ESH CONSTRUCTION

ANNUAL REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2013

LEADING THE WAY IN CONSTRUCTING COMMUNITIES

WELCOME TO ESH CONSTRUCTION

CONTENTS

ESH PROPERTY SERVICES: £345K. Design & Build
New build eco friendly holiday lodge, The Straker Lodge, Kielder, North East.

ESH BUILD: £7.2m. Design & Build. Nationally unique Neuro-Rehabilitation Centre & Transitional Housing. The Gateway, Middlehaven. RICS Project of the Year 2014 RICS - North East Renaissance Awards. North East.

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND KEY PERFORMANCE INDICATORS

The Group continues to use a range of non-financial and financial performance related indicators to ensure that activities are monitored and controlled effectively. Those set out below are reported to the Board and staff at frequent and regular intervals.

	2013	2012
Turnover	**£182.9m**	£150.1m
Turnover growth	**21.8%**	0.5%
Gross profit margin	**8.8%**	8.2%
Overhead (administrative) costs	**£8.8m**	£8.0m
Profit before tax	**£7.4m**	£4.3m
Cash at bank and in hand	**£13.7m**	£13.2m

The divisions and businesses of Esh Group delivered strong performances in 2013. Lumsden & Carroll Civil Engineering, Esh Property Services and Esh Facilities (all delivery arms of **Esh Construction**) produced particularly good results. The market recovery was first experienced in the business through **Lumsden & Carroll** as the demand for civil engineering works grew across the sector, especially from the national house builders. We believe that this increase in demand for Lumsden & Carroll's services and our resultant growth in market share is a product of both the demise of many medium sized civil engineering businesses during the recession and our clear focus and perseverance on extending our coverage into new areas.

The demand for infrastructure works in general has increased and we have seen growing demand from utility companies and national bodies which we serve through framework contracts. We are proud to support Northumbrian Water and Yorkshire Water in their respective regions and the Environment Agency throughout the whole of the North of England. In early 2014 we have received a wide range of enquiries from new sectors; in particular we are hopeful of securing a framework contract as a delivery partner with Capita for highways maintenance in a metropolitan area of the North East.

Esh Construction achieved accreditation to the **ISO 50001 Energy Management** standard in July 2013. This has enabled the company to proactively promote the potential energy saving that can be achieved across the business. Monitoring of energy usage is carried out by staff throughout the organisation on a regular basis, appraisals are carried out by the HSEQ team during regular site visits and resultant data is reviewed at management meetings. Through this process we are successfully collating valuable information to inform our strategy going forward and whilst we regularly encounter new challenges, in doing so we are focussed on leveraging the tangible benefits of energy saving and carbon reduction that we are confident will accrue. ISO 50001 is a challenging standard to achieve and, as a consequence, few construction companies are assured in this way.

We also achieved **Green Deal** accreditation in 2013 and whilst to date uptake has been slow we are well placed to funnel learning practices back into the ISO 50001 system and ISO 14001 and to take forward other relevant issues associated with BREEAM and the Code for Sustainable Homes.

Esh Property Services has continued to deliver a good performance. This has been driven in the main by the delivery of the HCA Award, under AHP1, to build 497 affordable homes across the North of England which Esh Group won in 2011 in conjunction with its partners Two Castles Housing Association, Livin, Vela, Endeavour Housing and Durham Aged Miners Housing Association. The business is on track to complete delivery on schedule by December 2014, with the final sign off required by March 2015. In total over 160 homes will have been built in Cumbria and over 400 units in the Northumberland, Tees Valley and Durham areas.

Preparations are underway to tender for the second phase of the Affordable Homes Programme (AHP2) and in the interim additional new build contracts have been won with South Lakes District Council in Cumbria, Leeds & Yorkshire Housing, Guinness Northern Counties and Home Group in Yorkshire.

Whilst refurbishment works under the Decent Homes programme have now come to an end, new contracts have been won with East Durham Homes and some of the Yorkshire providers.

Esh Facilities has continued to make good progress and has successfully diversified its service range into 'softer' areas including cleaning, waste disposal and energy management to complement its planned and reactive maintenance programmes. This strategy has been well received by existing and new clients which have sought out the synergy and benefits of receiving these support services in conjunction with one another.

Esh Construction's successful accreditation under ISO 50001 has added strength to these services as we can now establish, implement, maintain and improve energy management systems for our clients. By helping to achieve continual improvement in energy efficiency, security, use and consumption the business stands to make important contributions through reductions in energy costs and greenhouse gas emissions.

Esh Facilities continues to serve key clients including Barclays Bank nationwide, Northumberland County Council and Northumbria Police and has recently won contracts with Cumbria County Council and a number of social housing providers.

The market for commercial build remains very competitive and **Esh Build**, by being prudent in its tendering decisions, has delivered a good performance. High profile schemes have been delivered in Yorkshire, the North East and Cumbria. In particular the Construction Skills Training Centre at South Lakes College in Cumbria and The Gateway at Middlehaven, Middlesbrough have been singled out for recognition through a variety of industry awards. The Gateway was awarded Project of the Year and Community Benefit Award at the RICS North East Renaissance Awards in early 2014. Nationally unique, the Gateway is a spinal and neurological rehabilitation unit combining a specially designed rehabilitation facility, complementary wellbeing hub and supported transitional housing together on the same site (adjacent to a major educational facility).

Principal risks and uncertainties

The current economic climate continues to provide challenges for businesses across all sectors and we continue to position our business to deal with the risks and uncertainties associated with general economic conditions.

The Group maintains a diverse range of operations across a number of complimentary sectors, and whilst market conditions are expected to remain challenging for the foreseeable future, the Board remains confident that the diversity of clients and services, and the flexibility of resources within the Group will continue to 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 actions taken to mitigate these, are listed in the table below. These are considered to be the most important to the future development and performance of the business.

Future developments

With economic recovery starting to gain momentum, a key focus for the Group will be to ensure that growth can be managed effectively by way of leveraging the organisational changes implemented over recent years, combined with a process of continuous improvement and refinement to our operating model in order to meet the growth challenges that lie ahead.

Signed on behalf of the Board

AE Radcliffe
Director
Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

30 May 2014

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.

Risk description	How it is mitigated
Tendering Through our different business units we seek to win profitable work through a large number of competitive tenders. 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. These plans 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.
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 is now showing signs of recovery, and whilst a reasonable proportion of the Group continues to be associated with this sector, the Group has considerably de-leveraged its association with the sector from where it was before the recession.

ESH CONSTRUCTION: £5.7m. Design & Build. New Construction Skills Training Centre. British Energy Coast College, Workington, Cumbria.

DIRECTORS' REPORT

The directors present their directors' report for the year ended 31 December 2013.

Financial instruments

The Group's financial instruments comprise borrowings (principally obligations under finance leases) share capital, cash, and various items arising directly from operations (such as trade debtors, trade creditors etc).

The finance lease obligations total £2.0m and are at fixed interest rates. The Group's cash balance of £13.7m carries interest at variable rates but the levels of interest receivable are not significant to this group's results because interest accrues to Esh Holdings Limited as a result of the group banking facility.

Financial instrument risks are managed at the Esh Group level, and further details can be obtained from the Esh Holdings Limited financial statements.

Dividends

Dividends paid during the year comprise an interim dividend in respect of the year ended 31 December 2013 of £2,600,000 (*2012: £4,500,000*).

The directors have proposed a final dividend in respect of the current financial year of £1,500,000. This has not been included in creditors as it was not approved before the year end.

Directors

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

JP Davies
D Halfacre
A Law
S Leadbitter
B Manning
G Morgan
AE Radcliffe
D Thompson
C Walker
P Watson
ST Wilkie

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.

The Group is firmly committed to the principles of employee involvement. A range of briefing and consultation arrangements have been developed in all parts of the Group and these are subject to continued review and improvement.

Political contributions

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

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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office, subject to the retendering process noted below.

The Audit Committee of Esh Holdings Limited intends to retender the audit during the year ending 31 December 2014. KPMG LLP has been the Company's external auditor since 2005 and the tender process is being undertaken in the interests of good corporate governance. The tender process will commence in June 2014 and the Board is expected to have made a decision by the time of the Annual General Meeting on 23 September 2014.

By order of the board

AE Radcliffe
Director

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

30 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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;
- 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 and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESH CONSTRUCTION LIMITED

We have audited the financial statements of Esh Construction Limited for the year ended 31 December 2013 set out on pages 11 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 9, 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Paul Moran (Senior Statutory Auditor) 30 May 2014
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2013

	Note	**2013** **£000**	2012 £000
Group turnover	2	**182,867**	150,077
Cost of sales		**(166,684)**	(137,726)
Gross profit		**16,183**	12,351
Administrative expenses		**(8,799)**	(8,009)
Group operating profit		**7,384**	4,342
Other interest receivable and similar income	6	**22**	21
Interest payable and similar charges	7	**(55)**	(130)
Profit on sale of fixed assets		**7**	74
Profit on ordinary activities before taxation	2-7	**7,358**	4,307
Tax on profit on ordinary activities	8	**(1,228)**	178
Profit for the financial year	19	**6,130**	4,485

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

CONSOLIDATED BALANCE SHEET

at 31 December 2013

	Note	2013 £000	£000	2012 £000	£000
Fixed assets					
Intangible assets	10		**85**		111
Tangible assets	11		**3,674**		3, 109
			3,759		3,220
Current assets					
Stocks	13	**158**		182	
Debtors	14	**39,492**		32,572	
Cash at bank and in hand		**13,722**		13,175	
		53,372		45,929	
Creditors: amounts falling due within one year	15	**(41,744)**		(37,808)	
Net current assets			**11,628**		8,121
Total assets less current liabilities			**15,387**		11,341
Creditors: amounts falling due after more than one year	16		**(1,049)**		(533)
Net assets			**14,338**		10,808
Capital and reserves					
Called up share capital	18		**978**		978
Share premium account	19		**-**		12
Other reserves	19		**-**		35
Profit and loss account	19		**13,360**		9,783
Shareholders' funds			**14,338**		10,808

These financial statements were approved by the board of directors on 30 May 2014 and were signed on its behalf by:

JP Davies
Director

Company registered number: 02529939

COMPANY BALANCE SHEET

at 31 December 2013

	Note	2013 £000	£000	2012 £000	£000
Fixed assets					
Intangible assets	10		-		151
Tangible assets	11		3,674		3,032
Investments	12		1,500		1,500
			5,174		4,683
Current assets					
Stocks	13	158		182	
Debtors	14	38,756		30,209	
Cash at bank and in hand		14,587		17,481	
		53,501		47,872	
Creditors: amounts falling due within one year	15	(43,383)		(41,200)	
Net current assets			10,118		6,672
Total assets less current liabilities			15,292		11,355
Creditors: amounts falling due aftermore than one year	16		(1,049)		(518)
Net assets			14,243		10,837
Capital and reserves					
Called up share capital	18		978		978
Share premium account	19		-		12
Profit and loss account	19		13,265		9,847
Shareholders' funds			14,243		10,837

These financial statements were approved by the board of directors on 30 May 2014 and were signed on its behalf by:

JP Davies
Director

Company registered number: 02529939

RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2013

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Profit for the financial year	**6,130**	4,485	**6,006**	3,328
Dividends on shares classified in shareholders' funds	**(2,600)**	(4,500)	**(2,600)**	(4,500)
Net addition to/(reduction in) shareholders' funds	**3,530**	(15)	**3,406**	(1,172)
Opening shareholders' funds	**10,808**	10,823	**10,837**	12,009
Closing shareholders' funds	**14,338**	10,808	**14,243**	10,837

NOTES

(forming part of the financial statements)

1. ACCOUNTING POLICIES

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

Basis of preparation

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

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Esh Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2013. The merger accounting principles have been adopted. Under this method the companies, businesses and assets comprising the Esh Construction Limited Group are presented as if they had been part of this Group from the date on which they joined the Esh Holdings Limited group. This basis of accounting has been adopted in order to present a true and fair view.

As part of a group reorganisation agreement dated 23 December 2010 Esh Holdings Limited transferred its shares in Dunelm Property Services Limited (previously a fellow subsidiary undertaking) to Esh Construction Limited. The consideration for this transfer was left on inter company account.

As part of this reorganisation, the transfer of shares was not on terms that meet the requirements of Schedule 6 paragraph 10 of the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports Regulations 2008 (SI 2008 No. 410)). Consequently, FRS 6 requires that acquisition accounting principles should be used in respect of this transaction and that the assets and liabilities of the companies involved should be presented at fair value and to recognise any resulting goodwill.

The directors consider that to apply acquisition accounting to any part of the reorganisation would fail to give a true and fair view of the Group's state of affairs or results for shareholders as the ultimate shareholders remain the same before and after the reorganisation. Had this departure not been necessary the effect on these financial statements would have been to consolidate the financial statements of the subsidiary undertakings based on the fair values of the related assets and liabilities at 23 December 2010. Owing to the number and complexity of transactions involved, it is not practicable to quantify the effect of this departure.

Under s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Going concern

The Group and Company meets its financing requirements through its cash resources and debt associated with finance leases. The Company also has balances with other companies in the group headed by Esh Holdings Limited.

The Company is subject to a cross guarantee banking arrangement with its parent undertaking, Esh Holdings Limited, and certain other group undertakings. Dunelm Homes Limited (a fellow subsidiary undertaking) does not form part of this cross guarantee banking arrangement. Detailed information regarding the financial position of the group headed by Esh Holdings Limited, its cash flows, liquidity position and borrowing facilities are included in the financial statements of Esh Holdings Limited, which can be obtained from Companies House.

The group headed by Esh Holdings Limited recorded an operating profit of £5.2m in 2013 and had net assets at 31 December 2013 of £31.3m including cash of £27.6m.

The group headed by Esh Holdings Limited trades with a large number of customers and suppliers across a number of sectors and expects to meet its day to day working capital requirements through its existing considerable cash reserves and ongoing trade which remains profitable.

After making detailed enquiries and taking into account the factors discussed above, the Board is confident that the Company and the Group headed by Esh Construction Limited has adequate resources to continue in operational existence for the foreseeable future and accordingly continues to prepare the financial statements on a going concern basis.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of a business acquired since 1 January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Tangible fixed assets and depreciation

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

Freehold property - 4% per annum straight line
Plant and machinery - 20% reducing balance & 33% straight line
Fixtures, fitting and equipment - 33% straight line
Motor vehicles - 30% reducing balance

No depreciation is provided on freehold land.

Impairment of fixed assets and goodwill

The carrying amounts of the Group's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Otherwise impairments are recognised in the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful lives of the assets to which they relate.

Leases

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

Post-retirement benefits

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

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

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 contract work to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of contracts 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.

NOTES (CONTINUED)

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, 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

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Group

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

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

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

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

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.

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.

Turnover

Turnover is measured at the fair value of consideration received or receivable net of discounts and VAT, provided that it can be measured reliably.

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.

Turnover from services is recognised when the service has been performed.

LUMSDEN & CARROLL: Civil Engineering. Roads and sewers infrastructure works at Wynyard Park.

NOTES (CONTINUED)

2. TURNOVER

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

	2013 £000	2012 £000
Construction	**124,887**	99,307
Property services	**57,980**	50,770
	182,867	150,077

3. NOTES TO THE PROFIT AND LOSS ACCOUNT

	2013 £000	2012 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**414**	572
Leased	**603**	520
Amortisation of goodwill	**26**	26
Hire of plant and machinery – operating leases	**7,769**	5,189
Hire of other assets – operating leases	**1,465**	889

	2013 £000	2012 £000
Auditor's remuneration:		
Audit of these financial statements	**62**	65
Amounts receivable by auditor and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**8**	8
Taxation compliance services	**15**	15

4. REMUNERATION OF DIRECTORS

	2013 £000	2012 £000
Directors' emoluments	**598**	533
Company contributions to money purchase pension schemes	**27**	24
	625	557

The aggregate of emoluments of the highest paid director were £191,411 (2012: £137,479) and company pension contributions of £1,010 (2012: £950) were made to a money purchase scheme on his behalf.

	Number of directors	
	2013	2012
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**4**	5

NOTES (CONTINUED)

5. STAFF NUMBERS AND COSTS

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

	Number of employees	
	2013	2012
Production staff	**367**	355
Administrative staff	**304**	265
	671	620

The aggregate payroll costs of these persons were as follows:

	2013	2012
	£000	£000
Wages and salaries	**22,119**	19,763
Social security costs	**2,283**	1,845
Other pension costs (note 22)	**497**	410
	24,899	22,018

6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2013	2012
	£000	£000
Interest receivable from group undertakings	**22**	21

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	£000	£000
Finance charges payable in respect of finance leases and hire purchase contracts	**55**	130

8. TAXATION

Analysis of charge/(credit) in the period	**2013 £000**	**£000**	2012 £000	£000
UK corporation tax				
Current tax on income for the period	**806**		238	
Group relief payable for the current period	**360**		150	
Adjustments in respect of prior periods	**8**		(540)	
Total current tax		**1,174**		(152)
Deferred tax (see note 17)				
Origination/reversal of timing differences	**52**		(29)	
Effect of decreased tax rate	**2**		3	
Total deferred tax		**54**		(26)
Tax charge/(credit) on profit on ordinary activities		**1,228**		(178)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2012: lower) than the standard rate of corporation tax in the UK (23.25%, 2012: 24.5%). The differences are explained below.

	2013 £000	2012 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**7,358**	4,307
Current tax at 23.25% (2012: 24.5%)	**1,711**	1,055
Effects of:		
Expenses not deductible for tax purposes	**22**	20
Capital allowances for the period (in excess of)/less than depreciation	**(2)**	26
Other timing differences	**(14)**	7
Group relief paid for at less than full UK tax rate	**(551)**	(720)
Adjustments to tax charge in respect of previous periods	**8**	(540)
Total current tax charge/(credit) (see above)	**1,174**	(152)

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 24% to 23% because effective from 1 April 2013 and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

NOTES (CONTINUED)

9. DIVIDENDS

The aggregate amount of dividends paid in the year comprises:

	2013	2012
	£000	£000
Interim dividends paid in respect of the current year	**2,600**	4,500

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £1,500,000.

10. INTANGIBLE FIXED ASSETS

Group	**Goodwill**
	£000
Cost	
At beginning and end of year	510
Amortisation	
At beginning of year	399
Charged in year	26
At end of year	425
Net book value	
At 31 December 2013	**85**
At 1 January 2013	111

Goodwill of £251,000 arose on the acquisition of Wilkinson Facilities Services Limited on 31 May 2007. This is being amortised over 10 years which is the period over which the directors consider that the Group will derive continuing economic benefit.

Goodwill of £259,000 arose on the group acquisition of Stephen Easten Building Limited on 31 May 2006 and was fully amortised in the year of acquisition.

Company	**Goodwill**
	£000
Cost	
At beginning and end of year	757
Amortisation	
At beginning of year	606
Charged in year	151
At end of year	757
Net book value	
At 31 December 2013	**-**
At 1 January 2013	151

The goodwill arises in the Company on the acquisition of the trade and net liabilities of Stephen Easten Building Limited on 31 August 2009.

11. TANGIBLE FIXED ASSETS

Group	Freehold property	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	12	2,933	482	3,887	7,314
Additions	-	887	5	917	1,809
Disposals	-	(231)	-	(513)	(744)
At end of year	12	3,589	487	4,291	8,379
Depreciation					
At beginning of year	11	1,887	446	1,861	4,205
Charge for year	-	288	26	703	1,017
On disposals	-	(180)	(1)	(336)	(517)
At end of year	11	1,995	471	2,228	4,705
Net book value					
At 31 December 2013	**1**	**1,594**	**16**	**2,063**	**3,674**
At 1 January 2013	1	1,046	36	2,026	3,109

Included in the total net book value is £2,346,514 (2012: £1,633,708) relating to assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £603,149 (2012: £519,931).

Company	Freehold property	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	12	2,906	180	3,424	6,522
Additions	-	887	5	917	1,809
Disposals	-	(231)	-	(291)	(522)
At end of year	12	3,562	185	4,050	7,809
Depreciation					
At beginning of year	11	1,859	145	1,475	3,490
Charge for year	-	288	24	694	1,006
On disposals	-	(179)	-	(182)	(361)
At end of year	11	1,968	169	1,987	4,135
Net book value					
At 31 December 2013	**1**	**1,594**	**16**	**2,063**	**3,674**
At 1 January 2013	1	1,047	35	1,949	3,032

Included in the total net book value is £2,346,514 (2012: £1,608,058) relating to assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £603,149 (2012: £517,081).

NOTES (CONTINUED)

12. FIXED ASSET INVESTMENTS

Company	Shares in group undertakings £000
Cost and net book value	
At beginning of year	1,500

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

Subsidiary undertaking	Class and Percentage of shares held	Nature of business
Stephen Easten Building Limited	100% Ordinary	Commercial builder
Lumsden & Carroll Construction (Northern) Limited	100% Ordinary	Commercial builder
Dunelm Property Services Limited	100% Ordinary	Housing construction and refurbishment
Wilkinson Facilities Services Limited[1]	100% Ordinary	Building and maintenance services
Dunelm National Projects Limited[1]	100% Ordinary	Property development
David Wilkinson Building Contractors[1]	100% Ordinary	Dormant

[1]*Investment held indirectly*

All companies are incorporated in England.

13. STOCKS

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Raw materials and consumables	**158**	182	**158**	182

14. DEBTORS

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Trade debtors	**5,080**	6,306	**4,617**	5,758
Amounts recoverable on contracts	**26,027**	21,063	**25,875**	19,530
Amounts owed by group undertakings	**6,067**	4,785	**5,909**	4,509
Amounts owed by undertakings in which the ultimate parent company has a participating interest (note 23)	**55**	46	**55**	46
Deferred tax asset (note 17)	**34**	88	**34**	88
Other taxation	**1,610**	-	**1,646**	-
Other debtors	**19**	24	**19**	21
Prepayments and accrued income	**600**	260	**601**	257
	39,492	32,572	**38,756**	30,209

An element of the deferred tax asset is expected to be recovered over more than one year.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Obligations under finance leases and hire purchase contracts (note 16)	**944**	1,160	**944**	1,152
Payments received on account	**2,089**	1,985	**2,089**	1,985
Trade creditors	**8,685**	7,652	**8,684**	7,599
Amounts owed to group undertakings	**1,577**	2,030	**3,832**	7,038
Amounts owed to undertakings in which the ultimate parent company has a participating interest (note 23)	**26**	116	**26**	116
Corporation tax	**806**	238	**806**	238
Other taxation and social security	**1,280**	1,417	**1,280**	1,573
Other creditors	**798**	439	**751**	434
Accruals and deferred income	**25,539**	22,771	**24,971**	21,065
	41,744	37,808	**43,383**	41,200

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Obligations under finance leases and hire purchase contracts	**1,049**	533	**1,049**	518

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Within one year	**992**	1,201	**992**	1,192
In the second to fifth years	**1,065**	546	**1,065**	531
	2,057	1,747	**2,057**	1,723
Less future finance charges	**(64)**	(54)	**(64)**	(53)
	1,993	1,693	**1,993**	1,670

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

NOTES (CONTINUED)

17. DEFERRED TAXATION

	Group £000	Company £000
At beginning of year – asset	88	88
Charge to the profit and loss for the year	(54)	(54)
At end of year – asset	**34**	**34**

The elements of deferred taxation are as follows:

	Group		Company	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Differences between accumulated depreciation and capital allowances	**34**	77	**34**	77
Other timing differences	**-**	11	**-**	11
Deferred tax asset	**34**	88	**34**	88

18. CALLED UP SHARE CAPITAL

	2013 Number of shares	**£000**	2012 Number of shares	£000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**978,150**	**978**	978,150	978

19. SHARE PREMIUM AND RESERVES

Group	Share premium account	Captial redemption reserve	Profit and loss account
	£000	£000	£000
At beginning of year	12	35	9,783
Profit for the year	-	-	6,130
Dividends on shares classified in shareholders' funds	-	-	(2,600)
Transfers	(12)	(35)	47
At end of year	-	-	**13,360**

Company	Share premium account	Profit and loss account
	£000	£000
At beginning of year	12	9,847
Profit for the year	-	6,006
Dividends on shares classified in shareholders' funds	-	(2,600)
Transfers	(12)	12
At end of year	-	**13,265**

On 5 September 2013 the Company undertook a capital reduction exercise which resulted in the cancellation of the share premium and capital redemption reserves. Accordingly, these amounts have been transferred into profit and loss account reserves.

20. CONTINGENT LIABILITIES

The Company and Group are party to a group composite arrangement with certain of the companies in the Esh group under which overdrafts and cash can be offset. The total group liability and group overdraft at the year end was £7.2m (2012: £7.3m). The composite arrangement does not include Dunelm Homes Limited which has its own discrete banking arrangements.

NOTES (CONTINUED)

21. COMMITMENTS

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

	2013 £000	2012 £000
Group and Company		
Contracted	83	237

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

	Land and Buildings	
	2013 £000	2012 £000
Group and Company		
Operating leases which expire:		
Within one year	48	45
In the second to fifth years inclusive	-	26
	48	71

With the exception of the above rent, all other operating leases are short term.

22. 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 £497,000 (2012: £410,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

NOTES (CONTINUED)

23. RELATED PARTY DISCLOSURES

	Sales		Purchases		Debtors		Creditors	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Participating interests								
J Tonks (Transport) Ltd	**-**	-	**466**	568	**-**	-	**11**	108
Esh Space The Park Ltd	**-**	30	**-**	-	**31**	30	**-**	-
Micropump (NE) Ltd	**20**	23	**35**	61	**24**	16	**15**	8
	20	53	**501**	629	**55**	46	**26**	116
Fellow subsidiaries								
Mechplant (North East) Ltd	**89**	86	**858**	741	**25**	18	**204**	169

Participating interests represent companies in which the ultimate parent company, Esh Holdings Limited, holds a participating interest.

Mechplant (North East) Ltd is a subsidiary of Esh Holdings Limited, with 80% of the voting rights controlled within the Esh Group.

24. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

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

The largest group in which the results of the Company are consolidated is that headed by Esh Holdings 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

NOTES

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