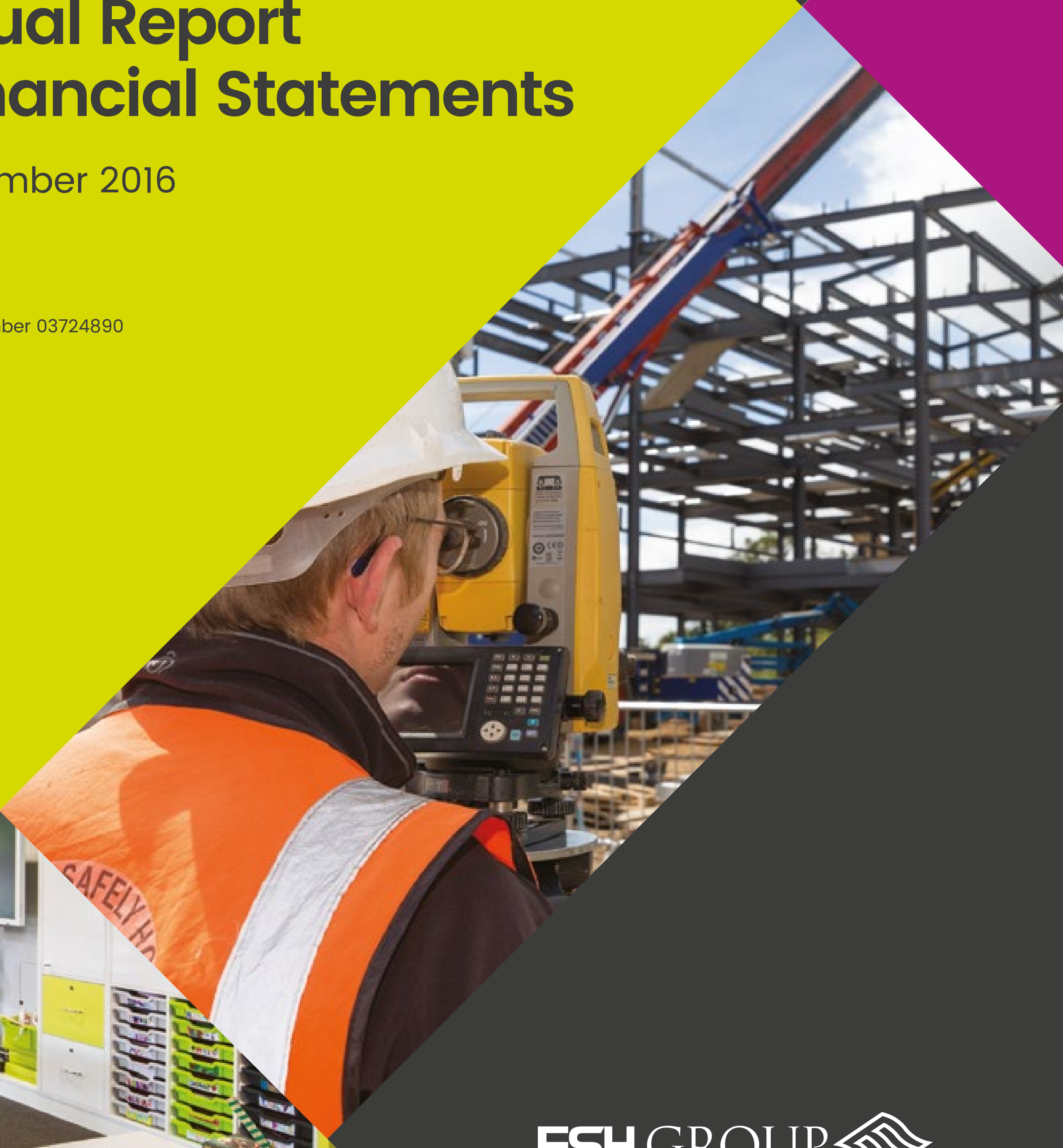
Esh Holdings Limited Annual Report & Financial Statements

31 December 2016

Registered Number 03724890



ESH GROUP

Contents

Chairman's Report

Overview: Welcome to all shareholders, employees, suppliers, clients and stakeholders to our Annual Report for 2016. Your support throughout the year is valued and very much appreciated by all of us at Esh Group.

It is with great sadness that I must begin with a tribute to Esh Group's former Chief Executive Brian Manning, who sadly passed away as this report was being prepared. Brian was a hugely influential figure in the growth of Esh Group, and his native North East. The success of Esh Group is a massive testament to Brian as a person and a businessman, and all staff are united in continuing his remarkable legacy, in his memory.

Brian would want to ensure that his legacy continues to be run in a manner that he found fitting. This requires stability, strong leadership and above all a sense of team work within the group. Therefore, Andy Radcliffe will assume the role of Group Chief Executive Officer (CEO), and John Davies will take up the newly created position of Group Chief Operating Officer (COO) alongside maintaining his duties as Managing Director of Esh Construction. We have already started the process of recruiting a new Chief Financial Officer (CFO) for the group.

John and Andy will work together, along with the other members of the leadership team to provide direction and support to the group in order that we continue to strive towards achievement of our strategic aims.

While we anticipated 2016 would be a year of consolidation rather than growth, our underlying financial performance did not meet expectations. Whilst some of this was due to operational performance below the standards we expect, a considerable amount was as a result of costs associated with investing in the systems, process, controls and people within our organisation in readiness for the further growth. So, whilst this set of results is considered disappointing by Esh Group standards, they do maintain a solid basis for improvement.

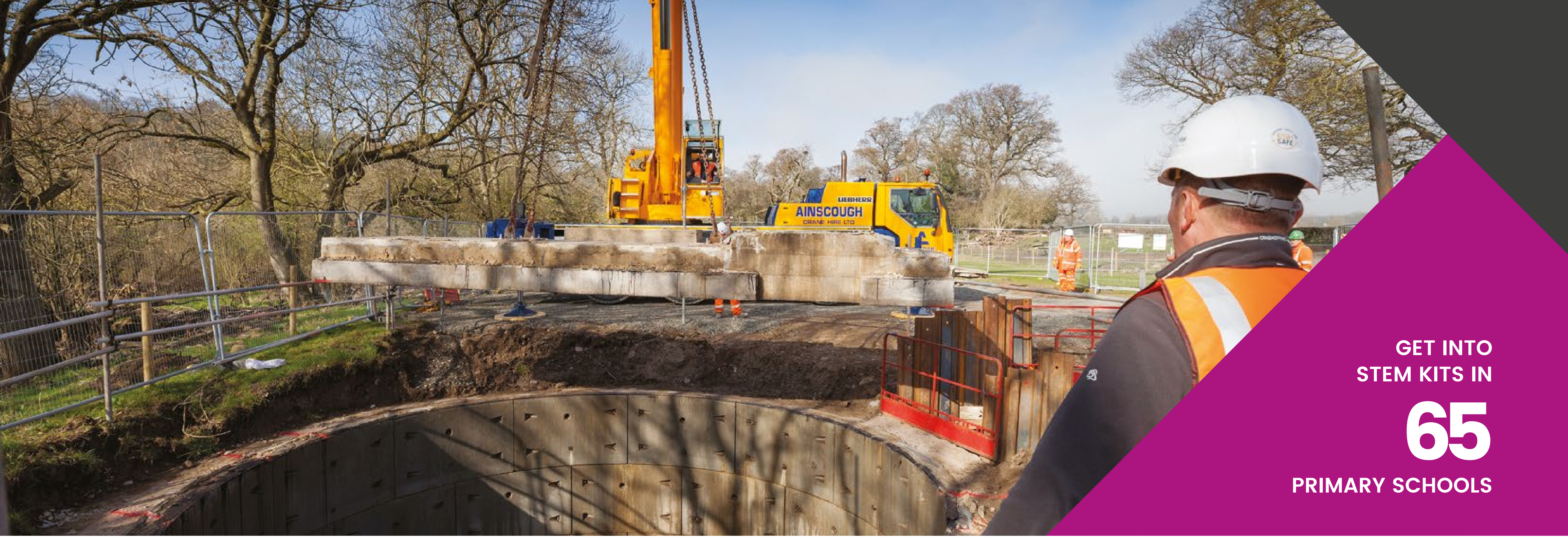
The important message is that as we move forward, we have learned from the events of 2016 with enthusiasm and benefit from the strong foundations of the group built on financial strength and our dedicated team.

The 2016 performance was characterised by lower than anticipated turnover across all parts of the business, resulting in a total turnover of £234m. The destabilising impact of the EU Referendum played a part in slowing the commercial build project pipeline. Meanwhile the uncertainty that prevailed within the social housing sector also caused a slowdown in new projects coming to the market.

However, towards the end of the year we saw performance improvements in both sectors with increased bid opportunities coming through. This together with the restructure and investment in our infrastructure, discussed later in this report, leads us to anticipate an improving picture in 2017 and beyond.

Despite the challenges of 2016 we are determined to retain and build on Esh Group's reputation as a profitable business with a strong balance sheet and cash position.

During 2016 we took the decision to reduce overheads as a safeguarding measure. That reduction included redundancies. This was a difficult decision for Esh Group as our skilled workforce is our best asset, particularly given the massive skills shortages our industry faces, but nonetheless important in ensuring the sustainability of the business for all our continuing employees.



Investing in communities

Throughout the year we continued to invest in the communities in which we work which is a core principle of the Esh Group. Since its formation in 2006, Esh Charitable Trust has contributed £1.5m to brilliant organisations creating positive change.

Our award-winning Building My Skills programme continues to grow with the support of more than 110 like-minded businesses. Our latest programme is Get into STEM which is operating in 64 primary schools. Our Get into STEM kits aim to engage our workforce of the future and develop the skill sets which are essential for Science, Technology, Engineering or Mathematics (STEM) related careers. Each kit is safe, fun and educational, includes construction related, books, toys and materials which support 4 student exercises; wall building, using ratios, measuring, and designing a structure.

Esh Group's ongoing Everyone Safely Home (ESH) campaign continues to drive improvements in our health and safety performance by raising the profile of safety activities across the business.

As always we continue to foster a sustainable relationship between the built and natural environments. 2016 was another year of work to reduce our carbon footprint, and progress against our Summit 2026 aims.

Our intake of apprentices exceeded 150 over the last three years. Significant support for our apprentices has also cultivated high retention rates. We also launched an innovative sustainability skills training scheme called Carbon Coach, developed in partnership with the Construction Industry Training Board.

The whole team congratulates Ellie Fraser, Apprentice of the Year, and Dan Hill, Student of the Year, in the G4C Constructing Excellence awards.

We also achieved a silver award in the Defence Employer Recognition Scheme, presented by Prince Michael of Kent, who is the Honorary Vice Admiral of the Royal Navy Reserves.

Meanwhile the first cohort of our pilot Future Leaders programme has been completed and we will be expanding the scheme based on feedback received. This will ensure the next generation of Esh Group leaders.

The whole team congratulates Ellie Fraser, Apprentice of the Year, and Dan Hill, Student of the Year, in the G4C Constructing Excellence awards.

Investing in Esh Group

Thanks to our strong balance sheet and cash position we continued to invest in the business.

This was evidenced in investments across our regional offices, a near doubling of the headquarters in Bowburn, the building of the new Esh Academy, and the construction of an incubator office facility to support SME businesses in the North East region. We also invested in cranes and hoists in Mechplant and renewed wagons and construction plant in Lumsden & Carroll.

We have also seen investment in land for housing for Homes by Esh and Trivselhus by Esh, and construction is underway on those sites. Private housing turnover was low during 2016 but we expect this will build up to peak in 2018.

We also invested in Health & Safety staff and a new inspection regime to complement our Everyone Safely Home (ESH) campaign. The outcome is an accident frequency rate of 0.29%, slightly higher than last year but still well below the industry average.

£1.8m

INVESTMENT IN HEAVY PLANT & WAGONS

Project Gateway

We have embarked on the biggest technology and systems investment in Esh Group's history. Project Gateway is a transformation of the way in which we work, bringing together a new digital platform with new working processes.

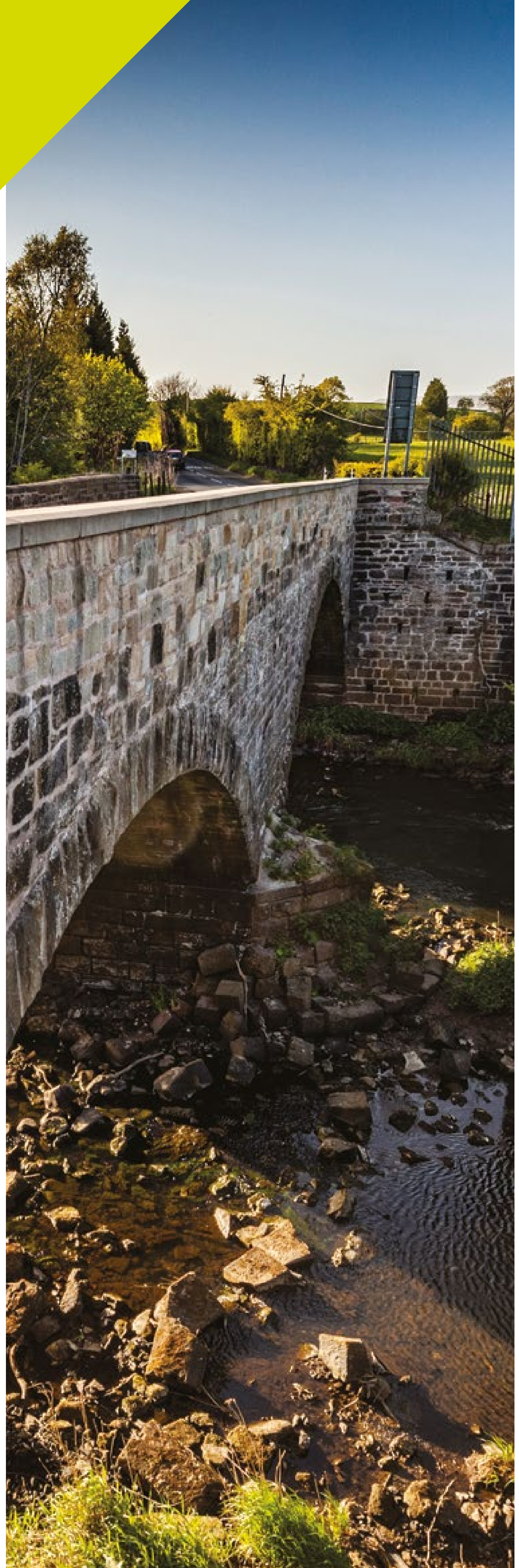
The project aims to streamline our business processes and build better connectivity between all functions. That means stronger controls, better access to information for strategic decision making and time efficiencies for our staff.

We recognise that Esh Group's working has evolved alongside the business' rapid growth, and many of those ways of working need to be supported by better standard processes underpinned by technology. Gateway will help us do that.

We refer to it as an end-to-end solution, meaning it will cover all stages of Esh Group activity and reach out to our clients and partners in the market. It will support our activities from the business development and bidding process to the estimating, procurement, operational and customer care stages.

The project is supported by our business partner, KPMG, and technology partners Inoapps who are assisting in the configuration, development and testing of the Oracle Fusion applications, being the solution chosen following an extensive procurement and selection process. Twenty experts from across our different business functions have been seconded full time on to the project. The group is working with other staff to find out about pressure points in the business and how Gateway can address those challenges.

We aim to launch Gateway by early to mid 2018.



North East

Our civil engineering brand, **Lumsden & Carroll**, remains a key figure in the North East market, delivering solid results despite competitive market conditions.

This was the first year of our work on the AMP6 Northumbrian Water framework through the Esh-MWH joint venture with our partners MWH. Design and construction work under the framework started in March 2016, marking the beginning of Esh Group's largest partnership of this kind. The ten-year contact will include a range of works across the North East including flood mitigation, large scale capital projects and improvements to Northumbrian Water's assets.

Esh Build continued to prosper from its strong 2015 performance to deliver a number of key projects for private and public sector clients across the North East. The introduction of a new 'under £1m works' team has helped to identify new opportunities in the marketplace to assist in the strategic growth of the company and increase market share.

We have also been successful in obtaining our PAS 1192 accreditation, to become BIM (Building Information Modelling) Level 2 qualified.

2016 has been a unique year of political change nationally. This has unquestionably impacted the social housing and commercial building sectors in many ways.

For **Esh Property Services**, this year has been about adjusting to the new market and their emphasis has been targeted towards securing positions on the many frameworks that have been presented to the sector.

Key completed schemes in the North East across our sectors in 2016 included:

- Esh Build's £3m regeneration of the historic Wharton Park for Durham County Council, which was completed in May.
- Esh Property Services' delivery of 16 affordable homes in Hutton Rudby, for Broadacres Housing Association £1.8m.
- Lumsden & Carroll's delivery of £2.8m coastal protection works at Skinningrove.

Key projects won and started in 2016 included:

- Esh Build's project to provide a new £9.7m Community Safety Hub for Cleveland Police and its partner agencies, in Hemlington and the new £8.5m Cleveland College of Art and Design building in Hartlepool.
- Lumsden & Carroll's project to construct a new fish pass at Lintzford Mill on the River Derwent and A19 Enterprise Zone Phase 2, a £7.5m contract to realign the A1290.
- Esh Property Services secured a £1.5m contract to deliver 13 new homes for rent at Newbiggin Hall for ISOS and a £666k contract to carry out internal refurbishment works at Jack Common House for Riverside Group.

We continued significant investment in heavy plant and commercial vehicles, including more than £1.8m in renewed wagons and construction plant in Lumsden & Carroll.

Our framework place for the Environment Agency was extended for another year, which provides a further pipeline of opportunities up to September 2017

Yorkshire

Turnover was flat on the back of a tough but stable year in Yorkshire. Volatility in the social housing market and challenges in the delivery of roads, sewers and plots work created headwinds.

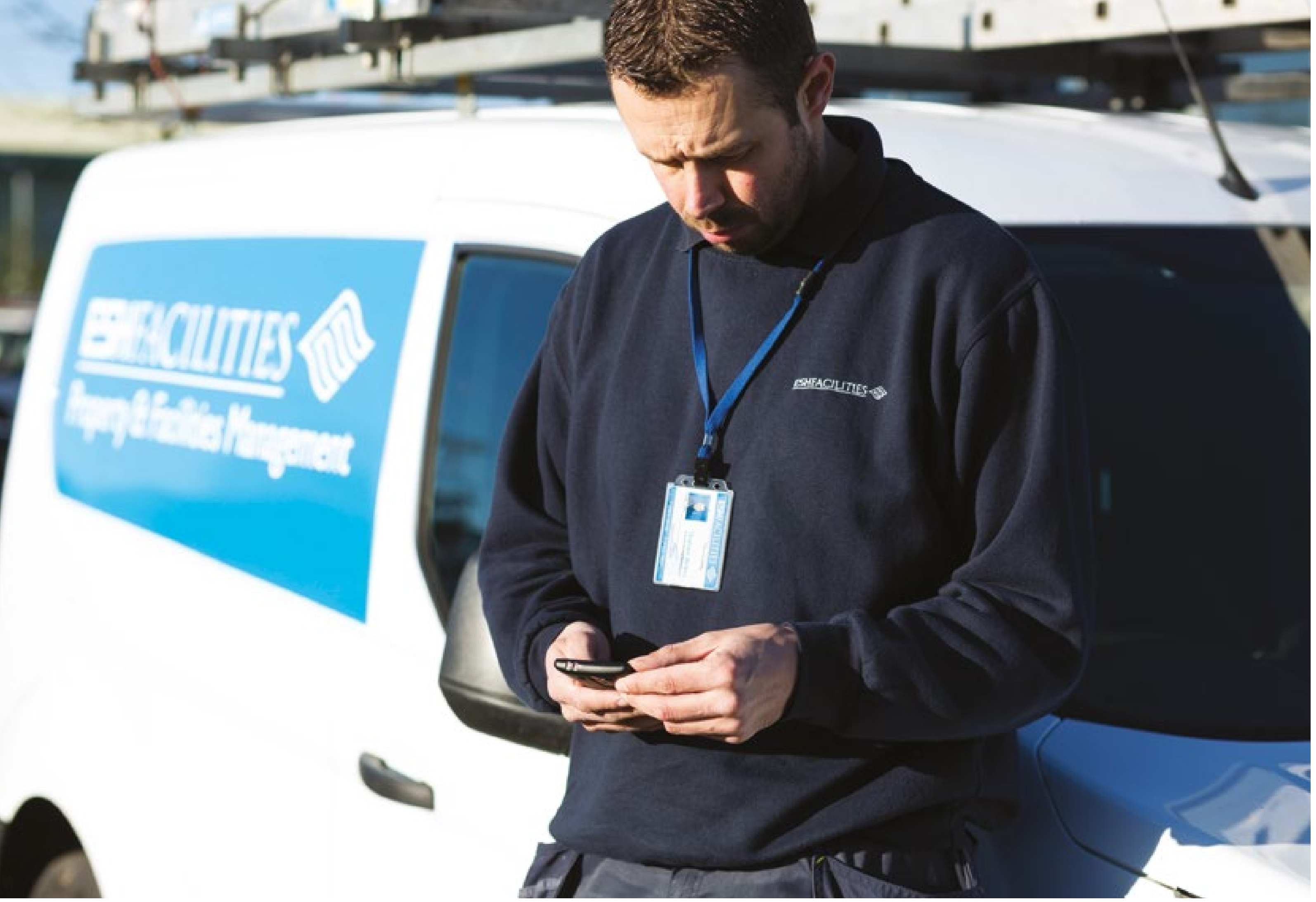
The regional office has been restructured during the year to improve performance, and reinforce Esh Group's commitment to the region. This restructuring involved the appointments of Chris Hale as Commercial Director in the region, and Alastair Gill as Bid Manager. Stuart Leslie was also promoted from Construction Director to Divisional Director.

Roads, sewers and plot work for house builders will now be overseen by the North East civils team, who with their considerable experience, are able to more closely control this unique type of work. Our focus continues on general civil engineering for local authorities and blue chip clients.

Key schemes in Yorkshire included:

- Lumsden and Carroll's £5.8m improvement works at Birdwell Junction, for Barnsley Metropolitan Borough Council, which are due to be completed in June 2017.
- Lumsden and Carroll's £3.9m project to expand and improve recycling facilities at Leeds City Council's Kirkstall Road site, which is due to be completed in early 2017

A key target for the Yorkshire region is the YORcivils framework, bid for by Lumsden and Carroll and which the results are expected later in 2017.



Commercial build performance was robust during the year and activity will be increased in 2017 with a number of new contract wins already confirmed.

Key schemes in 2016 included:

- Esh Build's work on two new crematoriums for Crematorium Management Ltd
- Esh Build's £2.7m redevelopment of Scarborough Market for Scarborough Borough Council which is due to be completed in early 2017.
- Esh Build's £5m construction of an 80,000 sq ft industrial warehouse facility for Muse Developments at the Logic Leeds site. The warehouse will be used by John Lewis.

Key frameworks for Esh Build in this region include YORBuild and the Environment Agency.

It was a quieter year for social housing across Yorkshire. Key work included:

- Completion of the £6m affordable housing development on the former site of Our Lady's RC Primary School in Acomb, and
- New social housing schemes for the City of York Council, including Fenwick Lane and Pottery Lane, and for Unity Housing, Pepper Lane.

Going into 2017 we have a £2m scheme underway for South Yorkshire Homes at Maltby and promising opportunities with, amongst others, Yorkshire Housing on land-led schemes.

North West

2016 proved to be a tough year for Esh Group in the North West. Whilst turnover remained consistent, profitability was lower than expected. The relocation of our North West base to new offices in Penrith coincided with a restructuring of the regional business in preparation for 2017.

The Penrith base gives us a geographically strategic position from which to control and acquire projects across Cumbria, including towns in the south of the county such as Barrow-in-Furness.

Key projects in the North West included:

- Esh Border Construction's £1.5m delivery of 13 homes in Longtown for Riverside.
- Esh Border Construction's completion of a £9m new dementia care home in Barrow for Cumbria County Council.
- Two projects at Carlisle Football Club following flood damage after Storm Desmond
- Esh Border Construction's £1.5m 12 new homes and 8 apartments in Ingleton for Yorkshire Housing.
- Homes by Esh's forthcoming development at Suttle House in Carlisle.

We see a steady pipeline of opportunities going into 2017, across the commercial build and civils markets.

Scotland

2016 saw growth in turnover broadly in line with expectations, and the region remains on target to achieve its financial objectives.

In line with the group's commitment to drive the growing opportunities in Scotland, the team expanded into larger premises in Livingston during the year. The team has also been strengthened by a series of appointments, including Euan McDermott as Business Development Manager, Gerard McMahon as Commercial Manager and Roddy McKenzie as Design Manager.

In addition, the Earlston office was closed and staff moved across to our Galashiels base. The move means the Esh Border Construction team joins Finlaysons staff in the same office.

Key projects in 2016 included:

- Esh Border Construction's work on Historic Scotland's £8.9m Engine Shed project in Forthside, Stirling. This prestigious project is running behind for reasons of design, and is due to be delivered in Spring 2017.
- Esh Border Construction's work on the £3m renovation of Calton Hill Observatory for Edinburgh World Heritage – a partnership of City of Edinburgh Council and arts organisation Collective Gallery. We are working with stonemasons from St Mary's Cathedral in the city, one of whom has more than 28 years' experience at Edinburgh Castle and St Mary's.

Throughout 2016 Esh Border Construction successfully earned places on several frameworks across the central belt of Scotland. They include social housing frameworks such as: Kingdom Housing Association, Link Group, Hillcrest Housing Association, Places for People and the Edinburgh HAM, a housing and maintenance framework.

In addition, we secured places on the Edinburgh City Commercial Build Framework, Glasgow City Council Framework and others for the NHS.

Local elections in May 2017 have held back some public sector projects. The significant opportunity ahead is growing Esh Border Construction in the central belt of Scotland. To increase our profile we are offering added value measures such as our Building My Skills programme across 11 schools, and entries for the Scottish Business Awards – in which Esh Border Construction was a finalist. In 2016 we also achieved the Investors in Young People Silver Standard, which is a Scottish-only initiative.

Several significant land-led opportunities for social housing are being pursued. These include sites in Duns, Newtown St Boswells and Rosewell. The Scottish Government's ambition to deliver 50,000 affordable homes by 2021 is a significant opportunity for Esh Group and the number of social housing frameworks secured in 2016 puts us in a good position to deliver.

Finlaysons has recently undergone a reorganisation into its own legal entity to drive greater focus and opportunity within its core markets as well as explore expansion into adjacent services. These changes will be supported by the appointment of a new operations manager.

Esh Facilities

The facilities services market continues to be very challenging, but our continued good performance during 2016 is testament to the commitment, enthusiasm and hard work from our staff and operatives throughout the North East and Yorkshire.

In 2016 the Yorkshire office underwent a restructure, including relocation to new offices delivering success through an expanded and strengthened professional team.

This team has seen continued success, including:

- Our contacts with West Yorkshire Police and University of Leeds grew through their individual frameworks.
- 2016 saw the start of the Sanctuary Housing framework throughout Yorkshire and the North East for fabric and electrical work.
- We were also awarded a one-year extension to our Two Castles HA contract and we negotiated a further two-year extension to our repairs and maintenance contract with North Star Housing.
- For our umbilical cabling manufacturer client Technip we created and implemented a total waste recycling solution for site waste, production waste and general office waste, on top of our current contract.
- 2016 has also seen our contract with ISS UK go from strength to strength as we continue to deliver projects throughout the country.

Our proven track record of delivering facilities management within hard industrial environments has seen our private sector client base increase throughout Teesside and Newcastle during 2016. Going forward, we are in discussion with numerous oil and gas and manufacturing clients about our services.

We look forward to 2017 and are confident we will be able to maximise any opportunities we are presented with. Using the expertise and knowledge of our staff we will deliver our current contracts to exceed client expectations.

We were delighted to collect Sustainable Developer of the Year at the WhatHouse? Awards

Homes by Esh

2016 has been an exciting time for Homes by Esh. Whilst turnover was down as we completed legacy developments carried over from our Dunelm Homes business, our overall profit margin increased.

We completed developments in Blyth, Seaton Carew and Stanley earlier this year and re-launched the brand with new developments at Scholars Park, Darlington; Suttle Gardens, Carlisle and Langwathby Hall Farm, Penrith. Additional schemes will follow in 2017.

We completed our relocation from Newton Aycliffe to the newly extended Esh House in Bowburn. This has improved communication with our Esh Construction build team and other group companies.

We were delighted to collect Sustainable Developer of the Year at the WhatHouse? Awards and we continued to focus, along with Esh Developments, to source new land opportunities to drive volumes and turnover into 2017 and beyond.

Specialist Businesses

In 2016 we delivered good performances across our specialist businesses.

Deerness Fencing and Landscaping celebrated 40 years of trading and another excellent year of turnover and profit, with considerable growth arising in the landscaping sector.

Mechplant experienced another strong year in 2016. The crane operation, based at the Port of Tyne, has delivered significant growth thanks to tenders won with some of the region's major housebuilders.

Bartram Walker maintained its turnover in 2016 with continued activity in the plumbing sector and new growth in its electrical and renewables services.

Remedios has been part of the Esh Group for more than four years and continues to provide Environmental and Geotechnical services to various clients, both in-house and throughout the UK.

Esh Training Solutions' Group Training Manager, Tricia Mullen, celebrated three years at Esh Training Solutions (ETS) in October 2016 and continues to be supported by a team of established training coordinators. In 2013 the Group made a commitment to recruit 150 apprentices over a three-year period and 2016 saw the enrolment of our 186th apprentice.

In October the team moved from the training centre in Newton Aycliffe to our purpose built Esh Academy and during 2016 ETS arranged training courses for 4,539 delegates.

Esh Developments

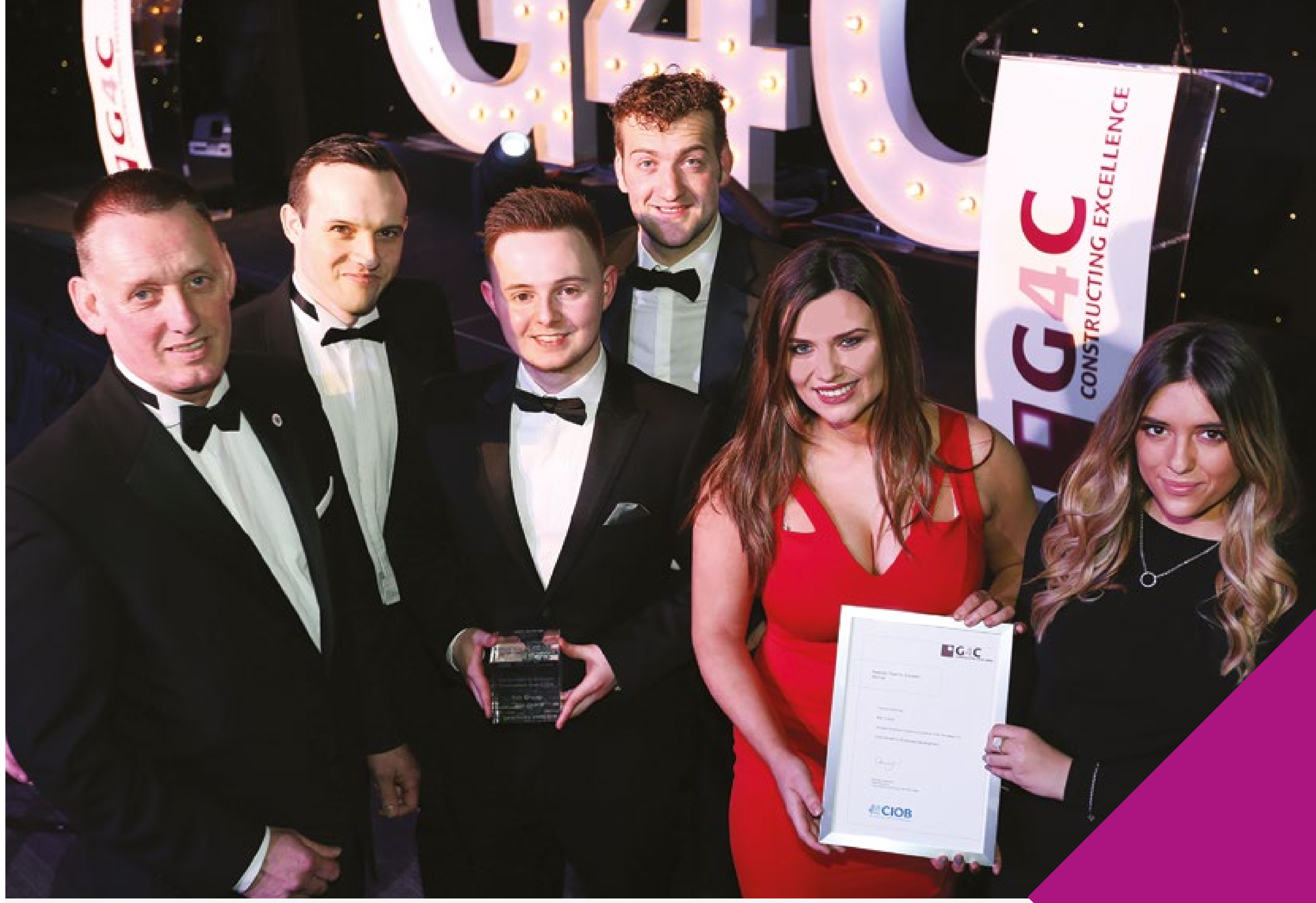
With the private housing market remaining buoyant throughout 2016 Esh Developments has continued to find land and secure planning permissions for affordable, mid-market and executive house building needs.

Esh Developments continues to support our sister companies Esh Property Services and Esh Border as they grow land-led affordable housing throughout the North East, Yorkshire, Cumbria and Scotland. The team adopted a fresh focus on looking for small and medium-sized mid-market sites for Homes by Esh. Through our Trivselhus by Esh brand we are currently on site at Wetheral, Brampton and Hexham.

Works have now started at our site in Philadelphia, Houghton-le-Spring, which will see the construction of 500 new homes plus a new supermarket and refurbishment works to the existing industrial estate.

Planning has now been approved at our mixed use development scheme in Chilton, County Durham, which includes commercial units and 135 residential dwellings which we hope to start work on-site in 2017.

Deerness Fencing and Landscaping celebrated 40 years of trading



Our work was recognised by a number of awards received in 2016, including:

Esh Group

WINNER BITC Responsible Business Awards for Building My Skills
WINNER Constructing Excellence North East, People Development Award
WINNER G4C, Student of the Year, Dan Hill
WINNER G4C, Apprentice of the Year, Ellie Fraser
WINNER G4C, Commitment to Employee Development
WINNER Best of Darlington Awards, Business Contribution to the Community

Lumsden & Carroll Civil Engineering

WINNER CECA NE Going the Extra Mile, Get into STEM
WINNER CECA National, Inspiring Change, Building My Skills
WINNER Institute of Water (Northern Area), Innovation Award, Fellgate Flood Alleviation Scheme

Esh Build

WINNER LABC, Best Commercial Building, Boho 5

Trivselhus by Esh

WINNER WhatHouse? National Awards, Sustainable Developer of the Year

Finally, may we again take the opportunity to thank the many people and organisations that support our group, including our dedicated employees and valued customers and suppliers with whom we share common values and aspirations.

Thank you,

Michael Hogan
Chairman
25 June 2017

Esh Charitable Trust and Esh Added Value

Added Value is the umbrella under which Esh Group's offering to the community is delivered. This activity is integrated with our commercial work, and permeates every stage of the business.

We take our responsibility to the communities in which we work very seriously. Our driving principle is to use our people and resources to add social value.

£40,000
GRANT FUNDING FOR CHARITIES

Community

Building My Skills
Our flagship introduction to work programme for school children had a busy year. In 2016 we delivered employability sessions in 83 schools to 11,000 students with the help of 130 partners across our supply chain and business network.

Get into STEM
The Government estimates that UK business will need 182,000 people with STEM (science, technology, engineering and maths) skills by 2020. Esh Group's answer to this challenge is 'Get into STEM'.

We have five construction-themed kits that give teachers of KS1 children the resources and lesson plans to engage their pupils in STEM subjects. In 2016 we engaged 3,339 pupils in 73 primary schools across the communities in which we work.

In 2017 we plan to launch a Get into STEM Water Kit, which will introduce children to the water cycle, availability of water and sanitation. The kit will support our Esh-MWH framework with Northumbrian Water Group.

Site Visits and Work Experience
Our Added Value team arranged 596 days of work experience for 95 people, including primary, secondary, college and university students. This was split evenly across our North East, Yorkshire and Scotland operations.

We organise work experience opportunities in accordance with trade and duration, and advertise directly with clients, on social media and our website. All candidates complete an interview, receive mentoring and produce a diary.

Esh Communities
One of our guiding principles is to support the communities in which we work. In 2016 we provided more than £40,000 in grant funding for charities, social enterprises and community groups creating positive change in their areas.

Across the North East, North West, Yorkshire and Scotland we helped 39 organisations that share Esh Group's core values.

Those values include:

- Improving the quality of life and/or employability prospects of residents in the areas in which we work.
- Promoting equality by engaging minority, hard-to-reach, disadvantaged or vulnerable groups.
- Encouraging healthy living, positive lifestyle changes and sustainable communities.

Stay Safe
Our Stay Safe programme is delivered to primary school children in the communities in which we work. The sessions aim to make children aware of the dangers of playing around construction sites.

Stay Safe is backed by our site mascot – Dudley the Elephant – and a safety poster competition and street naming activities. The programme was delivered to 5,166 students in 2016, including 2,301 in North East, 2,451 in Scotland and 414 in Yorkshire.

Workplace

Esh Academy
In 2016 we invested £800k in our new training facility, Esh Academy. The purpose-built space will accommodate a range of training activities from apprenticeship programmes, graduate traineeships and upskilling of our staff.

Apprentices
In 2013 we committed to enrolling 150 apprentices over the following three years. In 2016 we welcomed Megan Lambert, apprentice quantity surveyor, as our 150th apprentice to the Group. We currently employ 109 apprentices across all functions of the business, equating to 10% of our workforce.

Apprentices study at three different levels. In 2016 we had 40 intermediate-level trainees, 23 higher-level trainees and 46 advanced-level trainees. Training is delivered by a local education provider and funded by the Construction Industry Training Board (CITB) Grants Scheme.

Our aim is to develop all apprentices into well-rounded, experienced and valued members of the team. 74% move into full-time employment with an Esh Group company.

Further and Higher Education
We offer degree and Master's qualifications to new employees and existing staff, and we encourage all to develop their skills, increase their earning potential and take on new challenges.

Esh Group facilitates part-time study by paying fees, providing one study day per week during term times and out of hours use of the office facilities for study purposes.

During 2016, 37 employees were sponsored to complete higher education. Our students study at 10 establishments across the regions in which we work. They study courses including Master's, BS CS, HNDs, and NVQs in a range of subjects such as leadership and management, construction, built environment, education and engineering.

Shared Placements
Esh Group offers a paid shared placement scheme, where we organise a 12-week paid placement in partnership with other employers.

After a successful pilot of the scheme in 2015, we repeated it in 2016 through a placement with Northumbrian Water and our Esh-MWH joint venture. Emma Hancox, a quantity surveying student at Northumbria University, completed the four week programme.

Emma said of the experience: "It has been a real eye opener into a different side of the construction industry which I haven't been able to gain at university."

Armed Forces
Esh Group has been working with the Ministry of Defence to uphold the Armed Forces Covenant – a commitment to supporting armed forces personnel.

In 2016 we were proud to receive the Ministry of Defence Silver Covenant as part of the Employer Recognition Scheme.

Esh Group values the contribution of serving armed forces personnel, reservists and veterans to our business. They bring transferable skills that are essential to our success.

Vacancies are advertised through the forces' Career Transition Partnership to establish a career pathway for service leavers.

Existing Workforce
We strive to maintain a happy, motivated and competent workforce. All Esh Group members of staff have a "Training Passport" which is a document of training requirements and qualifications gained.

In 2016 we invested more than £680,000 in training. Altogether 4,960 employees and sub-contractors completed compliance training. Our eight dedicated training staff monitor, book and coordinate training needs for all team members.

Staff and approved sub-contractors have an audit-compliant annual training plan, which is stored on a database to provide real-time information to managers.

During the year we won a number of regional and national awards for our commitment to training, including the Constructing Excellence North East People Development Award.

We adopt good working practices, adhering to both the Construction Skills Certification (CSCS) and Construction Plant Competence (CPCS) schemes, and have a Group-wide commitment to a 100% carded workforce.

Future Leaders Programme
We believe in growing our own leaders. The Future Leaders Programme aims to develop hard working and enthusiastic employees into the senior managers of tomorrow.

It gives candidates an understanding of leadership and management skills and promotes that knowledge through real scenarios. It also nurtures strategic planning and management skills.

Each candidate has a workplace mentor, a company director, who provides support, discussion and guidance throughout the two-year programme.

Equality & Diversity
We understand the importance of having equality for all employees here at Esh Group. We also strive to be the employer of choice, provide opportunities for all, value diversity and promote inclusion. We have an inclusive culture where every staff member is treated with respect and dignity. Most importantly, we ensure everyone has the same opportunity to progress and meet their full potential.

We believe that discrimination, harassment and bullying are unacceptable and aim to provide a working environment free from those things. We have set guidelines for employees to follow if they feel like they are victims of discrimination via a confidential outsourced whistleblowing hotline telephone number.

We are proud to have been accredited to the CITB Be Fair Framework within 2016.

Our Modern Slavery Human Trafficking Statement sets out the steps that Esh Group has taken, and continues to take, to ensure that modern slavery or human trafficking is not taking place within our business or supply chain.

We know the link between the built and natural environments should be a sustainable one. Summit 2026 is our response to this challenge.

Environment

Summit 2026
We know the link between the built and natural environments should be a sustainable one. Summit 2026 is our response to this challenge.

The strategy covers energy use, our carbon footprint, waste management and ethical sourcing of materials, and acts as an umbrella identity under which sustainability policies are promoted within Esh Group and our supply chain.

Summit 2026 is driven by the ISO 14001:2004 and ISO 50001:2011 management systems, and helps make us a sustainable constructor. The 10-year strategy includes short (<1 year), medium (1-5years) and long term (5-10 years) environmental commitments.

Those commitments include:

- Certify to the updated standard for Environmental Management Systems (ISO 14001:2015) by September 2017.
- Protect the environment by identifying and mitigating

environmental impacts during the lifecycle of construction projects.

- Ensure effective and responsible waste management and disposal, in line with the relevant legislation and the requirements of our clients.

- Develop a carbon management training course for our apprentices.

Carbon Coach
In 2016 we fulfilled a key commitment of Summit 2026 – the creation of an online carbon management course for our apprentices. Carbon Coach is a skills building programme that encourages the next generation of construction workers to consider carbon management in response to climate change.

As the only online course of its type in the UK, apprentices are guided through four key modules: climate change, energy, low carbon design and an overview of energy management. The programme is funded by the Construction Industry Training Board and in 2017, 50 apprentices will take part.

Communicating Best Practice
We share best practice across the group via a monthly update in Esh Group's newsletter. Sustainability on Site includes examples of recent works featuring sustainable innovations and design.

Health, Safety, Environment and Quality (HSEQ) Site Audits
Esh Group's Health, Safety, Environment & Quality (HSEQ) team audit all construction and refurbishment sites monthly to make sure projects comply with our Environmental and Energy Management Systems.

The audits cover pollution prevention, statutory nuisance, ecology, waste management and energy monitoring. Our team use the 'Canvas' app, which allows reports to be uploaded to the system the same day. In 2016 we completed 1,919 HSEQ inspections, with an average score of 4/5 in the environmental category.

In addition to internal site audits, many of our sites are registered with the Considerate Constructors Scheme. In 2016, we scored an average of 36.7/50, compared to an industry average of 35.3/50.

Key statistics for 2016

- 968 TCO2e of carbon saved through value engineering on construction sites

- 95% of waste diverted from landfill

- 75,389 recycled materials sold from Esh Construction's recycling facility at Tursdale, County Durham

- 1,919 HSEQ inspections carried out with an average environmental score of 4/5

Marketplace

Prompt Payment
Esh Group works closely with more than 450 core material purchasing suppliers. Our relationship with these suppliers is vitally important to our business.

In 2015 we became signatories of The Prompt Payment Code (PPC). It means we abide by the high standards the code sets out. Supplier invoices are targeted to be paid within 45 days, and we achieve payment between 42-44 days.

Supporting Suppliers
We want to work with innovative and sustainable suppliers and we recognise there are challenges for smaller firms in meeting our requirements. For 2017 we have established a programme of training and mentoring support – delivered through Esh Academy – for suppliers that want to work with the Group.

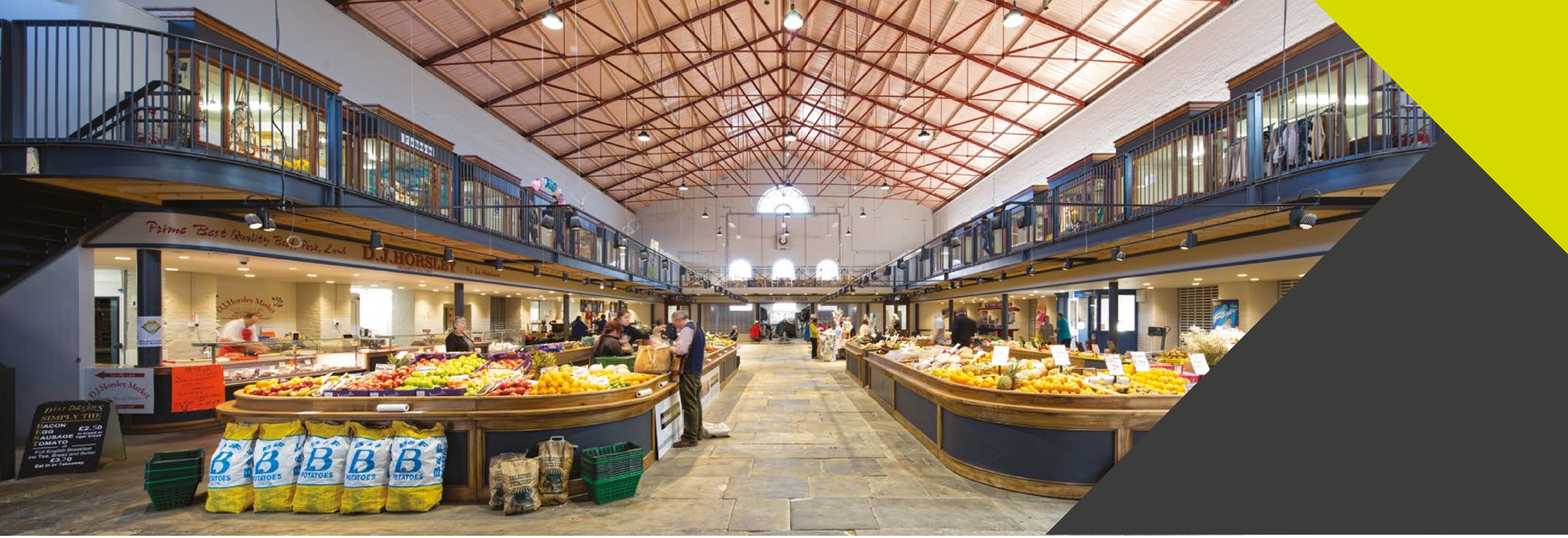
Our skilled team can lend expertise and experience to bolster a healthy ecosystem of suppliers in the communities in which we work.

In addition, our existing Supplier Relationship Management Programme is designed to promote growth ambitions among our suppliers and build their responsiveness. It promotes joint growth through cost reductions, resource efficiencies and risk management.

The programme also promotes innovation which is not necessarily facilitated by day-to-day purchasing methods. Quarterly meetings between our suppliers and members of the Group Purchasing Team establish targets, routes to better performance and feedback on ideas.

Considerate Constructors Scheme
Esh Group is a signatory of the Considerate Constructors Scheme, which means we agree to abide by the Code of Considerate Practice. The Code is closely aligned to our core principles, which include being a responsible part of the communities in which we work.

Invoicing
In 2016 we extended the use of Optical Character Recognition software within the Group which has created efficiencies in our invoicing process. The software can read incoming invoices and create data to populate our systems. This automation has significantly improved payment times for our supply chain.



Corporate Governance

Guiding Principles

The Group and the Board are committed to maintaining and where appropriate, improving standards of Corporate Governance. Whilst adherence to the Combined Code on Corporate Governance issued by the Financial Reporting Council is not obligatory for Esh Group, embracing the spirit of the Code ensures the creation and maintenance of sound business systems and an appropriate level of embedded internal control. The Code requires, as a minimum, an annual review of all key internal controls including financial, operational, compliance and risk management systems. Esh Group maintain a program of continuous improvement in respect of all its internal controls, both in terms of the structure, education and compliance monitoring.

Esh Group provides all employees across all subsidiaries with a comprehensive Employee Handbook which explains required standards of behaviour and attitude. This together with the range of Group policies, procedures and processes provide a comprehensive system of ethical governance.

The Board

The Board of Directors sets policy and takes responsibility for the Group's performance in relation to safety, health, the environment, business ethics, risk management, human rights and other social issues. This includes overall direction and strategy, major projects to be undertaken, acquisitions and entry to new markets.

Where appropriate, business decisions are reached following a structured and documented review of potential opportunities and threats. The process is designed to manage or mitigate any residual risk exposure identified.

Esh Group's businesses are managed on a decentralised basis. Whilst the Board has retained reserve powers, the day to day management of Group companies lies with the business leaders within defined authority limits. The management philosophy is to empower the business leaders to take the actions necessary to deliver each company's operational business objectives within the Group structure.

The Board has a schedule of matters reserved for its approval, covering areas such as company strategy, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, reviewing operating results, risk management strategy, ensuring the effectiveness of governance practices, succession planning and significant capital expenditure.

The Board meets at least ten times in the year and is supplied in a timely manner with information which enables it to discharge its duties.

Esh Group operates a standard approach to accounting policies to ensure a consistent application across all Group companies.

Audit Committee

The Audit Committee consists the Non-Executive Directors. The Committee meets twice each year and the External Auditors attend by invitation. The Committee provides a forum by which External Auditors report to the Board, which is responsible for reviewing the scope and results of the audit.

To reinforce its management assurance programme and in view of the increasingly diverse and expanding nature of the Group, the Board of Directors has established a small internal audit function to, in the main, ensure compliance with accounting and internal control procedures, as well as provide more regular assurance as to the effective operation of key financial processes.

1,900
SITE SAFETY INSPECTIONS

Remuneration Committee

The Remuneration Committee consists of three Non-Executive Directors, including the Group Chairman, and has access to independent advice where considered necessary.

The function of the Committee is to attract, retain and motivate the Executive Directors and to review their remuneration. Remuneration packages are designed to align the interests of the Executive Directors with those of the Shareholders.

Employee Share Ownership Scheme

Employees with at least three years' service may be invited to participate in the ownership of the business through the Employee Share Ownership Scheme.

Employment Policies and Procedures

Comprehensive, Group wide employment policies and training programmes are in place. These are designed to provide support to anyone seeking advice or help on technical matters and to provide personal development training. Policies and procedures are detailed in the Employee Handbook which is provided to all employees.

Ethical Governance

Through the Ethical Governance Policy, the highest standards of integrity and accountability are put into practice by the Board and are expected to be adopted and adhered to by all company directors, employees and third parties, including sub-contractors and their workers.

A range of whistle blowing, anti-corruption and bribery policies and procedures supports a culture of open, honest and fair dealing. These policies and procedures are designed to minimise the risks of fraud or corruption occurring and to maximise the rate of detection and subsequent corrective action.

Health & Safety

Everyone Safely Home
Esh Group maintains commitment to the Everyone Safely Home campaign, administered under the Esh Safe brand.

As a guiding principle of the group, Everyone Safely Home has helped us dramatically reduce our Accident Incidence Rate to well below the construction industry average.

In 2017 the campaign will include measures to adhere to the Health and Safety Executive strategy "Helping Great Britain Work Well", which includes occupational health and hygiene controls.

New legislation
In February the Sentencing Council introduced new sentencing guidelines for health and safety offences. The guidelines exposed all businesses, including Esh Group, to extensive penalties for safety breaches.

Esh Group already has a proactive approach to identifying and remedying safety issues through planning, site inspections and adherence to policies and procedures. These actions continue to safeguard our workers, the communities in which they work and the company.

Safety inspections
More than 1,900 site inspections took place during 2016. The process includes measuring activity across three key performance indicators – construction, documentation and environment. These indicators are reported monthly to the Group's board.

Safety management systems
External verification of Esh Group's safety management systems is maintained through the international standard - BS OHSAS 18001.

Esh Group's Service Strike Avoidance Steering Group follows a six step process, based on PAS 128: Underground Utility Detection. The measure has helped reduce the number of service strike incidents during 2016.

Esh Safe Awards
Esh Group's top performing site managers are recognised for their health and safety standards, and commitment to our internal initiative, Everyone Safely Home. All nominated site managers attend a special awards ceremony along with relevant directors.

Directors and Advisors

Brian Manning **Chief Executive**

In April 2017 Brian sadly passed away following a short battle with cancer. He led the steady growth of Esh Group since the early 1990s, earned a significant reputation as one of the North East's most astute businessmen with a vision to serve the community.

Brian joined Lumsden & Carroll as General Manager in 1990 and was appointed Managing Director in 1991. Following the formation of Esh Holdings in 1999, Brian became Group Managing Director and then Group Chief Executive.

Brian was actively involved in the communities in which we work and held the following positions outside of the Group; Vice-President, Board and Council Member North East Chamber of Commerce, Chairman of Durham Committee North East Chamber of Commerce, Board Member Changing Lives, Board Member Northumberland Arch, Advisory Board Member Business Durham, Board Member Castle View Enterprise Academy Member of the Regional Leadership team for BITC and Regional Council of CBI.

Michael Hogan **Non-Executive Chairman**

Michael was appointed as Group Chairman on the retirement of Austin Donohoe. Michael is a Founder Director. He set up a fencing contracting business in 1970 and later formed Dunelm Homes and Deerness Fencing. In 1999 he formed Dunelm Castle Homes, a joint venture with Lumsden & Carroll. The relationship with Lumsden & Carroll was formalised later that year with the formation of Esh Holdings and Michael was previously Group Chairman until 2004. Separately, he is a Trustee of the Charity Suubi Africa (UK).

Andy Radcliffe **Financial Director & Company Secretary**

Andrew (Andy) Radcliffe joined Esh Group in 2010 from Moores Furniture Group Limited in Wetherby where he was Group Finance Director. Andy has extensive experience in a number of industry sectors and was awarded Yorkshire Finance Director of the Year in 2009. In May 2017 Andy assumed the role of Group Chief Executive Officer.

John Davies **Executive Director**

John joined Lumsden & Carroll in 1990 and was appointed Managing Director in 2002. In 2006, he was additionally appointed Executive Director for Esh Group's construction businesses and in 2011 became Managing Director of Esh Construction having been Group Operations Director of the contracting companies for the previous two years. John was appointed to the Board of Constructing Excellence in 2013. In May 2017 John took up the newly created position of Group Chief Operating Officer alongside maintaining his duties as Managing Director of Esh Construction.

John Walker **Non-Executive Director**

Before retirement John was Chief Executive of English Partnerships. He has extensive experience of the property and housing sectors and has held a wide range of directorships throughout his career in both the public and private sectors. In addition to Esh Group, John is on the boards of Wynyard Park and Gentoo Group and was awarded a CBE in 2009 for services to Regeneration.

Jack Lumsden **Non-Executive Director**

Jack is a Founder Director, forming Lumsden & Carroll with Tony Carroll in 1970. Before his retirement, Jack provided managerial support to the operational side of the business that was handled by Tony. Jack is a past Regional Chairman of the Civil Engineering Contractors Association North East (CECA NE).

Tony Carroll Snr **Non-Executive Director**

A Founder Director, Tony formed Lumsden & Carroll in 1970 with Jack Lumsden.
Tony is a well-recognised and respected figure among the construction fraternity and was responsible for the business' on-site operations before his retirement.

Meg Munn **Non-Executive Director**

Former MP and Minister for Women and Equality, Meg Munn joined the Group as a Non-Executive Director in 2015. Meg is an expert on the issue of attracting more women into STEM (Science, Technology, Engineering, and Mathematics) industries, and is a Patron of the Women's Engineering Society.

Philip Coates **Non-Executive Director**

2017 saw Esh Group welcome Philip Coates as a Non-Executive Director. Philip enjoyed a 31 year career with Barclays in the North East, retiring at 50 to see a world outside of banking. Since then, he has acted in a financial consultancy role for some local companies and sits on a number of Boards in the area.

Esh Group is a trading name of Esh Holdings Limited.

Company secretary of Esh Holdings Limited

Andy Radcliffe

Independent auditor

PricewaterhouseCoopers LLP
Central Square South,
Orchard Street
Newcastle upon Tyne NE1 3AZ

Legal advisors

Muckle LLP
Norham House,
12 New Bridge Street West,
Newcastle upon Tyne NE1 8AS

Swinburne Maddison LLP
Venture House,
Aykley Heads Business Centre,
Durham DH1 5TS

Bond Dickinson
St Ann's Wharf, 112 Quayside,
Newcastle upon Tyne NE99 1SB

Bankers

Lloyds Bank plc
1st Floor, Black Horse House
91 Sandyford Road,
Newcastle upon Tyne NE1 8HQ

Strategic Report

The directors present their strategic report for the year ended 31 December 2016.

Principal activities

The principal activities of the Group during the year were building construction, civil engineering and property maintenance.

The principal activity of the Company is that of holding investments.

Business review

The 2016 performance was characterised by lower than anticipated turnover across many parts of the business, resulting in a fall in total turnover for the Group to £242.7m. Poor operational performance in some areas and increased investment in our infrastructure together have followed through to see a fall in profits.

In light of the above, towards the latter half of 2016, we took the decision to actively start to reduce overheads as a safeguarding measure and this, combined with an upward trend in performance improvements towards the end of the year leads us to anticipate an improving picture in 2017 and beyond.

The Group continues to maintain a strong cash position.

	2016	2015
Turnover, including share of joint ventures	**£242.7m**	£275.5m
Change in turnover	**(12%)**	(0.5%)
Gross profit margin	**6.3%**	8.4%
Overhead (administrative) costs	**£12.3m**	£11.9m
Profit before tax	**£3.8m**	£8.6m
Cash at bank	**£25.7m**	£29.1m
Net cash (used in) /generated from operating activities	**(£2.0m)**	£9.5m

Full commentary on each business, region and sector can be found in the Chairman's Statement.

All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources.

Principal risks and uncertainties

Market conditions within the construction industry remain stable, albeit the dynamics are quite varied across different sectors. Consequently, management remains vigilant to emerging risks and will continue to adapt the organisation to the environments in which it operates.

The Group maintains a diverse range of operations across a number of complimentary sectors, and whilst there continues to be challenges in a number of these sectors, the Board remains confident that the diversity of clients and services and the flexibility of resources within the group will maximise opportunities and enable effective management of risk within all of the sectors in which the group operates.

The principal risks faced by the Group and the action taken to mitigate these are presented in the table below. These are considered to be the most important to the future development and performance of the business.

Risk Description	How it is Mitigated
Project Execution	
The Group undertakes construction, refurbishment and maintenance projects. We need to continue to deliver these within programme and match or exceed clients' requirements, profitably and within agreed financial parameters. Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.	Each business unit has defined operating procedures to address the risks inherent in project delivery. Furthermore, a well established commercial and financial risk management framework is in operation, using structured review meetings and reporting, with key risks identified early in the project delivery. We also have public indemnity cover to provide further safeguards.
Tendering	
Through our different business units we seek to win profitable work through a large number of competitive tenders and contract negotiations. This depends on our ability to price and add value in our tender offering, driven by an efficient operating model, and a clear focus on quality delivery and added value.	All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources. We have delegated authority levels for approving all tenders and a formal tender review process. We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders. Our culture of added value within the communities in which we work provides a point of differentiation from many of our competitors, producing upper quartile tender success rates.
People	
We need to recruit and retain the best management and employees. These staff should have appropriate competencies and also share our values and behaviours.	We measure all potential recruits for key roles in the organisation against a competency framework. We undertake staff appraisals to review the roles, competencies, performances and potential of personnel. We have a well-developed succession planning process to identify and develop high potential personnel to fill key roles. This process has recently been enhanced by the introduction of a Future Leaders Programme (FLP), designed to develop the leadership and organisational skills to our highlighted high potential employees. People matters are reviewed regularly and discussed at all levels within the organisation and by the Board. We have appropriate remuneration and incentive packages to help us attract and retain key employees, including employee share ownership. We also use a well connected group of recruitment consultants and advisors to ensure we connect with the best talent within the industry.

Risk Description	How it is Mitigated
Supply Chain	
We are reliant on our supply chain partners for successful operational delivery, which means we are also exposed to a variety of risks in the supply chain.	Our strategic supply chain management processes, where possible, aligns us to large, robust suppliers whose access to material and resources is preferred given their size and scale; a factor equally supported by our own size, regional presence and buying capacity. We develop long term relationships with our subcontractors, working closely with them to understand their operations and work with them to ensure their capacity planning can be optimised. We aim to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share our values. We aim to avoid becoming over reliant on any one supplier or subcontractor.
Health and Safety	
The Group works on projects which require continuous monitoring and management of health and safety risks.	The Group has a highly developed health, safety and environmental process. This process is underpinned by documented procedures and working practices. Policy is set by the Board, and cascaded through the organisation via a team of dedicated health and safety professionals, who continually audit and review on site operations for compliance, as well as liaising with external verification bodies. Accident frequency rates remain well below the industry average. Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.
Regulatory, Market and Economic	
The Group operates in markets and segments that are influenced by a range of external factors. The resilience and performance of the construction sector, and the housing market in particular, is at risk from regulatory change, political change and the impact of monetary policy and financial system regulation.	The Group maintains a diversified portfolio of operating activities, some of which behave in a counter cyclical manner, and most of which are aligned to well funded, blue chip client bases. The housing market remains stable, but continues to be underpinned by favourable political support and monetary policy, thereby implying risk should these positions change. Whilst a reasonable proportion of the group is associated with the housing market, we have considerably de-leveraged our association with the sector from where it was before the recession.
Business Process and IT Systems	
To continue to expand the business the Esh Group acknowledge that information and associated technology must be robust and meet business needs. The current legacy systems and architecture require replacement.	Project Gateway is an Esh Group business transformation project to put in place a new integrated business management system and robust IT infrastructure for the future.

Comments on risks specific to the individual companies and business streams which make up the Group are also included in the Chief Executive's report.

Key performance indicators

Analysis of key performance indicators reported to the Board and staff at frequent and regular intervals is included in the chairman's report.

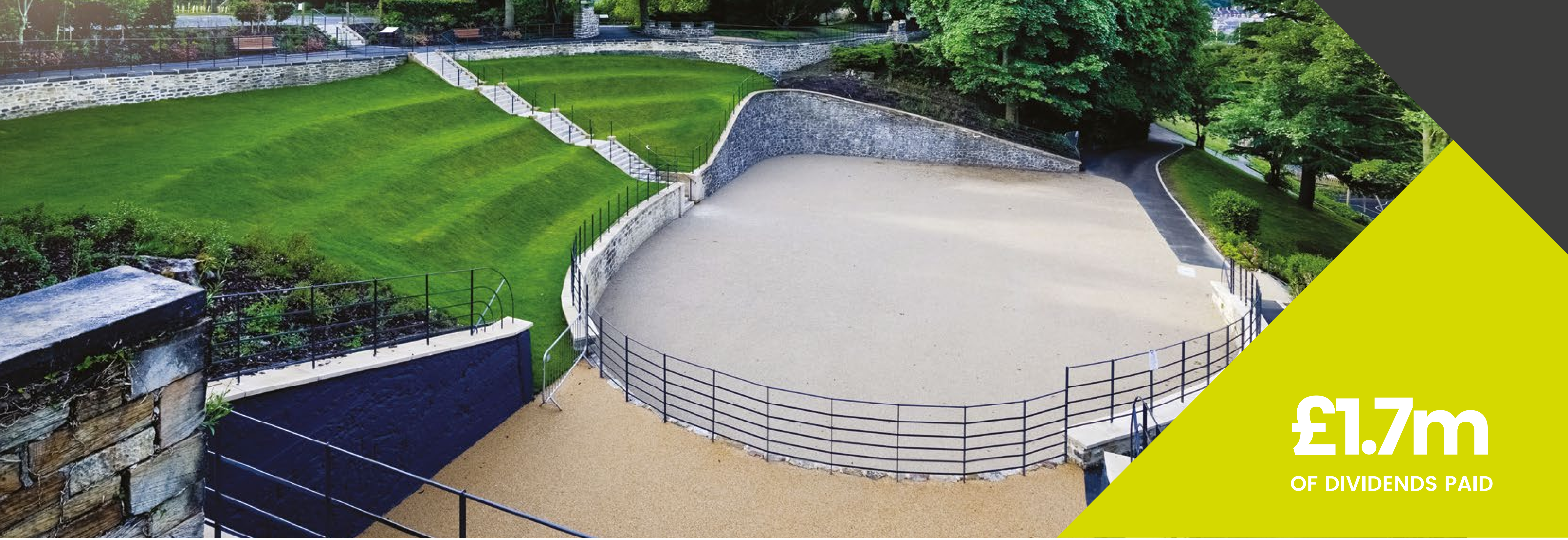
Future developments

The board continues to carefully monitor market dynamics within the construction sector and whilst at present conditions appear generally stable, certain sectors have individual challenges that have the potential to impact upon performance. Consequently, the board remains focussed upon maintaining a well balanced portfolio of operations spanning multiple segments of the market, maintaining positive cash flow and strong liquidity, investing in our people and driving the continuous improvement of process, systems and technology.

Signed on behalf of the Board

A E Radcliffe
Director
25 June 2017

Esh House
Bowburn North Industrial Estate
Bowburn, Durham DH6 5PF



Directors' Report

The directors present their directors' report for the year ended 31 December 2016.

Financial instruments

The Group's financial instruments comprise borrowings (principally bank overdraft, bank loans and obligations under finance leases), cash, share capital, and various items that arise directly from operations (such as trade debtors, trade creditors etc). The main purpose of these financial instruments is to raise finance for the Group's operations and to manage interest rate risk.

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

Interest rate risk
The Group finances its operations through a mixture of retained profits, share capital, bank borrowings and finance leases. The Board, in agreement with their funders, have agreed that the short to medium term outlook for interest rates negates the need to initiate any hedging instruments. The Group's finance lease borrowings are at fixed interest rates.

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

The Group makes use of a £20m multipurpose credit facility with Lloyds Banking Group to provide working capital flexibility and also to fund certain development activities. The directors believe these facilities provide ample access to liquidity to fund the future plans for the business.

At 31 December 2016, the Group had cash at bank and in hand of £25.7m, which is expected to be more than sufficient to fund the working capital needs for the group.

Dividends paid during the year comprise final dividends of £1.7m in respect of the previous year.

Credit risk
The Group trades largely with public funded and quasi public sector organisations. Whilst the Group engages with private clients, these are credit risk assessed before trading commences and the directors believe that any credit risk is effectively managed. Exposure to credit risk is therefore believed to be limited.

Proposed dividends

Dividends paid during the year comprise final dividends of £1.7m in respect of the previous year.

Directors

The directors who were in office during the year and up to the date of signing the financial statements were as follows:

A J Carroll
J P Davies
M F Hogan
J G Lumsden
B Manning (Resigned 28th April 2017)
A E Radcliffe
J R Walker

All of the directors benefited from qualifying third party indemnity provisions during the year and at the date of this report.

Employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

During the year the policy of providing employees with information about the Company has been continued through internal media methods and holding regular meetings to review the Company's performance. Employees participate in the success of the business through the Company's bonus scheme and are encouraged to invest in the Company through participation in a share ownership scheme.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to auditor

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

Future developments

The future developments of the entity are disclosed within the Strategic Report.

Auditor

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

By order of the board

A E Radcliffe
Company Secretary
25 June 2017

Esh House
Bowburn North Industrial Estate
Bowburn, Durham DH6 5PF

Independent Auditors' Report to the Members of Esh Holdings Limited

Report on financial statements

Our opinion
In our opinion, Esh Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- Give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2016 and of the group's profit and cash flows for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
The financial statements, included within the Annual report and financial statements (the "Annual Report"), comprise:

- The consolidated and company balance sheets as at 31 December 2016;
- The consolidated statement of comprehensive income for the year then ended;
- The consolidated statement of cash flows for the year then ended;
- The consolidated and company statement of changes in equity for the year then ended;
- The accounting policies; and
- The notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- The company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jonathan Greenaway
(Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
25 June 2017

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Turnover					
Group and share of joint ventures			**242,738**		275,547
Less: share of joint ventures' turnover			**(8,615)**		(19)
Group turnover	1		**234,123**		275,528
Cost of sales			**(219,289)**		(252,344)
Gross profit			**14,834**		23,184
Administrative expenses			**(12,342)**		(11,865)
Operating profit	2		**2,492**		11,319
Share of operating loss in joint ventures			**(333)**		(64)
Total operating profit			**2,159**		11,255
Profit on sale of fixed assets			**434**		187
Income from shares in group undertakings			**75**		74
Gain on sale of investments			**1,348**		185
Interest receivable and similar income	5		**225**		302
Interest payable and similar charges	6		**(441)**		(3,400)
Profit before taxation			**3,800**		8,603
Tax on profit on ordinary activities	7		**(1,067)**		(1,483)
Profit after taxation attributable to:					
- Owners of the parent			**2,733**		7,120
- Minority interests	20		**(318)**		(60)
Profit for the financial year			**2,415**		7,060
Other comprehensive income for the year, net of tax			**-**		-
Total comprehensive income/(expense) for the year attributable to:					
- Owners of the parent			**2,733**		7,120
- Minority interests			**(318)**		(60)

All results derive from continuing activities.

Consolidated Balance Sheet

for the year ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Intangible assets	9		**1,096**		33
Tangible assets	10		**19,820**		17,868
Investment properties	11		**1,512**		1,397
Investments	12				
Investments in joint ventures		**(622)**		(295)	
Loans to joint ventures		**1,643**		1,774	
			1,021		1,479
			23,449		20,777
Current assets					
Stocks	13	**18,751**		11,371	
Debtors: amounts falling due within one year	14	**45,143**		44,535	
Debtors: amounts falling due after more than one year	14	**1,894**		2,231	
Cash at bank and in hand		**25,691**		29,080	
		91,479		87,217	
Creditors: amounts falling due within one year	15	**(61,630)**		(59,003)	
Net current assets			**29,849**		28,214
Total assets less current liabilities			**53,298**		48,991
Creditors: amounts falling due after more than one year	16		**(8,136)**		(5,188)
Provisions for liabilities	17		**(356)**		-
Net assets			**44,806**		43,803

Consolidated Balance Sheet

for the year ended 31 December 2016 (continued)

	Note		2016		2015
		£'000	**£'000**	£'000	£'000
Capital and reserves					
Called up share capital	19		**20,500**		20,500
Share premium account			**29**		29
Employment benefit trust reserve			**(653)**		(653)
Retained earnings			**24,284**		23,569
Total shareholders' funds			**44,160**		43,445
Minority interests	20		**646**		358
Capital employed			**44,806**		43,803

The financial statements on pages 39 to 82 were approved by the board of directors on 25 June 2017 and were signed on its behalf by:

M Hogan
Non-Executive Chairman
Company registered number: 03724890

Company Balance Sheet

for the year ended 31 December 2016

	Note		2016		2015
		£'000	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	9		**1,089**		-
Tangible assets	10		**9,953**		7,955
Investment properties	11		**387**		386
Investments	12		**7,342**		7,342
			18,771		15,683
Current assets					
Debtors: amounts falling due within one year	14	**14,157**		9,724	
Debtors: amounts falling due after more than one year	14	**1,894**		2,231	
Cash at bank and in hand		**15,517**		17,809	
		31,568		29,764	
Creditors: amounts falling due within one year	15	**(18,872)**		(17,224)	
Net current assets			**12,696**		12,540
Total assets less current liabilities			**31,467**		28,223
Creditors: amounts falling due after more than one year	16		**(6,209)**		(3,140)
Provisions for liabilities	17		**(304)**		(173)
Net assets			**24,954**		24,910
Capital and reserves					
Called up share capital	19		**20,500**		20,500
Share premium account			**29**		29
Employment benefit trust reserve			**(653)**		(653)
Retained earnings					
At 1 January			**5,034**		267
Profit for the year			**1,744**		6,323
Other changes in retained earnings			**(1,700)**		(1,556)
			5,078		5,034
Total shareholders' funds			**24,954**		24,910

The financial statements on pages 39 to 82 were approved by the board of directors on 25 June 2017 and were signed on its behalf by:

M Hogan
Non-Executive Chairman
Company registered number: 03724890

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Called up share capital	Share premium account	Employment benefit trust reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015	25,185	3	(654)	12,240	36,774
Profit for the financial year		-	-	7,060	7,060
Other comprehensive income		-	-	-	-
Total comprehensive income for the year	-	-	-	7,060	7,060
Redemption of preference shares	(4,685)	-	-	-	(4,685)
Premium on shares issued	-	26	-	-	26
Transfer to minority interest	-	-	-	5,825	5,825
Dividend on shares	-	-	-	(1,556)	(1,556)
Shares transactions by EBT	-	-	1	-	1
Total transactions with owners, recognised directly in equity	(4,685)	26	1	4,269	(389)
Balance at 31 December 2015	**20,500**	**29**	**(653)**	**23,569**	**43,445**
Profit for the financial year	-	-	-	2,415	2,415
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2,415	2,415
Dividend on shares	-	-	-	(1,700)	(1,700)
Balance at 31 December 2016	**20,500**	**29**	**(653)**	**24,284**	**44,160**

Company Statement of Changes in Equity

for the year ended 31 December 2016

	Called up share capital	Share premium account	Employment benefit trust reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015	25,185	3	(654)	267	24,801
Profit for the financial year	-	-	-	6,323	6,323
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	6,323	6,323
Redemption of preference shares	(4,685)	-	-	-	(4,685)
Premium on shares issued	-	26	-	-	26
Dividend on shares	-	-	-	(1,556)	(1,556)
Shares transactions by EBT	-	-	1	-	1
Total transactions with owners, recognised directly in equity	(4,685)	26	1	(1,556)	(6,214)
Balance at 31 December 2015	**20,500**	**29**	**(653)**	**5,034**	**24,910**
Profit for the financial year	-	-	-	1,744	1,744
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,744	1,744
Dividend on shares	-	-	-	(1,700)	(1,700)
Balance at 31 December 2016	**20,500**	**29**	**(653)**	**5,078**	**24,954**

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016	2015
		£'000	£'000
Net cash (used in)/generated from operating activities	21	**(2,038)**	9,529
Taxation paid		**(831)**	(2,130)
Net cash (used in)/generated from operating activities		**(2,869)**	7,399
Cash flow from investing activities			
Purchase of tangible assets		**(2,749)**	(2,334)
Purchase of Intangible assets		**(1,089)**	-
Proceeds from disposals of tangible assets		**1,587**	870
Proceeds from sale of investments		**1,476**	409
Purchase of investment property		**(114)**	-
Interest received		**225**	302
Dividends received		**75**	74
Net cash used in investing activities		**(589)**	(679)
Cash flow from financing activities			
Redemption of share capital		**-**	(4,686)
Repayment of obligations under finance leases		**(2,983)**	(3,052)
Share transactions by EBT		**-**	1
Drawdown of bank borrowings/debt capitalisation		**5,223**	2,700
Issue of shares		**-**	26
Dividends paid		**(1,730)**	(1,589)
Interest paid		**(441)**	(3,400)
Net cash generated from/(used in) financing activities		**69**	(10,000)
Net decrease in cash at bank and in hand		**(3,389)**	(3,280)
Cash and cash equivalents at the beginning of the year		**29,080**	32,360
Cash and cash equivalents at the end of the year		**25,691**	29,080

Statement of Accounting Policies

General Information

Esh Holdings Limited (the "Company") is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is Bowburn North Industrial Estate, Bowburn, Durham, DH6 5PF.

The principal activities of the Group during the year were building construction, civil engineering and property maintenance. The principal activity of the Company is that of holding investments.

Statement of compliance

The Group and individual financial statements of Esh Holdings Limited have been prepared in compliance with the applicable United Kingdom Accounting Standards including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These consolidated and separate financial statements are prepared on the going concern basis, in accordance with applicable UK Accounting Standards, under the historical cost convention as modified by recognition of investment properties and some financial asset and financial liabilities at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in policy "Critical judgements and estimates in applying the accounting policies" within this note.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual statement of comprehensive income.

Going concern

Further information on the group's business activities, together with factors likely to affect its future development are set out in the chairman's report, the chief executive's report, the strategic report and the directors' report.

The Group recorded a profit on ordinary activities before taxation for the year of £3.8m.

Following successful negotiations with the principle bankers for Dunelm Homes Ltd and Esh Homes Ltd, a complete discharge of liabilities under the existing credit facilities was achieved in the last quarter of 2016. The directors are pleased with this outcome, which effectively delivered a solvent solution for the group, allowing future operations to continue unencumbered by legacy credit arrangements.

The majority of the Group undertakings, including the Parent Company, Esh Investments Ltd, but excluding Dunelm Homes Limited and Dunelm (Bowburn) Limited, are subject to Group cross guaranteed banking arrangements. The remainder of the group trades with a large number of customers and suppliers across a number of sectors and expects to meet day to day working capital requirements through existing considerable cash reserves, which totalled £25.7m.

After making detailed enquiries and taking into account the factors discussed above, the directors of the Parent Company have a reasonable expectation that both the Parent Company and Group have adequate resources to continue in operational existence for the foreseeable future and accordingly continue to prepare the Parent Company and Group financial statements on a going concern basis.

Basis of consolidation

The Group financial statements consolidate the financial statements of the company and each of its subsidiary undertakings together with the Group's share of the results of joint venture undertakings and associates made up to 31 December.

(i)Subsidiaries

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

Investments in subsidiary undertakings are stated at cost, including those costs associated with the acquisitions, less provision for any impairment in value. Where events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable, an impairment review is performed. An impairment write down is recognised to the extent that the carrying amount of the asset exceeds the higher of the fair value less cost to sell and value in use.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated statement of comprehensive income. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in the retained earnings that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

Where control of a subsidiary is achieved in stages, the initial acquisition that gave the Group control is accounted for as a business combination. Thereafter where the Group increases its controlling interest in the subsidiary the transaction is treated as a transaction between equity holders. Any difference between the fair value of the consideration paid and the carrying amount of the non-controlling interest acquired is recognised directly in equity. No changes are made to the carrying value of assets, liabilities or provisions for contingent liabilities

(ii)Joint arrangements

Investments in joint arrangements can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Esh Holdings Limited has joint venture classified as jointly controlled entities.

Interests in jointly controlled entities are accounted for using the equity method (mentioned below) after initially being recognised at cost in the consolidated balance sheet.

(iii)Associates

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting (mentioned below).

Equity method of accounting

Under the equity method of accounting, the investments are initially recognised at cost (including transaction costs) and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the profit or loss. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy “Impairment of non-financial assets” mentioned within this note.

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Where the Group has established employee benefit trusts ('EBT') or and is the sponsoring entity, notwithstanding the legal duties of the trustees, the Group considers that it has 'de facto' control of such entities. Such arrangements are accounted for as assets and liabilities of the sponsoring company and included in the consolidated financial statements as appropriate. The Company's equity instruments held by the EBT are accounted for as if they were the Company's own equity and are treated as treasury shares. No gain or loss is recognised in profit or loss or other comprehensive income on the purchase, sale or cancellation of the Company's own equity held by either the EBT

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with associates to the extent of the Group's interest in the entity.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated.

As a qualifying entity, the Company may take advantage of the following exemptions:

(i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102

(ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;

(iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and

(iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Foreign Currency

(i) Functional and presentation currency
The Group financial statements are presented in pound sterling and rounded to thousands.
The Company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'interest (expense)/income'. All other foreign exchange gains and losses are presented within 'Other operating (losses)/gains'.

(iii) Translation
The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in 'Other comprehensive income' and allocated to minority interest as appropriate.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts, intra-group sales and rebates allowed by the Group and value added taxes.

Where the consideration receivable in cash or cash equivalents is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

The Group recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Group retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the Group's sales channels have been met, as described below.

(a) Long/short term contracts
Turnover on long term contracts is recorded at cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years, as set out in the accounting policy for long term contracts. Turnover on short term contracts is recognised when the contract is completed.

(b) Property sales
Turnover on property sales is recognised upon legal completion of legal title to the customer.

(c) Supply of service
Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the reporting date turnover represents the value of the service provided to date based on a proportion of the total contract value. Turnover from services is recognised when the service has been performed.

Government grants

Government grants are recognised based on the accrual model and are measured at the fair value of the asset received or receivable. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

Employee benefits

The Group provides a range of benefits to employees, including holiday arrangements and defined contribution pension plans.

(i) Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plans
A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The assets of the funds are held separately from those of the Company in independently administered funds. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.

The Group also contributes to a self-administered pension scheme on behalf of certain directors. This is a money purchase scheme and contributions are charged to the statement of comprehensive income in accordance with the rules of the scheme.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period.

Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life which is 10 years, the period over which the directors consider the Group will derive continuing economic benefit. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

Negative goodwill arises where combination fair value of the group's interest in the assets, liabilities and contingent liabilities acquired exceeds the cost of the business. The Group, after consideration of the assets, liabilities and contingent liabilities acquired and the cost of the combination, recognises negative goodwill on the balance sheet and releases this to profit and loss, up to the fair value of non-monetary assets acquired, over the periods in which the non-monetary assets are recovered, approximately five years and any excess over the fair value of non-monetary assets in the statement of comprehensive income over the period expected to benefit.

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures is held at cost less accumulated impairment losses.

Tangible assets and depreciation

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.
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 buildings - 50 years
Leasehold properties - 40 years
Plant and machinery - 5 years
No depreciation is provided on freehold land.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Profit on sale of fixed assets'.

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, including property under construction for such purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the profit or loss. Investment properties are revalued annually by independent professionally qualified valuers and in the intervening years by the directors with the assistance of independent professional advice as required. Details related to fair value determination of investment properties is mentioned in note 11.

No depreciation is provided in respect of investment properties. The Companies Act 2006 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in Section 16 of FRS 102. The directors consider that, as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt Section 16 of FRS 102 in order to give a true and fair view.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment of non-financial assets

At each reporting date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the consolidated statement of comprehensive income.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash generating units for impairment testing.

Leases

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(i) Finance lease
Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date. The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating lease
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(iii) Lease incentives
Incentives received to enter into an operating lease are credited to the statement of income and retained earnings, to reduce the lease expense, on a straight-line basis over the period of the lease.

The Group and Company have taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January 2014) and continues to credit such lease incentives to the statement of comprehensive income over the period to the first review date on which the rent is adjusted to market rates.

Stocks

Housebuilding stocks and work in progress
Stocks and work in progress are stated at the lower of cost and estimated selling price less cost to complete and sell. Work in progress comprises direct materials, labour costs, site overheads, associated professional charges and other attributable overheads.

Investments in land without the benefit of a planning consent are initially included at cost. Regular reviews are carried out to identify any impairment in the value of the land with consideration to the existing use value of the land, likelihood of achieving a planning consent, and the value thereof. Provision is made to reflect any irrecoverable amounts.

Other stocks
Stocks are stated at the lower of cost and estimated selling price less cost to complete and sell. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the consolidated statement of comprehensive income. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Provisions and contingencies

(i) Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(ii) Contingencies
Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote. Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Turnover includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the statement of comprehensive income, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Financial instruments

Classification of financial instruments issued by the company
Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

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

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

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

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

(i) Financial assets
Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

(ii) Financial liabilities
Basic financial liabilities, including trade and other payables and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Related party transactions

The Group has taken advantage of the exemption, as provided by paragraph 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. The Group discloses transactions with related parties which are not wholly owned with the same Group.

Dividends on shares presented within shareholders' funds

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Critical accounting judgements and key source of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Turnover recognition
The Group's turnover recognition policies, which are set out above, are central to the way the Group values the work it has carried out in each financial year and have been consistently applied. These policies require forecasts to be made of the outcomes of long-term construction and service contracts, which require assessments and judgements to be made on changes in work scopes, contract programmes and maintenance liabilities.

(ii) Long term contracts
The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Turnover includes the initial amount agreed in the contract plus any variations in contracted work, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

(iii) Valuation investments in land
Investments in land without the benefit of a planning consent are initially included at cost. Regular reviews are carried out to identify any impairment in the value of the land with consideration to the existing use value of the land, likelihood of achieving a planning consent, and the value thereof. Provision is made to reflect any irrecoverable amounts.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Group turnover

All turnover arises in the United Kingdom from the following activities:

	2016	2015
	£'000	£'000
Construction	**173,526**	173,460
Housing and land	**7,402**	31,198
Property services	**49,474**	69,408
Business support	**3,721**	1,462
Group turnover	**234,123**	275,528

2. Operating profit

	2016	2015
	£'000	£'000
Operating profit is stated after (crediting)/ charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**1,126**	1,053
Leased	**1,115**	1,247
Amortisation of goodwill	**26**	26
Amortisation of negative goodwill – Border Construction	**-**	(1,392)
Hire of assets	**13,404**	14,506

Notes to the Financial Statements

for the year ended 31 December 2016

2. Operating profit (continued)

Auditor's remuneration

	2016	2015
	£'000	£'000
Audit of the consolidated financial statements	**18**	28
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries	**97**	90
Taxation compliance services	**30**	29
Other tax advisory services	**22**	-
Other corporate finance services	**63**	-

3. Directors' emoluments

Company

	2016	2015
	£'000	£'000
Directors' emoluments	**838**	912
Company contributions to money purchase pension schemes	**36**	35

The aggregate emoluments of the highest paid director were £345,768 (2015: £341,000), and company pension contributions of £472 (2015: £nil) were made to a money purchase scheme on his behalf.

	Number of Directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**3**	2

All of the Company's directors benefited from qualifying third party indemnity provisions.

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

4. Staff numbers and costs

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

	Number of employees	
	2016	2015
Production staff	**465**	596
Administrative staff	**632**	635
	1,097	1,231

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	**37,735**	41,099
Social security costs	**3,813**	4,159
Other pension costs (note 24)	**1,134**	1,184
	42,682	46,442

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

	Number of employees	
	2016	2015
Production staff (Weekly Paid)	**0**	0
Administrative staff (Monthly Paid)	**109**	101
	109	101

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	**3,936**	3,619
Social security costs	**406**	377
Other pension costs (note 24)	**159**	164
	4,501	4,160

5. Interest receivable and similar income

	2016	2015
	£'000	£'000
Bank interest	**225**	302

6. Interest receivable and similar expenses

	2016	2015
	£'000	£'000
On bank loans and overdrafts	**305**	3,228
Finance charges payable in respect of finance leases and hire purchase contracts	**136**	172
	441	3,400

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

7. Tax on Profit

(a) Tax expense included in profit or loss

	2016	2015
	£'000	£'000
UK corporation tax		
Current tax on income for the year	783	1,362
Adjustments in respect of prior years	(231)	42
	552	1,404
Share of joint ventures' current tax	(4)	-
Total current tax	548	1,404
Deferred tax (see note 17)		
Origination/reversal of timing differences	138	98
Adjustments in respect of prior years	381	(19)
Total deferred tax	519	79
Tax on profit	1,067	1,483

(b) Reconciliation of tax charge

Factors affecting the tax charge for the current year
The current tax charge for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016	2015
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	3,800	8,603
Current tax at 20% (2015: 20.25%)	760	1,741
Effects of:		
Tax losses	117	(28)
Capital allowances for the year in excess of depreciation	(13)	-
Tax Rate changes	(39)	23
Income not taxable	-	(15)
Expenses (deductible)/not taxable for tax purposes	92	(261)
Adjustments in respect of prior years	150	23
Total tax charge for the year (see above)	1,067	1,483

7. Tax on Profit (continued)

Factors that may affect future current and total tax charges
The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

The Finance (No. 2) Act 2015 was substantively enacted on 26 October 2015. This reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. A further reduction in the main corporation tax rate to 17% from 1 April 2020 was announced in the 2016 Budget and substantively enacted in the Finance Act 2016. Given the changes are stepped, deferred tax assets and liabilities reflect the rate of 19% that will apply from 1 April 2017.

8. Dividends

The aggregate amount of dividends paid in the year comprises:

	2016	2015
	£'000	£'000
Non voting preference shares of £1 each		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	467
Dividends paid in respect of the year	-	492
Voting preference shares of £1 each		
Final dividend paid in respect of prior year but not recognised as liabilities in that year	1,700	597
	1,700	1,556

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

9. Intangible assets

Group

	Software costs	Goodwill	Negative goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2016	-	1,128	(2,277)	(1,149)
Acquisition	1,089	-	-	1,089
At 31 December 2016	**1,089**	**1,128**	**(2,277)**	**(60)**
Accumulated amortisation				
At 1 January 2016	-	1,095	(2,277)	(1,182)
Charged in year	-	26	-	26
At 31 December 2016	**-**	**1,121**	**(2,277)**	**(1,156)**
Net book value				
At 31 December 2016	**1,089**	**7**	**-**	**1,096**
At 31 December 2015	-	33	-	33

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The following sets out the periods over which goodwill is amortised and the reasons for the periods chosen:

Positive goodwill arising on a number of acquisitions is being amortised over a period of 10 years, the period over which the directors consider that the group will derive continuing economic benefit.

Company

	Software costs	Total
	£'000	£'000
Cost		
At 1 January 2016	-	-
Addition	1,089	1,089
At 31 December 2016	**1,089**	**1,089**
Accumulated amortisation		
At 1 January and 31 December 2016	**-**	**-**
Net book value		
At 31 December 2016	**1,089**	**1,089**
At 31 December 2015	-	-

Notes to the Financial Statements

for the year ended 31 December 2016

10. Tangible assets

Group

	Freehold land and buildings	Leasehold properties	Plant and machinery	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2016	8,789	-	18,067	26,856
Additions	1,872	44	3,430	5,346
Disposals	(672)	-	(3,270)	(3,942)
At 31 December 2016	**9,989**	**44**	**18,426**	**28,260**
Accumulated depreciation				
At 1 January 2016	361	-	8,627	8,988
Charge for year	112	1	2,128	2,241
On disposals	(161)	-	(2,429)	(2,789)
At 31 December 2016	**312**	**1**	**8,326**	**8,440**
Net book value				
At 31 December 2016	**9,677**	**43**	**10,100**	**19,820**
At 31 December 2015	8,428	-	9,440	17,868

Included in the total net book value of plant and machinery is £6,997,964 (2015: £6,981,166 in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets is disclosed in note 2.

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

10. Tangible assets (continued)

Company

	Freehold land and buildings	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 January 2016	7,976	1,605	9,581
Additions	2,145	106	2,251
Disposals	-	(150)	(150)
At 31 December 2016	**10,121**	**1,561**	**11,682**
Depreciation			
At 1 January 2016	332	1,294	1,626
Charge for year	112	134	246
On disposals	-	(143)	(143)
At 31 December 2016	**444**	**1,285**	**1,729**
Net book value			
At 31 December 2016	**9,677**	**276**	**9,953**
At 31 December 2015	7,644	311	7,955

Included in the total net book value of plant and machinery is £nil (2015: £6,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2015: £34,000).

Notes to the Financial Statements

for the year ended 31 December 2016

11. Investment properties

	Group	Company
	£'000	£'000
Valuation		
At 1 January 2016	1,397	386
Additions	-	1
Fair value adjustments included in profit or loss	115	-
At 31 December 2016	**1,512**	**387**

The fair values of the Group's investment property at December 31, 2016 and 2015 have been based on the market comparable approach that reflects recent transaction prices for similar properties, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties / other methods. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

The directors have reviewed the open market value of investment properties at the year end and consider the carrying values to be equivalent to open market values.

The historical cost of the Group's investment properties is £1,350,000 (2015: £1,350,000).

The historical cost of the Company's investment properties is £386,000 (2015: £386,000).

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

12. Investments

Group

	Shares in joint ventures	Loans to joint ventures	Shares in participating interests	Loans to participating interests	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2016	132	2,489	600	375	3,596
Repayments	-	(131)	-	-	(131)
At 31 December 2016	**132**	**2,358**	**600**	**375**	**3,465**
Provisions					
At 1 January and 31 December 2016	**-**	**(715)**	**(600)**	**(375)**	**(1,690)**
Share of post acquisition reserves					
At 1 January 2016	(427)	-	-	-	(427)
Retained profits less losses	(327)	-	-	-	(327)
At 31 December 2016	**(754)**	**-**	**-**	**-**	**(754)**
Net book value					
At 31 December 2016	**(622)**	**1,643**	**-**	**-**	**1,021**
At 31 December 2015	(295)	1,774	-	-	1,479

Notes to the Financial Statements

for the year ended 31 December 2016

12. Investments (continued)

Company

	Shares in group undertakings	Loans to subsidiaries	Shares in joint ventures	Loans to joint ventures	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January and 31 December 2016	**26,652**	**556**	**530**	**1,941**	**29,679**
Provisions					
At 1 January and 31 December 2016	**(20,309)**	**(556)**	**(530)**	**(942)**	**(22,337)**
Net book value					
At 31 December 2016	**6,343**	**-**	**-**	**999**	**7,342**
At 31 December 2015	6,343	-	-	999	7,342

At the end of 2016 the directors conducted a review of the carrying values of the company's investments in subsidiary undertakings. Based on this the carrying value of the investments are considered to be recoverable.

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Esh Construction Limited	100%	Civil engineering and building contractor
Border Construction Limited[1]	100%	Civil engineering and building contractor
Border Construction (Holdings) Limited[1,2]	100%	Civil engineering and building contractor
Sones Maintenance & Environmental Limited	100%	Landscaping contractor
Deerness Fencing & Landscaping Limited	100%	Fencing contractor
Esh Developments Limited	100%	Land and property development
Bartram Walker Limited	100%	Mechanical, electrical and plumbing contractor
Dunelm Homes Limited	100%	Housebuilder
Esh Homes Limited	100%	Housebuilder
Philadelphia Estates Limited[1]	*100%, +30%	Property letting
Philadelphia Properties Limited[1]	*100%, +30%	Property letting
Mechplant (North East) Limited	80%	Plant hire
Tursdale Business Park Limited[1]	41%, +12.5%	Property letting
Dunelm National Projects 2 Limited	100%	Construction training
Dunelm Property Services Limited[1]	100%	Social housing – refurbishment and not of new build
Esh Acorn Homes Limited[1]	100%	Housebuilder
Stephen Easten Building Limited[1]	100%	Commercial builder
Wilkinson Facilities Services Limited[1]	100%	Property and Facilities Management
Esh Communities Limited	100%	Non trading
Esh Education Limited	100%	Non trading
Lumsden & Carroll Construction (Northern) Limited[1]	100%	Commercial builder
Dunelm (Bowburn) Limited[1]	100%	Land and property development
Green Energies Limited1	90%	Mechanical, electrical and plumbing
ABC Rental Properties Limited[1]	100%	Property letting
Dunelm Homes (Seaham) Limited[1]	100%	Housebuilder
Dunelm National Projects Limited[1]	100%	Property development

Notes to the Financial Statements

for the year ended 31 December 2016

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Eastbourne JV Limited	50%	Housebuilder
Finlaysons Contracts Limited	100%	Building contractor
Esh Langwathby Limited	100%	Property developer
Remedios Limited[1]	75%	Site investigation
Boathouse Lane Projects Limited[1]	100%	Land and property development
Venture Feethams Limited[1]	100%	Land and property development
Venture House 08 09 10 Limited[1]	100%	Dormant
Venture House RP Limited	100%	Dormant
David Wilkinson Building Contractors Limited[1]	100%	Dormant
SET Construction Projects Limited	100%	Dormant
Esh EBT Trustee Limited	100%	Non trading
Esh Green Limited[1]	100%	Non trading
Tursdale Recycling Limited	100%	Waste disposal and recycling
J Tonks (Transport) Limited	100%	Waste disposal and recycling
Tonks Recycling Limited	100%	Waste disposal and recycling

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Joint ventures		
Esh Energy Limited[1]	49%	Renewable energy
Pure Renewable Energies Limited[1]	44%	Renewable energy
Micropump (NE) Limited	50%	Plant hire
Prestige Exclusive Homes Limited1	50%	Property development
Holborn Regeneration LLP	50%	Property development
Boathouse Lane (Freehold) Limited[1]	50%	Non-trading
Esh MWH Ltd	50%	Civil engineering
Participating interests		
Esh Space The Park Limited[1]	15%	Property development
Venture Wallsend Limitd[1]	49%	Dormant
M62 Developments Limited[1]	43%	Dormant
Esh Space Land Limited[1]	15%	Non trading

***voting, *equity, [1]investment held indirectly, [2]Scottish registered company**

Investments are held directly by Esh Holdings Limited (except where noted). All holdings represent ordinary share capital, and with the exception of those noted above all companies are incorporated in England.

The registered office of Esh Holdings Limited is Esh House, Bowburn North Industrial Estate, Durham DH6 5PF. All subsidiaries are also registered at Esh House except for those which are Scottish registered companies (indicated) which are Botany Mill, Roxburgh Street, Galashiels TD1 1PB.

13. Stocks

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**16,322**	7,497	**-**	-
Work in progress	**2,429**	3,874	**-**	-
	18,751	11,371	**-**	-

The amount of stock recognised as an expense during the year was £7,490,000 (2015: £28,878,000).

There is no significant difference between the replacement cost of the stock and its carrying amount.

14. Debtors

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade debtors	**7,882**	8,891	**60**	38
Amounts recoverable on contracts	**32,079**	30,495	**-**	-
Amounts owed by group undertakings	**1,491**	1,589	**12,819**	7,914
Deferred tax	**-**	163	**-**	-
VAT Receivable	**-**	216	**-**	85
Amounts owed by undertakings in which the entity has a participating interest (note 25)	**1,036**	1,297	**21**	22
Corporation tax recoverable	**197**	-	**899**	1,172
Other debtors	**2,703**	2,376	**1,999**	2,325
Prepayments and accrued income	**1,649**	1,739	**253**	399
	47,037	46,766	**16,051**	11,955

Group 'other debtors' include £1,894,143 (2015: £2,231,000) due after more than one year. Company 'other debtors' include £1,894,143 (2015: £2,231,000) due after more than one year.

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

15. Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts (note 16)	**12,751**	10,598	**12,530**	10,355
Obligations under finance leases and hire purchase contracts (note 16)	**2,481**	2,744	-	21
Payments received on account	**2,686**	3,652	-	-
Trade creditors	**9,863**	9,599	**550**	613
Amounts owed to group undertakings	**-**	-	**5,004**	4,834
Amounts owed to undertakings in which the entity has a participating interest (note 25)	**490**	1	**-**	-
Corporation tax	**-**	83	**-**	-
Other taxation and social security	**2,593**	2,018	**300**	255
Other creditors	**1,201**	1,208	**34**	230
Accruals and deferred income	**29,565**	29,100	**454**	916
	61,630	59,003	**18,872**	17,224

16. Creditors: amounts falling due after more than one year

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Bank loans and overdrafts	**6,210**	3,140	**6,209**	3,140
Other loans (note 25)	**50**	50	**-**	-
Obligations under finance leases and hire purchase contracts	**1,876**	1998	**-**	-
	8,136	5,188	**6,209**	3,140

16. Creditors: amounts falling due after more than one year (continued)

Analysis of debt

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Debt can be analysed as falling due:				
- In one year or less, or on demand	**15,231**	13,342	**12,530**	10,376
- Between one and two years	**3,705**	2,142	**2,530**	530
- Between two and five years	**3,341**	3,046	**2,590**	2,610
- In five years or more	**1,091**	-	**1,089**	-
	23,368	18,530	**18,739**	13,516

Further details of bank loans are provided below:

Esh Holdings Limited

Esh Holdings Limited loans represent:

- A Commercial Mortgage £3.5m that is repayable in quarterly instalments on a ten year repayment profile. Next review date December 2020.
- A 5 year Revolving Credit Facility £10m. Review date December 2020.
- The RCF and Commercial Mortgage are secured upon properties in Bowburn, Newton Aycliffe and Cramlington and are subject to interest at LIBOR + 1.9% and 1.75% per annum respectively.

ABC Rental Properties Limited

ABC Rental Properties Limited loan of £220,595 with Santander, repayable in monthly instalments with no fixed date of maturity. The loan is subject to interest at LIBOR + 2.25% and is secured by fixed and floating charges over the assets of ABC Rental Properties Limited.

Finance Leases

The future minimum finance lease payments are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Not later than one year	**2,566**	2,845	**-**	21
Later than one year and not later than five years	**1,920**	2,034	**-**	-
Later than five years	**-**	-	**-**	-
Total gross payments	**4,486**	4,879	**-**	21
Less: finance charges	**(129)**	(137)	**-**	-
Carrying amount of liability	**4,357**	4,742	**-**	21

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

17. Deferred taxation

	Group	Company
	£'000	**£'000**
At 1 January 2016	**(163)**	173
Charge to the profit and loss	**519**	131
At 31 December 2016	**356**	**304**

The elements of deferred taxation are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Differences between accumulated depreciation and capital allowances	**356**	(163)	**304**	173

There are no unused tax losses or unused tax credits.

Notes to the Financial Statements

for the year ended 31 December 2016

18. Financial Instruments

Group

The Group has the following financial instruments:

	Note	2016	2015
		£'000	£'000
Financial assets measured at amortised cost:			
Trade debtors	14	**7,882**	8,891
Prepayments and accrued income	14	**1,649**	1,739
Amounts recoverable on contracts	14	**32,079**	30,495
Amounts owed by group undertakings		**1,491**	1,589
Amounts owed by undertakings in which the entity has a participating interest		**1,036**	1,297
Other debtors	14	**2,703**	2,376
		46,840	46,387
Financial liabilities measured at amortised cost:			
Bank loans	16	**18,961**	13,738
Obligations under finance leases and hire purchase contracts	16	**4,357**	4,742
Amounts owed to undertakings in which the entity has a participating interest		**490**	1
Payments received on account	15	**2,686**	3,652
Trade creditors	15	**9,863**	9,599
Other loans	16	**50**	50
Other creditors	15	**1,201**	1,208
Accruals and deferred income	15	**29,565**	29,100
		67,173	62,090

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

18. Financial Instruments (continued)

Company

The Company has the following financial instruments:

			Company
	Note	2016	2015
		£'000	£'000
Financial assets measured at amortised cost:			
Trade debtors	14	**60**	38
Prepayments and accrued income	14	**253**	399
Amounts owed by group undertakings	14	**12,819**	7,914
Amounts owed by undertakings in which the entity has a participating interest	14	**21**	22
Other debtors	14	**1,999**	2,325
		15,152	10,698

Financial liabilities measured at amortised cost:			
Bank loans	15	**18,739**	13,495
Obligations under finance leases and hire purchase contracts	15	**-**	21
Amounts owed to group undertakings	15	**5,004**	4,834
Trade creditors	15	**550**	613
Other creditors	15	**34**	231
Accruals and deferred income	15	**454**	916
		24,781	20,110

Notes to the Financial Statements

for the year ended 31 December 2016

19. Called-up share capital

Group and company

	2016		2015	
	Number of shares	£'000	Number of shares	£'000
Allotted, called up, issued and fully paid				
Non-voting ordinary shares of 0.1p each	**9,834,967**	**10**	9,782,430	10
Variable dividend ordinary shares of £1 each	**14,286,791**	**14,287**	14,286,791	14,287
Voting preference shares of £1 each	**6,203,396**	**6,203**	6,203,396	6,203
	30,325,154	**20,500**	30,272,617	20,500

Non-voting ordinary shares

Shareholders are entitled to such dividend as may be declared by the Board subject to preferential rights of the voting and non-voting preference shares. Not entitled to vote. On a return of assets, liquidation or winding up entitled to amounts paid up plus balance of any surplus after settlement of rights of other classes of share.

Variable dividend ordinary shares

Shareholders are entitled to such dividend as declared by Board subject to preferential rights of the voting and non-voting preference shares. Not entitled to vote. On return of assets, liquidations or winding up entitled to payment of £1.50 per share, in priority to non-voting ordinary shares only.

Voting preference shares

Shareholders are entitled to dividends as may be declared by the Board in preference to any other class of share other than non-voting preference shares. Entitled to one vote per share. On liquidation, return of assets or winding up they are entitled to payment of £1 per share in preference to all classes of share except non-voting preference shares. Redeemable at Company's option only.

The Group and Company's other reserves are as follows:
The share premium reserve contains the premium arising on issue of equity shares.

The profit and loss account represents cumulative profits or losses, including unrealised profit on the re-measurement of investment properties, net of dividends paid and other adjustments.

Employment benefit trust (EBT) reserve consists of shares repurchased by the Group's Employee Benefit Trust. At the end of the year the EBT held 229,743 preference shares of £1 each (2015: 229,743), nil non-voting shares of 0.1p each (2015: nil) and 318,283voting ordinary shares of £1 each (2015: 318,283) at a combined cost of £653,474 (2015: £653,474).

None of the shares held by the EBT are under option to employees and none of them have been conditionally gifted to any employees. The shares are available for distribution at the discretion of the Trustees of the Employee Benefit Trust and it is the intention of the EBT to distribute shares annually to facilitate the Employee Share Scheme.

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

20. Minority interests

	Group
	£'000
At 1 January 2016	358
Total comprehensive income attributable to minority interests	289
Dunelm Homes restructure	29
Dividends paid to minority interest	(30)
At 31 December 2016	**646**

21. Reconciliation of operating profit to operating cash flows

	2016	2015
	£'000	£'000
Profit for the financial year attributable to owners of the parent	**2,733**	7,120
Tax on profit	**1,067**	1,483
Net interest expense	**216**	3,098
Income from shares in group undertakings	**(75)**	(74)
Proceeds from sale of fixed asset investments	**(1,348)**	(185)
Income from joint ventures	**333**	64
Profit on sale of fixed assets	**(434)**	(187)
Operating profit	**2,492**	11,319
Amortisation of intangible assets	**26**	(1,366)
Depreciation of tangible assets	**2,241**	2,300
Revaluation of investment property	**-**	(47)
Working capital movements		
- (Increase)/decrease in inventories	**(7,380)**	6,488
- Increase in debtors	**(238)**	(2,053)
- Increase/(decrease) in payables	**821**	(7,112)
Cash flow from operating activities	**(2,038)**	9,529

22. Contingent liabilities

Banking arrangements
The Group has a composite banking arrangement. Under this arrangement all indebtedness incurred by certain of the group companies is secured by a cross guarantee enabling credit balances and deficit balances within the Group to be offset. This composite arrangement does not include Dunelm Homes Limited which has its own discrete banking arrangements which are not subject to Group guarantee.

The Company is party to this composite banking arrangement. The net overdrafts which have been offset under this arrangement total £9.5m (2015: £6.1m) at the year end. Aggregate Group borrowings guaranteed by the company but not provided for in the company's financial statements amounted to £9.5m (2015: £6.1m).

There are no there known contingent liabilities.

23. Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made are as follows:

		Group		Company
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Contracted	**634**	2,050	**54**	1,520

(b) At 31 December the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016	2015
	£'000	£'000
Group		
Operating leases which expire:		
Within one year	**357**	192
One to five years	**356**	802
More than five years	**98**	-
	811	994

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

24. Pension scheme

Group
The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £1,134,102 (2015: £1,184,499).

Contributions amounts to £152,940 (2015: £232,145) were payable to the scheme and are included in creditors.

Company
The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £158,736 (2015: £163,669).

Contributions amounting to £24,090 (2015: £37,892) were payable to the scheme and are included in creditors.

25. Related party disclosures

Transactions with undertaking in which the Group has a participating interest:

	Sales		Purchases		Debtors		Creditors	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Esh Space The Park Limited	**-**	5		-	**8**	8	**-**	-
Micropump (NE) Limited								
Trade	**11**	11	**23**	31	**-**	-	**10**	-
Loan	**-**	-	**-**	-	**21**	21	**-**	-
Pure Renewable Energies Limited								
Loan	**-**	-	**-**	-	**87**	87	**-**	-
Prestige Exclusive Homes Limited								
Trade	**-**	1,187	**-**	-	**11**	422	**480**	-
Loan	**-**	-	**-**	-	**750**	750	**-**	-
Eastbourne JV Limited								
Loan	**-**	-	**-**	-	**159**	-	**-**	-
	11	1,203	**23**	31	**1,036**	1,288	**490**	-

Other than the transactions disclosed above, the Company's other related party transactions were with wholly owned subsidiaries and so have not been disclosed.

The Group do not have any compensation to key management personnel (other than directors) as disclosed in note 3.

The Group owes £50,000 (2015: £50,000) to the directors of Mechplant (North East) Limited. This loan is interest free.

Notes to the Financial Statements

for the year ended 31 December 2016

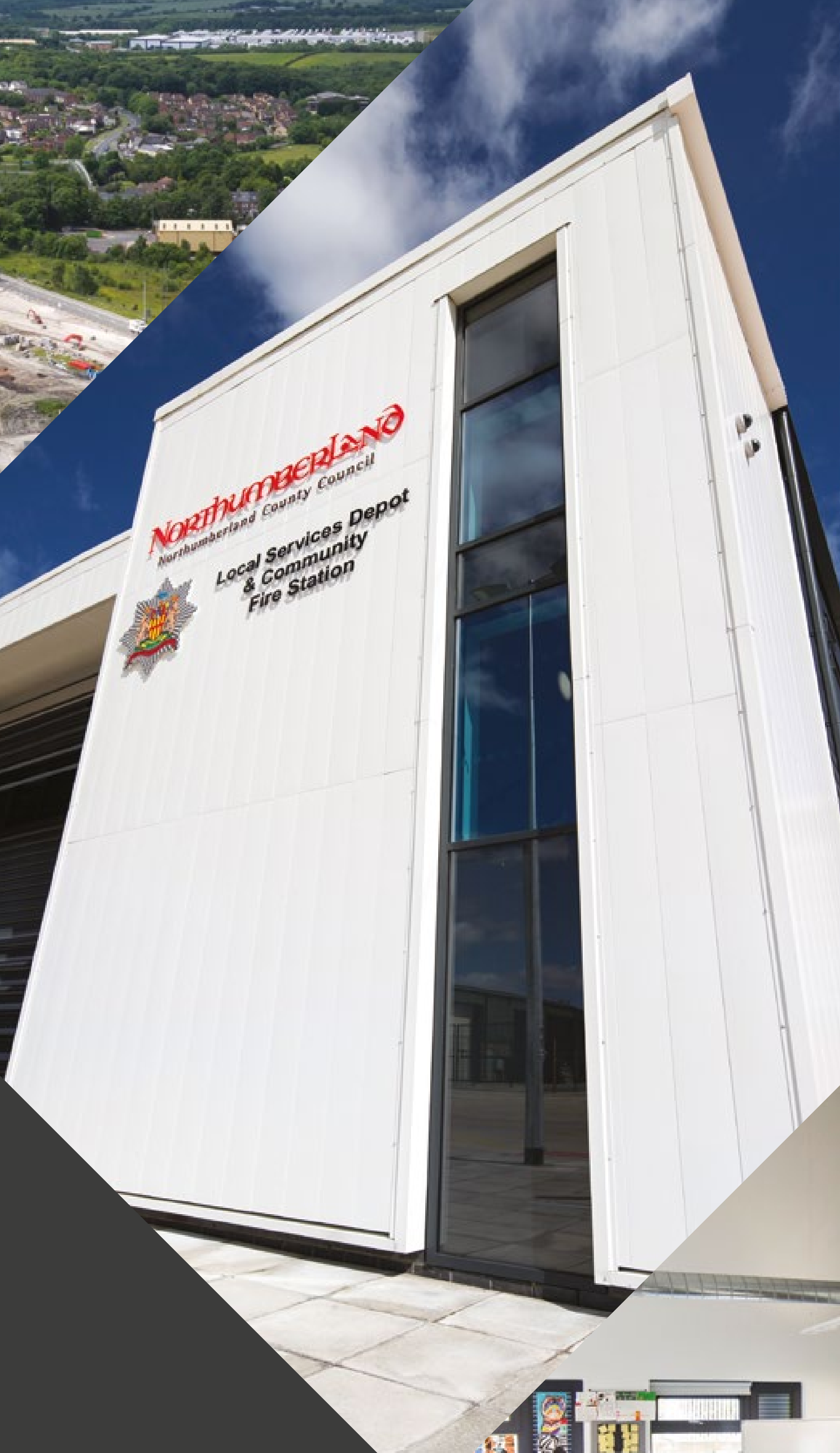
26. Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Esh Investments Limited, the ultimate and immediate parent company incorporated in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Esh Investments Limited, incorporated in England and Wales. The consolidated financial statements of this group are available to the public and may be obtained from Companies House.

The directors do not consider there to be an individual ultimate controlling party.

Notes



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