Esh Construction Annual Report & Financial Statements

31 December 2016

Registered Number 03724890

ESH CONSTRUCTION

Esh Construction Limited

Annual report and financial statements

for the year ended 31 December 2016

Contents

Esh Construction Limited

Strategic report

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

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

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

	2016	2015
Turnover	**£225.4m**	£252.5m
Turnover growth	**(10.7%)**	(0.2%)
Gross profit margin	**6.8%**	7.5%
Administrative expenses	**£14.0m**	£13.9m
Profit before tax	**£1.6m**	£4.9m
Cash at bank and in hand	**£14.5m**	£11.2m

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

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

The 2016 performance was characterised by lower than anticipated turnover across many parts of the business, resulting in a total turnover of £225m. The destabilising impact of the EU Referendum played a part in slowing the commercial build project pipeline. Meanwhile the uncertainty that prevailed within the social housing sector also caused a slowdown in new projects coming to the market.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Esh Construction Limited

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

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

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

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

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

We aim to launch Gateway by early to mid 2018.

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

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

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

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

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

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

Esh Construction Limited

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

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

Key projects won and started in 2016 included:

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

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

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

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

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

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

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

A key target for the Yorkshire region is the YORCivils framework, bid for by L&C and which the results are expected later in 2017.

Yorkshire (continued)
Commercial build performance was robust during the year and activity will be increased in 2017 with a number of new contract wins already confirmed. Key schemes in 2016 included:

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

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

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

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

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

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

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

Key projects in the North West included:

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

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

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

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

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

Key projects in 2016 included:

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

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

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

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

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

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

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

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

This team has seen continued success, including:

- Our contacts with West Yorkshire Police and University of Leeds grew through their individual frameworks.
- 2016 saw the start of the Sanctuary Housing framework throughout Yorkshire and the North East for fabric and electrical work.

Esh Construction Limited

- We were also awarded a one-year extension to our Two Castles HA contract and we negotiated a further two-year extension to our repairs and maintenance contract with North Star Housing.
- For our umbilical cabling manufacturer client Technip we created and implemented a total waste recycling solution for site waste, production waste and general office waste, on top of our current contract.
- 2016 has also seen our contract with ISS UK go from strength to strength as we continue to deliver projects throughout the country.

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

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

Principal risks and uncertainties

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

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

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

Risk description	**How it is mitigated**
Project execution	
The Group undertakes construction, refurbishment and maintenance projects. We need to continue to deliver these within programme and match or exceed clients' requirements, profitably and within agreed financial parameters. Successful delivery of many of these projects depends on the successful implementation and maintenance of a range of operational and commercial procedures and controls.	Each business unit has defined operating procedures to address the risks inherent in project delivery. Furthermore, a well established commercial and financial risk management framework is in operation, using structured review meetings and reporting, with key risks identified early in the project delivery. We also have public indemnity cover to provide further safeguards.
Tendering	
Through our different business units we seek to win profitable work through a large number of competitive tenders and contract negotiations. This depends on our ability to price and add value in our tender offering, driven by an efficient operating model, and a clear focus on quality delivery and added value.	All bids are subject to proven, rigorous estimating and tendering processes within a defined framework, using skilled resources. We have delegated authority levels for approving all tenders and a formal tender review process. We undertake reviews following both successful and unsuccessful tenders to ensure we learn from them and apply those lessons to future tenders. Our culture of added value within the communities in which we work provides a point of differentiation from many of our competitors, producing upper quartile tender success rates.

People	
We need to recruit and retain the best management and employees. These staff should have appropriate competencies and also share our values and behaviours.	We measure all potential recruits for key roles in the organisation against a competency framework. We undertake staff appraisals to review the roles, competencies, performances and potential of personnel. We have a well-developed succession planning process to identify and develop high potential personnel to fill key roles. This process has recently been enhanced by the introduction of a Future Leaders Programme (FLP), designed to develop the leadership and organisational skills to our highlighted high potential employees. People matters are reviewed regularly and discussed at all levels within the organisation and by the Board. We have appropriate remuneration and incentive packages to help us attract and retain key employees, including employee share ownership. We also use a well connected group of recruitment consultants and advisors to ensure we connect with the best talent within the industry.
Supply chain	
We are reliant on our supply chain partners for successful operational delivery, which means we are also exposed to a variety of risks in the supply chain.	Our strategic supply chain management processes, where possible, aligns us to large, robust suppliers whose access to material and resources is preferred given their size and scale; a factor equally supported by our own size, regional presence and buying capacity. We develop long term relationships with our subcontractors, working closely with them to understand their operations and work with them to ensure their capacity planning can be optimised. We aim to work as much as possible with preferred suppliers and subcontractors who undergo rigorous, risk-based prequalification processes and share our values. We aim to avoid becoming over reliant on any one supplier or subcontractor.
Health and safety	
The Group works on projects which require continuous monitoring and management of health and safety risks.	The Group has a highly developed health, safety and environmental process. This process is underpinned by documented procedures and working practices. Policy is set by the Board, and cascaded through the organisation via a team of dedicated health and safety professionals, who continually audit and review on site operations for compliance, as well as liaising with external verification bodies. Accident frequency rates remain well below the industry average. Health and safety remains the first agenda item at all board meetings, and is a critical focus for all directors.
Regulatory, market and economic	
The Group operates in markets and segments that are influenced by a range of external factors. The resilience and performance of the construction sector, and the housing market in particular, is at risk from regulatory change, political change and the impact of monetary policy and financial system regulation.	The Group maintains a diversified portfolio of operating activities, some of which behave in a counter cyclical manner, and most of which are aligned to well funded, blue chip client bases. The housing market remains stable, but continues to be underpinned by favourable political support and monetary policy, thereby implying risk should these positions change. Whilst a reasonable proportion of the group is associated with the housing market, we have considerably de-leveraged our association with the sector from where it was before the recession.
Business process and IT systems	
To continue to expand the business the Esh Group acknowledge that information and associated technology must be robust and meet business needs. The current legacy systems and architecture require replacement.	Project Gateway is an Esh Group business transformation project to put in place a new integrated business management system and robust IT infrastructure for the future.

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

J P Davies
Director
31 August 2017

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

Esh Construction Limited

Directors' report

The directors present their directors' report and audited consolidated financial statements for the year ended 31 December 2016.

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

The finance lease obligations total £2.6m (2015: £2.0m) and are at fixed interest rates. The Group's cash balance of £14.5m (2015: £11.2m) carries interest at variable rates but the levels of interest receivable are not significant to this group's results because interest accrues to Esh Holdings Limited as a result of the group banking facility.

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

Dividends
Dividends paid during the year comprise an interim dividend in respect of the year ended 31 December 2016 of nil (2015: £5,400,000).

The directors have not proposed a final dividend in respect of the current financial year.

Result for the year
The result for the year is set out in the Strategic report.

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

JP Davies
D Halfacre (resigned 1 August 2017)
A Law
S Leadbitter
B Manning (resigned 28 April 2016)
G Morgan
AE Radcliffe
D Thompson (resigned 18 July 2016)
P Watson
ST Wilkie
A Gawthope (resigned 30 September 2016)
S Phillips

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

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

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

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 auditors
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 auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Esh Construction Limited

Directors' report (continued)

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

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

On behalf of the board,

J P Davies
Director
31 August 2017

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

Esh Construction Limited

Independent auditors’ report to the members of Esh Construction Limited

Report on financial statements

Our opinion

In our opinion, Esh Construction Limited’s group financial statements and company financial statements (the “financial statements”):

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

What we have audited

The financial statements, included within the Annual report and financial statements (the “Annual Report”), comprise:

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

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

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

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

Independent auditors' report to the members of Esh Construction Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

Independent auditors' report to the members of Esh Construction Limited (continued)

What an audit of financial statements involves

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

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

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

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

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

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

Esh Construction Limited

Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	**2016** £'000	2015 £'000
Group and share of joint ventures	1	**233,270**	252,516
Less share of joint ventures turnover		**(7,835)**	-
Group Turnover		**225,435**	252,516
Cost of sales		**(210,146)**	(233,669)
Gross profit		**15,289**	18,847
Administrative expenses		**(13,953)**	(13,910)
Operating profit	2	**1,336**	4,937
Interest receivable and similar income	5	**1**	1
Interest payable and similar expenses	6	**(65)**	(70)
Profit on sale of fixed assets		**360**	61
Profit before taxation		**1,632**	4,929
Tax on profit	7	**(620)**	(1,106)
Profit for the financial year	18	**1,012**	3,823
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,012**	3,823

The group had no other comprehensive income during the current or preceding year other than that reflected in the consolidated statement of comprehensive income.

Esh Construction Limited

Consolidated balance sheet as at 31 December 2016

	Note		2016		2015
		£'000	**£'000**	£'000	£'000
Fixed assets					
Goodwill	9		**7**		33
Tangible assets	10		**5,031**		4,626
			5038		4,659
Current assets					
Stocks	12	**1,196**		1,256	
Debtors	13	**43,558**		44,571	
Cash at bank and in hand		**14,476**		11,225	
		59,230		57,052	
Creditors: amounts falling due within one year	14	**(43,488)**		(42,350)	
Net current assets			**15,742**		14,702
Total assets less current liabilities			**20,780**		19,361
Creditors: amounts falling due after more than one year	15		**(1,225)**		(818)
Net assets			**19,555**		18,543
Capital and reserves					
Called up share capital	17		**978**		978
Profit and loss account	18		**18,577**		17,565
Total shareholders' funds			**19,555**		18,543

These financial statements on pages 16 to 40 were approved by the board of directors on 31 August 2017 and were signed on its behalf by:

J P Davies
Director

Company registered number: 02529939

Esh Construction Limited

Company balance sheet as at 31 December 2016

	Note		2016		2015
		£'000	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	9		**-**		-
Tangible assets	10		**4,984**		4,115
Investments	11		**1,700**		1,500
			6,684		5,615
Current assets					
Stocks	12	**215**		306	
Debtors	13	**43,959**		46,509	
Cash at bank and in hand		**14,961**		11,713	
		59,135		58,528	
Creditors: amounts falling due within one year	14	**(45,208)**		(44,823)	
Net current assets			**13,927**		13,705
Total assets less current liabilities			**20,611**		19,320
Creditors: amounts falling due after more than one year	15		**(1,225)**		(818)
Net assets			**19,386**		18,502
Capital and reserves					
Called up share capital	17		**978**		978
Profit and loss account					
At 1 January			**17,524**		19,208
Profit for the year			**884**		3,716
Dividends			**-**		(5,400)
			18,408		17,524
Total shareholders' funds			**19,386**		18,502

These financial statements in pages 16 to 40 were approved by the board of directors on 31 August 2017 and were signed on its behalf by:

J P Davies
Director

Company registered number: 02529939

Consolidated statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Profit and loss account	Total shareholders' funds
	£'000	**£'000**	**£'000**
Balance at 1 January 2015	978	19,142	20,120
Profit for the financial year	-	3,823	3,823
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	3,823	3,823
Dividends	-	(5,400)	(5,400)
Balance at 31 December 2015	978	17,565	18,543
Profit for the financial year	-	1,012	1,012
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**1,012**	**1,012**
Dividends	-	-	-
Balance at 31 December 2016	**978**	**18,577**	**19,555**

Esh Construction Limited

Company statement of changes in equity for the year ended 31 December 2016

	Called up share capital	Profit and loss account	Total shareholders' funds
	£'000	**£'000**	**£'000**
Balance at 1 January 2015	978	19,208	20,186
Profit for the financial year	-	3,716	3,716
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	3,716	3,716
Dividends	-	(5,400)	(5,400)
Balance at 31 December 2015	978	17,524	18,502
Profit for the financial year	-	884	884
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	**884**	**884**
Dividends	-	-	-
Balance at 31 December 2016	**978**	**18,408**	**19,386**

Esh Construction Limited

Statement of accounting policies

Statement of compliance and general information
The Company is a private company limited by shares and is incorporated in the United Kingdom and registered in England. The registered address is Esh House, Bowburn North Industrial Estate, Bowburn, Durham, DH6 5PF. These financial statements have been prepared in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, ‘‘The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland’’ (‘‘FRS 102’’) and the Companies Act 2006.

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

Basis of preparation
As the company is a wholly owned subsidiary of Esh Holdings Limited, the company has taken advantage of the exemption contained in paragraph 33.1A of FRS 102 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company’s shareholders.

The Company has taken advantage of the following exemptions:

i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and a parent company consolidated statement of cash flows includes the Company’s cash flows; and
ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv).

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2016. The merger accounting principles have been adopted. Under this method the companies, businesses and assets comprising the Esh Construction Limited Group are presented as if they had been part of this Group from the date on which they joined the Esh Holdings Limited group. This basis of accounting has been adopted in order to present a true and fair view.

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

As part of this reorganisation, the transfer of shares was not on terms that meet the requirements of Schedule 6 paragraph 10 of the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports Regulations 2008 (SI 2008 No. 410)). Consequently, FRS 102 requires that acquisition accounting principles should be used in respect of this transaction and that the assets and liabilities of the companies involved should be presented at fair value and to recognise any resulting goodwill.

Statement of accounting policies (continued)

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

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

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

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

The group headed by Esh Holdings Limited recorded an operating profit of £2.16m in 2016 and had net assets at 31 December 2016 of £44.8m including cash of £25.7m.

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

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

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

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

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

Esh Construction Limited

Statement of accounting policies (continued)

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

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

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

No depreciation is provided on freehold land.

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

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

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

Stocks
Stocks are stated at the lower of cost and 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.

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 estimated reliably as per paragraph 23.14 of FRS 102. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Turnover includes the initial amount agreed in the contract plus any variations in contract work to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of contracts is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

Statement of accounting policies (continued)

Long term contracts (continued)
Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

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

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

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

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

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

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

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

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

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

Turnover on short term contracts is recognised when the contract is completed.

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

Esh Construction Limited

Statement of accounting policies (continued)

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

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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.

Notes to the financial statements for the year ended 31 December 2016

1 Turnover

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

	2016	2015
	£'000	£'000
Construction	**177,872**	178,540
Property services	**47,563**	73,976
	225,435	252,516

2 Operating profit

	2016	2015
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible assets:		
Owned assets	**447**	530
Leased assets	**566**	590
Amortisation of goodwill	**26**	26
Negative goodwill on acquisition of Border Construction	**-**	(1,392)
Hire of plant and machinery - operating leases	**11,539**	11,828
Hire of other assets – operating leases	**1,282**	1,408

Auditors' remuneration

	2016	2015
	£'000	£'000
Audit of consolidation and parent company	**87**	102

Notes to the financial statements for the year ended 31 December 2016 (continued)

3 Remuneration of directors

	2016	2015
	£'000	£'000
Directors' emoluments	626	916
Company contributions to money purchase pension schemes	58	69
	684	985

The aggregate of emoluments of the highest paid director were £160,805 (2015: £201,742) and company pension contributions of £1,517 (2015: £1,410) were made to a money purchase scheme on his behalf.

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	5	6

4 Staff numbers and costs

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

	Number of employees	
	2016	2015
Production staff	374	433
Administrative staff	461	417
	835	850

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	28,909	32,850
Social security costs	2,913	3,332
Other pension costs (note 21)	854	893
	32,676	37,075

5 Interest receivable and similar income

	2016	2015
	£'000	£'000
Interest receivable from group undertakings	**1**	1

6 Interest payable and similar expenses

	2016	2015
	£'000	£'000
Finance charges payable in respect of finance leases and hire purchase contracts	**65**	70

7 Tax on profit

Analysis of charge in year:

	2016	2015
	£'000	£'000
UK corporation tax		
Current tax on profit for the financial year	**199**	967
Adjustments in respect of prior periods	**32**	59
Total current tax	**231**	1,026
Deferred tax (see note 16)		
Origination/reversal of timing differences	**105**	81
Adjustments in respect of prior periods	**294**	-
Effect of decreased tax rate	**(10)**	(1)
Total deferred tax	**389**	80
Total tax charge	**620**	1,106

Notes to the financial statements
for the year ended 31 December 2016 (continued)

7 Tax on profit on ordinary activities (continued)

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

	2016	2015
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before taxation	**1,632**	4,929
Current tax at 20% (2015: 20.25%)	**326**	998
Effects of:		
Expenses not deductible for tax purposes	**(14)**	16
Capital allowances for the year in excess of depreciation	**(13)**	(9)
Tax rate changes	**(10)**	42
Group relief paid for at less than full UK tax rate	**5**	-
Adjustments in respect of prior periods	**326**	59
Total current tax charge (see above)	**620**	1,106

Tax rate changes
The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 21% to 20% from 1 April 2015.

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

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Dividends

The aggregate amount of dividends comprises:

	2016	2015
	£'000	£'000
Interim dividends paid in respect of the current year	**-**	5,400

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil (2015: £5,400,000).

9 Intangible assets

Group

	Negative goodwill	**Goodwill**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 January 2016	(2,277)	510	(1,767)
Additions	-	-	-
At 31 December 2016	**(2,277)**	**510**	**(1,767)**
Accumulated amortisation			
At beginning of year	(2,277)	477	(1,800)
Charged in year	-	26	26
At end of year	**(2,277)**	**503**	**(1,774)**
Net book value			
At 31 December 2016	-	7	7
At 31 December 2015	**-**	33	33

Notes to the financial statements for the year ended 31 December 2016 (continued)

9 Intangible assets (continued)

Negative goodwill arose on the acquisition of Border Construction Limited during 2014.

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

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

Company

	Goodwill
	£'000
Cost	
At beginning and end of year	757
Accumulated amortisation	
At beginning of year	757
Charged in year	-
At end of year	**757**
Net book value	
At 31 December 2016	**-**
At 31 December 2015	-

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

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Tangible assets

	Freehold property	Leasehold Property	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2016	541	-	5,795	478	2,256	9,070
Additions	-	44	1,754	53	611	2,462
Disposals	(529)	-	(1,487)	(203)	(960)	(3,179)
At 31 December 2016	**12**	**44**	**6,062**	**328**	**1,907**	**8,353**
Accumulated Depreciation						
At 1 January 2016	30	-	2,544	371	1,499	4,444
Charge for year	-	1	687	52	273	1,013
On disposals	(18)	-	(1,261)	(165)	(691)	(2,135)
At 31 December 2016	**12**	**1**	**1,970**	**258**	**1,081**	**3,322**
Net book value						
At 31 December 2016	**-**	**43**	**4,092**	**70**	**826**	**5,031**
At 31 December 2015	511	-	3,251	107	757	4,626

Group

Included in the total net book value is £4,019,711 (2015: £3,156,254) relating to assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £566,334 (2015: £590,070).

Notes to the financial statements for the year ended 31 December 2016 (continued)

10 Tangible assets (continued)

	Freehold property	Leasehold Property	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2016	12	-	5,721	320	2,310	8,363
Additions	-	44	1,753	54	611	2,462
Disposals	-	-	(1,418)	(48)	(1,064)	(2,530)
At 31 December 2016	**12**	**44**	**6,056**	**326**	**1,857**	**8,295**
Accumulated Depreciation						
At 1 January 2016	12	-	2,470	213	1,553	4,248
Charge for year	-	1	686	52	271	1,010
On disposals	-	-	(1,188)	(8)	(751)	(1,947)
At 31 December 2016	**12**	**1**	**1,968**	**257**	**1,073**	**3,311**
Net book value						
At 31 December 2016	**-**	**43**	**4,088**	**69**	**784**	**4,984**
At 31 December 2015	-	-	3,251	107	757	4,115

Company

Included in the total net book value is £4,019,711 (2015: £3,156,254) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £566,334 (2015: £590,070).

11 Investments

Company

	Shares in group undertakings
	£'000
Cost and net book value	
At 1 January 2016	1,500
Additions	200
At 31 December 2016	**1,700**

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

Subsidiary undertaking	Class and percentage of shares held	Nature of business
Stephen Easten Building Limited	100% Ordinary	Commercial builder
Border Construction Limited[1]	100% Ordinary	Civil engineering and building contractor
Border Construction (Holdings) Limited	100% Ordinary	Civil engineering and building contractor
Lumsden & Carroll Construction (Northern) Limited	100% Ordinary	Commercial builder
Dunelm Property Services Limited	100% Ordinary	Housing construction and refurbishment
Wilkinson Facilities Services Limited[1]	100% Ordinary	Building and maintenance services
Finlaysons Contracts Ltd	100% Ordinary	Building and maintenance services
Esh MWH Limited	50% Ordinary	Civil engineering
Dunelm National Projects Limited[1]	100% Ordinary	Property development
David Wilkinson Building Contractors[1]	100% Ordinary	Dormant

[1]*Investment held indirectly*

All companies are incorporated in England and have a registered office of Esh House, Bowburn North Industrial Estate, Bowburn, Durham, DH6 5PF, except for Border Construction (Holdings) Limited which is registered in Scotland and has a registered office of Britany Mill, Roxburgh Street, Galashiels, TD1 1PB.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Notes to the financial statements for the year ended 31 December 2016 (continued)

12 Stocks

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**1,196**	1,256	**215**	306

The amount of stock recognised as an expense during the year was £2,367,000 (2015: £1,891,000).

13 Debtors

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade debtors	**7,187**	8,089	**7,080**	7,866
Amounts recoverable on contracts	**29,633**	29,152	**29,169**	28,990
Amounts owed by group undertakings	**4,767**	4,720	**6,414**	7,043
Amounts owed by undertakings in which the ultimate parent company has a participating interest (note 22)	**3**	431	**3**	431
Deferred tax asset (note 16)	**12**	400	**12**	400
Other taxation	**-**	522	**-**	522
Other debtors	**688**	4	**20**	4
Prepayments and accrued income	**1,268**	1,253	**1,261**	1,253
	43,558	44,571	**43,959**	46,509

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

Amounts owed by group undertakings do not bear interest and are not secured.

Notes to the financial statements
for the year ended 31 December 2016 (continued)

14 Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts (note 15)	**1,369**	1,214	**1,369**	1,214
Payments received on account	**2,535**	3,411	**2,535**	3,411
Trade creditors	**7,928**	8,150	**7,894**	8,150
Amounts owed to group undertakings	**960**	959	**2,838**	3,515
Amounts owed to undertakings in which the ultimate parent company has a participating interest (note 22)	**10**	1	**9**	1
Corporation tax	**231**	1,026	**230**	1,024
Other taxation and social security	**2,068**	1,531	**2,013**	1,531
Other creditors	**1,069**	523	**1,057**	523
Accruals and deferred income	**27,318**	25,535	**27,263**	25,454
	43,488	42,350	**45,208**	44,823

Amounts owed to group undertakings do not bear interest and are not secured.

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Obligations under finance leases and hire purchase contracts	**1,225**	818	**1,225**	818

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

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

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Within one year	**1,418**	1,255	**1,418**	1,255
In the second to fifth years	**1,246**	832	**1,246**	832
	2,664	2,087	**2,664**	2,087
Less future finance charges	**(70)**	(55)	**(70)**	(55)
	2,594	2,032	**2,594**	2,032

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

16 Deferred taxation

	Group	Company
	£'000	**£'000**
At beginning of year – asset	**400**	400
Charge to the profit and loss for the year	**(388)**	(388)
At end of year – asset	**12**	**12**

The elements of deferred taxation are as follows:

	Group		Company	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Differences between accumulated depreciation and capital allowances	**(7)**	3	**(7)**	3
Other timing differences	**19**	33	**19**	33
Losses	**-**	364	**-**	364
Deferred tax asset	**12**	400	**12**	400

Notes to the financial statements for the year ended 31 December 2016 (continued)

17 Called-up share capital

	2016		2015	
	Number of shares	**£000**	Number of shares	£000
Authorised, Allotted, called up and fully paid				
Ordinary shares of £1 each	**978,150**	**978**	978,150	978

18 Profit and loss account

Group

	£'000
At 1 January 2016	17,565
Profit for the financial year	1,012
At 31 December 2016	**18,577**

Company

	£'000
At 1 January 2016	17,524
Profit for the financial year	884
At 31 December 2016	**18,408**

19 Contingent liabilities

The Company and Group are party to a group composite arrangement with certain of the companies in the Esh group under which overdrafts and cash can be offset. The total group liability and group overdraft at the year end was £9.5m (2015: £6.1m). The composite arrangement does not include Dunelm Homes Limited which has its own discrete banking arrangements.

Notes to the financial statements for the year ended 31 December 2016 (continued)

20 Commitments

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

	2016	2015
	£'000	£'000
Group and Company		
Contracted	**548**	530

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

	Other		**Land and buildings**	
	2016	**2015**	**2016**	2015
	£'000	**£'000**	**£'000**	£'000
Group and Company				
Operating leases which expire:				
Within one year		44		148
In the second to fifth years inclusive		702		-
		746		148

21 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 £854,058 (2015: £893,000).

There were outstanding contributions at the end of the financial year of £112,625

Esh Construction Limited

Notes to the financial statements
for the year ended 31 December 2016 (continued)

22 Related party disclosures

	Sales		Purchases		Debtors		Creditors	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Participating interests								
Esh Space The Park Ltd	-	5	-	-	1		-	-
Prestige Exclusive Homes Ltd	-	1,187	-	-	-	427	-	-
Micropump (NE) Ltd	**11**	11	**23**	31	-		9	-
	11	1,203	**23**	31	**1**	429	**9**	-
Fellow subsidiaries								
Mechplant (North East) Ltd	**136**	98	**1,513**	1,527	**29**	39	**284**	302

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

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

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

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

The largest group in which the results of the Company are consolidated is that headed by Esh Investments Limited, and the smallest group is that headed by Esh Holdings Limited, both 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.

ESH GROUP

Head office:
Esh House
Bowburn North Industrial Estate
Bowburn, Durham
DH6 5PF

T: 0191 377 4570
E: enquiries@esh.uk.com
www.eshgroup.co.uk

With offices in Yorkshire,
North West & Scotland