ESH GROUP

ANNUAL REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2013

Leading the way in constructing communities

WELCOME TO ESH

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For many years Esh Group has taken a proactive approach to the development of the workforce of tomorrow. We are proud that this aspect of 'Added Value' has gained momentum and that we have been joined by many of our business partners in the delivery of co-ordinated programmes. The benefits of these programmes are clearly appreciated by students, schools, communities and businesses alike.

CHAIRMAN'S REPORT

BUSINESS REVIEW: THE FINANCIAL YEAR TO 31 DECEMBER 2013

2013: GOOD PERFORMANCE AND STRONG RESULTS – FROM A HARDWORKING AND COMMITTED WORKFORCE

Esh Group is focussed on building sustainability and scalability and, as a result, there is a sense that the business is moving into a new phase of maturity. The hard work, thought and judgement that has been invested during the years of the recession is delivering results.

The focus on scalability has been through both geographic and service diversification and ongoing improvements to processes and procedures. The key strategic aim has been to create profitable sales volume and efficient, effective operational capacity.

As the economic landscape has begun to clear many opportunities have started to emerge across the Group's entire service offering and as we move through 2014 we can see improvements in performance and pipelines across the Group.

We have continued successfully to build sales in Yorkshire, Cumbria and the North West and have added strategic complementary services to our existing portfolio such as environmental remediation, through the acquisition of a majority shareholding in Remedios, and an increasingly comprehensive facilities management service.

Following lengthy negotiations it was very pleasing to have been successful in finalising the acquisition of Border Construction in the first quarter of the new financial year. The creation of Esh Border Construction further consolidates our North West, Cumbrian and Scottish Borders presence and has been well received by the market.

In 2014 we will implement plans to establish a larger base in Leeds which will provide a greater platform from which to serve and grow our business in Yorkshire.

Our focus on processes and procedures has been to ensure that, as and when the time arrived, all service streams would be able to expand easily within the operational infrastructure. We have recognised that as our geographic expansion has gained momentum a corresponding shift was required in the management structure.

A significant change to the current structure has been agreed which will see the appointment of regional managing directors by mid-2014. They will be responsible for overseeing the holistic offering of the Esh Construction business across the three key regions in which we operate; the North East; the North West, Cumbria & the Borders; and Yorkshire & Humberside.

In recent years we have placed particular importance on the management of our reputation and brand and we have stayed true to our principle of taking on only work where we believed we would properly add value both to our clients and to our business.

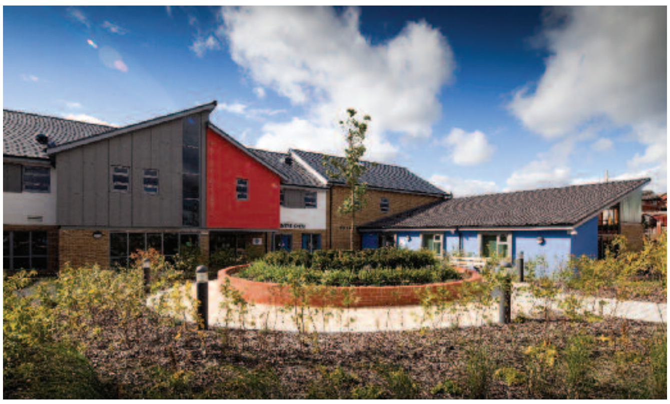
This 'win-win' approach has been taken on at all levels within the Group and is now embedded in our culture. This has been underpinned by the evolution of our support for the communities in which we work and we have formalised our efforts in this area through our 'Added Value' activity which is an increasingly important aspect of our delivery.

For many years Esh Group has taken a proactive approach to the development of the workforce of tomorrow. We are proud that this aspect of 'Added Value' has gained momentum and that we have been joined by many of our business partners in the delivery of co-ordinated programmes. The benefits of these programmes are clearly appreciated by students, schools, communities and businesses alike.

In summary, it is with great pleasure that I am able to report on a successful year from which we believe Esh Group will continue to consolidate its position and flourish. I thank our clients, staff, shareholders, business partners and all other stakeholders for their continuing support and I reiterate our continued commitment to sharing opportunity and success.

A Donohoe
Chairman

30 May 2014



ESH BUILD: £2.9m. Design & Build. New Health Centre & Library. The Lavender Centre, Pelton, North East.

DEERNESS FENCING & LANDSCAPING: Gold Medal, Britain in Bloom Awards. University of Sunderland, North East.

CHIEF EXECUTIVE'S REPORT

Performance

Esh Group's financial performance in 2013 has been strong, with increases in both turnover and profitability being achieved. Much of this has been as a result of the marked improvement in market conditions, in the housing sector in particular (which impacts considerably across the Group from infrastructure, fencing and landscaping, social housing and development).

These results demonstrate the effectiveness of our underlying business model and the hard work which has been invested in consolidating our operations in preparation for the upturn. The business is now well placed to take up the growing pipeline of opportunities emerging.

We have a sound understanding of the markets in which we operate, a diversified service offering, a pragmatic approach to business development activity and a hardworking and technically excellent workforce.

As business builders we work hard to place our efforts where we believe value added is achievable. We look for 'win, win' opportunities so as to deliver the best results for both our clients and for ourselves.

Whilst there are convincing indications that the economy is emerging from recession there is a less positive backdrop to the construction sector generally and the industry is facing new challenges. The sector as a whole is facing a skills shortage in many technical disciplines. Lack of resource and expertise threatens to have wide repercussions throughout the economy in general and in construction in particular. There are shortages of bricks, blocks and tiles; many suppliers and manufacturers were casualties of the recession and, as a consequence, materials are in short supply and are commanding premium prices. This in turn is impacting on the pricing and progress of many construction projects throughout the country.

At Esh Group we are both grateful for and proud of the tremendous support we receive from our supply chain, subcontractors and direct workforce who recognise that working together is important. This, combined with our strong financial position, enables us to meet prompt payment terms and gives comfort to those who work with us that we are reliable and consistent in our approach.

We are mindful of the challenges we face and the impact they are already having and will continue to have on our business. We are taking positive action, building on our previous support for, and work with, schools and young people. The Esh Group Added Value team, working alongside its business partners, is proving highly effective in helping students throughout the North of England prepare for, and embark on, the early stages of their careers.

We believe this stage of a young person's development is of utmost importance and many of our Added Value programmes aim to help establish work ethics, a realistic understanding of employers' needs and to help young people appreciate the benefits and rewards of successful employment. We plan to consolidate this approach in 2014 through launching 'Esh Academy' which will operate across all regions in which we work. We intend to commit to taking on over 100 apprentices over the next three years.

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

In 2012 and 2013 we reported on the consolidation and clarification of our brands and delivery arms and on our quest for further strategic acquisitions.

We were delighted to acquire a 51% stake in technology-led land remediation business Remedios as part of our forward-looking plans to provide a comprehensive range of services to the development sector. A 'spin-out' company from the University of Aberdeen, Remedios applies a suite of diagnostic techniques to brownfield sites in order to achieve highly effective solutions from new and conventional remediation processes so enabling us to provide an holistic brownfield remediation service.

ESH BUILD: £1.5m. Refurbishment and redevelopment of former Tetley Brewery HQ to create an Art Gallery, Restaurant and Bar, Leeds, Yorkshire.

In early 2014 we confirmed the acquisition of Border Construction Ltd and Border Holdings Ltd (a Scottish registered business) and formed Esh Border Construction. We believe this key acquisition will further consolidate and help grow our business in Cumbria, North Lancashire and Scotland and that, once established, Esh Border Construction will have capacity to deliver £60m+ turnover within the next five years so providing Esh Group excellent coverage for Southern Scotland and the North West.

We continue to strengthen our position in Yorkshire, Humberside and beyond to the M62 as we seek to grow the Esh Construction business organically via our civil engineering, social housing and commercial and public build arms. We believe this region has the potential to deliver circa £100m turnover in the next five years.

The proportion of turnover generated from outside our North East base has increased to over 33% and the prospect of achieving Group turnover of around £250m in 2014 looks ever more likely. This, alongside the clear potential for future growth and the improving market, led to the review of our management structure and our decision to appoint the team of regional managing directors.

We believe this new structure will facilitate ongoing growth and scalability and marks an important step-change in the evolution of Esh Group and our progression towards becoming a larger, pan-regional, wholly diversified business.

MEASUREMENT

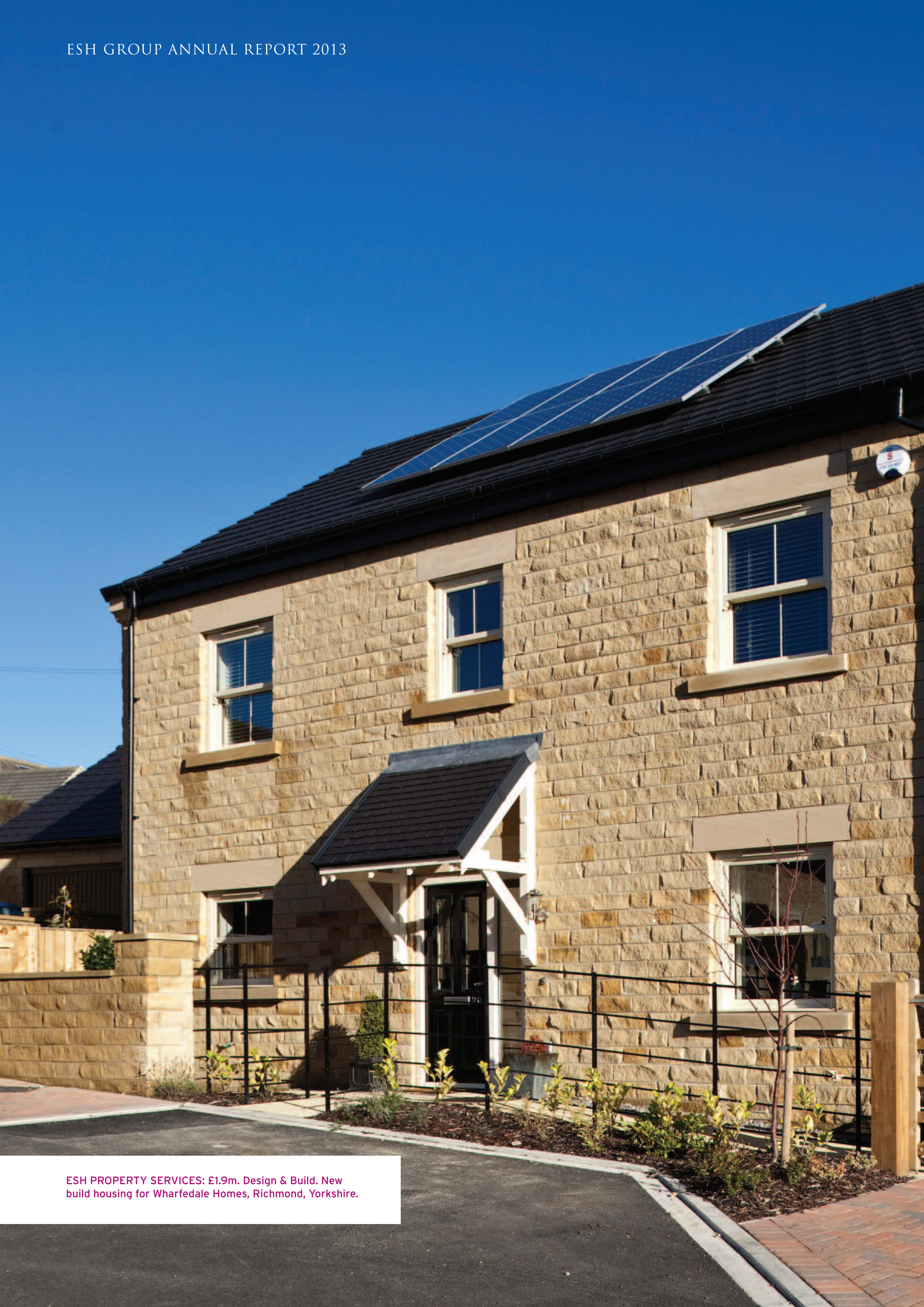
The Group continues to use a range of non-financial and financial performance related indicators to ensure that activities are monitored and controlled effectively. Those set out below are reported to the Board and staff at frequent and regular intervals.

	2013	2012
Turnover, including share of joint ventures	**£193.3m**	£174.9m
Turnover growth	**10.6%**	2.2%
Gross profit margin	**6.8%**	5.1%
Overhead (administrative) costs	**£8.0m**	£7.7m
Profit before tax	**£3.2m**	£0.6m
Cash at bank	**£27.6m**	£27.0m
Cash generated from operations	**£8.1m**	£5.5m

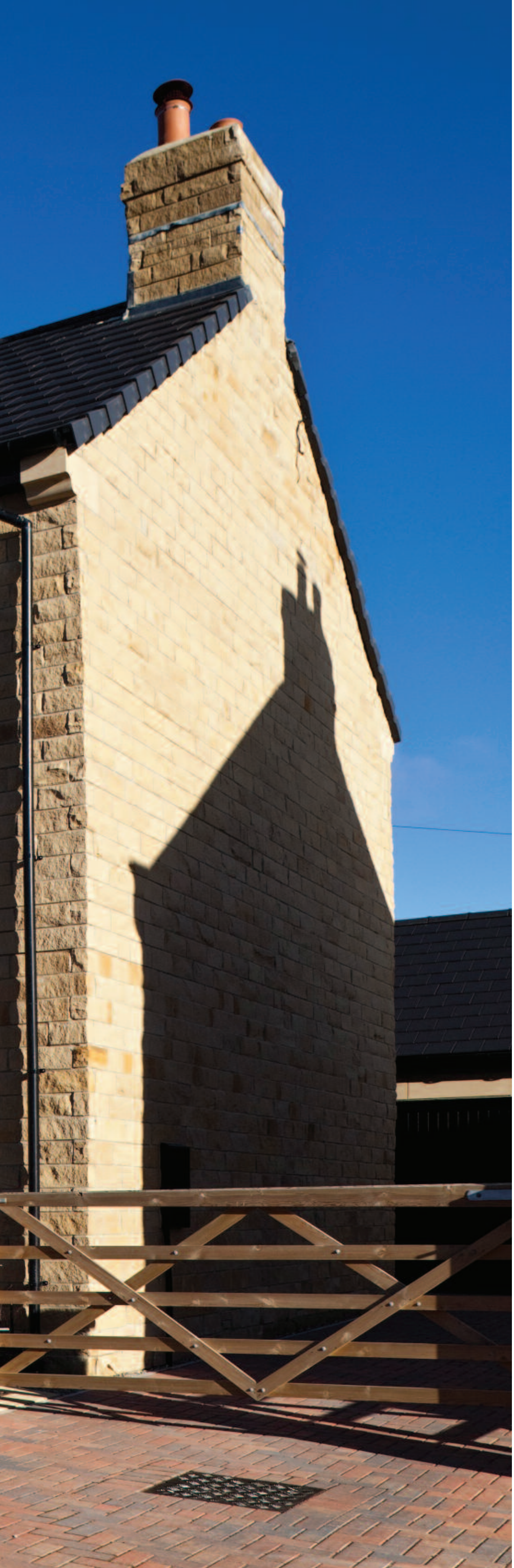
The divisions and businesses of Esh Group delivered strong performances in 2013. Lumsden & Carroll Civil Engineering, Esh Property Services and Esh Facilities (all delivery arms of Esh Construction) produced particularly good results. The market recovery was first experienced in the business through 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.



ESH PROPERTY SERVICES: £1.9m. Design & Build. New build housing for Wharfedale Homes, Richmond, Yorkshire.



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 throughout all regions. 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.

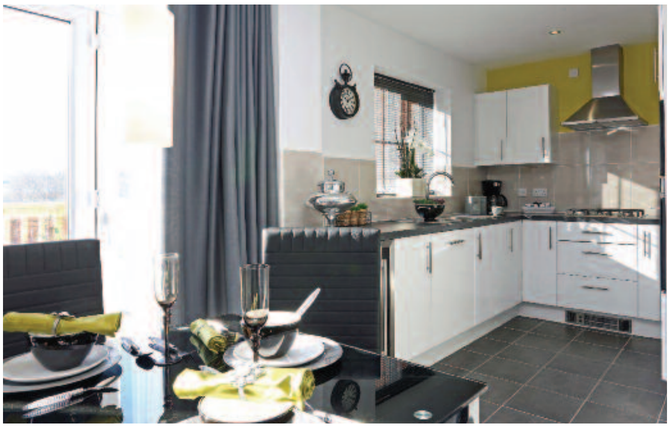
Whilst refurbishment works under the Decent Homes programme have now come to an end, new contracts have been won with East Durham Homes and some of the Yorkshire providers.

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).



DUNELM HOMES: Development of 30 new homes, Middridge Vale, Co Durham. 'Durham' 4 bed detached show home.

Whilst the market for mechanical and plumbing services has continued to be tough, **Bartram Walker** has continued to perform well. The business is well managed and the team is doing a good job in 'holding a steady course'. We are optimistic that, as the housing market begins to recover, an improvement will be seen in the number of opportunities available to the business and the consequent out-turn.

Deerness Fencing & Landscaping has delivered an outstanding performance under the leadership of Jim Bates. The signs and expectations of growth seen in 2012 became reality and the business delivered exceptional growth in profitability. The team is to be congratulated on this great result.

Esh Training Solutions is a valuable asset to the Group and continues to make important contributions towards both supporting many of the training needs within the business and contributing towards the bidding and tendering process. It is planned that Esh Training Solutions will play a key role in Esh Academy going forward.

At **Mechplant** investment in new plant and equipment which began in 2012 continued throughout 2013 with a further £1million spend and this will be repeated in 2014 with orders worth an additional £1million being placed for delivery through the year. The business has performed very well with growth in both turnover and profitability, and provides important support to other parts of the Group.

During the year we divested the **Tonks** business, our joint venture with Aggregate Industries. The majority stake which we acquired in **Remedios** enables Esh Group to offer a full service range to brownfield development sites; cleaning up, installing infrastructure, constructing structures or building and delivering proactive and reactive maintenance services to the occupier thereafter.

Through Esh Developments, the Feethams site in Darlington was successfully acquired, planning proposals for the Philadelphia site near Sunderland are progressing well and we continue to seek suitable development sites for the Group's housing business.

Whilst **Dunelm Homes** recorded losses during the year, these losses continue to be in line with those agreed with funders as part of the overall work-out plan for the business. In line with this plan, bank borrowings (which remain ring fenced from the rest of the Group) were further reduced in the year as a result of increased sales volumes. Furthermore, these borrowings, which were due to mature in December 2014, were renegotiated during the year and now have a final maturity of June 2015. The committed team at Dunelm Homes remains focussed on further improving the financial position of the business buoyed by the expectation of a further significant increase in the number of completions in 2014.

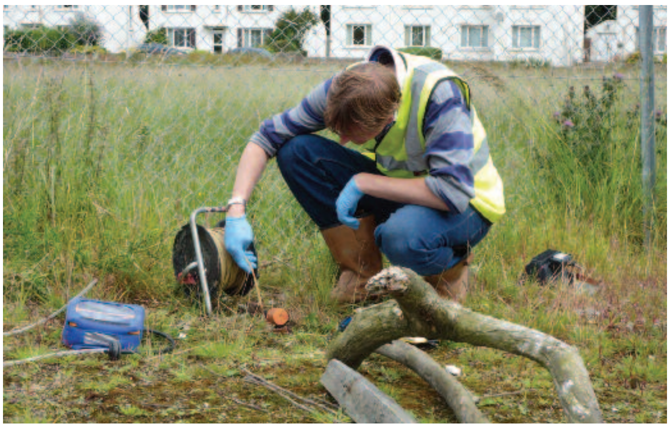
We have begun moving towards the mid-to-luxury market and in 2014 aim to finalise a joint venture with our Swedish partner, Sodra, in addition to securing a number of sites across our whole geographical area. The aim is that this business produces circa 40-50 units each year over the next two to three years.

Our commercial growth and geographic expansion has provided further opportunity to develop our "Added Value" programmes which continue to provide important support to the commercial operations of the business. Through Esh Added Value we now work with over 50 business partners in our programme delivery to schools and colleges and a prison, and the benefits of this work on helping young people to appreciate and prepare for the demands of the work place are being increasingly evident. We believe this is an area where there is much work to do; development of employability skills in young people always surfaces at every debate about the state of business in any of the regions in which we operate.

Most importantly we recognise and focus on the needs of our own people (those with whom we already work) as our success and growth is entirely of their making. In order to help us to continue to communicate effectively and to encourage more feedback and comment from everyone in the business we have introduced new web–based communications. 'Think Change' is a two way communication hub available to staff. Early results from this new channel are promising; I am pleased to report that staff have already benefitted from two extra days annual holiday as a result of direct feedback to management!

B Manning
Chief Executive

30 May 2014



REMEDIOS: Ground remediation works, Geotechnical & contaminated land site investigation, North of England.

Friends of Bottom Boat Playground planting seeds and bulbs in their newly developed community playground.

ESH ADDED VALUE

Esh Added Value is delivered across three streams: Esh Employability, Esh Communities and Esh Connexts.

The programme builds on the ethos of supporting communities in which the business carries out its work – a principle established by its founders in rural Co Durham over 40 years ago.

The Esh Charitable Trust, now in its ninth year, facilitates Esh Added Value and seeks opportunities to support and share best practice in:

- environmental work - protection, education and awareness
- helping people of all ages and abilities develop skills and aspirations
- supporting our communities

Since the launch of the Esh Charitable Trust, Esh Group has contributed £1.2 million towards supporting these good causes.

Esh Employability is aimed at school students in years 9, 10 and 11 (Key Stages 3 and 4) through Building My Skills.

Building My Skills is a structured employability skills programme which provides students with a broad introduction to the world of work, helping to raise aspirations, stimulate work ethic and provide practical preparation through CV writing, mock interviews and apprenticeships.

In 2012 Esh Group developed Building My Skills in partnership with Ryder, Arup and Turner & Townsend, and the programme was piloted in the North East.

In 2013 Building My Skills was expanded to a wide range of schools and colleges across the North East, Cumbria and Yorkshire and was delivered to students irrespective of their level of academic ability or prospective career path.

The programme involves a co-ordinated set of workshops which are delivered as part of the normal school timetable by guest business speakers who are volunteers (directors, managers and staff) of the partner organisations involved. In 2013 the estimated value of time contributed from the partners was over £20,000 with over 27,000 learner hours being prepared and delivered via 186 workshops to 6,200 students across 29 schools.

"This is the second year that Ormesby School is working with Esh Group. We have found this programme enables our students to engage well with learning employability skills and developing themselves further. This first year has worked well and we envisage that this programme will grow further with every coming year."

Michelle Webster, Head of House of Ormesby School

Partner Organisations

AECOM, Arup, Barclays, Benfield Motor Group, Blue Kangaroo, British Heart Foundation, Carlisle Leisure, CN Group, Cumbria County Council, Cummins, Curtins Consulting Engineers, David Allen Accountants, DeepOcean, Esh Group, Galaxy Insulation, Gardiner Richardson, Greggs, Guinness Housing, Hope Construction, Indigo Hotel Group, Jewson, Lakes Leisure, Lloyds Bank, Mac Architecture, Mellor Architects, Muckle LLP, NatWest, Newcastle Eagles, Newcastle United Foundation, Northumbria Healthcare NHS Foundation Trust, Northumbria University, P&HS Architects, PwC, Ryder Architecture, Sellafield, Sherwoods, Six Degrees Recruitment, Sunderland Foundation of Light, Swinburne Maddison LLP, Tilly Bailey Irvine LLP, Turner & Townsend, Westlakes Recruit, WYG and Yorkshire Water.

"We at Turner & Townsend are delighted to be involved in the Building My Skills programme which brings actual, real life and practical advice to help the students develop their employability. It's an incredibly rewarding programme and the on-going legacy within the community will, we believe, see the students move beyond school and develop successful careers."

Mark Whitehall, Associate Director of Turner & Townsend

Students who complete the programme to a high standard are able to progress through to a mock interview and subsequently, depending on availability, some business partners are able to offer apprenticeships.

Esh Group's Added Value team manages the programme on behalf of the schools and businesses by co-ordinating speakers and organising dates and times and places and the whole programme is delivered at no cost to students, schools, local authorities or Education Business Partnerships.

Schools report that Building My Skills is highly successful in raising students' understanding of the world of work, of improving the quality of their CVs and in developing their understanding of the interview process. Some schools add that the programme contributes 'significantly' to improved OFSTED ratings relating to their employer engagement targets.

"Every Council in the North East is concerned about the high level of youth unemployment and is actively working with the private sector to find ways of helping young people into work. The 'Building My Skills' programme is an excellent example of collaboration between businesses and schools to give young people exposure to the world of work and to better equip them with 'work ready' skills and an opportunity to build confidence and raise aspirations."

Cllr Paul Watson, Chair of ANEC which has facilitated engagement with schools in a number of Local Authority areas

Partner businesses report that their volunteers have gained great insights into the education system, that participation has supported their bidding and proposals activity and that, for many, participation has become part of their staff personal development.

"We are all very excited to participate in this great opportunity to give our students the skills they need so that they can be creators, not seekers, in the job market of the future."

Simon Campbell, Year 10 Coordinator, Heaton Manor School

Children of the community group learning to write in their mother tongue.

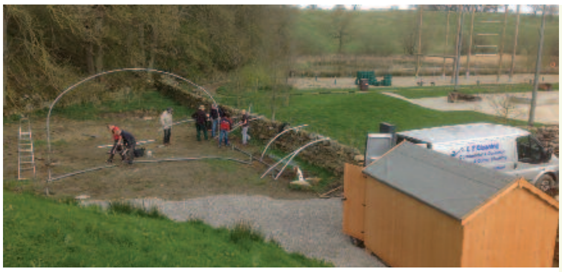
During 2013 **Esh Communities**, which was first launched in Yorkshire in 2012, was expanded. The pilot programme proved highly successful and confirmed our belief that the most effective community support is delivered when need is identified by people from within those communities.

Esh Communities invites applications for funding from projects and organisations making grants of up to £1,000 per project available. Funds are provided at intervals through the scheme timetable and the Esh Added Value team visits all projects which are awarded funding to provide support and encouragement and to see progress. During visits projects which are delivering outcomes to a high standard and which could benefit from further funding support are identified and shortlisted for the opportunity to be celebrated and their achievement recognised.

A wide range of projects and schemes apply for, and are selected to, receive funding. Applications are reviewed to find those which demonstrate scope to make a positive difference for their community. The selection criteria include:

- bringing people in neighbourhoods and communities closer together
- improving quality of life for local people
- supporting disadvantaged people or vulnerable groups
- increasing employment prospects
- involving minority and hard to reach groups
- promoting healthy living, sustainability and equality

Esh Communities Yorkshire was launched in August 2012 and ran through until the Celebration Event in May 2013. In total, 16 projects were selected for support and, including the final prize monies, over £15,600 was awarded.



Beans at the post office and veg and herbs at the Doctors surgery!

Veg Out in Barney, Durham

"Thank you so much on behalf of Veg Out In Barney for your generous grant. The funds will enable us to continue with the scheme throughout next year when we hope to become more self-sufficient. Veg Out has been a great success in the town and people are now "Helping Themselves" that is what it is all about."

Dr Ann Barmby, volunteer and chairperson

Trade Base, Sheffield

"We are delighted that our application to the Esh Charitable Trust has been successful. The grant will enable us to buy a new, large polytunnel. Our users will benefit by having a larger area to grow tender vegetables that cannot be grown outside, including more unusual plants and vegetables. We will be able to extend our growing season by sowing seeds earlier, harvesting crops for longer and increasing the variety of crops we can grow. Our users will be able to develop new gardening skills and will be motivated to attend our allotment sessions during bad weather as the polytunnel will provide a sheltered place in which to work. We are looking forward to next year's harvest and the healthy organic produce our users will be able to enjoy. The wider community will also appreciate our produce at our open days and when we take it to other community events. Thank you Esh!"

Sheena Clarke, Trade Base

Members of Trade Base planting unusual plants and vegetables in their improved facilities.

Members of Rotherham Cultural Group enjoying Rotherham Diversity.

Avalunch Community Services in Doncaster was chosen as the outstanding project and other projects which were awarded additional funding were; Mixenden Parents Resource Centre, Calderdale; St Georges Youth Project, Calderdale; Wakefield Rent Deposit Scheme, Wakefield; Women's Health Matters, Leeds; Saturday Stars, Leeds and St Wilfrid's Centre, Sheffield.

In August 2013 **Esh Communities Yorkshire** and **Esh Communities North East** were launched. Nine projects were selected for support in Yorkshire and 12 in the North East. In January 2014 **Esh Communities Cumbria** was launched, 55 applications were received and 10 were awarded funding.

Over the three schemes running throughout the North of England a total of £29,845 has been awarded in grants and a further £6,000 has been earmarked for additional payments to be made to the projects with the most successful outcomes. These will be announced at the Celebration Events in each region in July 2014.

Esh Connexts was first launched in 2010 in conjunction with Connexions and the Learning & Skills Council with the aim of supporting young men who were underachieving in their final years at school into training or employment.

As part of that programme Esh Group committed to taking on a number of apprentices – some of whom continue to progress well and are still working for the Group in 2014.

Since the closure of the Connexions service Esh Connexts has evolved, continuing to be focussed on helping young people who are challenged, socially or culturally, into work-readiness, training and, ultimately, employment.

The Chance for Change programme takes prisoners on a 15 week course of classroom based learning workshops in preparation for their re-entry into society by giving them the opportunity to learn employability skills, manage personal finances, citizenship, team building and community living.

Working in partnership with a number of social housing providers across the North of England together with some Partner Organisations involved in Building My Skills programme, Esh Group continues to co-ordinate and develop this programme. This was first delivered in 2012 at HMYOI Deerbolt, near Barnard Castle in partnership with the Ministry of Justice, the National Offender Management service and Business in the Community.

Statistics show that 79% of jobless offenders return to prison within one year of their release. A recent survey carried out by the National Offender Management Service among offenders found that 97% would like to stop offending and that 68% reported that the biggest factor in assisting this would be a job. Chance for Change is a bid to break the cycle and help more ex-offenders move away from crime.

Some offenders are able to be Released on Temporary Licence (ROTL) and, accompanied by a member of prison staff, they leave prison to visit a workplace or receive essential training not delivered within the prison itself (e.g. CSCS test).

Young people from The Rock learning the whole process from seed to harvesting, allowing them to teach their families and friends.

The Rock Currock, Carlisle

"The generous support offered to the young people of Currock and Upperby enables them to learn new skills about food and where it comes from, how then to develop tasty recipes having watched their garden bloom. We are all very grateful for the donation as it allows us to purchase much needed resources to develop the garden and a greenhouse which will enable more food to be grown such as tomatoes and cucumbers. Young people will benefit from learning the whole process from seed to harvesting, allowing them to teach their families and friends."

Reverend Alan Junes, Chair

Creative Wellbeing, Carlisle

"From everybody here at Creative Wellbeing a huge thank you to all at Esh Added Value Team and the Esh Group. We are delighted that Esh has awarded a grant to support Creative Wellbeing to develop a Pop Up Kitchen, which will help us to ensure the project stays as inclusive and accessible as possible, and able to raise funding to deliver future activities. Thank you for your generous support of this worthwhile project, which supports members of the community to enhance their own and others' wellbeing through a diverse range of creative activities."

Rebecca Mellor, Project Manager

Creative Wellbeing celebrating their 'Pop Up Kitchen'.

Easington Colliery in Bloom, Durham

"On behalf of the Easington Colliery in Bloom Group, the Easington Community Garden and the SEED PODS project and our volunteers I would like to thank you and the Esh Charitable Trust for the funding, it will go a long way to "Making Easington A Better and More Colourful Place to Live" for the residents, butterflies and bees but not for the rabbits."

Best wishes, Michael Welsh

Easington Colliery in Bloom constructing rabbit proof fences

Less able members of St Thomas's Community Connections enjoying their travel and weekly shopping trip

21 year old Gavin was nearing the end of a three year sentence for burglary when he was offered a lifeline from homes and community organisation, livin, as part of the rehabilitation programme.

Having successfully completed the workshops whilst serving at HMYOI Deerbolt Prison, Gavin was granted Release on Temporary Licence (ROTL) for employment in the community and joined **livin's** repairs and maintenance team with Mears, carrying out improvements to empty properties.

Alan Boddy, Executive Director People and Communities for **livin**, said:

"Giving young offenders a chance to change offers them an opportunity for a brighter future. The annual cost of reoffending to the tax payer is between £9.5billion and £13billion and the impact reoffending has on society is significant. This programme is an opportunity for businesses to make a difference on so many levels reducing the cost to communities whilst helping to improve the futures of the individuals."

Gavin said:

"I've completed different courses in prison but coming out and working for a real company has really boosted my confidence and given me on-the-job skills. I've got a choice now, I didn't before. This offence was my first and will definitely be my last. I'm focused and my goal now is to continue volunteering after my release and eventually start a career in joinery."

ESH ADDED VALUE: HMYOI Deerbolt
Delivering 'Chance 4 Change'. Helping young offenders integrate back into the community, North of England.

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, complying meaningfully with 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 minimum, an annual review of all key internal controls including financial, operational, compliance and risk management systems.

Esh Group provides all employees with a comprehensive business conduct manual which explains required standards of behaviour and attitude, together with procedures and processes, thereby providing 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. The Board of Directors has established a small internal audit function to identify, evaluate and manage significant risks faced by the Group. These include 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.

ESH BORDER: £17m. Design & Build. New educational campus Trinity School, Carlisle, Cumbria.

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 internal controls and accounting policies to ensure a consistent application across all Group companies. All Group subsidiaries are required to adhere to specified internal control procedures.

The Board continually looks to enhance its management assurance programme appropriate to the developing and emerging needs of the Group. To reinforce this, and also 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.

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.

Employees with at least three years' service have the opportunity to participate in the ownership of the business through the **Employee Share Ownership Scheme**.

POLICIES AND PROCEDURES

Comprehensive 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.

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 employees.

MECHPLANT PLANT HIRE: £1m spend. Phase 2 of £1m worth of new plant acquisition programme. North of England.

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.

ISO 50001

Esh Group achieved ISO 50001 accreditation in 2013. This award provides public and private sector organisations with management strategies to increase energy efficiency, reduce costs and improve energy performance.

AUDIT COMMITTEE

The Board has established an Audit Committee comprising the non-executive directors. The committee meets twice each year and the external auditor attends by invitation. The committee provides a forum by which the external auditor reports to the Board and is responsible for reviewing the scope and results of the audit.

HEALTH & SAFETY

Only by setting and maintaining the highest standards for our company are we able to retain the trust of our clients and our people and the wider general public.

We work hard to make sure that Health and Safety policies are well communicated, understood, respected and implemented in order that we protect the health, safety and welfare of all of our stakeholders; customers, suppliers and public alike.

We operate a proactive monitoring system on all of our sites and premises. Esh Group companies are monitored by external accreditation organisations and Esh Construction is accredited to BS OHSAS 18001 and several other construction monitoring schemes including Achilles Building with Confidence, UVDB (Utilities Vendors Database) and CHAS (The Contractors Health and Safety Assessment Scheme).

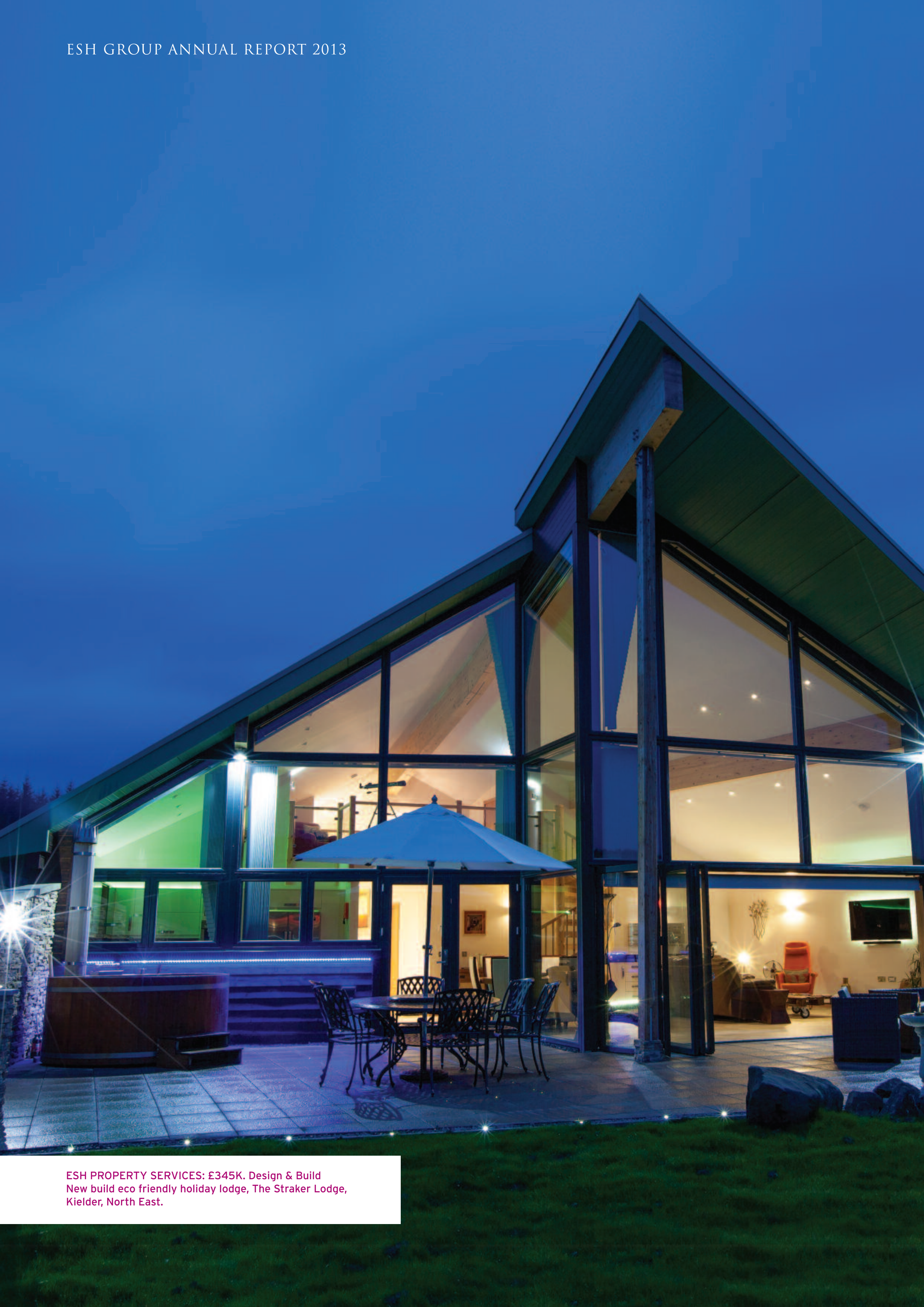
Site inspections measure the effectiveness of each project team in implementing policies and procedures. **Key Performance Indicators (KPIs)** are collated through monitoring three key areas: construction activities, documents and environmental. These are examined separately to ensure that weaknesses are identified immediately and that effort and resources are quickly directed to where required.

Health, safety and environmental KPIs are reported monthly at Board level.

ENVIRONMENTAL POLICY

Companies within Esh Group are externally accredited to ISO 14001 and our dedicated Environmental Management team ensures that the business maintains legal compliance and promotes good practice.

ESH FACILITIES: On site with the team delivering planned and reactive property and facilities management services, North of England.



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

DIRECTORS AND ADVISORS

Austin Donohoe Non-Executive Chairman

Appointed Non-Executive Chairman in 2004, Austin has been a non-executive director of the Group since 2001. He is also Executive Director of regional charity St Cuthbert's Care.

Brian Manning Chief Executive

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 is now Group Chief Executive.

Brian is actively involved in the communities in which we work and holds the following positions outside of the Group; 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 and member of the Regional Leadership team for BITC and Regional Council of CBI.

Andy Radcliffe Financial Director & Company Secretary

Andrew (Andy) Radcliffe joined Esh Group in 2010. He oversees all financial, IT and internal control operations and is responsible for the development and maintenance of relationships with external funders and the broader financial community.

Andy has extensive experience across a wide range of industry sectors. He was recognised by his peers in 2009; being awarded Finance Director of the Year for Yorkshire.

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.

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 construction stream 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.

Michael Hogan Non-Executive Director

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 Group Chairman until 2004. Separately, he is a director of St Cuthbert's Care.

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 and is Chairman of Lumsden & Carroll.

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, he became Chairman of the latter in 2013. He is a Commissioner for English Heritage and was awarded a CBE in 2009 for services to Regeneration.

Esh Group is a trading name of Esh Holdings Limited.

Company secretary of Esh Holdings Limited

Andy Radcliffe

Independent auditor

KPMG LLP
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Legal advisors

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

Swinburne Maddison
3-5 North Bailey
Durham
DH1 3EY

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

Bankers

Barclays Bank PLC
PO Box 378
71 Grey Street
Newcastle Upon Tyne
NE99 1JP

HSBC
110 Grey Street
Newcastle Upon Tyne
NE1 6JG

National Australia Bank
4 Victoria Place
Manor Road
Leeds
LS11 5AE

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 building construction, civil engineering and property refurbishment.

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

BUSINESS REVIEW

A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and of the position at the end of the year is included in the chief executive's report.

PRINCIPAL RISKS AND UNCERTAINTIES

Whilst the economic climate has started to show signs of improvement, management remains vigilant to emerging risks, and will continue to adapt the organisation to the environments in which it operates.

More stable conditions took hold in the private housing market during 2013. The recent restructuring of our housing division has contributed to a pleasing performance, with the business continuing to enjoy support from its funders.

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.

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 chief executive's report.

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

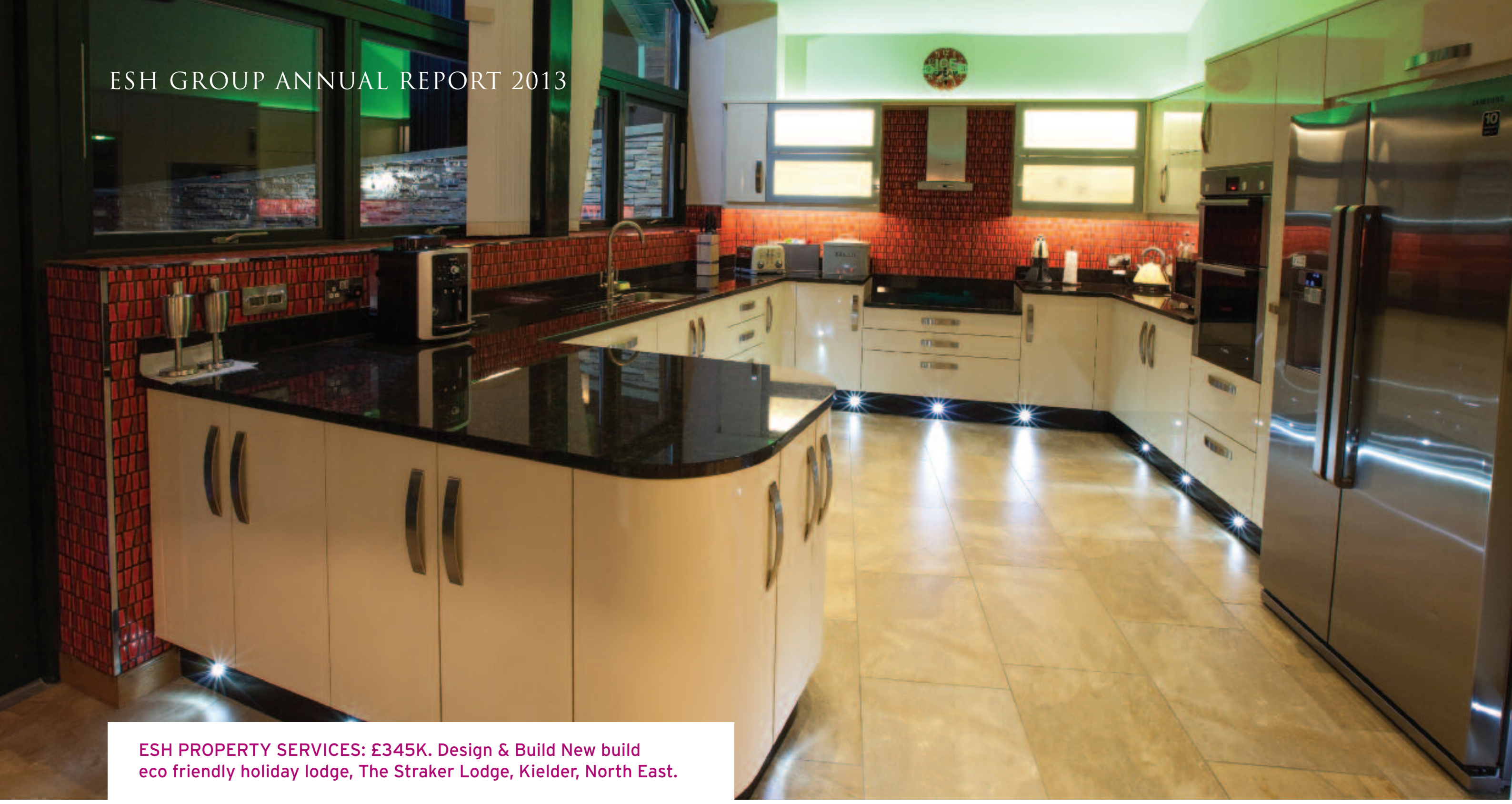
AE Radcliffe
Director

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

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 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 Group's principal borrowings comprise ring-fenced bank loans in Dunelm Homes. 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 current Dunelm Homes banking facilities were renewed on 19 December 2013, with maturity now due on 30 June 2015. Further details are included in notes 1 and note 17. The business is performing well against all of the covenants within the new facility. These borrowings continue to be discrete to Dunelm Homes Limited and, with the exception of Dunelm (Bowburn) Limited (a wholly owned subsidiary of Dunelm Homes Limited), are not subject to any cross guarantee or security over the assets of any other Group companies.

At 31 December 2013 the Group also had cash at bank and in hand of £27.6m which is expected to be more than sufficient to fund the Group's future working capital needs.

Proposed dividends

Dividends paid during the year comprise final dividends of £1,066,000 in respect of the previous year.

Market value of land

In the opinion of the directors, the market value of the land of the Group, including investment properties, is not materially different from their net book value.

Directors

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

AJ Carroll
JP Davies

A Donohoe
MF Hogan
JG Lumsden
B Manning
AE Radcliffe
JR 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.

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.

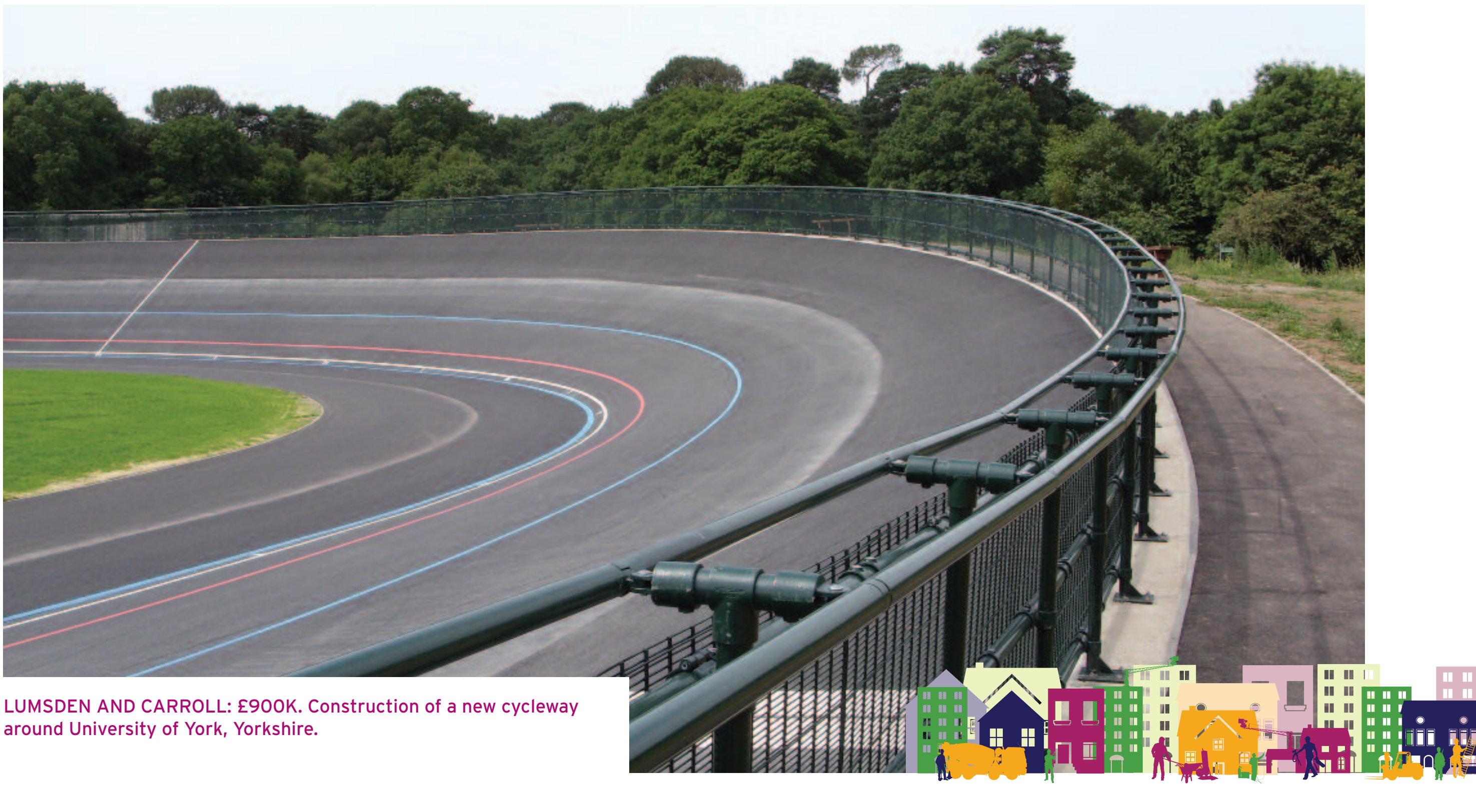
The Audit Committee intends to retender the audit during the year ending 31 December 2014. KPMG LLP has been the Company's external auditor since 2005 and the tender process is being undertaken in the interests of good corporate governance. The tender process will commence in June 2014 and the Board 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
Company Secretary

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

30 May 2014



LUMSDEN AND CARROLL: £900K. Construction of a new cycleway around University of York, Yorkshire.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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; 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 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 HOLDINGS LIMITED

We have audited the financial statements of Esh Holdings Limited for the year ended 31 December 2013 set out on pages 25 to 49. 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 23, 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	£000	2012 £000	£000
Turnover: Group and share of joint ventures			**193,344**		174,886
Less: share of joint ventures' turnover			**(887)**		(918)
Group turnover	2		**192,457**		173,968
Cost of sales			**(179,343)**		(165,024)
Gross profit			**13,114**		8,944
Administrative expenses			**(7,956)**		(7,683)
Other operating income			**64**		157
Group operating profit			**5,222**		1,418
Share of operating loss in joint ventures			**(104)**		(120)
Total operating profit			**5,118**		1,298
Profit on sale of fixed assets					
- Group		**57**		156	
- Joint ventures		**193**		-	
			250		156
Impairment of fixed asset investments			**(366)**		-
Interest receivable and similar income	6		**404**		469
Interest payable and similar charges					
- Group	7	**(2,175)**		(1,323)	
- Joint ventures		**(3)**		(2)	
			(2,178)		(1,325)
Profit on ordinary activities before taxation	2-7		**3,228**		598
Tax on profit on ordinary activities	8		**(897)**		403
Profit on ordinary activities after taxation			**2,331**		1,001
Minority interests	21		**(2)**		32
Profit for the financial year	20		**2,329**		1,033

All results derive from continuing activities.

CONSOLIDATED BALANCE SHEET

at 31 December 2013

	Note	2013 £000	£000	2012 £000	£000
Fixed assets					
Intangible assets	10		**85**		111
Tangible assets	11		**12,493**		11,363
Investment properties	12		**1,442**		1,442
Investments	13				
Investments in joint ventures					
- Share of gross assets		**1,899**		2,389	
- Share of gross liabilities		**(1,950)**		(2,534)	
		(51)		(145)	
Loans to joint ventures		**2,283**		2,719	
			2,232		2,574
			16,252		15,490
Current assets					
Stocks	14	**21,222**		17,803	
Debtors (including £2.6m *(2012: £2.9m)* due after more than one year)	15	**37,502**		33,571	
Cash at bank and in hand		**27,631**		27,010	
		86,355		78,384	
Creditors: amounts falling due within one year	16	**(48,100)**		(45,170)	
Net current assets			**38,255**		33,214
Total assets less current liabilities			**54,507**		48,704
Creditors: amounts falling due after more than one year	17		**(23,047)**		(18,501)
Provisions for liabilities	18		**(159)**		(91)
Net assets			**31,301**		30,112
Capital and reserves					
Called up share capital	19		**25,185**		25,185
Share premium account	20		**2**		-
Revaluation reserve	20		**30**		30
Employment benefit trust reserve	20		**(645)**		(573)
Profit and loss account	20		**6,184**		4,921
Shareholders' funds			**30,756**		29,563
Minority interests	21		**545**		549
Equity			**31,301**		30,112

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

A Donohoe
Non-Executive Chairman

Company registered number: 03724890

COMPANY BALANCE SHEET

at 31 December 2013

	Note	2013 £000	£000	2012 £000	£000
Fixed assets					
Tangible assets	11		**6,352**		6,416
Investment properties	12		**579**		579
Investments	13		**7,733**		8,182
			14,664		15,177
Current assets					
Debtors (including £2.3m (2012: £1.7m) due after more than one year)	15	**6,457**		5,278	
Cash at bank and in hand		**13,255**		11,080	
		19,712		16,358	
Creditors: amounts falling due within one year	16	**(6,489)**		(3,880)	
Net current assets			**13,223**		12,478
Total assets less current liabilities			**27,887**		27,655
Creditors: amounts falling due after more than one year	17		**(2,596)**		(2,747)
Provisions for liabilities	18		**(183)**		(189)
Net assets			**25,108**		24,719
Capital and reserves					
Called up share capital	19		**25,185**		25,185
Share premium account	20		**2**		-
Employee benefit trust reserve	20		**(645)**		(573)
Profit and loss account	20		**566**		107
Shareholders' funds			**25,108**		24,719

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

A Donohoe
Non-Executive Chairman

Company registered number: 03724890

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Group operating profit		**5,222**	1,418
Depreciation, amortisation and impairment charges		**1,835**	2,038
(Increase)/decrease in stocks		**(3,419)**	6,805
(Increase)/decrease in debtors		**(3,931)**	(5,282)
Increase in creditors		**8,432**	483
Net cash inflow from operating activities		**8,139**	5,462
Returns on investments and servicing of finance	25	**(721)**	(860)
Taxation		**(465)**	(5)
Capital expenditure	25	**79**	296
Dividends paid on shares classified in shareholders' funds		**(1,066)**	(2,230)
Cash inflow before financing		**5,966**	2,663
Financing	25	**(5,345)**	(6,887)
Increase/(decrease) in cash in the year		**621**	(4,224)

Reconciliation of net cash flow to movement in net funds 26

	2013 £000	2012 £000
Increase/(decrease) in cash in the year	**621**	(4,224)
Cash outflow from decrease in debt and lease financing	**5,275**	7,221
Change in net debt resulting from cash flows	**5,896**	2,997
New finance leases	**(2,891)**	(1,648)
Other non cash changes	**(1,056)**	2
Movement in net funds in the year	**1,949**	1,351
Net funds/(debt) at the start of the year	**813**	(538)
Net funds at the end of the year	**2,762**	813

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	**2,329**	1,033	**1,525**	1,802
Dividends on shares classified in shareholders' funds	**(1,066)**	(2,230)	**(1,066)**	(2,230)
Retained profit/(loss)	**1,263**	(1,197)	**459**	(428)
New share capital subscribed (net)	**2**	326	**2**	326
EBT share transactions	**(72)**	8	**(72)**	8
Net addition to/(reduction in) shareholders' funds	**1,193**	(863)	**389**	(94)
Opening shareholders' funds	**29,563**	30,426	**24,719**	24,813
Closing shareholders' funds	**30,756**	29,563	**25,108**	24,719

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.

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, modified to include the revaluation of investment properties.

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 £3.2m.

The bank borrowings of Dunelm Homes Limited, which total £18.3m at the end of the year, are discrete to Dunelm Homes Limited and secured on the assets of Dunelm Homes Limited and by means of a cross guarantee over the assets of Dunelm (Bowburn) Limited. These bank borrowings are not subject to any cross guarantees or security over the assets of any other Group companies. Neither are there any other financial guarantees provided by other Group companies to Dunelm Homes Limited.

At the end of the year the Group had cash at bank of £27.6m and bank and finance lease debt of £24.9m, with £18.3m of this debt relating to the bank borrowings of Dunelm Homes Limited. Details of the Group's borrowings are included in notes 16 and 17.

Going concern – Dunelm Homes Limited

The directors have taken the strategic decision to commit to a plan which involves the company fully developing and completing all remaining sites by the estimated date of 30 June 2015, which is also the date on which the company's banking facilities, which were revised during the year, now fall due for renewal. This plan will allow the company to settle all its trade creditors in the normal course of business and fully develop and complete all of its existing sites. The company is also in advanced discussions with its bankers to formalise an agreement by which the company's bankers will write off any remaining debt at the point when this development plan is complete and all trade creditors have been paid (the amount of write off is expected to be minimal relative to the overall original facility provided). As regards the longer term position of Dunelm Homes, the directors have not yet decided whether new land for new developments will be acquired to enable trading beyond 2015, nor how any such future trading would be financed, although the directors believe there are a number of options to refinance Dunelm Homes should they decide to do so.

Going concern – Group companies other than Dunelm Homes Limited

The majority of the remaining Group undertakings, including the Parent Company, Esh Holdings Limited, 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 £24.3m (excluding Dunelm Homes) at the year end, and cash generated from ongoing trading.

Going concern – Group

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 consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2013. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account, and its interest in their net assets is included in investments in the consolidated balance sheet.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Goodwill and negative goodwill

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

Negative goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

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/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures 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 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.

Investment properties

In accordance with Statement of Standard Accounting Practice No 19:

a) Investment properties are revalued annually at open market values. All surpluses and deficits arising on valuation are taken directly to revaluation reserve except that any permanent diminution in the value of an investment property is taken to the profit and loss account for the year; and

b) No depreciation is provided in respect of freehold investment properties.

This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Impairment of fixed assets and goodwill excluding investment properties

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 economic 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.

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 profit and loss account in accordance with the rules of the scheme.

Stocks

a) Housebuilding stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Work in progress comprises direct materials, labour costs, site overheads, associated professional charges and other attributable overheads. Net realisable value represents the estimated selling prices less all estimated costs of completion and 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.

b) Other stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used.

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 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.

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.

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.

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.

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 on property sales is recognised upon legal completion of legal title to the customer.

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

Own shares held by Employee Benefit Trust

Transactions of the Company sponsored Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Parent Company and Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

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.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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.

NOTES (CONTINUED)

2. ANALYSIS OF TURNOVER

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

	2013	2012
	£000	£000
Construction	**121,383**	97,096
Housing and land	**20,924**	22,694
Property services	**49,237**	53,471
Business support	**913**	707
Group turnover	**192,457**	173,968

3. NOTES TO THE PROFIT AND LOSS ACCOUNT

	2013	2012
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
- Owned	**924**	1,147
- Leased	**885**	702
Amortisation of goodwill	**26**	26
Impairment of goodwill	**-**	163
Hire of plant and machinery – operating leases	**7,826**	5,323
Hire of other assets – operating leases	**1,621**	932

	2013	2012
	£000	£000
Auditor's remuneration:		
Audit of these financial statements	**30**	30
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**80**	90
Taxation compliance services	**23**	23
Other tax advisory services	**7**	4
Other corporate finance services	**15**	-
All other services	**2**	19

4. REMUNERATION OF DIRECTORS

	2013	2012
	£000	£000
Directors' emoluments	**859**	622
Company contributions to money purchase pension schemes	**106**	91

The aggregate emoluments of the highest paid director were £280,000 (2012: £146,000), and company pension contributions of £68,000 (2012: £13,500) 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	**3**	3

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

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	**440**	420
Administrative staff	**440**	395
	880	815

The aggregate payroll costs of these persons were as follows:

	2013 **£000**	2012 £000
Wages and salaries	**28,553**	25,590
Social security costs	**2,953**	2,425
Other pension costs (note 24)	**744**	652
	32,250	28,667

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 **£000**	2012 £000
Bank interest	**404**	469

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 **£000**	2012 £000
On bank loans and overdrafts	**2,083**	1,217
Finance charges payable in respect of finance leases and hire purchase contracts	**92**	106
	2,175	1,323

8. TAXATION

Analysis of charge/(credit) in the year	2013 £000	£000	2012 £000	£000
UK corporation tax				
Current tax on income for the year	830		248	
Adjustments in respect of prior years	7		(636)	
		837		(388)
Share of joint ventures' current tax		(8)		(21)
Total current tax		829		(409)
Deferred tax (see note 18)				
Origination/reversal of timing differences	62		12	
Effect of decreased tax rate	-		(9)	
Adjustments in respect of prior years	6		3	
Total deferred tax		68		6
Tax on profit on ordinary activities		897		(403)

Factors affecting the tax charge for the current year

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

	2013 £000	2012 £000
Current tax reconciliation		
Profit on ordinary activities before tax	3,228	598
Current tax at 23.25% (2012: 24.5%)	751	147
Capital allowances for period in excess of depreciation	8	63
Other timing differences	(57)	(225)
Expenses not deductible for tax purposes	120	242
Adjustments to tax charge in respect of previous periods	7	(636)
Total current tax (see above)	829	(409)

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 24% to 23% became 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.

NOTES (CONTINUED)

9. DIVIDENDS

The aggregate amount of dividends paid in the year comprises:

	2013 £000	2012 £000
Non voting preference shares of £1 each		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**469**	754
Voting preference shares of £1 each		
Final dividend paid in respect of prior year but not recognised as liabilities in the year	**597**	1,476
	1,066	2,230

10. INTANGIBLE FIXED ASSETS

Group	**Goodwill** £000	**Negative goodwill** £000	**Total** £000
Cost			
At beginning and end of year	1,128	(52)	1,076
Disposals	-	52	52
At end of year	1,128	-	1,128
Amortisation			
At beginning of year	1,017	(52)	965
Charged in year	26	-	26
On disposals	-	52	52
At end of year	1,043	-	1,043
Net book value			
At 31 December 2013	**85**	**-**	**85**
At 1 January 2013	111	-	111

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.

Negative goodwill arose on the acquisition of J Tonks (Transport) Limited in 2003. This was released to the profit and loss account in the periods in which the fair value of the non-monetary assets was recovered, approximately over five years.

The Company has no intangible fixed assets.

11. TANGIBLE FIXED ASSETS

Group	Freehold land and buildings	Leasehold properties	Plant and machinery	Total
	£000	£000	£000	£000
Cost				
At beginning of year	6,150	5	13,534	19,689
Additions	-	-	3,456	3,456
Disposals	-	(5)	(1,909)	(1,914)
At end of year	6,150	-	15,081	21,231
Depreciation				
At beginning of year	187	5	8,134	8,326
Charge for year	46	-	1,763	1,809
On disposals	-	(5)	(1,392)	(1,397)
At end of year	233	-	8,505	8,738
Net book value				
At 31 December 2013	**5,917**	**-**	**6,576**	**12,493**
At 1 January 2013	5,963	-	5,400	11,363

Included in the total net book value of plant and machinery is £4,284,500 (2012: £2,771,500) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets is disclosed in note 3.

Company	Freehold land and buildings	Plant and machinery	Total
	£000	£000	£000
Cost			
At beginning of year	6,139	1,463	7,602
Additions	-	197	197
Disposals	-	(66)	(66)
At end of year	6,139	1,594	7,733
Depreciation			
At beginning of year	177	1,009	1,186
Charge for year	46	191	237
On disposals	-	(42)	(42)
At end of year	223	1,158	1,381
Net book value			
At 31 December 2013	**5,916**	**436**	**6,352**
At 1 January 2013	5,962	454	6,416

Included in the total net book value of plant and machinery is £118,000 (2012: £171,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £60,000 (2012: £41,000).

NOTES (CONTINUED)

12. INVESTMENT PROPERTIES

	Group £000	Company £000
Valuation		
At beginning and end of year	1,442	579

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.

In accordance with SSAP19 'Investment properties' the above properties are not being depreciated. All investment properties are freehold.

The historical cost of the Group's investment properties is £1,412,000 (2012: £1,412,000).

The historical cost of the Company's investment properties is £579,000 (2012: £579,000).

13. FIXED ASSET INVESTMENTS

Group	Shares in joint ventures £000	Loans to joint ventures £000	Shares in participating interests £000	Loans to participating interests £000	Total £000
Cost					
At beginning of year	721	2,719	600	375	4,415
Additions	-	81	-	-	81
Repayments	-	(151)	-	-	(151)
At end of year	721	2,649	600	375	4,345
Provisions					
At beginning of year	-	-	(600)	(375)	(975)
Made during the year	-	(366)	-	-	(366)
At end of year	-	(366)	(600)	(375)	(1,341)
Share of post acquisition reserves					
At beginning of year	(866)	-	-	-	(866)
Retained profits less losses	94	-	-	-	94
At end of year	(772)	-	-	-	(772)
Net book value					
At 31 December 2013	**(51)**	**2,283**	**-**	**-**	**2,232**
At 1 January 2013	(145)	2,719	-	-	2,574

13. FIXED ASSET INVESTMENTS (CONTINUED)

Company	Shares in group undertakings £000	Loans to subsidiaries £000	Shares in joint ventures £000	Loans to joint ventures £000	Total £000
Cost					
At beginning and end of year	26,553	332	721	1,891	29,497
Provisions					
At beginning of year	(20,258)	(332)	(132)	(593)	(21,315)
Made during year	(51)	-	(398)	-	(449)
At end of year	(20,309)	(332)	(530)	(593)	(21,764)
Net book value					
At 31 December 2013	**6,244**	**-**	**191**	**1,298**	**7,733**
At 1 January 2013	6,295	-	589	1,298	8,182

At the end of 2013 the directors conducted a review of the carrying values of the company's investments in subsidiary undertakings. Where the estimated recoverable value of an individual company investment is less than its carrying value an impairment charge has been recorded. As a result of this an impairment charge of £449,000 has been recognised in 2013 and charged against the company's profits. This impairment comprises £51,000 in the Company's investment in Esh Remedios Limited and £398,000 in the Company's investment in Bardon Esh Recycling Limited. Recoverable amounts are based on value in use and the key assumption applied in the value in use calculations include a discount rate of 10% and approved cash flow forecasts to 31 December 2014. These projected cash flows assume no growth from 31 December 2014 into perpetuity.

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

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Esh Construction Limited	100%	Civil engineering and building contractor
Sones Maintenance & Environmental Limited	100%	Landscaping contractor
Deerness Fencing 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
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%	Property letting
Dunelm National Projects 2 Limited	100%	Construction training
Dunelm Property Services Limited[1]	100%	Social housing – refurbishment 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

NOTES (CONTINUED)

13. FIXED ASSET INVESTMENTS (CONTINUED)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Esh Education Limited	100%	Non trading
Lumsden & Carroll Construction (Northern) Limited[1]	100%	Commercial builder
Dunelm Facility Services Limited[1]	100%	Non trading
Dunelm (Bowburn) Limited[1]	100%	Land and property development
Green Energies Limited[1]	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
Esh Remedios Limited	51%	Site investigation
Remedios Limited[1]	51%	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
Esh Northwest 001 Limited[1]	100%	Dormant
SET Construction Projects Limited	100%	Dorman
Esh EBT Trustee Limited	100%	Non trading
Esh Green Limited[1]	100%	Non trading
Joint ventures		
Esh Energy Limited[1]	49%	Renewable energy
Pure Renewable Energies Limited[1]	44%	Renewable energy
Bardon Esh Recycling Limited	*50%	
	+49%	Waste disposal and recycling
J Tonks (Transport) Limited[1]	*50%	
	+49%	Waste management
Tonks Recycling Limited[1]	*50%	
	+49%	Waste disposal and recycling
Micropump (NE) Limited	50%	Plant hire
Climathus Limited[1]	50%	Property development
Holborn Regeneration LLP	50%	Property development
Boathouse Lane (Freehold) Limited[1]	50%	Non-trading
Participating interests		
Esh Space The Park Limited[1]	15%	Property development
Venture Wallsend Limited[1]	49%	Dormant
M62 Developments Limited[1]	43%	Dormant
Esh Space Land Limited[1]	15%	Non trading

***voting +equity [1]investment held indirectly**

Investments are held directly by Esh Holdings Limited (except where noted). All holdings represent ordinary share capital and all companies are incorporated in England.

NOTES (CONTINUED)

14. STOCKS

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Raw materials and consumables	**11,750**	14,231	**-**	-
Work in progress	**9,472**	3,572	**-**	-
	21,222	17,803	**-**	-

15. DEBTORS

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Trade debtors	**5,892**	6,767	**39**	26
Amounts recoverable on contracts	**26,751**	21,550	**-**	-
Amounts owed by group undertakings	**-**	-	**3,263**	2,956
Amounts owed by undertakings in which the company has a participating interest (note 27)	**167**	119	**22**	23
Corporation tax recoverable	**-**	-	**366**	158
Other debtors	**3,607**	4,515	**2,492**	1,973
Prepayments and accrued income	**1,085**	620	**275**	142
	37,502	33,571	**6,457**	5,278

Group 'other debtors' include £2,571,000 (2012: £2,928,000) due after more than one year. Company 'other debtors' include £2,323,000 (2012: £1,744,000) due after more than one year.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Bank loans (note 17)	**163**	6,151	**141**	136
Obligations under finance leases and hire purchase contracts (note 17)	**1,659**	1,545	**83**	59
Payments received on account	**4,262**	2,096		-
Trade creditors	**10,893**	8,878	**381**	195
Amounts owed to group undertakings	**-**	-	**4,912**	3,055
Amounts owed to undertakings in which the company has a participating interest (note 27)	**26**	127	**-**	1
Corporation tax	**461**	89	**-**	-
Other taxation and social security	**378**	1,321	**484**	285
Other creditors	**1,029**	626	**4**	-
Accruals and deferred income	**29,229**	24,337	**484**	149
	48,100	45,170	**6,489**	3,880

NOTES (CONTINUED)

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

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Bank loans	**21,060**	17,491	**2,526**	2,668
Other loans (note 27)	**50**	50	**-**	-
Obligations under finance leases and hire purchase contracts	**1,937**	960	**70**	79
	23,047	18,501	**2,596**	2,747

Analysis of debt:	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	**1,822**	7,696	**224**	195
Between one and two years	**19,919**	15,497	**190**	192
Between two and five years	**1,165**	877	**444**	428
In five years or more	**1,963**	2,127	**1,962**	2,127
	24,869	26,197	**2,820**	2,942

Amounts repayable in more than five years represent secured bank loans.

Further details of bank loans are provided below:

Esh Holdings Limited
Esh Holdings Limited loans represent two mortgages:

- £1,064,000 facility with Handelsbanken, repayable in quarterly instalments to final maturity in November 2028
- £1,602,900 facility with Handelsbanken, repayable in quarterly instalments to final maturity in September 2017

The mortgages are secured on properties in Bowburn and Newton Aycliffe and are subject to interest at LIBOR + 1.75% per annum and LIBOR + 2.6% per annum respectively.

ABC Rental Properties Limited
ABC Rental Properties Limited loan of £271,392 with Santander, repayable in monthly instalments to final maturity on 30 November 2015. 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.

Dunelm Homes Limited
The bank borrowings of Dunelm Homes Limited were renewed on 19 December 2013. The new bank loan balance of £18,285,000 (including accrued exit fees) carries interest at LIBOR +3% per annum, repayable at final maturity on 30 June 2015.

The bank facility is secured by a debenture over the assets of Dunelm Homes Limited and a charge over its freehold land held for housing development. The facilities are also secured by means of a cross guarantee over the assets of the company's subsidiary undertaking, Dunelm (Bowburn) Limited. The facilities are not secured on any other Group assets.

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

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Within one year	**1,746**	1,608	**87**	61
In the second to fifth years	**1,973**	985	**72**	83
	3,719	2,593	**159**	144
Less future finance charges	**(123)**	(88)	**(6)**	(6)
	3,596	2,505	**153**	138

18. DEFERRED TAXATION

	Group £000	Company £000
At beginning of year	91	189
Charge/(credit) to the profit and loss for the year	68	(6)
At end of year	159	183

The elements of deferred taxation are as follows:

	Group 2013 £000	2012 £000	Company 2013 £000	2012 £000
Difference between accumulated depreciation and amortisation and capital allowances	**159**	91	**183**	189

19. CALLED UP SHARE CAPITAL

	2013 Number of shares	£000	2012 Number of shares	£000
Allotted, called up and fully paid				
Non-voting ordinary shares of 0.1p each	**9,722,130**	**9**	9,623,280	9
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
Non voting preference shares of £1 each	**4,685,650**	**4,686**	4,685,650	4,686
	34,897,967	**25,185**	34,799,117	25,185

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.

Non-voting preference shares
Shareholders entitled to dividends as may be declared by the Board in preference to any other class of share. Not entitled to vote. On return of assets they are entitled to payment of capital only but in preference to all other classes of share. Redeemable at Company's option only.

Share transactions
On 27 November 2013, 98,850 0.1p non-voting ordinary shares were issued at 2p each.

NOTES (CONTINUED)

20. SHARE PREMIUM AND RESERVES

Group	Share premium account £000	Revaluation reserve £000	Employment benefit trust reserve £000	Profit and loss account £000
At beginning of year	-	30	(573)	4,921
Profit for the year	-	-	-	2,329
Premium on shares issued	2	-	-	-
Dividends on shares classified in shareholders' funds	-	-	-	(1,066)
Share transactions by EBT	-	-	(72)	-
At end of year	**2**	**30**	**(645)**	**6,184**

Company	Share premium account £000	Employment benefit trust reserve £000	Profit and loss account £000
At beginning of year	-	(573)	107
Profit for the year	-	-	1,525
Premium on shares issued	2	-	-
Dividends on shares classified in shareholders' funds	-	-	(1,066)
Share transactions by EBT	-	(72)	-
At end of year	**2**	**(645)**	**566**

Employee Benefit Trust (EBT)
At the end of the year the EBT held 229,743 preference shares of £1 each (2012: 228,599), 13,163 non-voting shares of 0.1p each (2012: 707) and 308,707 voting ordinary shares of £1 each (2012: 237,709) at a combined cost of £644,551 (2012: £572,906).

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.

21. MINORITY INTERESTS

	Group £000
At beginning of year	549
Share of profit for year	2
Dividends paid to minority interest	(6)
At end of year	**545**

22. CONTINGENT LIABILITIES

Flood damage arising at Newburn, Newcastle upon Tyne

The Group continues to be involved in dealing with the issues arising from the flood damage at Dunelm Homes Limited's development at Newburn, Newcastle upon Tyne.

Following the floods, and the considerable damage caused to land and buildings, the principal insurer agreed to fund immediate remediation and also the regrettable demolition of two of the five apartment blocks on the development. Whilst these costs were covered by the company's insurer, further expenses, not covered by the insurance policy, were required in order to stabilise other affected areas in and around the development. The Group and Dunelm's bankers agreed to jointly fund these expenditures to an amount of £1.5m, based upon a collective need to ensure the business' reputation remained intact, and a moral obligation to provide support to the many individuals affected by the catastrophic events. These funds have now been spent on a combination of items including (and predominantly) civil engineering works, but also on maintenance, project management and consultancy.

The directors remain wholly convinced that Dunelm Homes Limited did not cause, nor contribute to any of the damage caused to the development, and have spent considerable time compiling the basis for a legal claim for damages against those parties it believes to be culpable.

In order to efficiently expedite this process, the directors have agreed terms with the insurer to jointly pursue damages, with the basis of this agreement effectively absolving Dunelm Homes Limited of the need to provide any further funding for the litigation, nor bear any adverse cost risk.

The directors believe this to be the most cost effective and efficient process by which to recover costs and losses incurred, and whilst this process may take some considerable time to reach conclusion, the directors and insurers believe they have a very solid basis upon which to pursue the litigation.

Based on the above the directors believe that there are no further unprovided costs to accrue to the company in respect of this issue. As no reasonable quantification of any cost recovery which might accrue from the litigation can be made at this stage no amounts have been recognised in these financial statements for any such cost recovery.

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 £7.2m (2012: £7.3m) at the year end. Aggregate Group borrowings guaranteed by the Company but not provided for in the Company's financial statements amounted to £7.2m (2012: £7.3m).

23. COMMITMENTS

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

	Group		**Company**	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Contracted	**101**	237	**-**	-

NOTES (CONTINUED)

23. COMMITMENTS (CONTINUED)

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

Group	**Land and Buildings**	
	2013	2012
	£000	£000
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.

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 £744,000 (2012: £652,000).

Contributions amounting to £nil (2012: £1,001) 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 £161,000 (2012: £148,000).

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

25. ANALYSIS OF CASH FLOWS

	2013	2012
	£000	£000
Returns on investment and servicing of finance		
Interest received	**404**	469
Interest paid	**(1,027)**	(1,219)
Interest element of finance lease rental payments	**(92)**	(106)
Dividends paid to minority interest	**(6)**	(4)
	(721)	(860)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(565)**	(381)
Sale of tangible fixed assets	**574**	835
Purchase of subsidiary (net of cash acquired)	**-**	(27)
Purchase of investment properties	**-**	(131)
New loans made to joint ventures	**(81)**	-
Loan receipts from joint ventures	**151**	-
	79	296
Financing		
Redemption of share capital	**-**	(2,573)
Issue of ordinary share capital	**2**	2,899
Repayment of bank borrowings	**(3,475)**	(5,663)
Share transactions by EBT	**(72)**	8
Capital element of finance lease rental payments	**(1,800)**	(1,558)
	(5,345)	(6,887)

26. ANALYSIS OF NET DEBT

	At beginning of year £000	Cash flow £000	Other non cash changes £000	**At end of year £000**
Cash in hand, and bank	27,010	621	-	**27,631**
Debt due after one year	(17,541)	-	(3,569)	**(21,110)**
Debt due within one year	(6,151)	3,475	2,513	**(163)**
Finance leases	(2,505)	1,800	(2,891)	**(3,596)**
Total	813	5,896	(3,947)	**2,762**

The non cash change of £3.6m comprises £2.5m reclassification of the Dunelm Homes Limited bank loan, which was renewed on 19 December 2013 (note 17), from current to non-current liabilities, and £1.1m accrual of bank exit fees on the Dunelm Homes Limited bank loan.

The non cash change of £2.9m is new finance leases taken out during 2013.

27. RELATED PARTY DISCLOSURES

Transactions with undertakings in which the Group has a participating interest

	Sales		Purchases		Debtors		Creditors	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
J Tonks (Transport) Ltd	5	1	499	648	2	-	11	119
Tonks Recycling Ltd	10	-	-	-	2	-	-	-
Esh Space The Park Ltd	12	-	-	-	31	30	-	-
Micropump (NE) Ltd								
- Trade	20	23	35	61	24	18	15	8
- Loan	-	-	-	-	21	21	-	-
Pure Renewable Energies Ltd								
- Loan	-	1	-	-	87	50	-	-
	47	25	534	709	167	119	26	127

The Group owes £50,000 (2012: £50,000) to the directors of Mechplant (North East) Limited. This loan is interest free.

Other transactions
During 2012 Esh Holdings Limited advanced unsecured loans of £10,850 and £8,580 to AE Radcliffe and JP Davies respectively. These loans carry interest at 3% per annum, are unsecured and repayable at any time on the demand of Esh Holdings Limited. These loans were repaid in 2013.

NOTES (CONTINUED)

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

No other company includes the result of the Parent Company and Group in its consolidated financial statements. The directors do not consider there to be an individual ultimate controlling party at the year end.

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