



**Esh Holdings Limited
Annual Report
& Financial Statements**

31 December 2017

Registered Number 03724890

ESH GROUP 



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Chairman's Report

Overview: Welcome to all shareholders, employees, suppliers, clients and stakeholders to our Annual Report for 2017. As always, Esh Group values your support and partnership.

Without doubt, 2017 was a tough year, incorporating the most significant period of change in our company's history.

However, we have taken this period of change and used it to build the foundations for growth across our business, which included refocussing on Esh Group's core competencies by rationalising a number of our businesses and operations, as well as investing in our team, technology and exploiting new opportunities in the marketplace.

We admit that we are coming off a very tough couple of years, when the Group probably grew too quickly. We didn't have the appropriate level of controls, whilst trying to manage our business on multiple fronts. We also acknowledge that we didn't have the right skills in place, as well as having very outdated systems and technology.

However, we would like to take this opportunity to assure all our supporters and partners that we remain a solid business. This is demonstrated by the fact that we have a strong balance sheet standing at nearly £42m, a stable and very supportive group of shareholders, a fantastic team of people who are dedicated to both their jobs and Esh Group, supportive supply chains and a healthy market position.

It's important for us to stress that we don't like to dwell on the past here at Esh Group. Whilst our previous business model was hugely successful and right for the time, we are well aware that we must evolve to the next phase and usher in a new chapter of the Esh Group story. For the future to be a success, we must think and act differently with our people and begin to think and behave more like the large organisation that we've become. We will achieve our aspirations by running the business differently.



To make our vision a reality, we are underway with six key actions that we are confident will get us ready for our next big step:

1. Simplify our business

Focus on our core competencies: what makes Esh a great company. We will rationalise our operations to allow us to focus our capital and resources to maximise returns for our shareholders and stakeholders.

2. Leadership & management

We will develop our leadership and management standards to drive clear accountabilities across the business. This will be achieved through simpler business and management structures, and a clear focus on quality delivery for our clients.

3. Project Gateway

This far-reaching systems and technology initiative is being designed to streamline all of our business processes and to establish solid foundations for future growth.

4. Focus on the basics

We fully understand that when you build anything, you first need strong foundations. Therefore, we are going to enhance these important basics at the Group:

Quality – we strive to get it right first time,

reducing the number of defects and remedials that we encounter.

Programme – we want to ensure we have an effective process for planning and executing projects that we work on.

Profit – we must ensure work we carry out is profitable for the benefit of our shareholders, employees, our supply chains and also to ensure we deliver quality projects for our clients.

Cash – Work with our clients to ensure a fair payment regime for us as well as our supply chains.

5. People agenda

We cannot stress enough how important our people are at Esh Group. Therefore, we want to do everything we can to find, retain and nurture the talent that we need. To unlock the full potential of our business, we also want to ensure all staff feel engaged and are capable of shaping the future of our group.

6. Maintain health & safety focus

Safety Leadership tours and regular consultation and stand-downs with site teams emphasise the commitment to our bespoke Esh Safe – Everyone Safely Home belief. A positive safety culture is reinforced through improved training, regular inspections and accurate reporting methods.

Leadership Team

We have formed a new leadership team in the past year containing a broad spread of expertise and experience. This includes the appointment of Chief Financial Officer Mark Sowerby, who joins us from worldwide project management business, Faithful+Gould; the promotion of Paul Watson to Chief Commercial Officer; to complement Group Chief Executive Officer Andy Radcliffe and Group Chief Operating Officer John Davies. Steve Wilkie has also taken on the main board position of Executive Director for our entire civils division, as well as acting as Deputy Chief Operating Officer.

This strong suite of skills from across the sector and other industries means we are equipped to take Esh forward and develop our business under our new operating model. We are also proud to be an equal opportunity employer, with our workforce boasting skills from the whole spectrum of the construction industry.

Financial Position

Whilst without doubt our profit performance in the year has been disappointing, impacted in the large part by the restructuring discussed above, as well as ongoing investment in systems and technology, our underlying financial position remained strong in 2017, with good liquidity underpinned by unused credit lines and a strong balance sheet. Protecting and building on this long-

standing strength supports Esh Group's ability to deliver high-value projects.

So, in closing, whilst we have endured a very tough year for many reasons, I am proud of the way our group has pulled together, taken some difficult decisions to set our business up for a bright future and created clarity in thought about what needs to be done. Of course, our success is, and will always be, dependent on the continued support of our valued workforce, our all-important supply chains and our valued clients. We very much appreciate this support.

Thank you,

Michael Hogan
Non-Executive Chairman
 20 September 2018



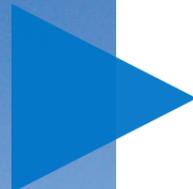
Chief Executive's Report

Financial Performance

Our financial performance during the year has been disappointing, although many factors have influenced this result. We have embarked on a major restructuring of the way our business operates, and goes to market. This restructuring has led to selective withdrawal from certain types of business to allow us to focus on our core competencies and so drive operational improvements for the benefit of our clients. It is natural that during a period of adjustment, costs are incurred and the impact of reduced turnover becomes evident. To compound this, we continue to invest heavily in developing and implementing new technology within the business, which on this scale, and as expected, carries a considerable cost, but will provide huge benefits going forward in helping our business grow competitively.

So, whilst our reported trading position is disappointing, our underlying performance having stripped out these 'exceptional' factors is satisfactory, although certainly something we want to improve upon.

And despite this, we remain in a solid financial position, with a £42m balance sheet, strong year end liquidity and a clear strategy for taking our business forward



Our Markets

Market conditions continue to be challenging, and to varying degrees across our different sectors.

The Private Housing market demonstrates the most favourable of backdrops, with continued demand fuelled by low interest rates and continued support from government interventions such as Help to Buy. We continue to monitor the potential impact from imminent interest rate rises, but so long as these remain modest as the journey to more 'normal' monetary policy continues, we believe this market has reasonable prospects over the medium term.

The Affordable Housing market is beginning to emerge from a period of stagnation brought about by a reduced level of funding and a period of considerable consolidation amongst the Registered Provider community. With new funding streams established by Homes England, and a resurgence in demand from Providers, we are thankfully starting to see some optimism return. The route to opportunities however is very different from the past, with clients looking for land solutions alongside construction capability, a proposition that is well developed within our group owing to our long-established development credentials. The market, however, remains very competitive, with construction costs under pressure following considerable rises in material costs and also a shortage of key trades.

The Commercial Build market is probably our most challenging sector, with a clear 'Brexit' hangover impacting investor sentiment. We continue to drive opportunities through the key frameworks upon which we have a presence, as well as open up new geographies to increase our exposure.

Local Authorities are showing some increased appetite to invest in capital projects and infrastructure improvements, with our flow of opportunities again assisted by our presence on a number of key frameworks, particular in the North East and Yorkshire.

The heavily regulated Utilities and Government Agency sectors provide a steady stream of opportunities, and we continue to drive close proximity to our clients using our frameworks to enhance collaborative working and bring added value.



Our Divisions

Civil Engineering

Our civil engineering operation, Lumsden & Carroll, built on its market share through general civil engineering, housing infrastructure, and framework activity with Northumbrian Water and The Environment Agency. This was set against a tough trading environment for many local, regional and national civil engineering companies.

We also experienced an encouraging growth in enquiries and tender opportunities from local authorities for civil engineering work.

In line with our capabilities and ambitions, we intend to begin bidding for increasingly larger contracts including the likes of the £30m Sunderland Strategic Transport Corridor Phase (SSTC 3) project – a significant infrastructure project in the heart of our core region.

We were also recognised at a national level by the Civil Engineering Contractors Association's (CECA) Inspiring Change Awards for the second year running, winning two awards in the Education and Community categories.

In 2018, we will grow and strengthen Lumsden & Carroll by continuing to deliver high-quality work for our core client base and targeting key sectors, as well as accelerating our growth in Yorkshire on the back of our participation in the valuable YorCivils framework.

Key Schemes During the Year

- Construction of a new £3.2m spine road along with new infrastructure works to enable the development of Netpark Phase 3.
- Completion of a £5.8m contract to install major highways improvements at Birdwell roundabout for Barnsley Metropolitan Borough Council.
- As part of our framework with Northumbria Water Group, Esh-MWH joint venture works were completed on several sites and included the construction of a high-level overflow and new sewer, new outfall and the construction of a new storage tank and associated sewerage at Whitburn Spills, £6.4m.

North East & Cumbria Commercial Build & Affordable Housing

Despite market conditions, it was a reasonable year for new **Commercial Build** work secured. We were awarded our largest healthcare project to date, the £5.5m Durham Diagnostic and Treatment Centre for City Hospitals Sunderland – a two-storey structure which has been designed to provide people throughout Durham with easier access to key services including renal dialysis, ophthalmology and day surgery.

For Newcastle Airport and the Home Office Border Force, we were appointed to deliver a £2.8m extension to the new arrivals and international immigration area.

Grant and loan finance was also secured to progress Esh Group Eagles Newcastle's new Community Arena. This £6m stadium, to be based at Riverside Dene in Elswick, is Esh Group's largest leisure project to date and is anticipated to engage more than 11,000 people in sport during its first year of being open to the public.

We were also involved in the £2.2m Alnwick Fire Station and the £5.2m Hexham Fire Station, while for Durham County Council, we completed a £5.5m modernisation of Thornley Waste Transfer Station.

Financial close was achieved on what will be our largest project to date in the North West, the £10.5m Alfred Barrow Health Centre. In Ulverston, we delivered two projects for global pharmaceutical manufacturer GSK, worth a combined £3m, and in Carlisle we completed a £3m showroom for Lloyd BMW.

During the year, we also renewed our Building Information Modelling (BIM) publicly available specification (PAS) 1192 accreditation – an important specification that proves our collaborative design capability.

Whilst new opportunities in **Affordable Housing** were limited during the early part of 2017, the latter part saw an increase in enquiries, as well as a renewed interest in Land Led opportunities that we had worked up for clients. This was enhanced by our securing of a place on the Homes England Delivery Partner Panel 3 (DPP3) scheme – an £8bn national housing delivery framework that can provide substantial opportunities. During the year, Esh Construction also secured places on housing association Accent's Repairs and Maintenance Programme (RAMP) framework and Bernicia's five-year Stock Investment framework.

Key Schemes During the Year

- Community Safety Hub for Cleveland Police. The 3,600-sq. ft. building will be home to emergency services on Teesside.
- £5.5m Computer and Information Sciences (CIS) building for Northumbria University. The building will host computing facilities, laboratories, teaching space and offices.
- £4.3m refurbishment of Beddell House for the Sherburn House Charity. This six-phase project to improve the care home requires meticulous planning to avoid disruption to residents and staff.
- At Raby Gardens in Hartlepool, we commenced delivery of 31 new homes, £3m, for Thirteen Group.



Yorkshire Commercial Build & Affordable Housing

2017 was very much a year of transition in Yorkshire, with a renewed vigour in building and developing our brand and profile in this exciting and opportunity rich region. This activity has been enhanced with the addition of new team members to drive growth in market share and improve operational delivery.

Across Yorkshire, we have seen growth in both the **Commercial Build** and **Affordable Housing** sectors. Work continued for a number of key clients, including social landlord Yorkshire Housing.

We are also driving opportunities via land-led housing developments, giving local authorities a comprehensive solution to their housing needs, enhanced by the formation of a partnership with an established land agency.

As part of our profile-building activity in the region, we have increased our Added Value activity, including adding to the number of schools we work with on the Building My Skills programme, now almost matching the exposure we have in the North East.

We anticipate reporting growth in turnover during 2018 as our changes start to bear fruit. That said, our growth ambitions will be managed carefully so as not to overheat, with a 'crawl, walk, run' approach to achieving our plans.

Key Schemes During the Year

- Delivery of housing at Helredale Gardens and St Peter's Road in Whitby, for Yorkshire Coast Homes.
- Completion of a £1m extension to Leeds College of Music's city centre base. This high-profile project means visitors can now enjoy panoramic views of Leeds.
- Refurbishment of the Medico-Legal Centre mortuary in Sheffield.

Scotland Commercial Build & Affordable Housing

Performance across our Scottish operations was as planned, and generally heading on the right trajectory. Margins were improved thanks to the performance of a number of key projects, including the National Conservation Centre in Stirling.

We continued to explore controllable growth opportunities

across both the **Commercial Build** and **Affordable Housing** sectors, with the latter underpinned by a strong grant giving environment and powerful messages emanating from Holyrood regarding its expectations for housing delivery for the Scotland.

The higher education sector also presents opportunity for us. In late 2017, we began a £4m project to deliver extensive refurbishments at Heriot-Watt University. We aim to build on this success in 2018 by targeting a number of frameworks in the sector.

Key Schemes During the Year

- Link Group, one of the biggest registered social landlords in Scotland
- The City of Edinburgh's Construction Framework, which will provide significant opportunity
- Kingdom Housing Association, an important route to market in the Affordable Housing field
- LAR Housing Trust, specialists in mid-market rental properties

Esh Facilities

It was a profitable year for **Esh Facilities** as we continued to deliver high-quality work for both existing and new clients.

Key Schemes During the Year

- Work with the University of Leeds was extended for another year thanks to our performance.
- We were awarded a contract with social housing provider Accent Housing, in conjunction with Esh Construction Property Services, to deliver reactive maintenance over 10 years.
- We continue to deliver projects throughout the country for global facility services provider ISS, including work for major high street banks.
- We secured a place on a four-year framework with Newcastle University to deliver minor building works. This is an important opportunity for Esh Facilities.
- The scope of our work for West Yorkshire police continues to grow.

Looking to 2018, we have launched a strategy that aims to build the portfolio of work among existing clients as well as target work from long term framework opportunities arising in the Housing, Education and 'Blue Light' sectors over the next 18 months to two years.

Homes by Esh

2017 was a year of significant change for our Private Housing business as we launched a new strategy to make Homes by Esh a self-sustaining division, with a focus on capital returns and margin.

As a result, we began the winding down of the Trivselhus by Esh business, while turning our focus to traditionally built housing, the mainstay of our success over the years.

Where Esh Construction was formerly responsible for building houses for Homes by Esh, the business has reverted back to procuring its own construction, as well as now sourcing its own land independently from Esh Developments. This has led a reinvigorated team and a more focussed plan to exploit our core strengths.

Whilst this transition will take time to bed in, we are already seeing signs of improved performance, with increased margins and better sales performance on the recently secured sites.

During the year, we also formed a key strategic alliance with Darlington Borough Council to be the sole developer of their residential schemes across the Borough. This is a £100m framework over four years. We have started work on a 60-unit site and are seeking planning permission for another site of 400 units.





Esh Developments

Esh Developments is now primarily focussed on strategic land management for the Group.

Key Schemes During the Year

The major focus of the year was the progression of our two key strategic sites, Chilton and Philadelphia, which both now have planning consent for mixed residential and commercial use.

Chilton was marketed in 2017 and a sale is now poised to be completed. We are also talking to a major housebuilder in relation to the acquisition of the c.500 plots of residential land at Philadelphia.

In December 2017, the division – as part of a joint venture – sold the Middle Dock land in South Shields to South Tyneside Council.

Specialist Businesses

In 2017, we delivered good performances across our specialist businesses.

Deerness Fencing & Landscaping Ltd continued with their success, showing profits in both the Landscaping and Fencing Sectors, with this business unit consistently making a significant contribution to our group.

Mechplant experienced another strong year in 2017. New additions to the fleet have been well received, with the acquisition of 52 new items of plant comprising of dumpers, rollers, excavators and bowzers. This included the delivery of 27 brand new Wacker Neuson plant items, which has prompted positive feedback from seasoned operators whom have been unfamiliar with this classic German brand. We now have a well-established 'lifting division' comprising a fleet of mobile cranes and site hoists, which collectively are contributing significantly to the divisions performance.

Bartram Walker maintained its turnover in 2018 with continued activity with House builders and Registered Providers. We have since deemed this business unit as non-core to our future strategy, and in order to find it a better home, have commenced a process of divestiture.

Esh Training Solutions' team celebrated 1 year in the Esh Academy in October 2017. During that time, they have booked 4,661 courses and had an attendance rate of 93%.

The Group also has a well-established commitment to apprenticeships and 2017 saw 62 enrolments, including existing apprentices, progressing onto Higher level apprenticeship and newly available Degree Apprenticeships.

The Apprentice Levy was introduced in 2017 and the Group now pay this in addition to the Construction Industry Training Board (CITB) levy; this means that employees who historically requested Higher National Certificates (HNC's), Higher National Diplomas (HND's) and Degrees will follow an apprenticeship route where one is available.

2017 also saw an extensive upskilling programme moving from in-house plant training to the Construction Plant

Card Scheme (CPCS), and from Cable Avoidance Tools and Single Generator (CAT and Genny) to Cable Detection Super User training.

We promoted our New Roads and Street Works training externally, generating profit during 2017. The Brian Manning Training Academy has also given us the opportunity to pursue external room bookings, including to partners such as Northumbrian Water.



Our work was recognised by a number of awards received in 2017, including:



Winner

Generation for Change (G4C) Higher Education Student of the Year – Sarah Lamb



Winner

Inside Housing Awards Best Residential Development of the Year – Eston Community Village

Winner

Considerate Constructors Scheme Awards National Site Gold Award – Eston Community Village

Highly Commended

Local Authority Building Control (LABC) Building Excellence NE Best Inclusive Building – Eston Community Village



Winner

CECA North East Environmental Company of the Year

Winner

Constructing Excellence North East Sustainability Award – Lustrum Beck Phase 1



Highly Commended

Constructing Excellence North East Value Award – Wharton Park



Project Gateway

Project Gateway is an ambitious transformation of the way in which we work. Combining the delivery of new technology with improved processes, we aim to equip Esh Group with a solid platform which can sustain future expansion. It will make our operations more efficient and give us valuable data to inform business decisions.

We made progress across the project throughout 2017, including with the launch of our new HR platform, the Oracle Customer Relationship Model (CRM) system, and a technology platform for estimators to use. These are standalone solutions in the first instance, that will integrate with the overall project as it develops.

We decided to put further development into the commercial system, which will be central to Esh Group's operations. Our strategic partner, InoApps, is developing a system that directly addresses our needs.

In the coming year, we will begin to communicate with suppliers, clients and partners that will benefit from Gateway's new systems. It is important that Esh Group partners understand the continuity and opportunities in this project.

It is anticipated that most of Q3 2018 will be spent in end-to-end testing of the core technology systems. Effectively, it will simulate how we take a job from inception to winning the tender, construction, maintaining a profit margin and then closing out the final account, with all the associated financial transactions and management information. Confirming the fitness for purpose of both supporting technology and processes, we have ambitions to release Project Gateway to the business in late 2018.



Esh Charitable Trust and Esh Added Value

Community

Building My Skills

Our Building My Skills employability programme continued to strengthen in its seventh academic year. During the year, we delivered 370 sessions in 74 schools with the help of 132 partners.

Building My Skills provides students aged 14-19 with an introduction to the world of work and job applications through five one-hour business engagement sessions delivered by guests from different sectors.

The 2017/18 scheme covers plotting a career path, improving students' online appearances, understanding the world of work, producing a CV and covering letter, and performing in interviews.

Get into STEM

Our Get into STEM kits provide teachers, free of charge, with resources to inspire Early Years and Key Stage 1 pupils about science, technology, engineering and mathematics (STEM) learning. Esh Group delivers a 40-minute workshop to teachers, demonstrating the contents of the kit and how they can use it to support the curriculum and free play.

In 2017, kits were delivered to 73 schools and used by more than 3,200 students. During the year, the concept also won the CECA North East's Going the Extra Mile Award, CECA's National Inspiring Education Award and Business in the Community's National Education Partnership Award.

Site visits and work experience

We offer work experience placements in 15 different occupation areas, including: traditional site trades, quantity surveying, civil engineering, business, marketing, events management and IT. During 2017, we organised 425 days of work experience for students from schools, colleges and universities, as well as jobseekers. The programmes are designed to improve the employability prospects of people in the communities where we work.

More than 800 people from primary and secondary schools, colleges and universities attended our site visits in 2017. Visitors are given an overview of the project by the site manager and a tour with opportunities to view key operations.



Esh Communities

Esh Group's Esh Communities funding programme makes grants available to charitable and social enterprise organisations that affect positive change in their communities. We issue our clients with a unique code to promote to such organisations in their networks and areas of operation.

Organisations can apply all year round and must prove they share Esh Group's core values via a 450-word online form.

Esh Group's core values include:

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

Grants of between £50 and £1,000 are available. During 2017, Esh Communities donated a total of more than £43,000, supporting 49 projects

Esh Stay Safe

Our Added Value team delivers presentations on site safety to primary school children aged between 4-11. Using our mascot, Dudley the Elephant, we encourage students to take part in the Stay Safe competition to design a poster. The winning entry is displayed on

site hoardings. Throughout 2017, we delivered nine presentations in the North East, two in Scotland and four in Yorkshire.

Workplace

Training

We undertook two major upskilling programmes in 2017.

Historically, we trained people in plant operation in-house. During 2017, we began to follow the Construction Plant Card Scheme (CPCS) – a significant cost and resource investment. Workers are nominated by site managers and then screened for competencies to determine their training requirements before they embark on theory and practical tests to gain the CPCS Red Card Trained Operator status; they were then enrolled onto the relevant Plant NVQ to progress to CPCS Blue Card Competent Operator status upon achievement.

Previously, we delivered CAT and Genny training, which covers scanning underground to detect live utilities services. We decided to adopt a super-user option for Esh Construction – of which 161 operatives and managers attended in 2017. A further 110 will attend in 2018.

Apprenticeships

In 2017, there were 62 enrolments in apprenticeships. This was a mixture of new recruits and existing apprentices progressing on to higher levels. Four people have also enrolled onto degree apprenticeships.

Traditionally, candidates without degrees working in the likes of quantity surveying roles would start at Level 3 and then typically progress onto HNC before the HND. Now we can use the degree apprenticeship route. Two members of staff have leap-frogged from Level 3 onto the degree, which gives them chartered status.

CITB funding changes

In the past, every piece of training, regardless of discipline within the construction sector, would be funded by the CITB. From April 2018, the organisation will only fund training for construction-specific staff. Funding will also be removed for some skills, such as manual handling and first aid. We will continue to carry out these types of training at our own expense.

It will also become necessary for training suppliers to be CITB accredited. We are currently contacting all providers to make them aware of the situation, and to offer our support in becoming accredited.

The CITB will also remove training plans, changing the way companies like Esh Group can claim their grant. Consequently, we now record grant recovered against training.

Student Placements

Esh Construction works with universities to recruit placement students in their penultimate year of study on nine to twelve-month programmes. We recruit placement students annually across our office and on-site operations in Yorkshire, Scotland and the North East.

Our Shared Summer Placement scheme also offers engineering and built environment sector students the opportunity to complete a twelve-week summer placement with Northumbrian Water via our Esh-MWH partnership. The model gives students an opportunity to experience the delivery process of capital infrastructure while earning the National Living Wage. The scheme is fully accredited by the Institute of Civil Engineers and the Association for Project Management. In 2017, we offered positions to seven undergraduates.

Equality & Diversity

We continue to strive to be the employer of choice, providing opportunities for all, valuing diversity and promoting inclusion. We have an inclusive culture, whereby every staff member is treated with respect and dignity. Most importantly, we ensure everyone has the same opportunity to progress and meet their full potential.

As part of our drive to attract more women into construction, we support organisations such as the National Association of Women in Construction (NAWIC) and Women in Social Housing (WISH) and have representatives from Esh Group on their boards.



Gender pay gap

As per the government's guidelines for Gender Pay Gap Reporting for any company with over 250 employees, Esh Construction – with a total staff headcount of 696 – has published its gender pay gap figures.

At the time of publication, the company's median gender pay gap was 17.0 per cent. This figure stands out in particular in that it is lower than the industry average within the UK's construction sector. According to government data reported on by the Financial Times on January 2nd 2018, construction has an average median pay gap of 24.6 per cent – Esh Construction's figure being 7.6 percentage points lower than this figure.

This is not to say that we are trying to gloss over the issue; the figures released as per the government's guidelines has made us even more aware that a gender pay gap exists not only within our own company but in the UK's entire construction sector. We are looking to take strides to address this issue though, with the Group's Building My Skills programme, Get Into STEM programme and the new skills training academy all pivotal to us achieving our ambitions of first attracting more women into our sector, and then hopefully making Esh the employer of choice.

Environment

We continued our commitment to sustainable construction in 2017 through Summit 2026 – our ongoing plan to inspire staff, clients and partners about our environmental responsibilities.

By raising awareness of environmental issues among these groups, and showcasing the work we do, we aim to become one of the leading sustainable construction companies in the UK.

During the year, we achieved ISO 14001:2015 standard for environmental management – 12 months earlier than scheduled, showing our commitment to sustainability practices. We also won Environmental Company of the Year at The North East's CECA 2017 Awards.

Waste Management

Our partnership with a range of waste management providers continues to provide a framework for the management of skips and bins at our sites. Firms including Biffa, Remondis-JBT and Ecoefficiency handle the recycling of hardcore, rubble, plastic, metal, paper and cardboard through their network of recycling centres.

We are also changing the way waste is managed in our offices. Our aim in 2018 is to recycle 100% of packaging and paper.

Our waste processing facility at Turstable continues to be a success, allowing us to reprocess inert material for re-use on our construction projects. In 2017, we recycled 70,000 tonnes of material. Our ultimate goal is to send zero non-hazardous materials to landfill by 2026.

Energy

We began a collaboration with EDF Energy, enabling our construction sites to be linked to the national grid. This reduces the need for generators on site and considerably lowers noise, pollution and costs. Grid connection is estimated to reduce carbon emissions on sites by as much as 40%. The programme also gives Esh Group access to an insights tool that shows energy usage on site, which helps to support our ISO 50001:2011 energy management system.

In our Plant Yard, a switch from fluorescent to LED lighting will significantly reduce energy consumption – the investment will pay for itself within two years.

Carbon Footprint

During 2017, a project with Newcastle University student Harrison James allowed us to determine our scope 3 carbon emissions for the first time. Harrison conducted a study that measured our indirect emissions generated through the likes of supplier services, transport and purchased materials. This piece of work will provide the basis for Esh Group reducing our indirect emissions.

Water

At our Head Office, we completed a trial of water monitoring (AMR) equipment with the Northumbrian Water Total Water Solutions team. The trial was a success and monitoring equipment is now installed on all meters (electricity, gas and water) across our Bowburn complex.

Environmental Training

The flagship Esh Carbon Coach online training programme – developed in conjunction with the CITB – was featured at the 2017 CITB Funding Showcase Conference at the Royal Society, London.

We also held an event at the new Esh Academy in May where clients, suppliers and partners were introduced to the programme, which provides learners with an introduction to the key issues facing the construction sector, starting with climate change and progressing through energy management and low carbon design.

Marketplace

Prompt payment

As signatories of the Prompt Payment Code, Esh Construction Limited continues to abide by the standards set out in the code. We continue to target invoices paid within 45 days, and we typically achieve payment between 42–47 days.

Supporting suppliers

Our focus continues to be fostering an innovative and sustainable supply chain for the Group. The Supplier Relationship Management Programme offers an opportunity for Esh suppliers to share in growth. Quarterly meetings help us discuss efficiencies, identify joint opportunities and ensure compliance.

Gap analysis shows us what our suppliers need to grow – including training or specialist knowledge.

We also look for reciprocal trading opportunities with suppliers where possible.

Local procurement

Maximising benefit to the local economy is an important part of our approach to each construction project. Our Added Value team works with the procurement and construction teams to agree procurement targets at tender stage and then monitor progress throughout. We use the Local Multiplier 3 methodology to measure the impact of our spending.

Suppliers are engaged through meet the buyer events, supply chain open days, advertising in regional media and through Esh Group's own digital channels.

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 maintains a program of continuous improvement in respect of all its internal controls, both in terms of the structure, education and compliance monitoring.

Esh Group provides all employees across all subsidiaries with a comprehensive Employee Handbook, which explains required standards of behaviour and attitude. This, together with the range of Group policies, procedures and processes, provides 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. This ensures the effectiveness of governance practices, succession planning and significant capital expenditure.

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

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

Audit Committee

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

To reinforce its management assurance programme and in view of the increasingly diverse and expanding nature of the Group, the Board of Directors has established a small internal audit function to ensure compliance with accounting and internal control procedures, as well as to 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 may be

invited to participate in the ownership of the business through the Employee Share Ownership Scheme.

Employment Policies and Procedures

Comprehensive, Group-wide employment policies and training programmes are in place. These are designed to provide support to anyone seeking advice or help on technical matters, as well as 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. These standards are expected to be adopted and adhered to by all company directors, employees and third parties, including sub-contractors and their workers.

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



Health and Safety

Our approach to Health, Safety and Wellbeing is underpinned by our commitment to “Everyone Safely Home” our bespoke Safety belief. Teamwork and Collaboration are a key element of ensuring that the safety culture within Esh Group operations is focussed on by all parties, this is reflected in how positive the Safety Inspections undertaken by the Group Safety team are reacted to. Opportunities for Best Practice and Innovation are encouraged and as part of a cycle of continuous improvement supported by OHSAS 18001 standards have been to an improving level during the year.

The introduction in 2017 of the Realistic Accident Scenario (RAS) and a revised safety scoring inspection format has proved innovative and is useful guidance of how safety standards have been achieved on sites. The RAS additionally provides a mechanism for legal protection when checking likely accident scenarios are fully covered by supporting documentation, this approach is relatively unique within the Construction Industry and reminds all parties the importance of ensuring a fully competent workforce are on sites.

The introduction of Project Gateway with the Viewpoint /Fieldview system is anticipated to bring simplification to the overall safety recording process and utilising technology will provide an up to date site reporting process.

Specific focus on high risk areas including working in and around services, lifting operations, pedestrian /public safety continue to be addressed by utilising in depth participation of Site Supervisors in safety meetings and on-site discussions. The outcome is revised presentations, safety stand-downs, tool box talks, safety alerts or inclusion within our in-house publication Esh Safe News for general distribution to all sites and key supply chain supporting partners.

Approximately 1500 recorded Safety and Environmental inspections were undertaken during 2017 and a number of these featured senior management involvement including Director visits who visually promote and support the “Everyone Safely Home” commitment.

General Data Protection Regulation 2018 (GDPR)

In preparation for GDPR legislation, we have a training programme in place. Almost 200 employees have successfully undertaken GDPR training before August 2018.

Actions underway through the first quarter of 2018 include:

- Ensuring people throughout the business are aware of GDPR.
- Promoting a culture of shared responsibility – it lies with everyone who handles and processes data, not just the data controller. Departments will have nominated “GDPR Champions” to ensure data protection principles are observed.
- Mapping and documenting what personal data we hold into a data register – how we use it, who we share it with, why we need it and how we communicate to data subjects.
- Checking and amending current procedures to ensure they cover all the rights individuals have under GDPR.
- Ensuring we have an audit trail on data relevant notices and requested consent.
- Updating contracts of employment, employee terms and conditions and codes of conduct.



Directors & 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 Director of St Cuthbert's Care.

Andy Radcliffe

Group Chief Executive Officer

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



John Davies

Group Chief Operating Officer

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



Mark Sowerby

Chief Financial Officer & Company Secretary

Mark joined Esh Group in November 2017 after more than 21 years at engineering consultancy WS Atkins plc, most recently as finance director of its worldwide project management business, Faithful+Gould.



Tony Carroll Jnr

Non-Executive Director

As a family member of Founder Director Tony Carroll Snr, Tony Jnr joined the Board during 2017. Tony is a full-time employee, having joined the company in 1992, currently enjoying the position of Health & Safety Manager.



John Lumsden Jnr

Non-Executive Director

As a family member of Founder Director John (Jack) Lumsden Snr, John Jnr joined the Board during 2017. John is a full-time employee, having joined the company in 1991, currently enjoying the position of Construction Manager.



Meg Munn

Non-Executive Director

Former MP and Minister for Women and Equality, Meg 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.



Philip Coates

Non-Executive Director

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

Esh Group is a trading name of Esh Holdings Limited.

Company secretary of Esh Holdings Limited

Mark Sowerby

Independent auditor

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

Legal advisors

Muckle LLP
Time Central,
32 Gallowgate,
Newcastle upon Tyne
NE1 8AS

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

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

Bankers

Lloyds Bank plc
4th Floor, 102, Grey Street,
Newcastle upon Tyne
NE1 6AG

Strategic Report

The directors present their strategic report for the year ended 31 December 2017.

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

Challenges encountered by a number of our businesses through 2016, alongside our ambitions to simplify and rationalise our group gave rise to more selective bidding and a resulting drop in turnover in 2017. Further, a more cautious view to profit recognition in these areas saw the Group recognise some margin write downs to projects which have impacted the result and gross margins for the year. Continued investment in our business infrastructure saw cash balances reduce slightly.

Despite these actions, profit before tax was £0.4m, having benefitted from the successful sale of Development investments which compensated for the aforementioned business adjustments. We continue to monitor our level of overhead, specifically in light of market uncertainty created by Brexit, and are ready to manage our cost base as market conditions demand. The Group continues to maintain a healthy cash position and net assets of the business at £42.0m represent a strong foundation for delivery of our ambitious plans.



	2017	2016
Turnover, including share of joint ventures	£220.0m	£242.7m
Change in turnover	(9%)	(12%)
Gross profit margin	4.2%	6.3%
Overhead (administrative) costs	£11.6m	£12.3m
Profit before taxation	£0.4m	£3.8m
Cash at bank and in hand	£20.0m	£25.7m
Net cash used in operating activities	£2.9m	(£2.0m)

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

Principal risks and uncertainties

Market conditions within the construction industry remain challenging, whilst 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. 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 across all of the sectors in which the Group operates.

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

Risk description

How it is mitigated

Project execution

The Group undertakes construction, refurbishment and maintenance projects. We need to continue to deliver these within programmes and match or exceed clients' requirements, profitably and within agreed financial parameters.

Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.

Each business unit has defined operating procedures to address the risks inherent in project delivery. Furthermore, a well-established commercial and financial risk management framework is in operation, using structured review meetings and reporting, with key risks identified early in the project delivery.

We also have public indemnity cover to provide further safeguards.

Tendering

Through our different business units, we seek to win profitable work through a large number of competitive tenders and contract negotiations.

This depends on our ability to price and add value in our tender offering, driven by an efficient operating model, and a clear focus on quality delivery and added value.

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

We have delegated authority levels for approving all tenders and a formal tender review process.

We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders.

Our culture of added value within the communities in which we work provides a point of differentiation from many of our competitors, producing upper quartile tender success rates.

People

We need to recruit and retain the best management and employees. These members of staff should have appropriate competencies and also share our values and behaviours.

We measure all potential recruits for key roles in the organisation against a competency framework. We undertake staff appraisals to review the roles, competencies, performances and potential of personnel. We have a well-developed succession planning process to identify and develop high potential personnel to fill key roles.

People matters are reviewed regularly and discussed at all levels within the organisation and by the Board.

We have appropriate remuneration and incentive packages to help us attract and retain key employees, including employee share ownership. We also use a well-connected group of recruitment consultants and advisors to ensure we connect with the best talent within the industry.

Risk description

How it is mitigated

Supply chain

We are reliant on our supply chain partners for successful operational delivery, which means we are also exposed to a variety of risks in the supply chain.

Our strategic supply chain management processes, where possible, aligns us to large, robust suppliers whose access to material and resources is preferred given their size and scale; a factor equally supported by our own size, regional presence and buying capacity.

We develop long-term relationships with our subcontractors, working closely with them to understand their operations and work with them to ensure their capacity planning can be optimised.

We aim to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share our values. We aim to avoid becoming over reliant on any one supplier or subcontractor.

Health and safety

The Group works on projects which require continuous monitoring and management of health and safety risks.

The Group has a highly developed health, safety and environmental process. This process is underpinned by documented procedures and working practices. Policy is set by the Board, and cascaded through the organisation via a team of dedicated health and safety professionals, who continually audit and review on site operations for compliance, as well as liaising with external verification bodies.

Accident frequency rates remain well below the industry average.

Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.

Regulatory, market and economic

The Group operates in markets and segments that are influenced by a range of external factors. The resilience and performance of the construction sector, and the housing market in particular, is at risk from regulatory change, political change and the impact of monetary policy and financial system regulation.

The Group maintains a diversified portfolio of operating activities, some of which behave in a counter cyclical manner, and most of which are aligned to well-funded, blue chip client bases.

The housing market remains stable, but continues to be underpinned by favourable political support and monetary policy, thereby implying risk should these positions change. Whilst a reasonable proportion of the group is associated with the housing market, we have considerably de-leveraged our association with the sector from where it was before the recession.

Business process and IT systems

To continue to expand the business, Esh Group acknowledge that information and associated technology must be robust and meet business needs. The current legacy systems and architecture require replacement.

Project Gateway is an Esh Group business transformation project to put in place a new integrated business management system and robust IT infrastructure for the future.



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

Key performance indicators

Analysis of key performance indicators reported to the Board and staff at frequent and regular intervals is included in the Business review.

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 Radcliffe
Director
20 September 2018

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

Directors' report

The directors present their directors' report and audited consolidated financial statements for the year ended 31 December 2017.



Financial instruments

The Group's financial instruments comprise of 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

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

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

At 31 December 2017, the Group had cash at bank and in hand of £20.0m, 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

£3.1m dividends were paid in respect of the previous year (2016 £1.7m).



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 Snr. (Resigned 26th October 2017)
A J Carroll Jnr. (Appointed 26th October 2017)
J P Davies
M F Hogan
J G Lumsden Jnr. (Appointed 26th October 2017)
J G Lumsden Snr. (Resigned 26th October 2017)
B Manning (Resigned 28th April 2017)
A E Radcliffe
M A Sowerby (Appointed 17th January 2018)
J R Walker (Resigned 30th September 2017)
P G Watson (Appointed 19th July 2018)
S T Wilkie (Appointed 19th July 2018)

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 people with disabilities where the requirements of the job can be adequately fulfilled. 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 employees with disabilities 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

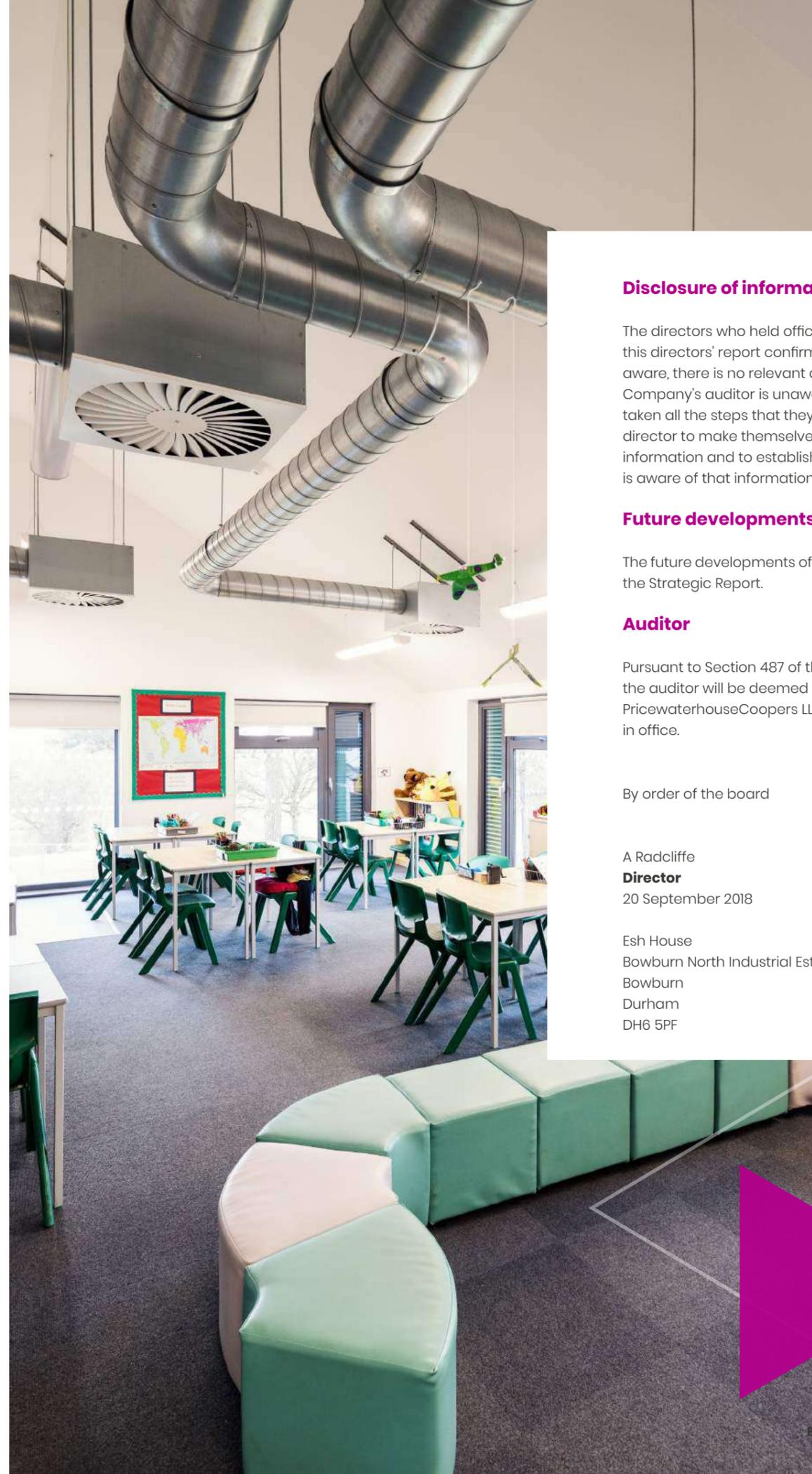
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS "the Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law). 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 Company, and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Group and Company, 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 company's website. Legislation in the United Kingdom 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Future developments

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

Auditor

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

By order of the board

A Radcliffe
Director
20 September 2018

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

Independent auditors' report to the members of Esh Holdings Limited



Report on the audit of the financial statements.

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2017; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Jonathan Greenaway

Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Newcastle upon Tyne 20 September 2018



Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017	2016
		£'000	£'000
Turnover			
Group and share of joint ventures		220,020	242,738
Less: share of joint ventures' turnover		(17,431)	(8,615)
Group turnover	1	202,589	234,123
Cost of sales		(194,081)	(219,289)
Gross profit		8,508	14,834
Administrative expenses		(11,640)	(12,342)
Share of operating profit/(loss) in joint ventures		546	(333)
Other operating income		2,111	-
Operating (loss)/profit	2	(475)	2,159
Profit on sale of fixed assets		154	434
Income from shares in group undertakings		-	75
Gain on sale of investments		1,161	1,348
Interest receivable and similar income	5	69	225
Interest payable and similar expenses	6	(514)	(441)
Profit before taxation		395	3,800
Tax on profit	7	(233)	(1,067)
Profit after taxation attributable to:			
- Owners of the parent		162	2,733
- Minority interests		148	(318)
Profit for the financial year		310	2,415
Other comprehensive income for the year, net of tax			
		-	-
Total comprehensive income for the year attributable to:			
- Owners of the parent		162	2,733
- Minority interests		148	(318)

All results derive from continuing activities.

Consolidated Balance Sheet

as at 31 December 2017

	Note	2017	2016
		£'000	£'000
Fixed assets			
Intangible assets	9	5,063	1,096
Tangible assets	10	18,776	19,820
Investment properties	11	1,087	1,512
Investments	12		
Investments in joint ventures and participating interests		(114)	(622)
Loans to joint ventures and participating interests		658	1,643
		544	1,021
		25,470	23,449
Current assets			
Stocks	13	20,247	18,751
Debtors: amounts falling due within one year	14	44,820	45,143
Debtors: amounts falling due after more than one year	14	-	1,894
Cash at bank and in hand		20,035	25,691
		85,102	91,479
Creditors: amounts falling due within one year	15	(60,795)	(61,630)
Net current assets		24,307	29,849
Total assets less current liabilities		49,777	53,298
Creditors: amounts falling due after more than one year	16	(7,422)	(8,136)
Provisions for liabilities	17	(505)	(356)
Net assets		41,850	44,806

Consolidated Balance Sheet

as at 31 December 2017 (continued)

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Capital and reserves					
Called up share capital	19		20,500		20,500
Share premium account			29		29
Employment benefit trust reserve	19		(641)		(653)
Retained earnings			21,494		24,284
Total shareholders' funds			41,382		44,160
Minority interests	20		468		646
Capital employed			41,850		44,806

The financial statements on pages 42 to 85 were approved by the board of directors on 20 September 2018 and were signed on its behalf by:

M A Sowerby

Director

Company registered number: 03724890

Company Balance Sheet

as at 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9		5,108		1,089
Tangible assets	10		9,952		9,953
Investment properties	11		387		387
Investments	12		5,954		7,342
			21,401		18,771
Current assets					
Debtors: amounts falling due within one year	14		21,212		14,157
Debtors: amounts falling due after more than one year	14		-		1,894
Cash at bank and in hand			7,608		15,517
			28,820		31,568
Creditors: amounts falling due within one year	15		(22,289)		(18,872)
Net current assets			6,531		12,696
Total assets less current liabilities			27,932		31,467
Creditors: amounts falling due after more than one year	16		(6,180)		(6,209)
Provisions for liabilities	17		(527)		(304)
Net assets			21,225		24,954

Company Balance Sheet

as at 31 December 2017 (continued)

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Capital and reserves					
Called up share capital	19	20,500		20,500	
Share premium account		29		29	
Employment benefit trust reserve	19	(641)		(653)	
Retained earnings					
At 1 January		5,078		5,034	
(Loss)/profit for the year		(641)		1,744	
Other changes in retained earnings		(3,100)		(1,700)	
At 31 December		1,337		5,078	
Total Shareholders' Funds		21,225		24,954	

The financial statements on pages 42 to 85 were approved by the board of directors on 20 September 2018 and were signed on its behalf by:

M A Sowerby
Director

Company registered number: 03724890

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	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 2016	20,500	29	(653)	23,569	43,445
Profit for the financial year	-	-	-	2,415	2,415
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	2,415	2,415
Dividend on shares	-	-	-	(1,700)	(1,700)
Balance at 31 December 2016	20,500	29	(653)	24,284	44,160
Profit for the financial year	-	-	12	310	322
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	12	310	322
Dividend on shares	-	-	-	(3,100)	(3,100)
Balance at 31 December 2017	20,500	29	(641)	21,494	41,382

Company Statement of Changes in Equity

for the year ended 31 December 2017

	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 2016	20,500	29	(653)	5,034	24,910
Profit for the financial year	-	-	-	1,744	1,744
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,744	1,744
Dividend on shares	-	-	-	(1,700)	(1,700)
Balance at 31 December 2016	20,500	29	(653)	5,078	24,954
Profit/(loss) for the financial year	-	-	12	(641)	(629)
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(expense) for the year	-	-	12	(641)	(629)
Dividend on shares	-	-	-	(3,100)	(3,100)
Balance at 31 December 2017	20,500	29	(641)	1,337	21,225

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017	2016
		£'000	£'000
Cash used in operating activities	21	2,964	(2,038)
Taxation received/(paid)		25	(831)
Net cash used in operating activities		2,989	(2,869)
Cash flow from investing activities			
Purchase of tangible assets		(704)	(2,749)
Purchase of Intangible assets		(4,019)	(1,089)
Proceeds from disposals of tangible assets		483	1,587
Proceeds from sale of investments		2,146	1,476
Sale/(Purchase) of investment property		424	(114)
Sale of EBT shares		13	-
Interest received		69	225
Dividends received		-	75
Net cash generated from/(used in) investing activities		(1,588)	(589)
Cash flow from financing activities			
Repayment of obligations under finance leases		(2,712)	(2,983)
(Repayment)/drawdown of bank borrowings/debt capitalisation		(750)	5,223
Dividends paid		(3,130)	(1,730)
Interest paid		(465)	(441)
Net cash generated from/(used in)/ financing activities		(7,057)	69
Net decrease in cash at bank and in hand		(5,656)	(3,389)
Cash and cash equivalents at the beginning of the year		25,691	29,080
Cash and cash equivalents at the end of the year		20,035	25,691

Statement of Accounting Policies

General information

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

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

Statement of compliance

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

Summary of significant accounting policies

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

Basis of preparation

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

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

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

Going concern

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

The Group recorded a profit before taxation for the year of £0.4m.

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 £20m.

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") and/or 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 the EBT or the Group.

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

Exemptions for qualifying entities under FRS 102

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

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

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

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

(iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the year 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 year 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 year-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 year 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 year comprises current and deferred tax recognised in the reporting year. 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 year 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 years 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 year end and that are expected to apply to the reversal of the timing difference.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

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

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

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

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

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

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

Negative goodwill arises where combination fair value of the group's interest in the assets, liabilities and contingent liabilities acquired exceeds the cost of the business. The Group, after consideration of the assets, liabilities and contingent liabilities acquired and the cost of the combination, recognises negative goodwill on the balance sheet and releases this to profit and loss, up to the fair value of non-monetary assets acquired, over the years 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 year 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 year. 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 year 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 years.

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

Leases

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

(i) Finance lease

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

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



Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date. The capital element of lease obligations is recorded as a liability on inception of the arrangement.

Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

(ii) Operating lease

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

(iii) Lease incentives

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

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

Stocks

Housebuilding stocks and work in progress

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

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

Other stocks

Stocks are stated at the lower of cost and estimated

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

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

Cash and cash equivalents

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

Provisions and contingencies

(i) Provisions

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

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

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

(ii) Contingencies

Contingent liabilities are not recognised, except those

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

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

Long term contracts

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

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

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

Financial instruments

Classification of financial instruments issued by the company

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

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or

to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

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

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

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

(i) Financial assets

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

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss. If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

(ii) Financial liabilities

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

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

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

Related party transactions

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

Dividends on shares presented within shareholders' funds

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

Critical accounting judgements and key source of estimation uncertainty

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

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

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

(i) Turnover recognition

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

(ii) Long term contracts

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

(iii) Valuation investments in land

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



Notes to the Financial Statements

for the year ended 31 December 2017

1. Group turnover

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

	2017	2016
	£'000	£'000
Construction	137,544	173,526
Housing and land	1,154	7,402
Property services	51,971	49,474
Business support	11,920	3,721
Group turnover	202,589	234,123

2. Operating (loss)/profit

	2017	2016
	£'000	£'000
Operating (loss)/profit is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	1,581	1,126
Leased	895	1,115
Amortisation of goodwill	7	26
Hire of assets	10,165	13,404

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

2. Operating (loss)/profit (continued)

Auditors' remuneration

	2017	2016
	£'000	£'000
Audit of the consolidated financial statements	18	18
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries	132	97
Taxation compliance services	25	30
Other tax advisory services	14	22
Other corporate finance services	43	63

3. Directors' emoluments

Company

	2017	2016
	£'000	£'000
Directors' emoluments	738	838
Company contributions to money purchase pension schemes	54	36

The aggregate emoluments of the highest paid director were £283,816 (2016: £345,768), and company pension contributions of £26,544 (2016: £472) were made to a money purchase scheme on his behalf.

Number of Directors

	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3

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

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

4. Staff numbers and costs

Group

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

	Number of employees	
	2017	2016
Production staff	425	465
Administrative staff	613	632
	1,038	1,097

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	36,414	37,735
Social security costs	3,670	3,813
Other pension costs (note 24)	1,364	1,134
	41,448	42,682

Company

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

	Number of employees	
	2017	2016
Production staff (Weekly Paid)	-	-
Administrative staff (Monthly Paid)	109	109
	109	109

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	4,382	3,936
Social security costs	425	406
Other pension costs (note 24)	190	159
	4,997	4,501

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

5. Interest receivable and similar income

	2017	2016
	£'000	£'000
Bank interest	69	225

6. Interest payable and similar expenses

	2017	2016
	£'000	£'000
On bank loans and overdrafts	411	305
Finance charges payable in respect of finance leases and hire purchase contracts	103	136
	514	441

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

7. Tax on Profit

(a) Tax expense included in profit or loss

	2017	2016
	£'000	£'000
UK corporation tax		
Current tax on income for the year	167	783
Adjustments in respect of prior years	(71)	(231)
	96	552
Share of joint ventures' current tax	(12)	(4)
Total current tax	84	548
Deferred tax (see note 17)		
Origination/reversal of timing differences	130	138
Adjustments in respect of prior years	19	381
Total deferred tax	149	519
Tax on profit	233	1,067

(b) Reconciliation of tax charge

Factors affecting the tax charge for the current year

The tax charge for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	£'000	£'000
Total tax reconciliation		
Profit before taxation	395	3,800
Current tax at 19.25% (2016: 20%)	76	760
<i>Effects of:</i>		
Tax losses	129	117
Capital allowances for the year in excess of depreciation	-	(13)
Income not taxable	(40)	-
Tax Rate changes	(17)	(39)
Deferred tax not provided	114	-
Expenses not taxable for tax purposes	23	92
Adjustments in respect of prior years	(52)	150
Total tax charge for the year (see above)	233	1,067

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

7. Tax on Profit (continued)

Factors that may affect future current and total tax charges

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

8. Dividends

The aggregate amount of dividends paid in the year comprises:

	2017	2016
	£'000	£'000
Non-voting preference shares of £1 each		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	-
Dividends paid in respect of the year	-	-
Voting preference shares of £1 each		
Final dividend paid in respect of prior year but not recognised as liabilities in that year	3,100	1,700
	3,100	1,700

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

9. Intangible assets

Group

	Software costs	Goodwill	Negative goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	1,089	1,128	(2,277)	(60)
Acquisition	4,019	-	(45)	3,974
At 31 December 2017	5,108	1,128	(2,322)	3,914
Accumulated amortisation				
At 1 January 2017	-	1,121	(2,277)	(1,156)
Charged in year	-	7	-	7
At 31 December 2017	-	1,128	(2,277)	(1,149)
Net book value				
At 31 December 2017	5,108	-	(45)	5,063
At 31 December 2016	1,089	7	-	1,096

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

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

Company

	Software costs	Total
	£'000	£'000
Cost		
At 1 January 2017	1,089	1,089
Addition	4,019	4,019
At 31 December 2017	5,108	5,108
Accumulated amortisation		
At 1 January and 31 December 2017	-	-
Net book value		
At 31 December 2017	5,108	5,108
At 31 December 2016	1,089	1,089

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

10. Tangible assets

Group

	Freehold land and buildings	Leasehold properties	Plant and machinery	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2017	9,989	44	18,426	28,459
Transfer	143	-	(143)	-
Additions	69	86	1,605	1,760
Disposals	-	-	(1,403)	(1,403)
At 31 December 2017	10,201	130	18,485	28,816
Accumulated depreciation				
At 1 January 2017	312	1	8,326	8,639
Transfer	143	-	(143)	-
Charge for year	127	24	2,324	2,475
On disposals	-	-	(1,074)	(1,074)
At 31 December 2017	582	25	9,433	10,040
Net book value				
At 31 December 2017	9,619	105	9,052	18,776
At 31 December 2016	9,677	43	10,100	19,820

Included in the total net book value of plant and machinery is £4,816,771 (2016: £6,997,964) 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 2017 (continued)

10. Tangible assets (continued)

Company

	Freehold land and buildings	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 January 2017	10,121	1,561	11,682
Additions	68	327	395
Disposals	-	(20)	(20)
At 31 December 2017	10,189	1,868	12,057
Depreciation			
At 1 January 2017	444	1,285	1,729
Charge for year	126	263	389
On disposals	-	(13)	(13)
At 31 December 2017	570	1,535	2,105
Net book value			
At 31 December 2017	9,619	333	9,952
At 31 December 2016	9,677	276	9,953

Included in the total net book value of plant and machinery is £nil (2016: £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2016: £nil).

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

11. Investment properties

	Group	Company
	£'000	£'000
Valuation		
At 1 January 2017	1,512	387
Additions	-	-
Disposals	(425)	-
At 31 December 2017	1,087	387

The fair values of the Group's investment property at December 31, 2017 and 2016 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 £1,020,000 (2016: £1,350,000).

The historical cost of the Company's investment properties is £386,000 (2016: £386,000).

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

12. Investments

Group

	Shares in joint ventures	Loans to joint ventures	Shares in participating interests	Loans to participating interests	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2017	132	2,358	600	375	3,465
Additions	-	-	-	15	15
Repayments	-	-	-	-	-
Disposal	-	(1,349)	-	-	(1,349)
At 31 December 2017	132	1,009	600	390	2,131
Provisions					
At 1 January 2017	-	(715)	(600)	(375)	(1,690)
Disposal	-	349	-	-	349
At 31 December 2017	-	(366)	(600)	(375)	(1,341)
Share of post acquisition reserves					
At 1 January 2017	(754)	-	-	-	(754)
Retained profits less losses	508	-	-	-	508
At 31 December 2017	(246)	-	-	-	(246)
Net book value					
At 31 December 2017	(114)	643	-	15	544
At 31 December 2016	(622)	1,643	-	-	1,021

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

12. Investments (continued)

Company

	Shares in group undertakings	Loans to subsidiaries	Shares in joint ventures	Loans to joint ventures	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2017	26,652	556	530	1,941	29,679
Disposal	-	-	-	(1,349)	(1,349)
At 31 December 2017	26,652	556	530	592	28,330
Provisions					
At 1 January 2017	(20,309)	(556)	(530)	(942)	(22,337)
Disposal	-	-	-	350	350
Impairment	(389)	-	-	-	(389)
At 31 December 2017	(20,698)	(556)	(530)	(592)	(22,376)
Net book value					
At 31 December 2017	5,954	-	-	-	5,954
At 31 December 2016	6,343	-	-	999	7,342

At the end of 2017 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 2017 (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 ²	100%	Civil engineering and building contractor
Sones Maintenance & Environmental Limited	100%	Landscaping contractor
Deerness Fencing & Landscaping Limited	100%	Fencing contractor
Esh Developments Limited	100%	Land and property development
Bartram Walker Limited	100%	Mechanical, electrical and plumbing contractor
Dunelm Homes Limited	100%	Housebuilder
Esh Homes Limited	100%	Housebuilder
Philadelphia Estates Limited ¹	*100%, +30%	Property letting
Philadelphia Properties Limited ¹	*100%, +30%	Property letting
Speed 8767 Limited ¹	+30%, +30%	Property letting
Mechplant (North East) Limited	80%	Plant hire
Tursdale Business Park Limited ¹	41%, +12.5%	Property letting
Dunelm National Projects 2 Limited	100%	Construction training
Dunelm Property Services Limited ¹	100%	Social housing – refurbishment and not of new build
Esh Acorn Homes Limited ¹	100%	Housebuilder
Stephen Easten Building Limited ¹	100%	Commercial builder
Wilkinson Facilities Services Limited ¹	100%	Property and Facilities Management
Esh Communities Limited	100%	Non-trading
Esh Education Limited	100%	Non-trading
Lumsden & Carroll Construction (Northern) Limited ¹	100%	Commercial builder
Dunelm (Bowburn) Limited ¹	100%	Land and property development
Green Energies Limited ¹	90%	Mechanical, electrical and plumbing
ABC Rental Properties Limited ¹	100%	Property letting
Dunelm Homes (Seaham) Limited ¹	100%	Housebuilder

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Dunelm National Projects Limited ¹	100%	Property development
Eastbourne JV Limited	50%	Housebuilder
West Park JV Limited	100%	Housebuilder
Finlaysons Contracts Limited ²	100%	Building contractor
Esh Langwathby Limited	100%	Property developer
Esh Remedios Limited ^{1,2}	51%	Site investigation
Remedios Limited ^{1,2}	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 RP Limited	100%	Dormant
David Wilkinson Building Contractors Limited ¹	100%	Dormant
SET Construction Projects Limited	100%	Dormant
Esh EBT Trustee Limited	100%	Non-trading
Esh Green Limited ¹	100%	Non-trading
Tursdale Recycling Limited	100%	Waste disposal and recycling
J Tonks (Transport) Limited	100%	Waste disposal and recycling
Tonks Recycling Limited	100%	Waste disposal and recycling

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

12. Investments (continued)

Subsidiary undertakings	Proportion of voting rights and shares held	Nature of business
Joint ventures		
Esh Energy Limited ¹	49%	Renewable energy
Pure Renewable Energies Limited ¹	44%	Renewable energy
Micropump (NE) Limited	50%	Plant hire
Prestige Exclusive Homes 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
Esh Salutation Road Limited	50%	Housebuilder
Participating interests		
Esh Space The Park Limited ¹	15%	Property development
Venture Wallsend Limited ¹	49%	Dormant
M62 Developments Limited ¹	43%	Dormant

*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.

The registered office of Esh Holdings Limited is Esh House, Bowburn North Industrial Estate, Durham DH6 5PF. All subsidiaries are also registered at Esh House except for those which are Scottish registered companies (indicated) which are registered at: -

Botany Mill, Roxburgh Street, Galashiels TD1 1PB

Finlaysons Contract Limited
Border Construction (Holdings) Limited

Brathens Eco-Business Park, Hill of Brathens, Banchory, Aberdeenshire, AB31 4BW

Esh Remedios Limited
Remedios Limited

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

13. Stocks

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Raw materials and consumables	15,283	16,322	-	-
Work in progress	4,964	2,429	-	--
	20,247	18,751	-	-

The amount of stock recognised as an expense during the year was £5,862,000 (2016: £7,490,000).

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

14. Debtors

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Trade debtors	9,495	7,882	39	60
Amounts recoverable on contracts	28,135	32,079	-	-
Amounts owed by group undertakings	1,417	1,491	20,322	12,819
Deferred tax	-	-	-	-
VAT Receivable	-	-	20	-
Amounts owed by undertakings in which the entity has a participating interest (note 25)	4,097	1,036	21	21
Corporation tax recoverable	75	197	193	899
Other debtors	304	2,703	278	1,999
Prepayments and accrued income	1,297	1,649	339	253
	44,820	47,037	21,212	16,051

Group 'other debtors' include £nil (2016: £1,894,143) due after more than one year. Company 'other debtors' include £nil (2016: £1,894,143) due after more than one year.

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

15. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 16)	12,030	12,751	12,030	12,530
Obligations under finance leases and hire purchase contracts (note 16)	1,507	2,481	-	-
Payments received on account	1,763	2,686	-	-
Trade creditors	6,698	9,863	1,349	550
Amounts owed to group undertakings	-	-	8,437	5,004
Amounts owed to undertakings in which the entity has a participating interest (note 25)	527	490	-	-
Corporation tax	-	-	-	-
Other taxation and social security	2,946	2,593	158	300
Other creditors	1,471	1,201	78	34
Accruals and deferred income	33,853	29,565	237	454
	60,795	61,630	22,289	18,872

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

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	6,180	6,210	6,180	6,209
Other loans (note 25)	50	50	-	-
Obligations under finance leases and hire purchase contracts	1,192	1,876	-	-
	7,422	8,136	6,180	6,209

Notes to the Financial Statements

for the year ended 31 December 2016 (continued)

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

Analysis of debt

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Debt can be analysed as falling due:				
In one year or less, or on demand	13,537	15,231	12,030	12,530
Between one and two years	2,458	3,705	1,530	2,530
Between two and five years	4,964	3,341	4,650	2,590
In five years or more	-	1,091	-	1,089
	20,959	23,368	18,210	18,739

Further details of bank loans are provided below:

Esh Holdings Limited

Esh Holdings Limited loans represent:

- A Commercial Mortgage £3.2m that is repayable in quarterly instalments on a ten-year repayment profile. Next review date December 2020.
- A Commercial Mortgage of £5.0m that is repayable in seven instalments with a three-year profile.
- A 5-year Revolving Credit Facility (RCF) £10m. Review date December 2020.

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

Finance Leases

The future minimum finance lease payments are as follows:

	Group		Company	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Not later than one year	1,555	2,566	-	-
Later than one year and not later than five years	1,211	1,920	-	-
Later than five years	-	-	-	-
Total gross payments	2,766	4,486	-	-
Less: finance charges	(67)	(129)	-	-
Carrying amount of liability	2,699	4,357	-	-

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

17. Provisions for liabilities

	Group	Company
	£'000	£'000
At 1 January 2017	356	304
Charge to the profit and loss	149	223
At 31 December 2017	505	527

The elements of deferred taxation are as follows:

	2017	Group 2016	2017	Company 2016
	£'000	£'000	£'000	£'000
Differences between accumulated depreciation and capital allowances	505	356	527	304

There are no unused tax losses or unused tax credits.

Notes to the Financial Statements

for the year ended 31 December 2016 continued

18. Financial Instruments

Group

The Group has the following financial instruments:

	Note	2017	2016
		£'000	£'000
Financial assets measured at amortised cost:			
Trade debtors	14	9,495	7,882
Prepayments and accrued income	14	1,297	1,649
Amounts recoverable on contracts	14	28,135	32,079
Amounts owed by group undertakings	14	1,417	1,491
Amounts owed by undertakings in which the entity has a participating interest	14	4,097	1,036
Other debtors	14	304	2,703
		44,745	46,840
Financial liabilities measured at amortised cost:			
Bank loans	15/16	18,210	18,961
Obligations under finance leases and hire purchase contracts	15/16	2,699	4,357
Amounts owed to undertakings in which the entity has a participating interest	15	527	490
Payments received on account	15	1,763	2,686
Trade creditors	15	6,698	9,863
Other loans	16	50	50
Other creditors	15	1,471	1,201
Accruals and deferred income	15	33,853	29,565
		65,271	67,173

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

18. Financial Instruments (continued)

Company

The Company has the following financial instruments:

	Note	2017 £'000	Company 2016 £'000
Financial assets measured at amortised cost:			
Trade debtors	14	39	60
Prepayments and accrued income	14	339	253
Amounts owed by group undertakings	14	20,322	12,819
Amounts owed by undertakings in which the entity has a participating interest	14	21	21
Other debtors	14	278	1,999
		20,999	15,152
Financial liabilities measured at amortised cost:			
Bank loans	15/16	18,210	18,739
Obligations under finance leases and hire purchase contracts	15	-	-
Amounts owed to group undertakings	15	8,437	5,004
Trade creditors	15	1,349	550
Other creditors	15	78	34
Accruals and deferred income	15	237	454
		28,311	24,781

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

19. Called-up share capital

Group and company

	2017		2016	
	Number of shares	£'000	Number of shares	£'000
Allotted, called up, issued and fully paid				
Non-voting ordinary shares of 0.1p each	9,834,967	10	9,834,967	10
Variable dividend ordinary shares of £1 each	14,286,791	14,287	14,286,791	14,287
Voting preference shares of £1 each	6,203,396	6,203	6,203,396	6,203
	30,325,154	20,500	30,325,154	20,500

Non-voting ordinary shares

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

Variable dividend ordinary shares

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

Voting preference shares

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

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

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

The retained earnings represent 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 (2016: 229,743), nil non-voting shares of 0.1p each (2016: nil) and 305,783 voting ordinary shares of £1 each (2016: 318,283) at a combined cost of £640,972 (2016: £653,474).

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

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

20. Minority interests

	Group £'000
At 1 January 2017	646
Total comprehensive expense attributable to minority interests	(323)
Dunelm Homes restructure	175
Dividends paid to minority interest	(30)
At 31 December 2017	468

21. Reconciliation of operating profit to operating cash flows

	2017 £'000	2016 £'000
Profit for the financial year attributable to owners of the parent	162	2,733
Tax on profit	233	1,067
Net interest expense	445	216
Income from shares in group undertakings	-	(75)
Proceeds from sale of fixed asset investments	(1,161)	(1,348)
(Income)/loss from joint ventures	(546)	333
Negative goodwill on acquisition	45	-
Profit on sale of fixed assets	(154)	(434)
Operating (loss)/profit	(976)	2,492
Amortisation of intangible assets	7	26
Depreciation of tangible assets	2,475	2,241
Revaluation of investment property	-	-
Working capital movements		
- Increase in inventories	(1,496)	(7,380)
- Increase in debtors	2,108	(238)
- Decrease in payables	846	821
Cash used in operating activities	2,964	(2,038)

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

22. Contingent liabilities

Banking arrangements

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

The Company is party to this composite banking arrangement. The net overdrafts which have been offset under this arrangement total £7.4m (2016: £9.5m) at the year end. Aggregate Group borrowings guaranteed by the company but not provided for in the company's financial statements amounted to £7.4m (2016: £9.5m).

There are no there known contingent liabilities.

23. Commitments

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

	Group		Company	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Contracted	-	634	-	54

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

	2017 £'000	2016 £'000
Group		
Operating leases which expire:		
Within one year	476	357
One to five years	601	356
More than five years	98	98
	1,175	811

Notes to the Financial Statements

for the year ended 31 December 2017 (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 £1,364,171 (2016: £1,134,102).

Contributions amounting to £383,638 (2016: £152,940) 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 £190,405 (2016: £158,736).

Contributions amounting to £52,801 (2016: £24,090) 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	
	2017	2016	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Esh Space The Park Limited	1	-	-	-	336	8	-	-
Micropump (NE) Limited								
Trade	12	11	7	23	6	-	-	10
Loan	-	-	-	-	21	21	-	-
Pure Renewable Energies Limited								
Loan	-	-	-	-	87	87	-	-
Prestige Exclusive Homes Limited								
Trade	9,300	1,675	-	-	29	11	524	480
Loan	-	-	-	-	750	750	-	-
Eastbourne JV Limited								
Trade	-	-	-	-	8	-	2	-
Loan	-	-	-	-	1,250	159	-	-
Salutation Road Trade	2	-	-	-	10	2	1	-
Salutation Road Loan	-	-	-	-	1,600	-	-	-
	9,315	1,686	7	23	4,097	1,038	527	490

Notes to the Financial Statements

for the year ended 31 December 2017 (continued)

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

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

The Group owes £50,000 (2016: £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 and immediate parent company incorporated in England and Wales.

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

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



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