



ESH HOLDINGS
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REPORT AND
FINANCIAL
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WELCOME TO ESH

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CHAIRMAN'S REPORT

Business review: the financial year to 31 December 2015

Welcome to all Shareholders, Employees, Suppliers, Clients and Stakeholders to our Annual Report for 2015.

I would like to thank you all for the support that you have given us throughout the year.

Whilst 2014 was a year of transformation, with a 43% increase in turnover, we had within our 5 year plans always labelled 2015 as a year of consolidation, and so it turned out as such.

We anticipated that we would take time to acclimatise to the increased levels of turnover and the challenges that this brought. Alongside that, the construction market itself did not progress in terms of available workload with a very mixed picture across our operating regions and sectors. These factors alongside the General Election and Government reviews of the Social Housing Sector affected our outturn. As a result of these factors, we report 2015 turnover which is very similar to 2014 and profit lower by 9%.

While in context with the market in general, alongside the work we have been doing to improve our systems and processes, the overall results are still good but there is a slight disappointment as we would have liked to have performed better.

Much of this disappointment is due to our performance outside the North East of England where it is taking more time to establish ourselves as a regional business operating in an area stretching from Central Scotland down to the North of England, rather than simply a North East business. The Directors and the people we employ continue to work hard to strengthen our position and once established we are confident there will be a considerable improvement to our results.

Annually we present an update to our rolling 5 year plans, identifying the areas where we have done well and those where we could have improved. We have received good feedback from the presentations for 2015-19.

We anticipate 2016 being another year of consolidation, with the construction market again having variances in workload across the sectors, with social housing lagging behind the rest and civil engineering and private house building taking a lead.

The big project for which we have been gathering information, alongside our advisors KPMG during 2015 is "Gateway". This is our business transformation project to put in place an integrated business management system across the Group starting in the autumn of 2016. This will be essential to allow our business to move forward and achieve its growth plans which show turnover rising to over £400m by 2020.

We have a strong base from which to move forward as, during 2015, we re-organised our share capital in order to create more headroom for our directors and employees to earn more shares in the future. This re-organisation highlighted the value of the share schemes that we have operated since the inception of the Group, through the payment of considerable sums to shareholders who had retired, were about to retire or had left the Group after making valuable contributions to its success. Some £6m was paid out, but it should be noted that none of the founding shareholders sold shares in the re-organisation.

We believe that the new share structure, alongside our ever strengthening brand reputation and diverse range of product will serve us well over the 5 year plan period.

Our brand and reputation has been further enhanced during 2015 by the massive contribution made by our Added Value schemes across the communities in which we work. This has brought recognition through the many awards, not least the national recognition we received by winning "Business in the Community" Schools Partnership award for our "Building My Skills" programme. This would have not been possible without the support of over 100 business partners who work alongside us on this programme. We take this opportunity to thank them.

As usual with the construction sector, we continue to face many challenges. However we are confident that with the support of our loyal employees we can build upon our very strong position and move forward.

Thanks again to all who support us.

M Hogan
Chairman
31 May 2016



CHIEF EXECUTIVE'S REPORT

Performance

As we had anticipated, 2015 turned out to be a year of consolidation with turnover flat. We had hoped that profitability would be similar to that in 2014, but it has suffered a downturn which, is disappointing in the short term.

More importantly, our medium to long term plans are soundly based and recognise that we need to consolidate further during 2016 and into 2017 to allow us to then start growing again, subject to market conditions.

This consolidation mainly revolves around the Project Gateway updating our Business IT Systems across the Group. With the advance work of looking at what we have now and what we need to move to going forward completed in 2015 and the business vision being established in early 2016, we will move to an implementation stage in the summer of 2016. This is a large project that will involve all employees across the Group, with communication playing a massive part in its successful delivery. Putting in place new technology and systems will not be achieved without buy-in from our people. We envisage this project running through until the end of 2017.

	2015	2014
Turnover, including share of joint ventures	£275.5m	£276.8m
Turnover growth	(0.5%)	43.2%
Gross profit margin	8.4%	8.1%
Overhead (administrative) costs	£11.9m	£10.8m
Profit before tax	£8.6m	£9.5m
Cash at bank	£29.1m	£32.4m
Net cash from operating activities	£15.4m	£17.4m

During our 5 year plan updates to employees and supply chain, we have stressed the need to have a clear strategy for taking the business forward and the importance of Project Gateway to enable us to meet our business expansion plans.

This is not a business that chases turnover for the sake of it: it has to be part of a plan that continues to position Esh Group as a strong secure business, demonstrated by its balance sheet, sustainable profit, cash strength and, ultimately, brand and reputation. These attributes give our workforce the ability to express themselves and feel secure. This also allows us to continue to work closely within the communities that we work.

As well as Project Gateway, the key business issue is making the change from being a North East of England Business to a Business covering the North of England and Scotland. Our North East Business is long established and produces sustainable profit across our diverse range of services. Our challenge has been and still is to replicate this across our other regional operational areas. This is proving more difficult than we thought but we continue to work at it, as the rewards will be substantial in terms of meeting our strategy.

We have been and will continue to re-assess the model outside the North East of England, tailoring our approach to market conditions which vary across the sectors in which we work.

Our Added Value work, which is covered in detail later in this Report, continues to support our operations and bring us closer to the communities in which we work.

We are passionate about the work we do and just as we do with our construction work, our responsible business programmes are well planned out and organised. There is a strong link to our brand and reputation and whilst we are a competitive business, we always look to secure projects on the back of innovation and the value we can add to the project.

We have continued to invest in our Apprentice Programme, with over 120 employed by the end of 2015 and another intake planned for the summer of 2016. Offering employment is just the start of the journey: the key is nurturing the talent as the trainees adapt from education to work. We put a lot of effort into this programme and its effectiveness is demonstrated by high retention rates. We have also ramped up the upskilling and development of our workforce.

An example of this would be our “Future Leaders Programme” for aspiring directors of the future. This programme started in September of 2015, with 12 of our team taking part. Once we have feedback from this group, we intend to expand the scheme to junior and middle management.

The new share scheme offers additional incentives to our employees to add value to the business and will be a valuable tool going forward. The message that has been sent out by making payments from the previous share scheme to those who have contributed to the success of the Group so far can only strengthen the new scheme.

It is also worthy of note that 2015 was the year in which we repaid all of our bank debt from Dunelm Homes, a Group business we have worked hard with since the recession. This once stood at £45m. We are really proud of this achievement and it is a big statement of integrity from the Group as well as testimony to the hard work of our team at Dunelm Homes. The payback from this can be seen in the terms we have been offered by Lloyds Bank for a new facility required for our Philadelphia Development and a revolving credit facility to smooth out cash flow across the Group.

North East

Esh Construction, with well established North East operations delivered out of Bowburn, has continued to perform very well across all sectors, increasing our share of the infrastructure market providing services to many of the key house builders across the region. The framework and bid teams have worked tirelessly on completing the Pre Qualification Questionnaire (PQQ) and tender process for Northumbrian Water Group’s AMP 6 Water and Wastewater Networks. The framework is a 5 year plus 5 year agreement, which Esh Construction has successfully secured with Esh Construction’s design partners MWH and subsequently, a new joint venture has been formed, named Esh-MWH Ltd.

This ten-year contract for work to be carried in the North East of England began in October 2015 with Esh-MWH delivering five main areas of planned maintenance to Northumbrian Water’s Water and Wastewater networks. These works range from short term flood damage mitigation to significant long term, large-scale capital projects designed to improve overall asset infrastructure.

This contract extends Esh Construction’s working relationship with Northumbrian Water, with which Esh has worked for over 25 years and it is in addition to another contract – delivering reactive wastewater maintenance services – which we secured earlier in the year.

WE ARE PASSIONATE ABOUT THE WORK WE DO AND JUST AS WE DO WITH OUR CONSTRUCTION WORK, OUR RESPONSIBLE BUSINESS PROGRAMMES ARE WELL PLANNED OUT AND ORGANISED.

The affordable housing sector continues to suffer as landlords work their way through the new funding regime, but we continue to support our clients and are delighted to have been included on several new housing frameworks including Broadacres, Places for People and Abbeyfield.

Schemes we are proud to have completed during 2015 included:

- 30 new build apartments at Howard Street, Newcastle for Home Group
- 76 new build properties at Eastbourne, Darlington for North Star Housing and Coast and Country Housing
- 26 new build semi detached homes at Corbridge Road, Hexham for Two Castles Housing Association
- 32 new build houses and 2 apartments at Glebe Road, Darlington for Fabrick Housing Group

Esh Build also completed several flagship schemes during 2015, many of which were on Teesside. The total value of the Teesside contracts amounts to over £23m in developments which form part of the regeneration of Middlesbrough's and Stockton's riversides. Examples below:

Thirteen Group Head Quarters, Stockton

£5.4m, three-storeys, 43,000 sq ft Head Quarters for this major social housing provider. Part of the £100m Northshore Riverside Regeneration Scheme, sited next to the Infinity Bridge.

STEM (Science, Technology, Engineering and Maths) Skills Centre

£7.4m, for Middlesbrough College. BREEAM 'Excellent' rating.

Boho 5, Middlesbrough

£3.3m, high quality, innovative incubator offices for Middlesbrough Council.

Fusion Hive, Stockton Innovation Centre

£5.4m, commissioned by Stockton Borough Council for University of Teesside occupancy.

Yorkshire

During 2015, we have seen increased awareness and knowledge of the Esh Brand across the Yorkshire Region. We have continued to support our Registered Social Landlord Partners during their transitional period of a new funding regime. Again, schemes we are proud to have completed have included:

- 2 flats and 5 houses at Sicklinghall for Yorkshire Housing
- 20 flats at Sevenaires in Sheffield for Guinness Housing Trust

In response to our commitment to the Yorkshire region we made structural changes to strengthen our Board of

Directors. We appointed David Pratt as Divisional Director for Civils and welcomed Stuart Leslie as Divisional Director for our Commercial Build Division.

We continue to recruit apprentices whilst further investing in our existing people with key staff involved in our Future Leaders Programme. Due to our continued growth we are also investing in new office premises.

Although we have felt the loss of the Yorkshire Water Framework, we have won significant new contracts and in particular are increasing our turnover in housing infrastructure works with contracts being delivered for a broad range of clients including Persimmon, Barratt and James Homes.

In addition other new contracts won include:

Kirstall Waste Facility

The overall aim of the client is to optimise and promote recycling. Therefore, as part of the works, an onsite 2 storey steel framed building, with brick and block skin and industrial doors, was built to house for resale second-hand items on the ground floor, with the upper floor being designed to include staff welfare facilities, associated office and breakout areas. To follow the principles and energy aspirations of the facility, Photovoltaic Panels were installed on the roofs, with associated electric car charging points positioned within the parking areas.

YORbuild Framework

Esh Construction is one of 10 regional and national contractors appointed to the new £2bn YORbuild2 Framework, with a variety of major lots in the pipeline covering construction projects ranging from £1m to over £10m in value.

The Framework is divided into four geographic regions but now has new lot structures based on project size and type, including new-build housing projects. The regional project areas extend across Yorkshire, Humberside, Nottinghamshire and Derbyshire.

York Velodrome

On behalf of client York Sports Village LLP, the York Velodrome project will see Esh start work on the exciting phase two of the outdoor Velodrome at Heslington.

North West England & Scotland

2015 saw an improved position for Esh Border Construction in Scotland with the opening of our new office in Livingston and an increase in turnover of 30%. This increase in turnover is a result of our success in securing several new prestigious projects.

Esh Border Construction was appointed by Historic Scotland to deliver the £8.9 million Engine Shed Project in Forthside, Stirling. The construction phase will see the transformation of a derelict building into a world-leading Education Centre for Building Conservation in Scotland, creating and delivering educational resources and training



on traditional buildings and materials. As well as providing a centre of excellence for those already operating in the sector, it will also provide the opportunity for sharing expertise through the creation of a 'knowledge hub', with events, exhibitions and activities for the general public.

Our work in the housing sector continued to gain traction, winning places on several key frameworks for clients including Fusion 21, Hillcrest Housing, and City of Edinburgh Council.

We have grown our Civils operation in Scotland through the Lumsden and Carroll brand and we were delighted to be appointed to the Glasgow City Council Framework.

2016 will be a year of consolidation by the creation of a Scottish based business servicing the Scottish market whilst supported by Bowburn.

Our Networking Event in Edinburgh was very well attended and provided an excellent opportunity for our existing and potential customers to meet our Scottish team.

At our Meet the Buyer Event held in Livingston in November 2015, over 100 suppliers and subcontractors attended, providing us with the opportunity to strengthen existing

business relationships in Scotland as well as expanding our base of suppliers, with a view to developing long-term partnerships with our supply chain.

We have continued to support our operational delivery across North West England and Scotland through our Added Value Initiatives, including donations from Esh Communities and increased participation in our Building My Skills programme.

Aaron Brunton from our Finlaysons Division was the proud winner of the Bob Wall Merit Award. It was Aaron's second award of the year – Aaron, who is studying Carpentry & Joinery at Borders College in Galashiels, was also named its 'Best Advanced Craft Carpentry & Joinery Student 2015'.

Chris Sim who works as a Quantity Surveyor out of our Livingston office, was awarded the Napier University Medal for Outstanding Achievement at his Graduation Ceremony in May 2015. Chris was top of his class, having achieved outstanding grades across all subject areas.

In the North West, the market remained relatively quiet but we continue to deliver across our market sectors and we are consolidating our position by merging our two offices at Carlisle and Kendal into one delivery office in Penrith.



OVERALL WE DELIVERED
123 HOUSES FOR SALE
IN 2015 ACROSS OUR
PRODUCT RANGES

During 2015 Esh Border Construction completed works on Victoria High School and Ulverston for Cumbria County Council. This £4.1m project involved the construction of an extension and the completion of internal alterations to provide a library, sixth form study area, offices and suite of special learning rooms, new main entrance and the construction of a new glazed link corridor.

We have completed several schemes in Carlisle for Lloyd Motor Group delivering new car showrooms. We continue to deliver our zero energy homes for our Trivselhus brand with new developments at Brampton and Wetheral. Key to growth in the region are Frameworks and we are pleased to have secured a place on the Capital Schemes Framework for Cumbria County Council and Housing Frameworks for Home Group, Abbeyfield and Places for People.

2015 saw Cumbria devastated by floods with many households being affected, including several homes of our own staff. To show their support for those devastated by the floods, staff from across all of our Regional Offices donated goods to the Cumbrian Flood Relief Campaign. We also worked with Carlisle United Football Club to carry out repairs to its Ground at Brunton Park. The first home game played at Brunton Park following the floods brought a sell out 17,392 capacity crowd.

Finlaysons, our Small Works Operation based in Galashiels, has had an excellent year. Both profitability and turnover have increased during 2015 and we have continued to invest in the business with improved branding and new marketing materials.

Homes by Esh

2015 was an exciting year for Homes by Esh. Previously known as Dunelm Homes our residential housing for sale will now be delivered under the banners of Homes by Esh and Trivselhus by Esh. The final sites operating as Dunelm Homes were completed during 2015.

Overall, we delivered 123 houses for sale in 2015 across our product ranges.

We feel that using Esh as our brand will further strengthen our market position.

The first developments delivered by Homes by Esh opened at Chase Farm at Blyth, The Paddocks at Seaton Carew and at The Old Baths site in Sunderland during 2015.

Our energy efficient homes - under the Trivselhus by Esh brand - were delivered at Garth House Gardens in Brampton, Eden Vale in Wetheral and Hexham Gate in Hexham.

In March 2015 our zero-energy house from Trivselhus by Esh was showcased at the Ideal Homes Show, London, as the 'Future Proof Home'. The Future Proof Home is manufactured in factory conditions and assembled on site. The 'Fabric First' approach is the design process which focuses attention on the integrity of the 'shell' of the building, reducing the home's energy requirement. 'Climate Shield' is the name given to the closed-panel timber frame construction method which provides exceptional insulation quality and a temperature controllable environment with exceptionally low heating requirements.

Specialist Businesses

In 2015 we again had good performances across our specialist businesses.

Deerness Fencing and Landscaping continued the good work of 2014 working across all sectors of construction to post a strong set of results.

Mechplant with its close links to the civil engineering sectors continued to do well and its investment in plant and equipment alongside its venture into cranes was starting to pay dividends towards the latter part of 2015.



Bartram Walker is still finding the plumbing market tough, but has added electrical to the housing market offering which has helped achieve further market penetration through the offer of a full service.

Remedios, our specialist Contaminated Land Remediation business has had another tough year but has carried out some very innovative work with the Coal Authority on cleaning up mine water. This could lead to further work in this field.

Esh Training Solutions has expanded during 2015 on the back of the increased work we are doing across the Group with up skilling of the existing workforce, increasing apprentice numbers and keeping all of our employees' legislative training up to date. The services they provide are vital to the success of the Group.

Esh Developments continues to work hand in hand with our Homes and Contracting businesses across the Group to deliver land for development. Our expansion at Bowburn Headquarters is now well underway and at long last we have just completed the deal to develop the site at Philadelphia, Houghton-Le-Spring, by taking control of the land parcels. The changes in affordable housing grants and rents is leading to a change of focus on land requirements for housing but our team is flexible and able to cater for the market needs. We continue to find good sites for our high end Trivselhus product, with advance sales recorded at Brampton and Hexham.

The business's work was recognised by a number of awards received in 2015 including:

Esh Group

- Finalist, North East Business Award, Heart of the Community Award
- Winner, Responsible Business Awards BITC, The School Partnership Award for Building My Skills

- Highly Commended, CITB Awards, Apprentice Award for Apprentice Employer of the Year
- Winner, CIPD North East of England HR&D Awards, Technology Award for Esh Think Change Engagement Programme
- Finalist, CIPD North East of England HR&D Awards, Employee Engagement Award for Esh Think Change Engagement Programme

Esh Construction

- Winner, Hartlepool Civic Society Awards, Conservation Award for Morison Hall

Lumsden & Carroll

- Winner, CECA North East, Going the Extra Mile Award for The Skill Mill
- Winner, CECA North East, Training Company of the Year Award
- Commended, CECA North East, Project of the Year Award for Exhibition Park
- Winner, Water Industry Achievement Awards, Community Project Award for The Skill Mill
- Commended, ICE Yorkshire, Smeaton Medium Project Award for York Velodrome
- Certificate of Excellence, ICE Yorkshire, Sir John Fowler Small Project Award for Lower Newby Weir

Brian Manning

Chief Executive
31 May 2016

ESH CHARITABLE TRUST AND ESH ADDED VALUE



Esh Charitable Trust and Esh Added Value

Esh Charitable Trust works alongside Esh Group to support its work across communities. By the end of 2015 it had received £1.4m funding from the Group.

Our commercial operations are underpinned by the work we deliver in communities throughout the North of England and Scotland. The extent of this work is growing as we expand our geographical area. We deliver Added Value with passion and quality and we thank both our own team and the many businesses that work alongside us on the programmes we deliver.

In 2014, Esh Group adopted the Business in the Community's (BITC) Corporate Responsibility (CR) Index to inform its strategy going forward.

Community

Building My Skills (BMS)

BMS provides students over the age of fifteen a rounded introduction to the world of work through timetabled business engagement.

The year-long employability skills programme is currently delivered free of charge by a business workgroup, made up

of likeminded businesses, corporate partners and supply chain partners. It was originally formed in partnership with colleagues at the North East offices of Ryder, Arup and Turner & Townsend.

Year on year the workgroup has grown and now includes 103 local, national and global businesses from 26 different sectors delivering to secondary school students across the North of England, Central and Southern Scotland.

In 2015, BMS worked with 71 schools and over 7,000 students to deliver over 42,000 learner engagement hours.

The BMS programme is scheduled into the school timetable and each session delivered by a different business guest. Each student completes "checkpoints" based on the business sessions, creating an employability portfolio. Students who complete the programme and their employability portfolio are offered mock interviews. Promising candidates may then be offered work experience, apprenticeships and employment.

In Academic Year 2015/2016, 85% of students taking part in BMS attended every business session and 71% completed all of their work within the employability portfolio.

In 2015, BMS won the BITC (Business in the Community) Schools Partnership Award. Already in 2016, BMS has won the CECA Inspiring Change Award.

"We are very pleased to be involved with Building My Skills; we recognise the importance of providing young people with clear insights into the world of work. It is fabulous that our students have access to adults from a range of business sectors through the programme as they can gain real understanding of the opportunities that exist for them and the attributes that are important to employers."

Paul Bartle, Assistant Head Teacher, Curriculum, Haughton Academy (2016)

In the Academic Year 2016/2017, BMS will expand across our operational areas.





LAUNCHED IN 2012, ESH COMMUNITIES MAKES GRANTS OF UP TO £1,000 TO PROJECTS AND ORGANISATIONS WHICH SHOW THE POTENTIAL TO MAKE A POSITIVE DIFFERENCE FOR THEIR COMMUNITY.



School visit to Esh MWH site

Esh Communities

Launched in 2012, Esh Communities makes grants of up to £1,000 to projects and organisations which show the potential to make a positive difference for their community. The applications process has been designed to be simple and clear. Projects and charities in the areas where we work are entitled to apply for a grant, demonstrating that they align with one or more of our core values:

- improve quality of life and/or employability prospects of residents in the local area
- promote equality by engaging minority, hard to reach, disadvantaged or vulnerable groups
- encourage healthy living, positive lifestyle changes and sustainable communities

In 2015, over £40,800 was given in Esh Community Grants to 44 Projects:

- 12 projects in the North East
- 12 projects in North West
- 7 projects in Scotland
- 13 projects in Yorkshire & Humberside

Yorkshire: The Exodus Project, Barnsley

"We are so thrilled with the help given to Exodus by the Esh Communities Programme. Not only have they supported us financially, but they have provided paint and materials, as well as volunteers and expertise to get our Children's Centre newly decorated. It looks amazing. Thank you on behalf of everyone at Exodus."

Martin Sawdon, Team Leader

North East: Teesdale and Weardale Search and Mountain Rescue Team

“The Esh Communities funding has provided the team of volunteers, 6 sets of clothing equipment including Keela Cumulus winter jackets and 6 over trousers. Without these, completing the search to the best of our abilities would not be possible.”

Michael Holgate, Volunteer

Scotland: Special Needs Play Scheme, East Lothian

“We are delighted to receive support from the Esh Charitable Trust towards covering our transport costs for our 2015 Special Needs Play Scheme. The provision of transport ensures equity of access for all our members, and allows their play scheme fun to start the minute they leave the house. The funding will ensure that this essential transport can be provided in 2015, and we would like to thank all the charity trustees for choosing to support our charity.”

Kirsty Wood, Co-ordinator

North West: The Phoenix Youth Project, Copeland, Cumbria

“The children and young people that attend our youth clubs will be really excited about the funding. This funding will help us increase the numbers of children and young people attending our youth clubs. I would like to say a big thank you to everyone at the Esh Charitable Trust for their generous financial support to our group on behalf of all of our children, young people, staff, volunteers and trustees.”

Paul Rowe, Youth Development Officer

We currently have four kits which are in action across all of our operational areas. This means we can target approximately eight schools each month. Priority is given to schools which are located near to Esh Group Operational Projects, allowing us to engage with the communities in which we work.

“What a fantastic resource for children! The realistic resources have been very inspiring for the children. Using them has encouraged lots of new vocabulary, role play and many conversations. The children and I have thoroughly enjoyed using everything. It gives them a taste of the world outside the classroom.”

Louise Clarke – Framwellgate Moor Primary School

2015/16 Academic Year in summary:

- 4 kits across operational areas
- 31 sessions delivered in North East England Schools
- 9 sessions delivered in North West England Schools
- 20 sessions delivered in Yorkshire schools
- Launch kit in Scotland, March 2016, with an aim to deliver 6 sessions
- Circa 2440 sessions delivered by end of 2015/2016
- In total 66 sessions delivered
- £420 average cost per kit
- Cost per child £0.68p per child (with above figures)
- 40 sessions linked to jobs

STEM

STEM is an acronym for Science, Technology, Engineering and Mathematics. We recognise that many industries in the UK are facing a significant skills gap and a shortage of workers and graduates with STEM skills. This is particularly noticeable in the construction industry, which spans a diverse range of professions.

In partnership with Northumbria University and its “Think Physics” programme, we have been able to create a construction based ‘Get into STEM’ kit, aimed at Key Stage 1 Pupils. We provide free of charge to schools, the STEM Kits which include bright and vibrant materials commonly used in the construction industry.

We believe that teaching STEM related skills from a young age provides an ideal opportunity to introduce children to the world of construction through interaction and discovery. The initiative aligns with the Key Stage 1 Curriculum through the provision of toys and other resources.



Esh Group STEM kit

Environment

Waste

Our approach to waste management is focused on achieving group wide targets for diverting waste from landfill, reducing waste for every £100,000 turnover and using materials from recycled sources. To achieve our targets we set individual project level targets, which are achieved by a combination of identifying opportunities at the design stage, engaging with staff through training and toolbox talks and appointing waste contractors with state of the art recycling facilities.

The UK construction industry generates millions of tonnes of waste each year – more than any other sector. Sustainable construction is one of the biggest issues facing our business. Our aim is to recycle site waste, re-use aggregates and reduce materials taken from quarried sources. We divert as much waste as possible from landfill, and as a result we have reduced waste costs and improved resource management.

We operate an accredited ISO 14001 Environmental Management System which we use as a basis for our waste management and waste policies. Our environmental manuals clearly define company procedures, responsibilities and standards for all staff to follow regarding waste management. We have also adopted the Elite System, a live management system that is updated with our waste and aggregate figures on a monthly basis.

In 2015 we recruited Simon Park to join the Group as Environment and Energy Manager. Simon's main focus within Esh Group is to monitor our energy usage and ultimately reduce it.

Group level targets

- 100% of non-hazardous waste diverted from landfill by 2020;
- 5% reduction in waste/£100,000 turnover by 2020; and,
- 80% of granular aggregates from recycled sources by 2020.

Project level targets

- 8.78 tonnes/ 17.32m³ of waste per £100,000 of project value (BREEAM exemplary practice for refurbishment jobs)
- 95% of demolition waste to be diverted from landfill
- 85% of construction waste to be diverted from landfill

Tursdale Waste Recycling Centre

To tackle the waste we produce through business operations we have created a waste recycling facility located at Tursdale. We can reuse a large proportion of our waste on

other projects around the region. In 2015, we re-used a total of 93,910 tonnes of waste and to date we have currently re-used 148,850 tonnes.

Waste is segregated according to size and material. Materials that are not suitable for recycling are used on restoration projects. A significant proportion of re-useable material is also offered for sale to the market. Currently we have sold more than 99,874 tonnes of materials. This scheme has been extremely successful in diverting re-useable waste from landfill.

“Ecofficiency is proud to provide waste management services to Esh Group throughout the UK. Working closely with Esh project management teams, and with a continued emphasis on diversion from landfill by ensuring sustainable and innovative methods of waste removal, we diverted more than 2,400 tonnes of waste from landfill, accounting for more than 90% of all Esh's waste removed from site. This represents a great achievement and with the continued support of Esh we are confident we can improve diversion figures.”

Jonathan Hodgett, Procurement Director, Ecofficiency

Online Staff Training

Staff awareness is essential to maximise recycling rates and ensure successful waste segregation. We've invested in a bespoke learning management system to support our procedures. The courses have been designed in-house and are informative and structured so staff can progress at their own pace over a number of hours or days. We have recently piloted an Energy and Carbon Champions online course with key staff which has had significant impact.

Marketplace

Payment Days

Esh Group works with more than 450 core material purchasing suppliers, all of which are crucial to our day-to-day activity. To demonstrate our commitment to our supply chain, whilst supporting our business growth, we became signatories to The Prompt Payment Code (PPC) in 2015.

We understand that our business operations require punctual payment and by becoming a signatory to The PPC, we agree to abide by the high standards set out, driving the change in UK payment culture. Esh Group is clear regarding its agreed payment terms. Supplier invoices are targeted to be paid within a maximum of 45 days, with payments made between 42-44 days being achieved.



“We support our supply chain, and particularly small and medium sized enterprise (SME’s) by recognising the positive impact they can have on service delivery and the value that their local knowledge can bring to a project. We recognise one of the challenges facing small businesses is cash flow. To eliminate our impact on their cash flow, we have aligned our payment practices to the Fair Payment Charter and Prompt Payment Code.”

Paul Watson, Esh Group Commercial Director

Meet the Buyer

Regular Meet the Buyer Events are used to enable potential subcontractors and suppliers to speak to us about services they are able to offer on the range of projects that we deliver. These events also enable us to provide advice and support to smaller businesses within local supply chains wishing to participate in frameworks or works within the areas where we operate.

SMEs exist in the areas where we work and have a lot to offer our projects and frameworks. Many SMEs can find it difficult to manage some of the Statutory and Regulatory Requirements that construction projects demand. Esh Group offers support to SMEs in areas such as quality, environmental, health & safety and CO₂ management.

In 2015 we held Meet the Buyer events in the following areas:

- North East England
- Lincolnshire
- Scotland
- West Yorkshire

Supplier Relationship Management

We know our suppliers are fundamental to our business. They should share in our ambition for growth as we share in their ambition for growth.

Esh Group’s supply chain is selected to give us competitive advantage and the Supplier Relationship Management Programme (SRMP) is a strategy to grow that advantage. The programme is based on being a “customer of choice”,

WE BELIEVE THAT A GREAT APPRENTICESHIP PROGRAMME IS ESSENTIAL FOR FUTURE PROOFING GROWTH AND ATTRACTING YOUNG PEOPLE INTO OUR BUSINESS.



joint growth, cost reduction, efficiency gains, preferential treatment regarding availability, value creation and risk management.

The programme encourages innovation, which is not necessarily facilitated by traditional purchasing methods.

We have initially selected 11 suppliers with which we have the highest spend on a quarterly basis. Combined, this group of suppliers accounts for around 49% of our spending on core materials each year.

As part of the Programme we hold quarterly meetings with our Group Procurement Director and representatives from our Group Purchasing Team. These meetings with key suppliers have a set agenda that looks at operational milestones in our activity, which includes spend tracking, performance, engaging on project needs to reduce costs and manage risks, feedback of research and innovation and involvement of suppliers in Esh Group's "Added Value" proposition. The meetings also look at strategic business to business planning.

SRMP also helps us work with suppliers from an early stage in the product and process development cycle, which feeds into the tender/estimating stage and ultimately results in an order so that innovation can be shared. This type of activity aligns the needs of our business with that of the supplier and drives efficiencies, security and sustainability across our work.

The programme also means we build the responsiveness of our supply chain and, as a consequence, Esh Group develops its responsiveness to customer demand.

Steve Richardson, Managing Director at James Burrell, said:

"We have dealt with Esh Group for many years, but since formalising our trading agreement with them through a Supplier Relationship Management Programme we have seen our relationship go from strength to strength. By focusing on strategic matters, as well as quarterly operational elements, we have jointly added value to both our businesses. We have seen benefits from greater efficiencies, including streamlining of the invoicing process and a reduction of our carbon footprint through improvements to our transport fleet."

Workplace

CITB Be Fair Accreditation

Esh Group is committed to the guiding principles of fairness, inclusion and respect within the workplace, complying fully with equality in Employment Legislation. We are undergoing accreditation to the CITB Be Fair Framework.

We have an Online Fairness, Inclusion and Respect training module for all of our team members, including site managers, directors and technical staff.

All employees can access online training resources and site operatives attend mandatory health and safety training that has equality and diversity threaded into each session.

CITB Apprentice Award - Highly Commended

In October 2015, Esh was 'Highly Commended' for the CITB Managing Agent Large Apprenticeship Employer of the Year Award. We believe that a great Apprenticeship Programme is essential for future proofing growth and attracting young people into our business.

CIPD North East of England HR&D Awards, Technology Award – Winner

Our 2013 staff survey showed that there was a slight feeling of disconnection and disengagement within a small percentage of our workforce. We were determined to respond positively, and address our employee's concerns, by introducing a robust system to capture and share ideas, whilst improving our communication and engagement within the Company.

ThinkChange mirrors current social networking applications which are appealing to our younger employees. ThinkChange conveniently connects our staff by means of smart phone, tablet or PC, 365 days a year and it is an efficient way of supporting employee engagement. To date, we have 616 employees registered on the system, with 87% of these regularly active contributors.



Our employees have successfully discussed 26 different ideas on ThinkChange since its launch and 352 employees have engaged more actively, with 52% of employee ideas raised on ThinkChange accepted and taken forward within the Company.

“ThinkChange is developing into a vibrant platform for ideas where employees feel confident to make suggestions for the benefit of the organisation and our clients. ThinkChange helped us to overcome geographical and organisational barriers by connecting front-line employees directly with the organisation’s decision makers and those with the vision to recognise a great idea and to make it a reality. It has also allowed us to unlock employees’ creative talent to address key business challenges.”

Brian Manning, Chief Executive

Also in relation to workplace, we have installed two electric charging points for staff vehicles, introduced conference call facilities to reduce travelling and located automated external defibrillators (AEDs) within our offices.

Future Leaders Programme

Talent capabilities are a challenge for many businesses and our Future Leaders Programme (FLP) has been created to develop the next wave of leaders – supporting our company ethos of “grow our own”. The FLP aims to develop hard working and enthusiastic employees who demonstrate leadership potential to develop into the future leaders of the company. The approach aligns with our long term goal of investing in senior management for the long term.

The aims of the programme are:

- To develop individuals by raising their understanding of and improving their skills in leadership and management at Esh Group;
- To promote the application of knowledge and skills when dealing with real issues;
- To develop personal effectiveness that achieves positive working with others to effectively address challenges and problems; and,

- To develop strategic planning and management skills

Initiated in September 2015, FLP stems from an idea put forward by one of our employees. Around 70-80% of our employees report to middle management, who set the tone for the vast majority of people in our business.

We established a steering group to develop the programme and it became clear we did not want an “off the shelf” product but something bespoke, so that people would learn and understand Esh Group as a business.

Each employee is assigned a workplace mentor who is a Company Director. This person provides support, discussion and critique throughout the two year programme.

Staff Engagement Survey

To date, we have completed 3 annual staff surveys. Our most recent was submitted in 2015, with 485 members of staff taking part. Overall, our 2015 survey results show that 92.6% of our employees are either engaged or actively engaged and 404 employees would recommend Esh Group as a place to work.

- **ThinkChange** – ideas sharing software
- **Reward** - 'Ideas and Innovation' prize for ideas delivering business benefits
- **SharePoint** – daily automatic updates
- **Esh Academy & Future Leaders Programme** - leadership and knowledge sharing opportunities
- **In-House** – Esh Training Solutions manages Training Needs Matrix for whole workforce
- **Monthly Sector Meetings** – communications, Health & Safety, environmental – to share learning and best practice
- **Toolbox Talks** - knowledge enhancement and sharing
- **Transfers Intra-Group** – to share best practice
- **Annual Plan Briefings** – delivered to all employees by Chief Executive

- **Kaleidoscope** - publication shares company news
- **Team Building** - intra-team sports events and family fun days
- **Staff** - can be offered the opportunity to become shareholders and are invited to the AGM
- **Dinner Dance** - staff are invited to the annual company dinner dance each year
- **Flexible Working** - to support our employee wellbeing we offer flexible working opportunities to support family life choices, to date 53 of our employees have opted for flexible working

Apprentice Recruitment, Training and Development

In the construction industry, approximately one in five workers (20%) are approaching retirement age and a further 26% are between 45 and 55 years old. Replacing these retirees alone presents a big recruitment challenge. In addition, research by the Construction Industry Training Board (CITB) estimates that 182,000 extra jobs will be created in the next five years as the economy improves.

Esh Group is working hard to address these issues, from an Apprentice Scheme that is focused on recruiting and nurturing the next generation of talent, to award winning schemes such as Building My Skills, which gives young people much needed employment skills.

New Recruits to Esh Group

- In 2015, 382 new staff members were employed across the business

Apprentices

- 122 apprentices employed - 10% of our total workforce
- 58 new apprentices in 2015
- 150 to be recruited by 2017
- 92% retention rate
- 100% completion rate (34% higher than the industry average)
- £900k invested in apprenticeships

Training

- Employees completed 4930 training courses; and
- £668,134 invested in staff training

Graduates & Traineeships

- 75 members of staff completed further education studies in 2014

- Currently funding 33 employees who are studying a range of courses across 13 different education establishments
- £435k spent on employees education
- 92 employees currently completing further education studies

Women in Construction

Women represent around 11% of the workforce in the construction sector and as little as 1% of the manual trades. The Office of National Statistics (ONS) noted that the number of women who work as roofers, bricklayers and glaziers were so low as to be unmeasurable in its recent national survey. However getting women to consider a career in the construction sector is a big challenge and there appears to be little concern in large parts of the industry about the low level of female employment, but we feel change can happen if the will is there.

At the moment, most young people have little idea of the wide range of employment opportunities available. It is not surprising that many recruits join our industry only because a family member is already involved in construction. We also need to wake up to the possibility of recruiting both women and men at a later stage in their life. While some roles in construction depend upon physical strength, many others require training and the expertise that comes with age and experience.

Business needs to ensure that the workplace culture changes and becomes more welcoming for women. Working on this would enhance the image of the construction sector, showing it as a modern and inclusive industry and somewhere to make a career.

It is also important to attract more women into the construction industry. To support this goal, two of our employees, Sarah Dodds and Francesca Madden, have joined the National Association Women in Construction Committee (NAWIC) and Esh Group is sponsoring the Fourth Anniversary Ball which is to take place on 14th October 2016 at Ramside Hall in Durham.

NAWIC is an international organisation of women and its members include Architects, Lawyers, Engineers, Quantity Surveyors, Project Managers and others working both directly in the Construction Industry and providing services to the Industry.

Former MP and Minister for Women and Equality, Meg Munn, has joined the Group as a Non-Executive Director.

Meg is an expert on the matter of attracting more women into STEM (Science, Technology, Engineering, and Mathematics) Industries and is a Patron of the Women's Engineering Society.



CORPORATE GOVERNANCE

Guiding Principles

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

Esh Group provides all employees with a comprehensive Employee Handbook, 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. This includes overall direction and strategy, major projects to be undertaken, acquisitions and entry to new markets.

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

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

The Board has a schedule of matters reserved for its approval, covering areas such as company strategy, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, reviewing

operating results, risk management strategy, ensuring the effectiveness of governance practices, succession planning and significant capital expenditure.

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

Esh Group operates a standard approach to 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.

Audit Committee

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

To reinforce its management assurance programme and 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.

Employee Share Ownership Scheme

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

Employment Policies and Procedures

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

Ethical Governance

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

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

Health & Safety

Only by setting and maintaining the highest standards across the Group companies 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 both Esh Construction and other group companies are accredited by several other construction monitoring schemes including UVDB (Utilities Vendors Database) and CHAS (The Contractors Health and Safety Assessment Scheme).

WE WORK HARD TO MAKE SURE THAT HEALTH AND SAFETY POLICIES ARE WELL COMMUNICATED, UNDERSTOOD, RESPECTED AND IMPLEMENTED



During 2015, the Group continued with promoting its core belief of Everyone Safely Home. All Safety Documentation and Signage has been rebranded to incorporate the distinctive logo. Promotional material was distributed to all operational sites to publicise Esh Groups commitment to Health and Safety. The improved branding of the Groups Safety Department will assist in promoting a positive Safety Culture within the organisation.

Over the next 12 months Everyone Safely Home will focus on specific H&S topics, as a result of the data gathered from Near Miss Reporting and H&S incidents that occurred in 2015.

Esh Group Environmental Academy

Esh Group understands that construction activities have the potential to impact upon the surrounding environment, from its immediate neighbours to the wider environment. We recognise that well trained staff can ensure effective environmental practices, enabling impacts to be managed successfully and positively. We have developed a strategic

approach to training which allows for all apprentices, office staff, site employees and contractors to receive training interventions.

Esh Group Environmental Academy ensures that all staff are fully briefed and familiar with the objectives of our energy systems ISO 14001 and ISO 50001. We have embedded our environmental and energy reduction courses within our company training needs analysis matrix. The matrix identifies different skills and level of attainment required by various employees to ensure the necessary energy achievements are attained and maintained. Environmental Academy training is completed in an engaging and interactive online programme which includes environmental awareness for construction, waste management, energy and carbon champion courses.

This training was recognised as part of our reaccreditation to the ISO 50001 standard and will play a key role in supporting us through the changes to the ISO 14001 and 9001 standards which will require us to demonstrate increased leadership focus.



DIRECTORS AND ADVISORS



**Michael Hogan,
Non-Executive Chairman**

Michael was appointed as Group Chairman on the retirement of Austin Donohoe.

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



**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; Vice-President, Board and Council Member North East Chamber of Commerce, Chairman of Durham Committee North East Chamber of Commerce, Board Member Changing Lives, Board Member Northumberland Arch, Advisory Board Member Business Durham, Board Member Castle View Enterprise Academy Member of the Regional Leadership team for BITC and Regional Council of CBI.



**Andy Radcliffe,
Financial Director & Company Secretary**

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



John Davies, Executive Director

John joined Lumsden & Carroll in 1990 and was appointed Managing Director in 2002. In 2006, he was additionally appointed Executive Director for Esh Group's construction businesses and in 2011 became Managing Director of Esh Construction having been Group Operations Director of the contracting companies for the previous two years. John was appointed to the Board of Constructing Excellence in 2013.



**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.



Jack Lumsden, Non-Executive Director

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



John Walker, Non-Executive Director

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



Meg Munn, Non-Executive Director

Former MP and Minister for Women and Equality, Meg Munn has joined the Group as a Non-Executive Director.

Ms Munn is an expert on the issue of attracting more women into STEM (Science, Technology, Engineering, and Mathematics) industries, and is a Patron of the Women's Engineering Society.



Esh Group is a trading name of Esh Holdings Limited.

Company secretary of Esh Holdings Limited

Andy Radcliffe

Independent auditor

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

Legal advisor

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

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

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

HSBC
110 Grey Street
Newcastle upon Tyne
NE1 6JG

Handelsbanken
Ground Floor
Winder House
Kingfisher Way
Stockton-on-Tees
TS18 3EX



STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2015.

Principal activities

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

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

Business review

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

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

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

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

Risk description	How it is mitigated
<p>Project execution</p> <p>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.</p> <p>Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.</p>	<p>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.</p> <p>We also have public indemnity cover to provide further safeguards.</p>
<p>Tendering</p> <p>Through our different business units we seek to win profitable work through a large number of competitive tenders and contract negotiations.</p> <p>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.</p>	<p>All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources.</p> <p>We have delegated authority levels for approving all tenders and a formal tender review process.</p> <p>We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders.</p> <p>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.</p>
<p>People</p> <p>We need to recruit and retain the best management and employees. These staff should have appropriate competencies and also share our values and behaviours.</p>	<p>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.</p> <p>This process has recently been enhanced by the introduction of a Future Leaders Programme (FLP), designed to develop the leadership and organisational skills to our highlighted high potential employees. People matters are reviewed regularly and discussed at all levels within the organisation and by the Board.</p> <p>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.</p>

Risk description	How it is mitigated
<p>Supply chain</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p>Health and safety</p> <p>The Group works on projects which require continuous monitoring and management of health and safety risks.</p>	<p>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.</p> <p>Accident frequency rates remain well below the industry average.</p> <p>Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.</p>
<p>Regulatory, market and economic</p> <p>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.</p>	<p>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.</p> <p>The housing market remains stable, but continues to be underpinned by favourable political support and monetary policy, thereby implying risk should these positions change. Whilst a reasonable proportion of the group is associated with the housing market, we have considerably de-leveraged our association with the sector from where it was before the recession.</p>
<p>Business process and IT systems</p> <p>To continue to expand the business the Esh Group acknowledge that information and associated technology must be robust and meet business needs. The current legacy systems and architecture require replacement.</p>	<p>Project Gateway is an Esh Group business transformation project to put in place a new integrated business management system and robust IT infrastructure for the future.</p>



The Engine Shed, Scotland

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

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

Signed on behalf of the Board

A E Radcliffe

Director
31 May 2016

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF



HEALTH AND SAFETY
REMAINS THE FIRST
AGENDA ITEM AT ALL
BOARD MEETINGS, AND
IS A CRITICAL FOCUS
FOR ALL DIRECTORS.

DIRECTORS' REPORT

The directors present their directors' report for the year ended 31 December 2015.

Financial instruments

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

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

Interest rate risk

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

Liquidity risk

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

Towards the end of the year, the group entered into a new, £20m multipurpose credit facility with Lloyds Banking Group to provide working capital flexibility and also to fund certain development activities. The directors believe these facilities provide ample access to liquidity to fund the future plans for the business.

In the last quarter of 2015, the group successfully renegotiated its arrangements with the two remaining banks funding

Dunelm Homes Ltd and Esh Homes Ltd. This negotiation concluded with a final repayment of an agreed principal sum plus accrued interest and fees to the banks, thereby leading to a fully discharged liability and as such a solvent outcome for the businesses. Dunelm Homes Ltd, nor Esh Homes Ltd, require any bank funding to support their now reduced level of activity, which the directors believe can be fulfilled by use of group cash reserves.

At 31 December 2015, the Group had cash at bank and in hand of £29.1m, which is expected to be more than sufficient to fund the working capital needs for the group.

Credit risk

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

Proposed dividends

Dividends paid during the year comprise final dividends of £1.6m in respect of the previous year.

Directors

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

A J Carroll
J P Davies
A Donohoe (Resigned 9th April 2015)
M F Hogan
J G Lumsden
B Manning
A E Radcliffe
J R Walker

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



Employees

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

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

Political contributions

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

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;



- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

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

Disclosure of information to auditor

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

Auditor

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

By order of the board

A E Radcliffe

Director
31 May 2016

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF





INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ESH HOLDINGS LIMITED

Report on financial statements

Our opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2015 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated and Company balance sheets as at 31 December 2015;
- the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated and Company statement of changes in equity for the year then ended;
- the Statement of accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102.

"The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 31 and 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements

and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Greenaway (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
31 May 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Turnover			
Group and share of joint ventures from continuing operations		275,547	261,020
Turnover from acquisitions		-	15,757
Less: share of joint ventures' turnover		(19)	(16)
Group turnover	1	275,528	276,761
Cost of sales		(252,344)	(254,377)
Gross profit		23,184	22,384
Administrative expenses		(11,865)	(10,781)
Other operating income		-	-
Operating profit		11,319	11,603
Attributable to continuing operations		11,319	11,755
Attributable to acquisitions		-	(152)
Share of operating loss in joint ventures		(64)	(8)
Total operating profit		11,255	11,595
Profit on sale of fixed assets		187	337
Income from shares in group undertakings		74	68
Amounts written off investments		185	(288)
Interest receivable and similar income	5	302	524
Interest payable and similar charges	6	(3,400)	(2,741)
Profit on ordinary activities before taxation	2	8,603	9,495
Tax on profit on ordinary activities	7	(1,483)	(1,925)
Profit on ordinary activities after taxation attributable to:			
- Owners of the parent		7,120	7,570
- Minority interests	20	(60)	9
Profit for the financial year		7,060	7,579
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to:			
- Owners of the parent		7,120	7,570
- Minority interests		(60)	9

All results derive from continuing activities.

CONSOLIDATED BALANCE SHEET

as at 31 December 2015

	Note	2015		2014	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets					
Goodwill	9		33		59
Negative goodwill	9		-		(1,392)
Tangible assets					
Investment properties	11		1,397		1,349
Investments					
Investments in joint ventures		(295)		(246)	
Loans to joint ventures		1,774		1,998	
			1,479		1,752
			20,777		17,514
Current assets					
Stocks	13	11,371		17,858	
Debtors: amounts falling due within one year	14	44,535		42,238	
Debtors: amounts falling due after more than one year	14	2,231		2,555	
Cash at bank and in hand		29,080		32,360	
		87,217		95,011	
Creditors: amounts falling due within one year	15	(59,003)		(70,191)	
Net current assets			28,214		24,820
Total assets less current liabilities			48,991		42,334
Creditors: amounts falling due after more than one year	16	(5,188)		(5,034)	
Provisions for liabilities	17	-		-	
Net assets			43,803		37,300

CONSOLIDATED BALANCE SHEET

as at 31 December 2015 (continued)

	Note	2015		2014	
		£'000	£'000	£'000	£'000
Capital and reserves					
Called up share capital	19		20,500		25,185
Share premium account			29		3
Employment benefit trust reserve			(653)		(654)
Retained earnings			23,569		12,240
Total shareholders' funds					
Minority interests	20		358		526
Capital employed					
			43,803		37,300

The financial statements on pages 36 to 78 were approved by the board of directors on 31 May 2016 and were signed on its behalf by:

M Hogan

Non-Executive Chairman

Company registered number: 03724890

COMPANY BALANCE SHEET

as at 31 December 2015

	Note	2015		2014	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10		7,955		6,634
Investment properties	11		386		386
Investments	12		7,342		7,243
			15,683		14,263
Current assets					
Debtors: amounts falling due within one year	14	9,724		10,225	
Debtors: amounts falling due after more than one year	14	2,231		2,132	
Cash at bank		17,809		3,358	
			29,764	15,715	
Creditors: amounts falling due within one year	15	(17,224)		(2,574)	
Net current assets			12,540		13,141
Total assets less current liabilities			28,223		27,404
Creditors: amounts falling due after more than one year	16		(3,140)		(2,407)
Provisions for liabilities	17		(173)		(196)
Net assets			24,910		24,801
Capital and reserves					
Called up share capital	19		20,500		25,185
Share premium account			29		3
Employment benefit trust reserve			(653)		(654)
Retained earnings			5,034		267
Total shareholders' funds			24,910		24,801

The financial statements on pages 36 to 78 were approved by the board of directors on 31 May 2016 and were signed on its behalf by:

M Hogan

Non-Executive Chairman

Company registered number: 03724890

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Called up share capital	Share premium account	Employment benefit trust reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	25,185	2	(645)	6,214	30,756
Profit for the financial year	-	-	-	7,579	7,579
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	7,579	7,579
Premium on shares issued	-	1	-	-	1
Dividend on shares	-	-	-	(1,553)	(1,553)
Shares transactions by EBT	-	-	(9)	-	(9)
Total transactions with owners, recognised directly in equity	-	-	(9)	(1,553)	(1,561)
Balance at 31 December 2014	25,185	3	(654)	12,240	36,774
Profit for the financial year	-	-	-	7,060	7,060
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	7,060	7,060
Redemption of preference shares	(4,685)	-	-	-	(4,685)
Premium on shares issued	-	26	-	-	26
Transfer to minority interest	-	-	-	5,825	5,825
Dividend on shares	-	-	-	(1,556)	(1,556)
Shares transactions by EBT	-	-	1	-	1
Total transactions with owners, recognised directly in equity	(4,685)	26	1	4,269	(389)
Balance at 31 December 2015	20,500	29	(653)	23,569	43,445

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Called up share capital	Share premium account	Employment benefit trust reserve	Retained earnings	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2014	25,185	2	(645)	566	25,108
Profit for the financial year	-	-	-	1,254	1,254
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,254	1,254
Premium on shares issued	-	1	-	-	1
Dividend on shares	-	-	-	(1,553)	(1,553)
Shares transactions by EBT	-	-	(9)	-	(9)
Total transactions with owners, recognised directly in equity	-	-	(9)	(1,553)	(1,561)
Balance at 31 December 2014	25,185	3	(654)	267	24,801
Profit for the financial year	-	-	-	6,323	6,323
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	6,323	6,323
Redemption of preference shares	(4,685)	-	-	-	(4,685)
Premium on shares issued	-	26	-	-	26
Dividend on shares	-	-	-	(1,556)	(1,556)
Shares transactions by EBT	-	-	1	-	1
Total transactions with owners, recognised directly in equity	(4,685)	26	1	(1,556)	(6,214)
Balance at 31 December 2015	20,500	29	(653)	5,034	24,910

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Net cash from operating activities	21	9,529	17,352
Taxation paid		(2,130)	(1,993)
Net cash generated from operating activities		7,399	15,359
Cash flow from investing activities			
Purchase of tangible assets		(2,334)	(1,467)
Acquisitions		-	132
Proceeds from disposals of tangible assets		870	842
Proceeds from sale of investments		409	21
Purchase of investment property		-	93
Interest received		302	524
Dividends received		74	262
Net cash (used in)/generated from investing activities		(679)	407
Cash flow from financing activities			
Redemption of share capital		(4,686)	-
Repayment of obligations under finance leases		(3,052)	(2,168)
Share transactions by EBT		1	(10)
Debt capitalisation/(repayment of bank borrowings)		2,700	(4,556)
Issue of shares		26	1
Dividends paid		(1,589)	(1,563)
Interest paid		(3,400)	(2,741)
Net cash used in financing activities		(10,000)	(11,037)
Net (decrease)/increase in cash at bank and in hand		(3,280)	4,729
Cash and cash equivalents at the beginning of the year		32,360	27,631
Cash and cash equivalents at the end of the year		29,080	32,360

STATEMENT OF ACCOUNTING POLICIES

General information

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

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

Statement of compliance

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

The Group and Company have not early adopted the amendments to FRS 102 which were issued in July 2015.

Summary of significant accounting policies

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

Basis of preparation

These consolidated and separate financial statements are prepared on the going concern basis, in accordance with applicable UK Accounting Standards, under the historical cost convention as modified by recognition of investment properties and some financial asset and financial liabilities at fair value. This is the first year in which the financial statements have been prepared under FRS 102. The date of transition to FRS 102 was 1 January 2014. Details of the transition to FRS 102 are disclosed in note 27.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires

management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in policy “Critical judgements and estimates in applying the accounting policies” within this note.

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

Going concern

Further information on the group’s business activities, together with factors likely to affect its future development are set out in the Chairman’s report, the Chief Executive’s report, the strategic report and the directors’ report.

The Group recorded a profit on ordinary activities before taxation for the year of £8.6m.

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

The majority of the Group undertakings, including the Parent Company, Esh Investments Ltd, but excluding Dunelm Homes Limited and Dunelm (Bowburn) Limited, are subject to Group cross guaranteed banking arrangements. The remainder of the group trades with a large number of customers and suppliers across a number of sectors and expects to meet day to day working capital requirements through existing considerable cash reserves, which totalled £29.1m.

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

Basis of consolidation

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

(i) Subsidiaries

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

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

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

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

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

(ii) Joint arrangements

Investments in joint arrangements can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. The classification depends on the contractual rights and obligations of each investor, rather

than the legal structure of the joint arrangement. Esh Holdings Limited has joint venture classified as jointly controlled entities.

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

(iii) Associates

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

Equity method of accounting

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

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

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

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

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

Where the Group has established employee benefit trusts ('EBT') or and is the sponsoring entity, notwithstanding the legal duties of the trustees, the Group considers that it has 'de facto' control of such entities. Such arrangements are accounted for as assets and liabilities of the sponsoring company and included in the consolidated financial statements as appropriate. The Company's equity instruments held by the EBT are accounted for as if they were the

Company's own equity and are treated as treasury shares. No gain or loss is recognised in profit or loss or other comprehensive income on the purchase, sale or cancellation of the Company's own equity held by either the EBT.

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

Exemptions for qualifying entities under FRS 102

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

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

- (i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102; from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- (iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- (iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Foreign Currency

(i) Functional and presentation currency

The Group financial statements are presented in pound sterling and rounded to thousands.

The Company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

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

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at

period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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

(iii) Translation

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

Turnover

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

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

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

a) Long/short term contracts

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

b) Property sales

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

c) Supply of service

Turnover from the supply of services represents the value of services provided under contracts to the extent that

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

Government grants

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

Employee benefits

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

(i) Short term benefits

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

(ii) Defined contribution pension plans

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

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

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is

calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax

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

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

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

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

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

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

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

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

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

Goodwill is amortised over its expected useful life which is 10 years, the period over which the directors consider the Group will derive continuing economic benefit. Goodwill is assessed for impairment when there are indicators of

impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

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

Investments

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

Tangible assets and depreciation

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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

Freehold buildings	-	50 years
Leasehold properties	-	40 years
Plant and machinery	-	5 years

No depreciation is provided on freehold land.

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

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

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

Investment properties

Investment property, which is property held to earn rentals and/or for capital appreciation, including property under construction for such purposes, is measured initially at its

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

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

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

Impairment of non-financial assets

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

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

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

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

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

Leases

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

(i) Finance lease

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

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

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating lease

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

(iii) Lease incentives

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

The Group and Company have taken advantage of the exemption in respect of lease incentives on leases in existence on the date of transition to FRS 102 (1 January

2014) and continues to credit such lease incentives to the statement of comprehensive income over the period to the first review date on which the rent is adjusted to market rates.

Stocks

Housebuilding stocks and work in progress

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

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

Other stocks

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

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

Cash and cash equivalents

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

Provisions and contingencies

(i) Provisions

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

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

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

(ii) Contingencies

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

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Long term contracts

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

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

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

Financial instruments

Classification of financial instruments issued by the company

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

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

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

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

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

(i) Financial assets

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

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

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

(i) Financial liabilities

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

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

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

Related party transactions

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

Dividends on shares presented within shareholders' funds

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

Critical accounting judgements and key source of estimation uncertainty

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

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

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

(i) Turnover recognition

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

(ii) Long term contracts

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

reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

(iii) Valuation investments in land

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

Future amendments to FRS 102

Amendments to FRS 102 were issued in July 2015 as a result of changes to the EU-directives and UK Companies Regulations. The amendments are mandatory for periods beginning on or after 1 January 2016, with early adoption permitted for periods beginning on or after 1 January 2015, the company has not early adopted these amendments. Entities will have to adopt and comply with all amendments if they elect to early adopt the Amendments to FRS 102 (issued in July 2015). None of these are expected to have a significant effect on the financial statements of the Group Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

1. Group turnover

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

	2015 £'000	2014 £'000
Construction	173,460	148,101
Housing and land	31,198	34,599
Property services	69,408	93,019
Business support	1,462	1,042
Group turnover	275,528	276,761

2. Profit on ordinary activities before taxation

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets:		
Owned	1,053	917
Leased	1,247	1,233
Amortisation of goodwill	26	26
Amortisation of negative goodwill – Border Construction	(1,392)	(885)
Hire of assets	14,506	13,264

The cost of sales attributable to acquisitions in the prior year totalled £15.4m of the prior year total £254.4m and the administrative expenses totalled £0.5m of the prior year total £10.8m.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

2. Profit on ordinary activities before taxation (continued)

Auditor's remuneration

	2015 £'000	2014 £'000
Audit of these financial statements	28	28
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	90	90
Taxation compliance services	29	27
Other tax advisory services	-	-
Other corporate finance services	-	7
All other services	-	-

3. Directors' emoluments

	2015 £'000	2014 £'000
Directors' emoluments	912	894
Company contributions to money purchase pension schemes	35	37

The aggregate emoluments of the highest paid director were £341,000 (2014: £348,000), and company pension contributions of £nil (2014: £5,667) were made to a money purchase scheme on his behalf.

	Number of directors	
	2015	2014
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	2	2

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

4. Staff numbers and costs

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

	2015	2014
Production staff	596	543
Administrative staff	635	562
	1,231	1,105

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	41,099	36,343
Social security costs	4,159	3,736
Other pension costs (note 24)	1,184	996
	46,442	41,075

5. Interest receivable and similar income

	2015 £'000	2014 £'000
Bank interest	302	524

6. Interest payable and similar charges

	2015 £'000	2014 £'000
On bank loans and overdrafts	3,228	2,602
Finance charges payable in respect of finance leases and hire purchase contracts	172	139
	3,400	2,741

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

7. Taxation on profit on ordinary activities

(a) Tax expense included in profit or loss

	£'000	2015 £'000	£'000	2014 £'000
UK corporation tax				
Current tax on income for the year	1,362		1,943	
Adjustments in respect of prior years	42		(35)	
		1,404		1,908
Share of joint ventures' current tax		-		-
Total current tax		1,404		1,908
Deferred tax (see note 17)				
Origination/reversal of timing differences	98		18	
Effect of decreased tax rate	-		-	
Adjustments in respect of prior years	(19)		(1)	
Total deferred tax		79		17
Tax on profit on ordinary activities		1,483		1,925

(b) Reconciliation of tax charge

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.49%). The differences are explained below:

	2015 £'000	2014 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	8,603	9,525
Current tax at 20.25% (2014: 21.49%)	1,741	2,047
<i>Effects of:</i>		
Tax losses	(28)	-
Capital allowances for the year in excess of depreciation	-	(116)
Tax Rate changes	23	-
Income not taxable	(15)	-
Other timing differences	-	(98)
Expenses not taxable/(deductible) for tax purposes	(261)	128
Adjustments to tax charge in respect of previous years	23	(36)
Total tax charge for the year (see above)	1,483	1,925

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

7. Taxation on profit on ordinary activities (continued)

Factors that may affect future current and total tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements.

8. Dividends

The aggregate amount of dividends paid in the year comprises:

	2015 £'000	2014 £'000
Non voting preference shares of £1 each		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	467	467
Dividends paid in respect of the year	492	489
Voting preference shares of £1 each		
Final dividend paid in respect of prior year but not recognised as liabilities in that year	597	597
	1,556	1,553

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

9. Intangible assets

Group

	Goodwill £'000	Negative goodwill £'000	Total £'000
Cost			
At 1 January 2015	1,128	(2,277)	(1,149)
Acquisition	-	-	-
Disposals	-	-	-
At 31 December 2015	1,128	(2,277)	(1,149)
Amortisation			
At 1 January 2015	1,069	(885)	184
Charged in year	26	(1,392)	(1,366)
At 31 December 2015	1,095	(2,277)	(1,182)
Net book value			
At 31 December 2015	33	-	33
At 31 December 2014	59	(1,392)	(1,333)

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.

The Company has no intangible assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

10. Tangible assets

Group

	Freehold land and buildings £'000	Leasehold properties £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2015	6,992	-	17,820	24,812
Additions	1,797	-	3,308	5,105
Disposals	-	-	(3,061)	(3,061)
At 31 December 2015	8,789	-	18,067	26,856
Accumulated depreciation				
At 1 January 2015	292	-	8,774	9,066
Charge for year	69	-	2,231	2,300
On disposals	-	-	(2,378)	(2,378)
At 31 December 2015	361	-	8,627	8,988
Net book value				
At 31 December 2015	8,428	-	9,440	17,868
At 31 December 2014	6,700	-	9,046	15,746

Included in the total net book value of plant and machinery is £6,981,166 (2014: £6,313,369) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets is disclosed in note 2.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

10. Tangible assets (continued)

Company

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2015	6,469	1,694	8,163
Additions	1,507	42	1,549
Disposals	-	(131)	(131)
At 31 December 2015	7,976	1,605	9,581
Depreciation			
At 1 January 2015	273	1,256	1,529
Charge for year	59	161	220
On disposals	-	(123)	(123)
At 31 December 2015	332	1,294	1,626
Net book value			
At 31 December 2015	7,644	311	7,955
At 31 December 2014	6,196	438	6,634

Included in the total net book value of plant and machinery is £6,000 (2014: £48,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £34,000 (2014: £59,000).

11. Investment properties

	Group £'000	Company £'000
Valuation		
At 1 January 2015	1,349	386
Additions	-	-
Disposals	-	-
Fair value adjustments included in profit or loss	48	-
Impairment	-	-
At 31 December 2015	1,397	386

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

11. Investment properties (continued)

The fair values of the Group's investment property at December 31, 2015 and 2014 have been based on the market comparable approach that reflects recent transaction prices for similar properties, where the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties / other methods. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year.

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

The historical cost of the Group's investment properties is £1,350,000 (2014: £1,350,000).

The historical cost of the Company's investment properties is £386,000 (2014: £386,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

12. 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 1 January 2015	132	2,713	600	375	3,820
Additions	-	2	-	-	2
Repayments	-	(226)	-	-	(226)
At 31 December 2015	132	2,489	600	375	3,596
Provisions					
At 1 January 2015	-	(715)	(600)	(375)	(1,690)
Made during the year	-	-	-	-	-
At 31 December 2015	-	(715)	(600)	(375)	(1,690)
Share of post acquisition reserves					
At 1 January 2015	(378)	-	-	-	(378)
Disposal	-	-	-	-	-
Retained profits less losses	(49)	-	-	-	(49)
At 31 December 2015	(427)	-	-	-	(427)
Net book value					
At 31 December 2015	(295)	1,774	-	-	1,479
At 31 December 2014	(246)	1,998	-	-	1,752

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

12. Investments (continued)

Company

	Shares in joint ventures £'000	Loans to joint ventures £'000	Shares in participating interests £'000	Loans to participating interests £'000	Total £'000
Cost					
At 1 January 2015	26,553	332	530	1,941	29,356
Additions	125	224	-	-	349
Repayments	(26)	-	-	-	(26)
At 31 December 2015	26,652	556	530	1,941	29,679
Provisions					
At 1 January 2015	(20,309)	(332)	(530)	(942)	(22,113)
Made during the year	-	(224)	-	-	(224)
At 31 December 2015	(20,309)	(556)	(530)	(942)	(22,337)
Net book value					
At 31 December 2015	6,343	-	-	999	7,342
At 1 January 2015	6,244	-	-	999	7,243

At the end of 2015 the directors conducted a review of the carrying values of the company's investments in subsidiary undertakings. Based on this the carrying value of the investments are considered to be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

12. Investments (continued)

The 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
Border Construction Limited ¹	100%	Civil engineering and building contractor
Border Construction (Holdings) Limited ^{1,2}	100%	Civil engineering and building contractor
Sones Maintenance & Environmental Limited	100%	Landscaping contractor
Deerness Fencing Limited	100%	Fencing contractor
Esh Developments Limited	100%	Land and property development
Bartram Walker Limited	100%	Mechanical, electrical and plumbing contractor
Dunelm Homes Limited	100%	Housebuilder
Esh Homes Limited	100%	Housebuilder
Philadelphia Estates Limited ¹	*100% +30%	Property letting
Philadelphia Properties Limited ¹	*100% +30%	Property letting
Mechplant (North East) Limited	80%	Plant hire
Tursdale Business Park Limited ¹	41% +12.5%	Property letting
Dunelm National Projects 2 Limited	100%	Construction training
Dunelm Property Services Limited ¹	100%	Social housing – refurbishment of new build
Esh Acorn Homes Limited ¹	100%	Housebuilder
Stephen Easten Building Limited ¹	100%	Commercial builder
Wilkinson Facilities Services Limited ¹	100%	Property and Facilities Management
Esh Communities Limited	100%	Non trading
Esh Education Limited	100%	Non trading
Lumsden & Carroll Construction (Northern) Limited ¹	100%	Commercial builder
Dunelm (Bowburn) Limited ¹	100%	Land and property development
Green Energies 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 ²	51%	Site investigation

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Remedios Limited ¹	75%	Site investigation
Boathouse Lane Projects Limited ¹	100%	Land and property development
Venture Feethams Limited ¹	100%	Land and property development
Venture House 08 09 10 Limited ¹	100%	Dormant
Venture House RP Limited	100%	Dormant
David Wilkinson Building Contractors Limited ¹	100%	Dormant
SET Construction Projects Limited	100%	Dormant
Esh EBT Trustee Limited	100%	Non trading
Esh Green Limited ¹	100%	Non trading
Tursdale Recycling Limited	100%	Waste disposal and recycling
J Tonks (Transport) Limited	100%	Waste disposal and recycling
Tonks Recycling Limited	100%	Waste disposal and recycling
Joint ventures		
Esh Energy Limited ¹	49%	Renewable energy
Pure Renewable Energies Limited ¹	44%	Renewable energy
Micropump (NE) Limited	50%	Plant hire
Prestige Exclusive Homes Limited ¹	50%	Property development
Holborn Regeneration LLP	50%	Property development
Boathouse Lane (Freehold) Limited ¹	50%	Non-trading
Esh MWH Ltd	50%	Civil engineering
Participating interests		
Esh Space The Park Limited ¹	15%	Property development
Venture Wallsend Limited ¹	49%	Dormant
M62 Developments Limited ¹	43%	Dormant
Esh Space Land Limited ¹	15%	Non trading

*voting +equity ¹investment held indirectly ²Scottish registered company

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

13. Stocks

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Raw materials and consumables	7,497	9,940	-	-
Work in progress	3,874	7,918	-	-
	11,371	17,858	-	-

The amount of stock recognised as an expense during the year was £28,878,000 (2014: £40,697,000).

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

14. Debtors

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Trade debtors	8,891	10,815	38	40
Amounts recoverable on contracts	30,495	28,679	-	-
Amounts owed by group undertakings	1,589	-	7,914	8,582
Deferred tax	163	242	-	-
VAT receivable	216	-	85	-
Amounts owed by undertakings in which the Company has a participating interest (note 25)	1,297	252	22	24
Corporation tax recoverable	-	-	1,172	1,104
Other debtors	2,376	2,877	2,325	2,260
Prepayments and accrued income	1,739	1,928	399	347
	46,766	44,793	11,955	12,357

Group 'other debtors' include £2,231,000 (2014: £2,555,000) due after more than one year. Company 'other debtors' include £2,231,000 (2014: £2,132,000) due after more than one year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

15. Creditors: amounts falling due within one year

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Bank loans (note 16)	10,598	14,282	10,355	141
Obligations under finance leases and hire purchase contracts (note 16)	2,744	2,425	21	49
Payments received on account	3,652	1,732	-	-
Trade creditors	9,599	11,873	613	747
Amounts owed to group undertakings	-	-	4,834	361
Amounts owed to undertakings in which the Company has a participating interest (note 25)	1	19	-	-
Corporation tax	83	794	-	-
Other taxation and social security	2,018	2,389	255	564
Other creditors	1,208	1,615	230	61
Accruals and deferred income	29,100	35,062	916	651
	59,003	70,191	17,224	2,574

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

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Bank loans	3,140	2,385	3,140	2,385
Other loans (note 25)	50	50	-	-
Obligations under finance leases and hire purchase contracts	1,998	2,599	-	22
	5,188	5,034	3,140	2,407

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

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

Analysis of debt

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Debt can be analysed as falling due:				
In one year or less, or on demand	13,342	16,707	10,376	190
Between one and two years	2,142	2,029	530	162
Between two and five years	3,046	1,183	2,610	422
In five years or more	-	1,822	-	1,822
	18,530	21,741	13,516	2,596

Further details of bank loans are provided below:

Esh Holdings Limited

Esh Holdings Limited loans represent:

- A Commercial Mortgage £3.5m that is repayable in quarterly instalments on a ten year repayment profile. Next review date December 2020.
- A 5 year Revolving Credit Facility £10m. Review date December 2020.

The RCF and Commercial Mortgage are secured upon properties in Bowburn, Newton Aycliffe and Cramlington and are subject to interest at LIBOR + 1.9% and 1.75% per annum respectively.

ABC Rental Properties Limited

ABC Rental Properties Limited loan of £243,358 with Santander, repayable in monthly instalments with no fixed date of maturity. The loan is subject to interest at LIBOR + 2.25% and is secured by fixed and floating charges over the assets of ABC Rental Properties Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

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

Finance leases

The future minimum finance lease payments are as follows:

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Not later than one year	2,845	2,537	21	50
Later than one year and not later than five years	2,034	2,651	-	22
Later than five years	-	-	-	-
Total gross payments	4,879	5,188	21	72
Less: finance charges	(137)	(164)	-	(2)
Carrying amount of liability	4,742	5,024	21	70

17. Deferred taxation

	Group £'000	Company £'000
At 1 January 2015	(242)	196
Charge to the profit and loss	79	(23)
At 31 December 2015	(163)	173

The elements of deferred taxation are as follows:

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Differences between accumulated depreciation and capital allowances	(163)	(242)	173	196

There are no unused tax losses or unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

18. Financial instruments

Group

The Group has the following financial instruments:

	Note	2015 £'000	2014 £'000
Financial assets measured at amortised cost:			
Trade debtors	14	8,891	10,815
Amounts recoverable on contracts	14	30,495	28,679
Amounts owed by group undertakings		1,589	-
Amounts owed by undertakings in which the Company has a participating interest		1,297	252
Other debtors	14	2,376	2,877
		44,648	42,623
Financial liabilities measured at amortised cost:			
Bank loans	16	13,738	16,667
Obligations under finance leases and hire purchase contracts	16	4,742	5,024
Amounts owed to undertakings in which the company has a participating interest		1	19
Payments received on account	15	3,652	1,732
Trade creditors	15	9,599	11,873
Other loans	15	50	50
Other creditors	15	1,208	1,615
		32,990	36,980

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

18. Financial instruments (continued)

Company

The Company has the following financial instruments:

	Note	2015 £'000	2014 £'000
Financial assets measured at amortised cost:			
Trade debtors	14	38	40
Amounts owed by group undertakings	14	7,914	8,582
Amounts owed by undertakings in which the company has a participating interest	14	22	24
Other debtors	14	2,325	2,260
		10,299	10,906

Financial liabilities measured at amortised cost:

Bank loans	16	13,495	2,526
Obligations under finance leases and hire purchase contracts	16	21	71
Amounts owed to group undertakings	15	4,834	361
Trade creditors	15	613	747
Other creditors	15	231	61
		19,194	3,766

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

19. Called-up share capital

	2015		2014	
	Number of shares	£'000	Number of shares	£'000
Allotted, called up, issued and fully paid				
Non-voting ordinary shares of 0.1p each	9,782,430	10	9,782,430	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
	30,272,617	20,500	34,958,267	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. These shares have been redeemed during the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

19. Called-up share capital (continued)

The Group and Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares.

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

Employment benefit trust (EBT) reserve consists of shares repurchased by the Group's Employee Benefit Trust. At the end of the year the EBT held 229,743 preference shares of £1 each (2014: 229,743), nil non-voting shares of 0.1p each (2014: 19,963) and 318,283 voting ordinary shares of £1 each (2014: 318,283) at a combined cost of £653,474 (2014: £654,267).

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.

20. Minority interests

	Group £'000
At 1 January 2015	526
Total comprehensive income attributable to minority interests	60
Dunelm Homes restructure	(196)
Dividends paid to minority interest	(32)
At 31 December 2015	358

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

21. Reconciliation of operating profit to operating cash flows

	2015 £'000	2014 £'000
Profit for the financial year	7,120	7,570
Tax on profit on ordinary activities	1,483	1,925
Net interest expense	3,098	2,217
Income from shares in group undertakings	(74)	(68)
Impairment of fixed asset investments	(185)	288
Income from joint ventures	64	8
Profit on sale of fixed assets	(187)	(337)
Operating profit	11,319	11,603
Amortisation of intangible assets	(1,366)	(859)
Depreciation of tangible assets	2,300	2,150
Revaluation of investment property	(47)	(30)
Working capital movements		
- Decrease in inventories	6,488	4,759
- Increase in debtors	(2,053)	(1,972)
- (Decrease)/increase in payables	(7,112)	1,701
Cash flow from operating activities	9,529	17,352

22. Contingent liabilities

Flood Damage arising at Newburn, Newcastle upon Tyne

The group continues to pursue recovery of loss and expense incurred as a result of the flood damage arising at Dunelm Homes Limited's development at Newburn, Newcastle upon Tyne which occurred in the Autumn of 2012

With the exception of some minor incidental costs, expenditure on the site has ceased, with efforts now focussed upon the impending litigation against those we believe to be responsible, with this action being headed up by the principal insurer. An agreement has been reached with the insurer whereby they will fund the entire legal process. The directors believe this to be the most cost effective and efficient process by which to recover costs and losses incurred. Whilst gradual progress continues to be made, the Directors believe this process could take some considerable time to reach a conclusion.

The Directors remain wholly convinced that Dunelm Homes Ltd neither caused, nor contributed to any of the damage caused on the development, and firmly believe that other parties are culpable for losses incurred by those impacted by this event.

Based upon the above, the directors believe that there are no further un-provided costs to accrue to the company in respect of this issue. As no reasonable quantification of any cost recovery can be made at this stage, no amounts have been recognised in these financial statements for such recovery.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

22. Contingent liabilities (continued)

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 £6.1m (2014: £4.1m) at the year end. Aggregate Group borrowings guaranteed by the company but not provided for in the company's financial statements amounted to £6.1m (2014: £4.1m).

23. Commitments

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

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Contracted	2,050	1,688	1,520	-

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

	2015 £'000	2014 £'000
Group		
Operating leases which expire:		
Within one year	192	55
One to five years	802	390
More than five years	-	-
	994	445

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

24. Pension scheme

Group

The Group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £1,184,499 (2014: £996,334).

Contributions amounting to £232,145 (2014: £279,690) 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 £163,669 (2014: £147,516).

Contributions amounting to £37,892 (2014: £59,753) were payable to the scheme and are included in creditors.

25. Related party disclosures

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

	Sales		Purchases		Debtors		Creditors	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Esh Space The Park Ltd	5	40	-	-	8	41	-	-
Micropump (NE) Ltd								
Trade	11	22	31	38	-	25	-	6
Loan	-	-	-	-	21	21	-	-
Pure Renewable Energies Ltd								
Loan	-	-	-	-	87	87	-	-
Prestige Exclusive Homes Limited								
Trade	1,187	-	-	-	422	-	-	-
Loan	-	-	-	-	750	-	-	-
	1,203	62	31	38	1,288	174	-	6

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

25. Related party disclosures (continued)

The Group do not have any compensation to key management personnel (other than directors) as disclosed in note 3. The Group owes £50,000 (2014: £50,000) to the directors of Mechplant (North East) Limited. This loan is interest free.

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

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

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

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

27. Transition to FRS 102

This is the first year that the Group and Company have presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. The Group and Company has not early adopted the amendments to FRS 102 (issued in July 2015). Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Transition exemptions

The Group and Company have taken the following transition exemptions in preparing its first financial statements under FRS 102.

- (i) The Group and Company have taken advantage of the transition exemption under paragraph 35.10(p) of FRS 102 to continue to recognise the existing lease incentives at the transition date on the same basis as previous UK GAAP. Under previous UK GAAP operating lease incentives, including rent free periods and fit-out contributions, were spread over the shorter of the lease period or the period to when the rental was set to a fair market rent. FRS 102 requires that such incentives to be spread over the lease period.
- (ii) The Group and Company have taken advantage of the transition exemption under paragraph 35.10(a) of FRS 102 not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets.
- (iii) The Group and Company have taken advantage of the transition exemption under paragraph 35.10(i) of FRS 102 to continue to account for the service concession arrangement on the same basis as previous UK GAAP at the transition date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

27. Transition to FRS 102 (continued)

(iv) The Company has taken advantage of the exemption under paragraph 35.10(f) of FRS 102 to measure investments in subsidiaries, associates and jointly controlled entities in its separate opening balance sheet at cost.

Reconciliations

In accordance with the requirements of FRS 102 a reconciliation of opening balances is provided as below:

Reconciliation of profit for the year

	Note	31 December 2014 £'000
Profit for the year as previously reported under UK GAAP		7,609
Adjustment on transition	1	(30)
Profit for the year as reported under FRS 102		7,579

Reconciliation of equity

Group	Note	1 January 2014 £'000	31 December 2014 £'000
Total shareholders' fund as previously reported under UK GAAP		30,756	36,774
Adjustment on transition		-	-
Total shareholders' fund as reported under FRS 102		30,756	36,774

Company	Note	1 January 2014 £'000	31 December 2014 £'000
Total shareholders' fund as previously reported under UK GAAP		25,108	24,801
Adjustment on transition		-	-
Total shareholders' fund as reported under FRS 102		25,108	24,801

Notes to reconciliation

1. Changes in the fair value of investment properties are now recognised in the income statement. Previously, changes were recognised in a separate asset revaluation reserve in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

27. Transition to FRS 102 (continued)

Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustments have arisen which have had no effect on net assets or the statement of comprehensive income but which have affected the presentation of these items in the financial statements.

(a) Statement of cash flows

The statement of cash flows reflects the presentation requirements of FRS 102, which are different to that prepared under FRS 1. In addition the statement of cash flows reconciles to cash and cash equivalents whereas under previous UK GAAP the statement of cash flows reconciled to cash. Cash and cash equivalents are defined in FRS 102 as 'cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value' whereas cash is defined in FRS 1 as 'cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institution repayable on demand'. The FRS 1 definition is more restrictive.



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