valuation at the Issue Price). In addition, commission of 3.5 per cent is payable to Brewin Dolphin by the Selling Shareholders based upon the aggregate value of the Sale Shares at the Issue Price. Brewin Dolphin is entitled to deduct such fee and commissions from the proceeds of the Placing.

Brewin Dolphin is entitled to terminate the Placing Agreement in certain circumstances including in certain *force majeure* circumstances and if any of the warranties given in the Placing Agreement ceases to be true prior to Admission.

The agreement contains certain usual warranties given by the executive Directors and the Company in favour of Brewin Dolphin and an indemnity in the usual form given by the Company and the executive Directors. The Company's liability under the Placing Agreement is unlimited.

The agreement contains lock-in arrangements which place certain restrictions on the disposal by Gordon Banham and Kevin Dougan of the Ordinary Shares held by them at Admission (without the prior consent of Brewin Dolphin) during the period of five years following Admission. These arrangements provide that (save in certain specified circumstances) the relevant shareholder may not dispose of any such shares within the first twelve months following Admission and, thereafter, may dispose of no more than 20 per cent. (in number) of such shares within the first 24 months following Admission, no more than 40 per cent. of such shares (in number) within the first 36 months following Admission, no more than 60 per cent. of such shares (in number) within the first 48 months following Admission and may dispose of no more than 80 per cent. of such shares (in number) within the first 60 months following Admission (in each case, taking into account any such shares previously disposed of). The Agreement further provides that the relevant shareholder may not dispose of any such shares other than through the Company's broker at the relevant time.

10.3 *Lock-in Agreements*

10.3.1 A lock-in agreement between (1) Golf Limited (the company that holds the Ordinary Shares in which Peter Dillon has an interest), (2) Brewin Dolphin and (3) the Company dated 24 November 2005 containing certain restrictions on the disposal by Golf Limited of the

Ordinary Shares held by it at Admission (without the prior consent of Brewin Dolphin) during the period of three years following Admission. This agreement provides that (save in certain specified circumstances) Golf Limited may not dispose of any such shares within the first 12 months following Admission, no more than 40 per cent (in number) of such shares within the first 24 months following Admission and may dispose of no more than 70 per cent (in number) of such shares within the first 36 months following Admission (taking into account any such shares previously disposed of). The agreement further provides that Golf Limited may not dispose of any such shares other than through the Company's broker at the relevant time.

10.3.2 A lock-in agreement between (1) Robert Young, (2) Brewin Dolphin and (3) the Company dated 24 November 2005 containing certain restrictions on the disposal by Robert Young of the Ordinary Shares held by him at Admission (without the prior consent of Brewin Dolphin) during the period of two years following Admission. The agreement provides that (save in certain specified circumstances) Mr Young may not dispose of any such shares within the first six months following Admission and, thereafter, may dispose of no more than 25 per cent (in number) of such shares within the first twelve months following Admission, no more than 50 per cent (in number) of such shares within the first 18 months following Admission and may dispose of no more than 75 per cent. (in number) of such shares within the first 24 months following Admission (in each case, taking into account any such shares previously disposed of). The agreement further provides that Mr Young may not dispose of any such shares other than through the Company's broker at the relevant time.

10.3.3 Lock-in agreements between (1) each of the non-director employee shareholders (2) Brewin Dolphin and (3) the Company in each case dated 24 November 2005 containing certain restrictions on the disposal by each relevant shareholder of the Ordinary Shares held by him at Admission (without the prior consent of Brewin Dolphin) during the period of five years following Admission.

These agreements provide that (save in certain specified circumstances) the relevant shareholder may not dispose of any such shares within the first twelve months following Admission and, thereafter, may dispose of no more than 20 per cent. (in number) of such shares within the first 24 months following Admission, no more than 40 per cent. of such shares (in number) within the first 36 months following Admission and no more than 60 per cent. of such shares (in number) within the first 48 months following Admission and no more than 80 per cent. of such shares (in number) within the first 60 months following Admission (in each case, taking into account any such shares previously disposed of). The agreements further provide that the relevant shareholder may not dispose of any such shares other than through the Company's broker at the relevant time.

10.3.4 A lock-in agreement between (1) David Tallboys (2) Brewin Dolphin and (3) the Company dated 24 November 2005 containing certain restrictions on the disposal by David Tallboys of the Ordinary Shares held by him at Admission (without the prior consent of Brewin Dolphin and save in certain specified circumstances) during the period of 12 months following Admission.

10.4 *Management buy-out of Hargreaves (UK) Limited*

10.4.1 A share purchase agreement dated 30 April 2004 between (1) Robert Young and (2) the Company for the acquisition by the Company of the entire issued share capital of HUL for £4,000,000, satisfied in cash on Completion, save for £500,000 which was retained pending the outcome of appeals being made by members of the Group in respect of VAT and export duty assessments (for further details of which, please refer to paragraph 16 of Part IV of this document). Mr Young agreed to indemnify the Company in respect of 50 per cent. of any excise duty, VAT, interest, fines, or penalties incurred by any member of the Group arising out of such appeals and 50 per cent. of all associated costs and liabilities, subject to a maximum liability of £500,000. By an agreement dated 24 November 2005, the Company released Mr Young from this indemnity and agreed to pay the retained monies to Mr Young subject to Admission and Mr Gordon Banham and Mr Peter Dillon agreed (also subject to Admission) to indemnify the Company in respect of 50 per cent. of the aforementioned excise duty, VAT, interest, fines or penalties to the extent the same exceed £622,000 and subject to individual caps on liability of £333,333 for Mr Banham and £166,667 for Mr Dillon. The share purchase agreement contains certain warranties given by Mr Young to the Company, in respect of which any claims should be brought by the Company on or before 31 December 2005 (or 31 May 2010 in respect of warranties given in respect of taxation or a tax deed of covenant given by Mr Young to the Company). In addition, Mr Young has covenanted not to compete with the business of the Group for a period of three years from 30 April 2004.

10.4.2 An investment agreement dated 30 April 2004 between (1) the Company (2) Gordon Banham and others (3) David Tallboys and others (4) Yorkshire Fund Managers Limited (5) West Midlands Enterprise Limited (6) Baring English Growth Fund (North) LP and (7) Baring English Growth Fund (Midlands) LP pursuant to which the various shareholders in the Company agreed the terms on which the management and control of the Company was to be regulated and set out the rights and obligations of each of the shareholders. In addition, the Company, together with Gordon Banham, Peter Dillon and Kevin Dougan have given certain warranties regarding the history and ownership of the Company and the business plan and advisers' reports prepared in respect of the management buy-out of HUL. By an agreement dated 24 November 2005 the investment agreement was terminated subject only to Admission.

10.4.3 A loan stock instrument of the Company dated 30 April 2004 constituting up to £2,000,000 10 per cent secured loan stock 2011. The loan stock was issued to Cavendish Nominees Limited as nominee for Baring English Growth Fund (North) LP and Baring English Growth Fund (Midlands) LP. The loan stock together with a redemption premium will be repaid on Admission in accordance with the terms of the loan stock instrument.

10.5 *Acquisition of Monckton*

A share purchase agreement dated 17 June 2005 between (1) Harworth Group Limited (2) HUL (3) the Company (4) Hargreaves Services Limited and (5) Hargreaves Transport Limited for the acquisition by HUL of the entire issued share capital of Monckton from Harworth Group Limited for £12,000,000, of which £8,000,000 was paid in cash on completion (subject to adjustment following the preparation of completion accounts), and £4,000,000 is payable in two equal instalments in cash on 17 June 2006 and 17 June 2007 respectively (or immediately on the insolvency of any of those members of the Group providing security to Harworth Group Limited in respect of the deferred consideration). Each of the Company, Hargreaves Services Limited and Hargreaves Transport Limited are parties to the agreement as guarantors of the deferred element of the consideration and have granted security over their assets in the form of debentures to Harworth Group Limited. Harworth Group Limited was also granted a debenture over the assets of Monckton to further secure the deferred consideration.

The share purchase agreement contains certain warranties given by Harworth Group Limited to HUL, in respect of which any claims should be brought by HUL on or before 1 September 2007 (or 12 December 2011 in respect of warranties given in respect of taxation or a tax deed of covenant given by Harworth Group Limited to HUL).

10.6 *Acquisition of S Jones businesses*

10.6.1 A shareholders agreement dated 2 December 2003 between (1) HUL (2) David and Gareth Vicary and (3) HBLT setting out the rights and obligations of each of the shareholders in HBLT. Under the terms of the agreement, the Vicarys were given an option to call upon HBLT to issue them with shares in HBLT in certain circumstances including on a listing of HUL's shares on a recognised investment exchange. The amount of shares available under the option is to be calculated in accordance with a specified formula based upon the value of HUL and HBLT at the relevant time by reference to earnings per share calculations and is subject to a maximum of 10% of the issued share capital of HUL once such shares have been issued. By an agreement dated 3 November 2005 this option was waived by the Vicarys.

10.6.2 A business sale agreement dated 3 December 2003 between (1) S Jones (Transport) Limited (in administration) and others (2) Jonathan Avery Gee (3) HBLT and (4) HUL for the purchase by HBLT of the businesses and assets of S Jones (Transport) Limited (in administration), Balderton (Holdings) Limited (in administration) and S Jones Bulk Services Limited (in administration) (together "the S Jones Businesses"). David Vicary was the managing director of the S Jones Businesses prior to their going into administration.

10.6.3 The consideration for the S Jones Businesses was £208,946.41, of which £75,000 was paid on the completion date (28 November 2003) and the balance in six equal monthly instalments of £20,324.41. HBLT agreed to indemnify the S Jones Business and the administrators against any claims or losses arising from the residual liability in respect of the unexpired term of vehicle leases HUL guaranteed HBLT's discharge of those residual liabilities and also guaranteed the payment of the instalments of consideration which HBLT was due to make.

10.7 *Acquisition of R Hanson & Son Limited*

A share purchase agreement dated 1 June 2004 between (1) John Hanson and (2) the Company for the purchase of the entire issued and allotted share capital of R Hanson & Son Limited. The consideration for the company was £350,000 (subject to adjustment following the preparation of completion accounts). The share purchase agreement contains certain warranties given by Mr Hanson in respect of any claims should be brought by the Company on or before 1 December 2005 (or 31 December 2010 in respect of warranties given in respect of taxation or a tax deed of covenant given by Mr Hanson).

11 Related Party Transactions

Save as disclosed in this document, and in note 6.27 of Part III (a) of this document, the Directors are not aware of any transactions that would constitute a related party transaction.

12 Savings Related Share Option Scheme (the "Sharesave Scheme")

(a) General

The Sharesave Scheme is a savings-related share option scheme designed to be approved by the HM Revenue & Customs ("HMRC") under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA").

Benefits under the Sharesave Scheme are non-pensionable.

(b) Eligibility

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 (determined by a duly appointed committee of the Board ("the Committee") but not exceeding five years) are eligible to participate.

(c) Invitation Date

Invitations to participants in the Sharesave Scheme may be issued to employees during a period of 42 days commencing on the date of approval by HMRC. Thereafter invitations may be issued within the same period commencing on the day on following that on which the Company announces its results for any period. In exceptional circumstances the Committee may issue invitations at other times.

(d) Exercise Price

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.

(e) Savings Contract

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.

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

(f) Limits

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.

(g) Share Rights

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

(h) Alterations of Share Capital

In the event of any variation in the ordinary share capital of the Company, such adjustments to the number or nominal value of Shares subject to options and the price at which they may be acquired may be made by the Board as it may determine to be appropriate, but subject to the approval of HMRC.

(i) Exercise of Options

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.

(j) Administration and Amendment

The Sharesave Scheme is administered by the Committee duly established by the Board. The rules of the Sharesave Scheme may be amended by the Committee in any respect provided that:

(i) no amendment may be made to the advantage of participants to the provisions concerning eligibility to participate, individual limitations or scheme limits, the basis of adjustment of options in the event of a variation in share capital or to the amendment clause itself without the approval of the Company in general meeting, other than minor amendments to benefit the administration of the Sharesave Scheme and amendments to obtain or maintain HMRC approval of the Sharesave Scheme or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the Sharesave Scheme or for any member of the Group; and

(ii) no amendment may be made which would alter to the disadvantage of a participant any rights already acquired by him under the Sharesave Scheme without prior approval of a majority of the affected participants.

At any time at which the Sharesave Scheme is and is intended to remain HMRC approved, no amendment to any key feature of the scheme shall have effect until approved by HMRC.

(k) Termination

The Sharesave Scheme may be terminated at any time by a resolution of the Board and shall in any event terminate on the tenth anniversary of the date on which the Sharesave Scheme was adopted.

13 Significant Change

Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since the end of the last financial period for which audited financial information has been published, being 31 May 2005.

14 Working Capital

The Directors are of the opinion having made due and careful enquiry that the Group has sufficient working capital for its present requirements, that is at least twelve months from the date of Admission.

15 Taxation

The following paragraphs, which are intended as a general guide based on current legislation and HM Revenue & Customs practice as at the date of this document, summarise advice received by the Directors about the UK tax position of shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes and who beneficially hold their shares as investments (otherwise than under an individual savings account ("ISA")). Any shareholder who is in doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional advisers.

Taxation of dividends

Under current UK taxation legislation, no tax is withheld at source from dividend payments made by the Company.

An individual shareholder who is resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will currently be entitled to receive a tax credit equal to 1/9th of the cash dividend. The individual will be taxable upon the total of the dividend and the related tax credit ("the gross dividend") which will be regarded as the top slice of the individual's income. An individual shareholder who is not liable to income tax at a rate greater than the basic rate (currently 22 per cent.) will pay tax on the gross dividend at the dividend ordinary rate, currently 10 per cent. Accordingly, the tax credit will be treated as satisfying the individual's liability to income tax in respect of the dividend and there will be no further tax to pay. It should be noted however that there is no right to claim any repayment of the tax credit from the HM Revenue & Customs. To the extent that the gross dividend (taken together with other taxable income) exceeds the individual's threshold for the higher rate of income tax the individual will, to that extent, pay tax on the gross dividend at the dividend upper rate (currently 32.5 per cent.). Accordingly, a shareholder who is a higher rate tax payer will have further income tax to pay at the rate of 22.5 per cent. on the gross dividend (equivalent to 25 per cent. of the dividend received). Tax credits are generally no longer repayable to shareholders with no income tax liability or whose liability to income tax does not exceed the amount of tax credit.

Subject to exceptions for certain insurance companies and companies which hold shares as trading stock, a shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will not be liable to corporation tax or income tax on the dividend.

Trustees who are liable to income tax at the rate applicable to trusts (previously 34 per cent. but increased to 40 per cent. with effect from 6 April 2004) will pay tax on the gross dividend at the dividend trust rate (previously 25 per cent. but increased to 32.5 per cent. with effect from 6 April 2004) against which they can set the tax credit. To the extent that the tax credit exceeds the trustees' liability to account for income tax the trustees will have no right to claim repayment of the tax credit. Special tax provisions apply where trustees of discretionary trusts receive payment of dividends and substantially make a distribution out of the trust. Trustees who are in any doubt as to their position should consult their own professional advisers immediately.

United Kingdom pension funds and charities are generally exempt from tax on dividends which they receive but are not entitled to claim repayment of the tax credit.

Shareholders who are resident in countries other than the UK may be entitled to repayment of all or a proportion of the tax credit in respect of dividends paid to them. This will depend upon the provisions of the double tax treaty (if any) between the country in which the Shareholder is resident and the United Kingdom. Shareholders not resident in the UK should consult their own tax adviser on the application of such provisions and the procedure for claiming relief.

Taxation on capital gains for shareholders

If a shareholder who is resident or ordinarily resident in the UK for tax purposes disposes of all or any of his or its Placing Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

Stamp duty and stamp duty reserve tax ("SDRT")

No liability to stamp duty or SDRT should arise on the allotment of Placing Shares by the Company under the Placing.

Subsequent sales of Placing Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration calculated to the nearest penny. The SDRT is normally settled by CREST, on behalf of the purchaser or transferee, on the same day as the sale, but otherwise is payable on the "accountable date" for SDRT purposes. The accountable date is the seventh day of the month following the month in which the agreement for the transfer is made.

Subsequent sales of Placing Shares outside CREST will generally be liable to ad valorem stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. An obligation to account for stamp duty reserve tax ("SDRT") at the rate of 0.5 per cent. of the amount or value of the consideration will also arise if an unconditional agreement to transfer the Placing Shares is not completed by a duly stamped instrument of transfer before the "accountable date" for SDRT purposes, as described above. Stamp duty is normally, and SDRT is always, the liability of the purchaser or transferee of the Placing Shares. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

The information in this paragraph is intended as a general summary of the UK tax position and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

16 Litigation

Save as disclosed below, there are no governmental, legal or arbitration proceedings in which any Group company is involved or of which any Group company is aware are pending or threatened by or against any Group company in the twelve months preceding the date of this document which may have or have had a significant effect on the Group's financial position or profitability.

16.1 Certain companies within the Group are appealing against VAT and excise duty assessments made against them by HM Customs & Excise in an aggregate sum of £804,612 (plus interest). In its audited accounts for the year ended 31 May 2005 the Group made a provision of £622,000 in respect of these assessments. The assessments are connected with the purchase by Group members of 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. In a separate but connected prosecution, an employee of the Group has also been committed for trial in the Crown Court in respect of alleged fraudulent evasion of VAT. The employee, having taken legal advice strenuously denies these allegations and is defending the prosecutions.

16.2 HUL has issued proceedings in the High Court against a shipping agent for a sum of US$292,721.38 plus interest and costs. HUL's claim against the shipping agent relates to a loss suffered by HUL as a result of an alleged failure on the part of the shipping agent to exercise reasonable skill and care to protect HUL's interests.

16.3 A deed of settlement dated 10 August 2004 between (1) the Minister of Agriculture Fisheries and Food (2) the Secretary of State for Environment, Food and Rural Affairs (3) Colman Haulage Limited (a subsidiary of the Company) and (4) Hargreaves Transport Services Limited in respect of a dispute over services provided by Colman Haulage Limited and Hargreaves Transport Services Limited pursuant to contracts for services entered into in 2001 and invoices raised in respect of such services. All claims between the parties were settled under the terms of the deed of settlement pursuant to which Hargreaves Transport Services Limited agreed to pay to DEFRA the sum of £320,000 in instalments, of which two instalments of £60,000 remain outstanding at the date of this document and are due for payment in November 2005 and January 2006 respectively.

16.4 Prior to HUL's acquisition of the entire issued share capital of Monckton, Monckton had a contract dispute relating to a contract to supply coke to a customer during 2004. Due to geological problems at Maltby Colliery in 2004, Monckton did not receive sufficient coal supplies to meet coke demand and so was unable to meet its obligations to a customer. Consequently, the customer claimed damages from Monckton for breach of contract. This claim was settled prior to HUL's purchase of Monckton with Monckton raising credit notes in the sum of £392,275 in favour of the customer.

16.5 HTSL has agreed to indemnify a supplier in respect of a claim for damages made by a third party who was the owner of a vessel which transported cargoes of coal which HTSL had bought. A contractual claim arose between HTSL and the supplier which has been settled. The third party vessel owner has in turn issued proceedings against the supplier for damages in respect of a breach of the charterparty agreement entered into between the supplier and the third party vessel owner. A term of the settlement between HTSL and the supplier was the provision of an indemnity by HTSL in respect of any award of damages made against the supplier in respect of the third party's claim. The damages claimed are in the sum of $302,988.22. To date this claim has not been settled and no claims have been made in respect of the indemnity provided by HTSL to the supplier.

16.6 Monckton is in dispute with a customer who acts as a distributor of coke to end consumers. The customer alleges that Monckton is contractually obliged to supply coke to such customer in 2006 and 2007 despite no agreement having been reached as to certain fundamental contractual terms and further alleges that Monckton may not sell coke directly to certain end consumers with whom the customer has a trading relationship. The same customer has also alleged that Monckton enjoys a dominant position in the European Union in respect of the supply of low phosphorous coke and that Monckton has abused or is intending to abuse this alleged dominant position. Having taken legal advice, Monckton strenuously denies these allegations and will defend any actions brought by the customer.

17 Property, plants and equipment

The Group's utilisation of its tangible fixed assets is affected by a number of environmental issues, including, *inter alia*:

(a) Monckton holds an Integrated Pollution Prevention and Control (IPPC) permit from the Environment Agency. This permit stipulates the acceptable techniques for the production of coke and permitted levels of gaseous and other pollutants. There have been instances of non-compliance at Monckton, as a result of which agreement has been reached on an improvement programme.

Monckton has consent from Yorkshire Water to discharge trade effluent into its sewer. On 18 August 2005 Yorkshire Water issued proceedings against Monckton in respect of eight alleged breaches of a condition on the trade effluent consent. A hearing is scheduled for November 2005. In the event the prosecutions are successful Monckton would be liable to pay a maximum penalty of £5,000 in respect of each charge.

(b) The nature of the Group's business means that its trucks frequently enter environmentally sensitive sites and must comply with local environmental conditions, for example, dust mitigation and spillages.

18 General

18.1 It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £1.5 million (including VAT). The total net proceeds of the Placing (after expenses) is £20 million.

18.2 Save as disclosed in this document, the Group has no material dependence on patents or licences, industrial, commercial or financial contracts or new manufacturing processes.

18.3 KPMG LLP have given and not withdrawn their written consent to the inclusion in this document of their reports set out in Part III and the references thereto and to their name in the form and context in which they appear.

18.4 The accounting reference date of the Company is 31 May.

18.5 Brewin Dolphin Securities which is a member of the London Stock Exchange and is regulated by the Financial Services Authority has been appointed as nominated adviser and broker to the Company and has its registered office at 5 Giltspur Street, London EC1A 9BD.

18.6 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters issued by Brewin Dolphin Securities until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 31 December 2005 application monies will be returned to applicants at their risk without interest.

18.7 The existing issued Ordinary Shares and the Placing Shares will be in registered form and will be in uncertificated form in CREST. Definitive share certificates are not expected to be despatched to those placees who have elected to receive Ordinary Shares in uncertificated form if, and only if, that person is a "system member" (as defined in the CREST Regulations) in relation to CREST. For those placees who elect to receive Ordinary Shares to be issued pursuant to the Placing in certificated form, share certificates are expected to be despatched to such applicants by post at their risk shortly after Admission. Temporary documents of title will not be issued in connection with the Placing.

18.8 Dividends on the Ordinary Shares will be paid to those holders of Ordinary Shares on the register of members on the record date for such dividend. Such record date will normally be between two and five weeks before the date fixed for payment of such dividend.

18.9 Brewin Dolphin, which is authorised and regulated by the Financial Services Authority has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

18.10 KPMG LLP have been the auditors of the Company since incorporation on 4 November 2003. The auditors of Monckton were PricewaterhouseCoopers (on 1 January 2003 PricewaterhouseCoopers changed its name to PricewaterhouseCoopers LLP). On completion of the acquisition by HUL of Monckton, PricewaterhouseCooopers resigned as the auditors of Monckton and KPMG LLP were appointed.

18.11 Save as provided in paragraph 18.12 below, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:

18.11.1 received, directly or indirectly from the Group within the twelve months preceding the date of this document; or

18.11.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Group on or after Admission any of the following:

(a) fees totalling £10,000 or more;

(b) securities of the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or

(c) any other benefit with the value of £10,000 or more at the date of this document.

18.12 On 24 November 2005, the Company entered into a consultancy agreement with Mr Robert Young pursuant to which Mr Young will provide services to the Group in consideration for a fee of £120,000 per annum (for three days per week) plus expenses and a fully expensed motor car.

18.13 Save in connection with the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for admission been made nor are there intended to be any other arrangements for there to be dealings in the Ordinary Shares.

19 Availability of Admission Document

Copies of this document will be available free of charge during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) until the date following one month after the date of Admission at the registered office of the Company and at the offices of Brewin Dolphin Securities at 5 Giltspur Street, London, EC1A 9BD.

Dated 24 November 2005

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