Esh Holdings Limited

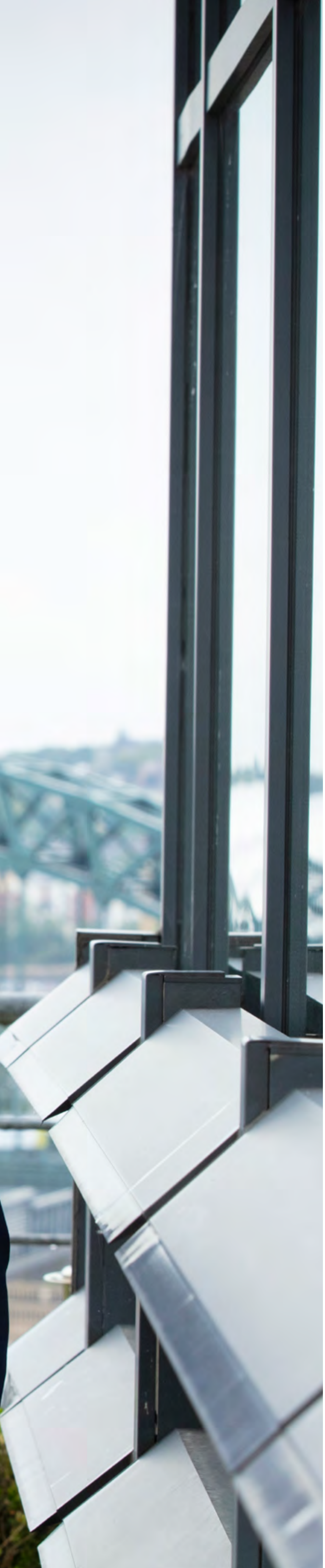
Annual report and financial statements

for the year ended 31 December 2018

Registered Number 03724890

Contents

A much simpler business structure.



Chairman's Report

Welcome to all shareholders, employees, suppliers, clients and stakeholders to our Annual Report for 2018. As always, Esh Group values your support and partnership.

2018 saw the most transformative year in the Esh Group's history. As previously advised, our executive team has carried out a comprehensive strategic review of the group and set about executing upon a meticulously detailed plan to reposition our business after many years of organic and acquisitive growth.

This growth didn't come without its challenges, and whilst our financial strength, built over many years of prudent financial management, has allowed us to deal with these challenges, our analysis proved that our business was not running efficiently from both a cost and capital perspective. Moreover, our processes, management structures and dated technology were acting as inhibitors in delivering projects effectively for our clients.

I am both pleased by, and proud of the way our management team has tackled these challenges, which has been done in an objective, strategically focussed manner.

These actions have led to:

1. A much simpler business structure, reducing operating divisions from 17 to 6.
2. A leaner cost base, with circa £6m of cost reduction delivered during 2018.
3. A more focussed management team with clearer accountabilities.
4. A more balanced business model, evenly spanning cyclical and non-cyclical sectors;
5. An improved control environment, including a more robust 'stage gated' bidding process, stronger contract controls and more rigorous revenue recognition rules.
6. A better use of capital by reducing the amount of cash locked up in working capital as well as a reduction in long term capital used in strategic land projects.

Our business is now positioned to drive forward with a **clearer and more deliverable strategy.**

Of course, changes that are as deep and comprehensive as these do not come without their cost, and this has had a significant bearing on our consolidated results for 2018. However, most of these costs were borne in 'discontinued' operations, and as such will not repeat, thus demonstrating that our continuing operations are profitable, albeit clearly with room for improvement.

Whilst most of these changes are now complete, some have naturally overlapped into 2019 as contracts come to an end and operations are demobilised. However, I am confident we will demonstrate improved operational results during 2019, with our latest management information clearly supporting this view. Our continuing operations are delivering solid profitability, and our liquidity position is outperforming expectations.

We are, of course, aware that these results may give rise to some unease amongst our key stakeholders. However, they should be reassured by our resolute financial strength, demonstrated by our strong balance sheet standing at over £36.0m, with over £13.3m of that in cash, a stable and very supportive group of shareholders and a highly capable team of people who are dedicated to both their jobs and Esh Group.

They should also take comfort from the fact that our business is now positioned to drive forward with a clearer and more deliverable strategy, in markets that continue to provide long term visibility and sustainability despite Brexit, and with a team of people that are motivated and capable of driving improved performance.

So, whilst our results have clearly borne the cost of this comprehensive reorganisation, we, as a Board, very much see this as an investment in the future; an investment that has clearly positioned us to drive forward with confidence on solid financial foundations. Our future success will always be dependent on the continued support of our valued workforce, our all-important supply chains and our esteemed clients. We very much appreciate this support and look forward to continuing to work together for our mutual benefit.

Thank you,
Michael Hogan
Non-Executive Chairman

Chief Executive's Report

COMPREHENSIVE REORGANISATION OF THE GROUP

Following many years of largely uninterrupted growth, driven by both acquisitive and organic strategies, the Group reached a size and scale that was becoming a challenge to manage in its existing form. Processes and technology were creaking, our management structures were cumbersome, and our customer proposition became confused and difficult to articulate.

In order to address these challenges, the leadership team, led by me, carried out a thorough, root and branch review of our operations. This concluded in a comprehensive reorganisation plan, which we executed with rigour and pace during the second half of 2018.

The essential components of this plan were to focus on:

1. **Organisational simplification** – reducing unnecessary complexity

2. **Operational efficiency** – reducing our cost base to improve competitiveness

3. **Capital efficiency** – improving liquidity and reducing long term capital lock up

4. **Managerial accountability** – driving performance improvements

5. **Talent assessment** – ensuring we have the right talent in the business to drive our plan

Every part of our group has been analysed using these elements as key criteria for evaluating each business unit's viability. This analysis led to us identifying a significant number of our business units as 'not core to our future strategy', prompting a series of business divestitures, closures and internal restructures. Regrettably, this led to several people leaving the Group. Nevertheless, these actions have been essential in ensuring we restore the necessary level of financial performance demanded by our broad range of stakeholders.

Ensuring we have the right talent in the business to **drive our plan.**

Alongside this organisational change, our team have also addressed our capital structure. I am pleased to report that we have secured a new credit funder for the group, who alongside our shareholders, have provided more than adequate capital headroom for us to be able to execute our future growth strategy, with lending facilities being more aligned to the shape of our business and the construction industry's current dynamic.

Naturally, changes as comprehensive as these come with considerable cost. Esh Group is an organisation with a high moral standard, and as such has carried out these changes in a manner that has minimised the impact upon our clients and supply chains, as well as being fair and reasonable with exiting employees, many of whom had provided long service to the group.

Consequently, delivering contracts to completion during the restructuring period has been costly, with numerous projects within these discontinued businesses returning losses, compounded by the cost of maintaining resources and facilities in the face of reducing turnover. We have also incurred considerable one-time costs associated with re-setting our capital structure, as well as transaction costs for business units that have been divested.

Alongside this, we have continued to invest time and money into a new technology solution, which has been going live in stages during 2019. These solutions are helping us create a more efficient, controlled and better-informed business as we move forward.

Although most of these changes were executed by 2018 year-end, project duration has meant that there has been some natural spill over into 2019. However, I am pleased to report that our continuing activities have performed much more strongly during 2019, offsetting any hangover from discontinued operations, and as such, I expect us to restore profitability for 2019. Our most recent financial reports affirm this position.

We have been able to absorb the impact of these changes only because of our financial strength. Years of prudent financial management has allowed us to accrue a strong net worth, with ample liquidity headroom. Many organisations would not have been able to bear the cost of such an exercise without fundamentally challenging their solvency.

Whilst this process has been painful, I am both pleased with, and proud of the way our people have galvanised around these changes, embarked upon the journey with us, and helped reset our business in preparation for future growth. The pain is now behind us, and we are fit, ready and eager to deliver the next exciting chapter in the Esh Group story.

We are **fit, eager and ready** to deliver the next exciting chapter in **the Esh Group story.**

New Business Structure

Our Group is now structured into 6 identifiable divisions operating solely in the North East and Yorkshire regions:

Civil Engineering

Through this division we deliver 3 key services:

1. New Build housing infrastructure through our heritage brand, **Lumsden & Carroll**
2. Utility and Environmental Services, primarily through our **Esh-Stantec** Joint Venture
3. Large scale infrastructure works through our **Esh Civils** brand

Esh Build

Here we deliver large building and construction projects across a broad range of sectors including Education, Commercial, Healthcare, Leisure and Industrial.

Homes by Esh

This is our Private Housing division, building and selling a range of quality new build homes across the North East, delivered by way of our extensive joint venture arrangement with Darlington Borough Council.

Esh Facilities

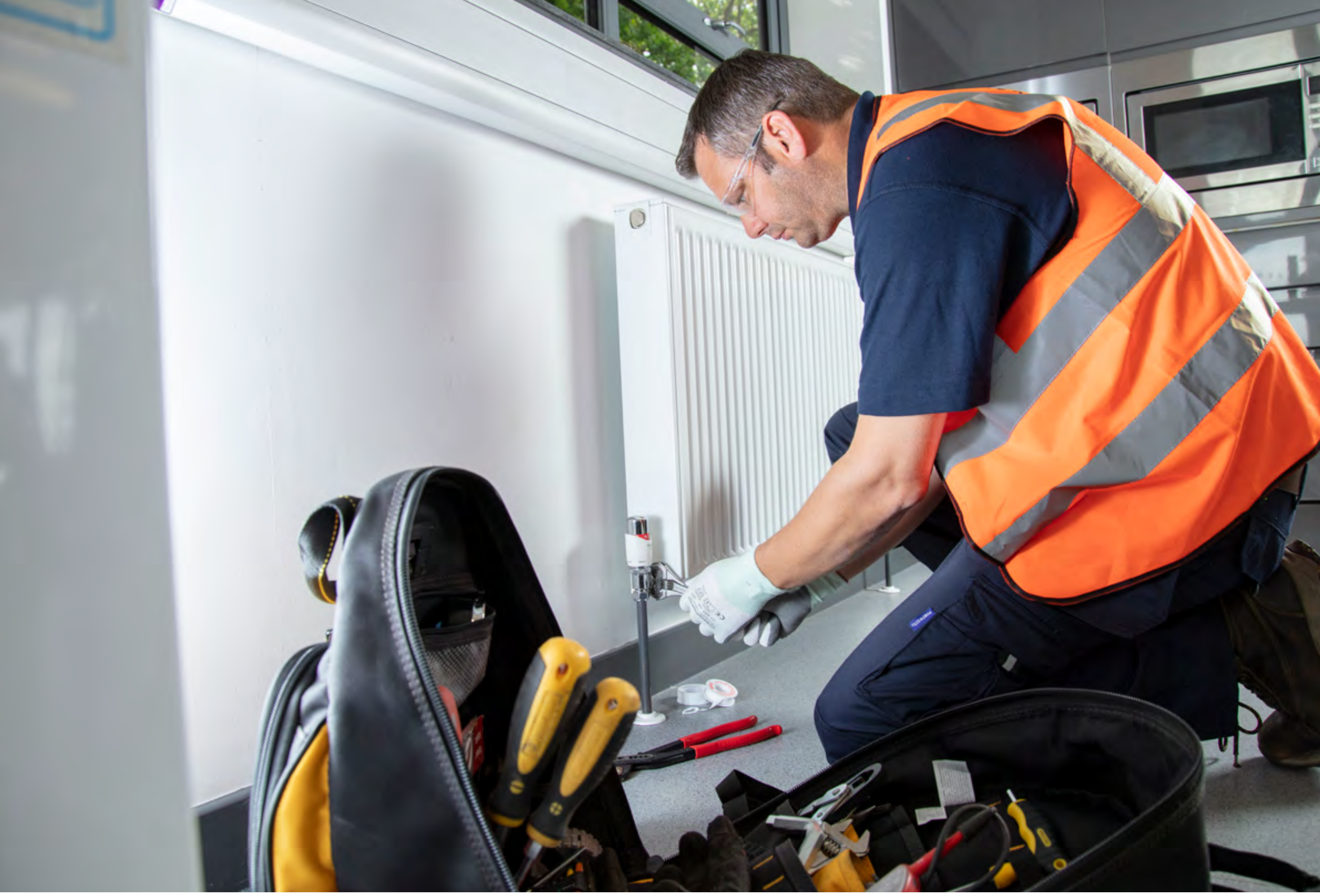
Through this division, we deliver responsive maintenance and small works solutions for local authorities, social housing, 'blue light' services, education and commercial organisations, which include the banking sector.

Esh Living

This division provides our Social Housing clients with both new build housing and existing stock refurbishment services. Our land and development credentials allow us to bring 'land led' turn-key solutions to clients, enabling a faster delivery of stock and thereby contributing to the government's mission to increase the supply of new housing in the UK.

Deerness Fencing and Landscaping

This division delivers fencing and landscaping services to both private and social housing providers as well as local authorities.



Our Board remains resolute in maintaining organisational discipline and will not venture into activities beyond this core set of operating business units, thereby maintaining laser focus on the group's core skills, and so ensuring sector leading quality and performance for our clients. Moreover, this new structure allows our business to participate in both cyclical and non-cyclical market segments in a more balanced way, thereby reducing the Group's exposure to heavily cyclical sectors and so providing a more stable outlook than was previously the case. This is a widely recognised business model and will be the foundation of our future success.

Financial Standing

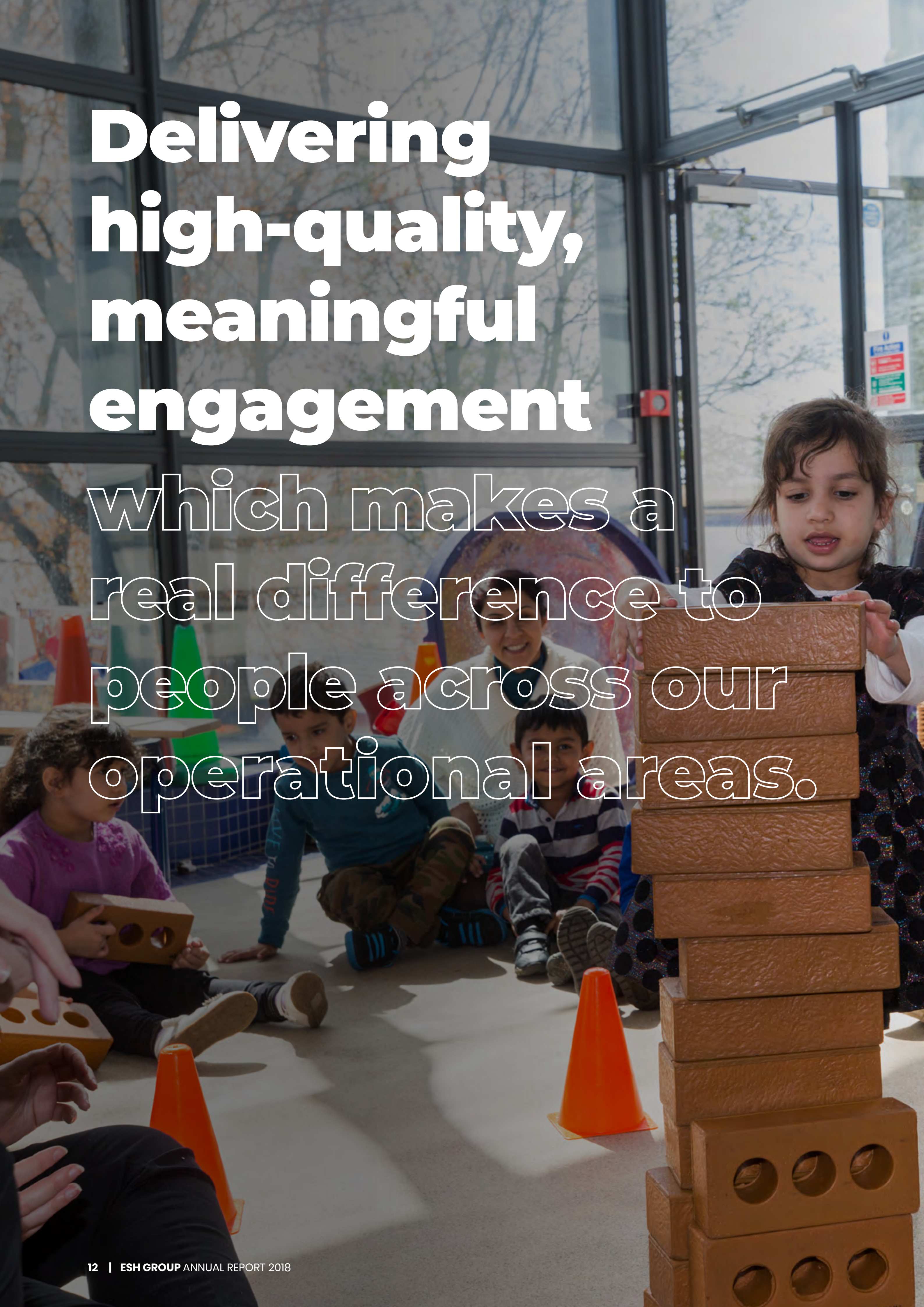
Our financial strength is evidentially presented in our financial statements. Whilst our earnings have clearly been impacted by our work in comprehensively reorganising and repositioning our business, our balance sheet net worth of £36.0m and available cash of £13.3m, positions us significantly better than our peer group. Moreover, our strong tangible net worth provides further liquidity opportunity, and more specifically security for all financial stakeholders.

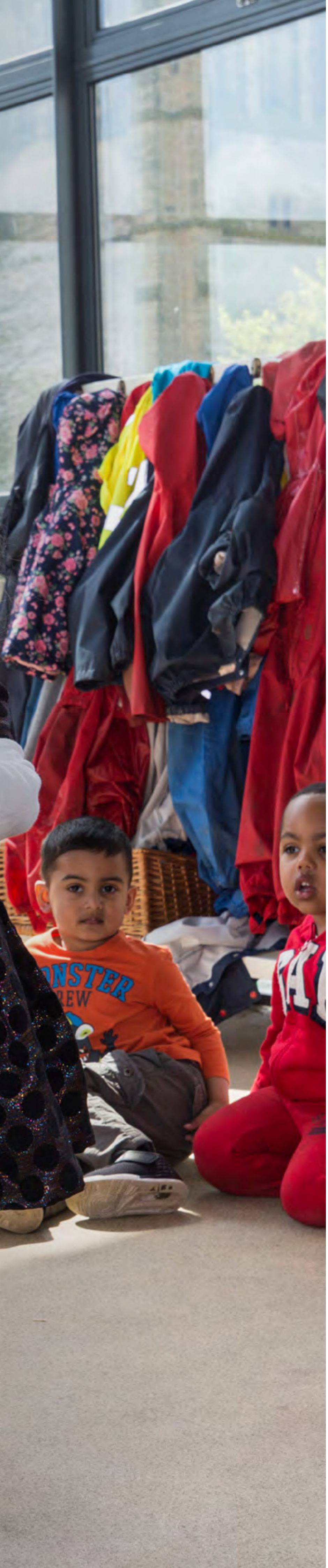
Market Characteristics

The construction industry has presented some well documented challenges over the recent past. Large, national participants have had their business models tested, with some well publicised failures and a number of 'near misses'. Beyond Brexit related issues, the industry's challenge is not demand led. Market fundamentals remain sound, and long-term prospects are positive, underpinned by an ongoing need for urgent improvement in housing stock and infrastructure, a significant demand in the healthcare and leisure sectors and a dramatic change in the retail landscape.

Delivering high-quality, meaningful engagement

which makes a real difference to people across our operational areas.





It is more likely that the industry's challenges have been caused by a sustained period of aggressive underbidding for contracts in order to secure cash flow. This practice puts huge pressure on liquidity when 'the music stops', as many large participants trade with negative working capital, funded significantly by their supply chain through aggressively extended payments terms.

Esh Group has never deployed this model. We pride ourselves on bidding sensibly for work and maintain one of the industry's best payment profiles to our supply chains. This has allowed us to maintain loyalty from our supply chain during our reorganisation period, as well as mitigate the cashflow impact of our planned reduction in turnover.

In the face of these behaviours from the larger players, clients are driving more heavily towards a need to demonstrate social value in their procurement. This requirement is good news for the Esh Group, as we have a long pedigree in delivering social value as part of our projects. Social Value is covered later in the report in our Constructing Local section, but for us this is an essential drive on behalf of our clients in ensuring that their suppliers employ locally, provide opportunities locally and so help improve lives and standards of living in the areas within which they operate.

Brexit, of course remains a notable risk, with the potential to create considerable headwinds until matters settle down. We have been preparing internally for a potential no deal outcome, and whilst the macro impact of this is still difficult to predict, we have focussed on the things we can control, and are reassured that alongside our supply chains and key clients we are ready and able to react to most eventualities.

Our Strategy

As we move our attentions from reorganisation to growth, we have been working on a new paradigm for the group, and importantly focusing on how we drive controlled growth in profitability and returns whilst maintaining tight organisational control. Our strategic agenda is focussed within our divisions as follows:

Civil Engineering

A. Maintain a healthy balance of turnover across both cyclical and non-cyclical sectors.
B. Leverage joint venture opportunities.
C. Increase average contract size through securing larger infrastructure projects.
D. Grow our Yorkshire operation.

Esh Build

A. Increase average contract size and quality through more selective bidding.
B. Improve competitiveness through improved supply chain engagement.
C. Leverage frameworks to align clients with our broader social value offering.

Esh Living

A. Drive our land led pipeline.
B. Leverage frameworks to increase average contract size.
C. Increase our refurbishment portfolio via new framework appointment.
D. Drive cost efficiency to improve competitiveness.

Esh Facilities

A. Leverage social housing responsive maintenance contracts through collaboration with Esh Living.
B. Secure long-term framework renewals.

Deerness Fencing and Landscaping

A. Drive growth with both Private and Social Housing clients.
B. Drive operational improvements to increase competitiveness.

Homes by Esh

A. Drive JV opportunities to expand coverage.
B. Improve capital efficiency through the development cycle.
C. Drive cost efficiency through standardisation of product offering.

Operational Excellence

- **A.** Drive improvements in quality and on time delivery through improved programme management processes.
- **B.** Drive a lean overall operating cost model, leveraging investment in process and technology.
- **C.** Recruit, retain and develop 'Grade A' talent.

Social Value

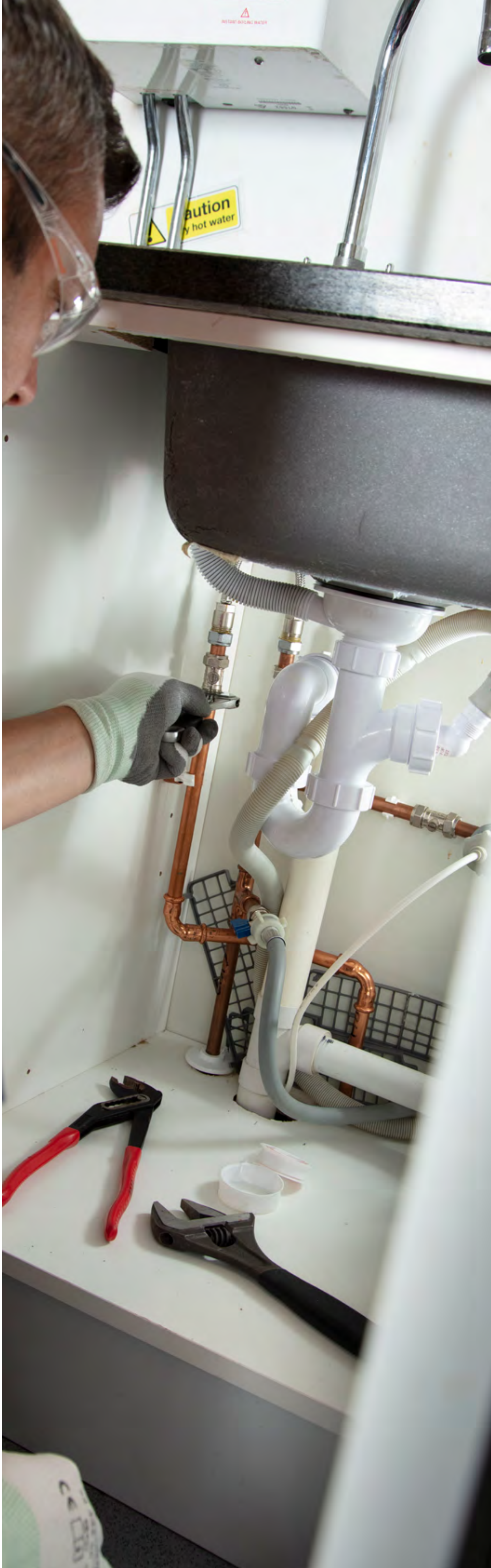
- **A.** Drive the social value agenda amongst clients to influence local procurement.
- **B.** Develop our social value offering to maintain our leadership position.
- **C.** Enhance our communications to demonstrate our delivered social value success.

Financial Year 2019 (FY19) Outlook

As stated, our actions are bearing fruit. Financial results in our continuing operations have improved substantially during FY19.

Our operational improvements are driving greater control, site performance, quality and delivery. Our cost base has been considerably reduced, with the benefits of that dropping to the bottom line. Our efforts to drive working capital improvements, as well as unwind long term capital locked up in development projects has driven considerable liquidity improvements during FY19. Our financial position remains strong, allowing us to drive forward with confidence. Our newly structured leadership team is now positioned to drive further improvement as we execute on the strategic agenda set out above. I am delighted by our success in reshaping this Group over the last two years and am excited about what we can achieve over the coming years.

Andy Radcliffe,
Chief Executive Officer,
Esh Group.



Constructing Local

We are passionate about our communities and committed to delivering high-quality, meaningful engagement which makes a real difference to people across our operational areas. In April 2018 we were recognised by Her Majesty the Queen for our outstanding commitment to Promoting Opportunity and Social Mobility.

Our 'Constructing Local' strategy consists of a suite of 12 structured programmes and initiatives, all setup, managed and delivered by Esh Group on behalf of our delivery divisions. We have a dedicated social value team, who implement our strategy.

Working with our business development, bid writing and construction management team, we prepare tailored social value offers for our clients as part of the procurement process, ensuring our resources are used to deliver maximum benefit to our clients and their communities.

As a contractor, Social Value is paramount — those who use the buildings, houses and infrastructure we construct are as important as the schemes themselves. We are committed to 'constructing local' by supporting our clients in their communities.

Our Constructing Local strategy has four themes:

Educating Local:

Inspire our future workforce;

improve employability skills, and;

change perceptions of the construction industry.

Engaging Local:

Keep communities safe;

support communities through volunteering, and;

grant making.

Employing Local:

Create employment opportunities for local residents;

provide workplace insights through work experience and site visits; and

engage those furthest from the job market.

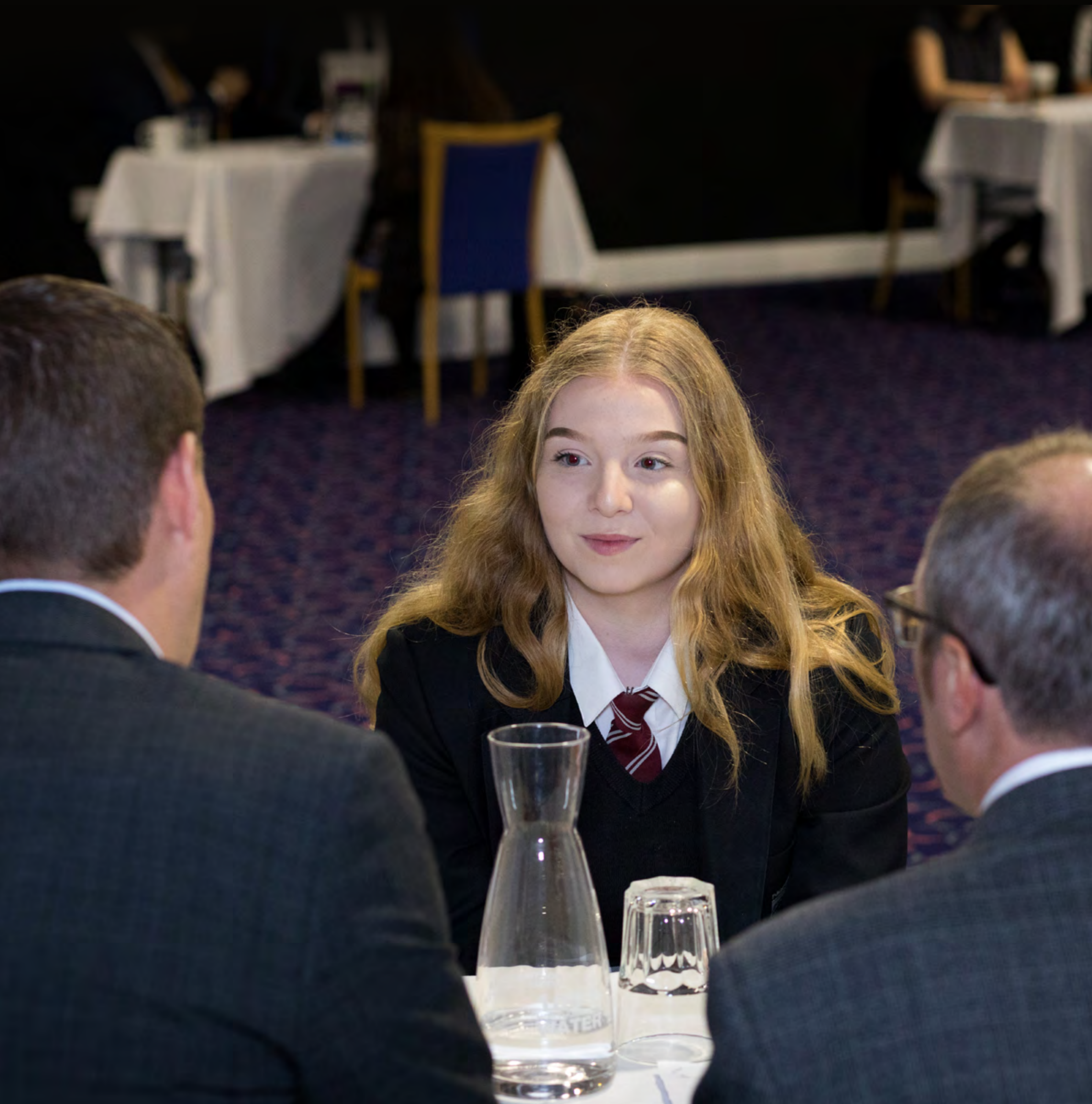
Buying Local:

Procure materials locally

employ local subcontractors, and;

support small to medium sized enterprises (SME's).

As a contractor **Social Value is paramount.**



Building My Skills

The 2018/19 academic year saw our flagship employability skills programme Building My Skills relaunched for a 9th successive year. The employability skills, information and guidance programme continues to provide secondary students with a rounded introduction to the world ensuring 'good career guidance' is delivered throughout the year as part of the timetable.

During 2018 we worked with 100 business partners and 77 schools across our operational regions helping 12,600 students prepare for their future. Building My Skills continues to grow, since the programme launched in 2009, we have worked with over 50,000 students providing over 250,000 timetabled engagement hours.

Get into STEM (Science, Technology, Engineering, Mathematics)

We continue our commitment to developing the workforce of the future; inspiring the next generation early in the education process. In 2018 Get into STEM engaged its 10,000th student and won the National STEM Learning's 'Inspirational STEM Engagement Project' – two achievements we are immensely proud of!

Our ever evolving 'STEM kits' contain fun and educational construction themed resources and activities and align with the national curriculum for 'Early Years Foundation Studies' and 'Key Stage One'. In 2018 we collaborated with Northumbrian Water Group, EDF Energy and Cleveland Police to develop variations of our award-winning STEM kits.

Site Visits & Work Experience

Site visits and work experience provide an opportunity for participants to gain an insight into the construction industry by visiting and being actively involved in our business. We continue to work in partnership with our clients to promote site visits and work experience opportunities to those local to our construction sites.

In 2018 we advertised over 35 work experience placements (equating to 200 days) via our digital platform and took over 500 visitors to our construction sites and offices.

I got that job on the Esh Construction site, working with Peter (site manager) who mentored my work experience placement. Thank you for the course, it's helped me loads and helped me gain employment. The course opened doors that I wouldn't have been able to access before. It put me in contact with people in the industry. I've been trying to get into general labouring for ages, but it's been really hard, the work experience gave me a foot in the door."

Ryan,
Esh Connexts Participant

EMPLOYING LOCAL

Apprenticeships

Our apprenticeship programme remains an important part of our workplace strategy, with 115 people studying at formal apprentice programme during 2018. We retained 47% of people who completed their apprenticeship in 2018, with them progressing to full time roles within the Group.

We are proud members of the '5% Club', an alliance of companies committed to ensuring 5% of their workforce is on a formal apprenticeship, student or graduate training programme.

Esh Connexts

We continue to deliver Esh Connexts, our pre-employment skills programme which supports those not in education, employment or training.

Our 2018 cohort took part in a range of enrichment activities including; team building, appreciating the importance of leadership, health and safety, company image, environmental matters, interpersonal skills, job applications, CV's, presentation skills, personal finance/budgeting and physical health. seventeen members of Esh Group staff and supply chain were involved in the preparation and delivery of sessions.

All participants were provided industry-standard training, site visits and work experience. Fifty percent of the participants progressed to positive destinations following the programme.

Volunteering

Throughout 2018 the Group and its divisions worked in a diverse range of communities all of which have their own unique set of needs and initiatives. No matter how big or small; if we can make a real difference to areas near our construction projects our staff were keen to provide support through volunteering.

We have been involved with a wide range of projects, from repairs and improvements to buildings, the removal of graffiti and litter from public spaces, stewarding at events such as Park Run, painting community centres and developing communal gardens.

The Esh Community Fund

Since the Esh Community Fund launched we have granted a total of £174,000 supporting over 150 projects from 51 local authority areas. In 2018 we donated over £41,000 to charitable organisations and social enterprise organisations that affect positive change in their communities. We accept applications which:

- Improve the quality of life and/or employability prospects of local residents;
- Promote equality by engaging minority, hard-to reach, disadvantaged or vulnerable groups;
- Encourage healthy living, positive lifestyle changes and sustainable communities.

Esh Stay Safe

During 2018 our social value coordinators and site teams delivered presentations on site safety in primary schools near to our construction sites, engaging over 3,500 children aged between 4-11.

With the help of our mascot, Dudley the Elephant, we encourage students to take part in a Stay Safe poster

competition with winning submissions being displayed on our site hoardings. This initiative complements our company wide Everyone Safely Home (ESH) campaign.

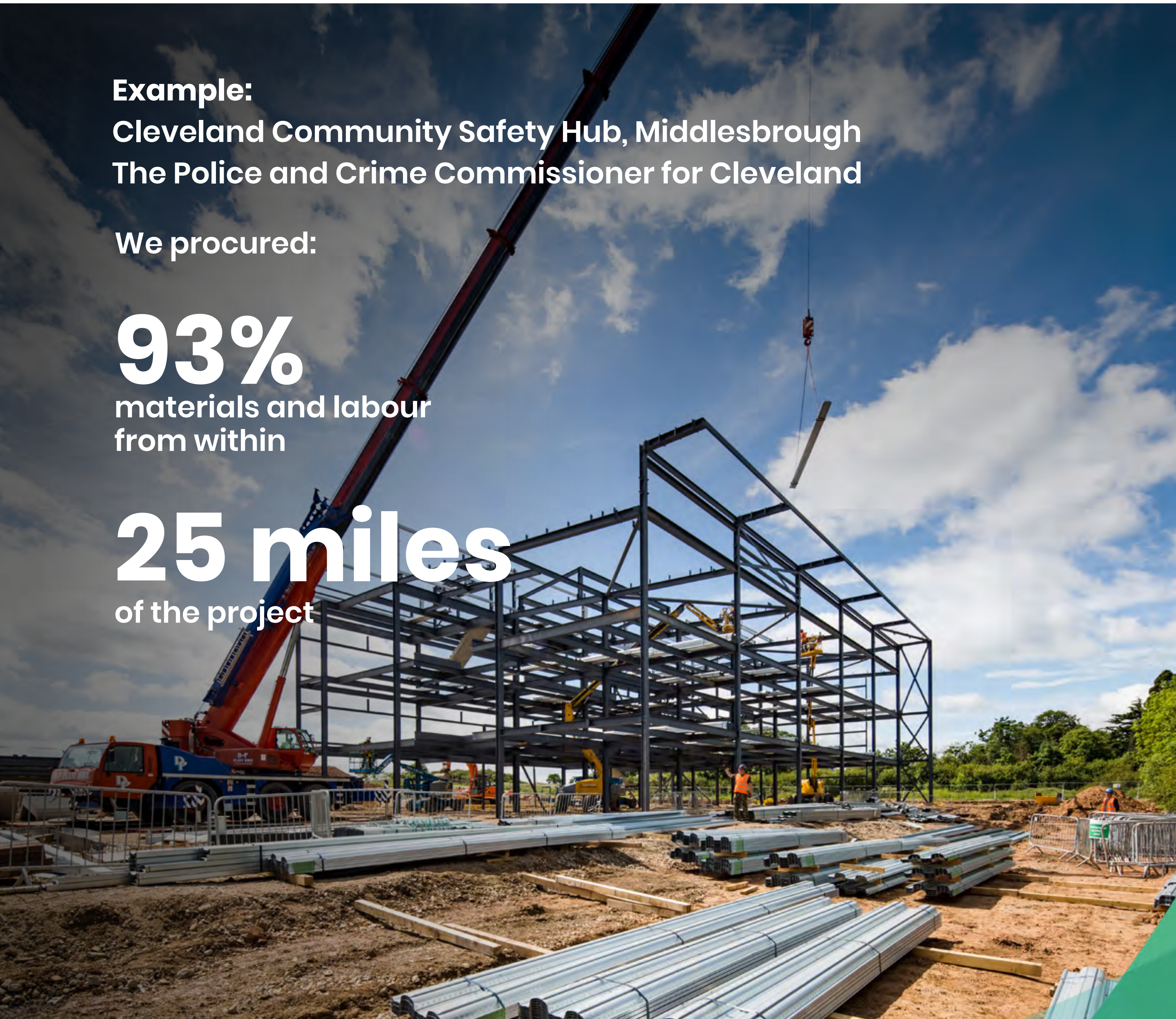
BUYING LOCAL

Local Procurement & Employment

Esh Construction is proud to purchase from a strong local supply, many of which are small to medium enterprises (SMEs) of less than 250 employees. During 2018 we endeavoured to procure 80% of materials and labour from within 25 miles of every project valued over £3m.

In order to achieve this our regional supply chain management teams work with our clients to promote opportunities locally - engaging our supply chain via meet the buyer events, supply chain open days, advertising opportunities both in the local press and via Esh Group's digital platform.

In 2018 we invested in heat mapping software to better visualise and report local procurement and employment information with some great results.



Prompt Payment

Esh Construction is a signatory of the Prompt Payment Code which sets standards for payment practices and best practice for businesses in the UK. We are proud to be one of the fastest paying contractors in England.

Our compliance with the principles of the Code is monitored and enforced by a National Compliance Board. The Code covers prompt payment, as well as wider payment procedures. Aligning with the Prompt Payment Code we endeavour to:

- Pay suppliers on time.
- Treat our suppliers fairly.
- Give clear guidance to suppliers.
- Encourage good practice within our supply chain.

Environment / Summit 2026

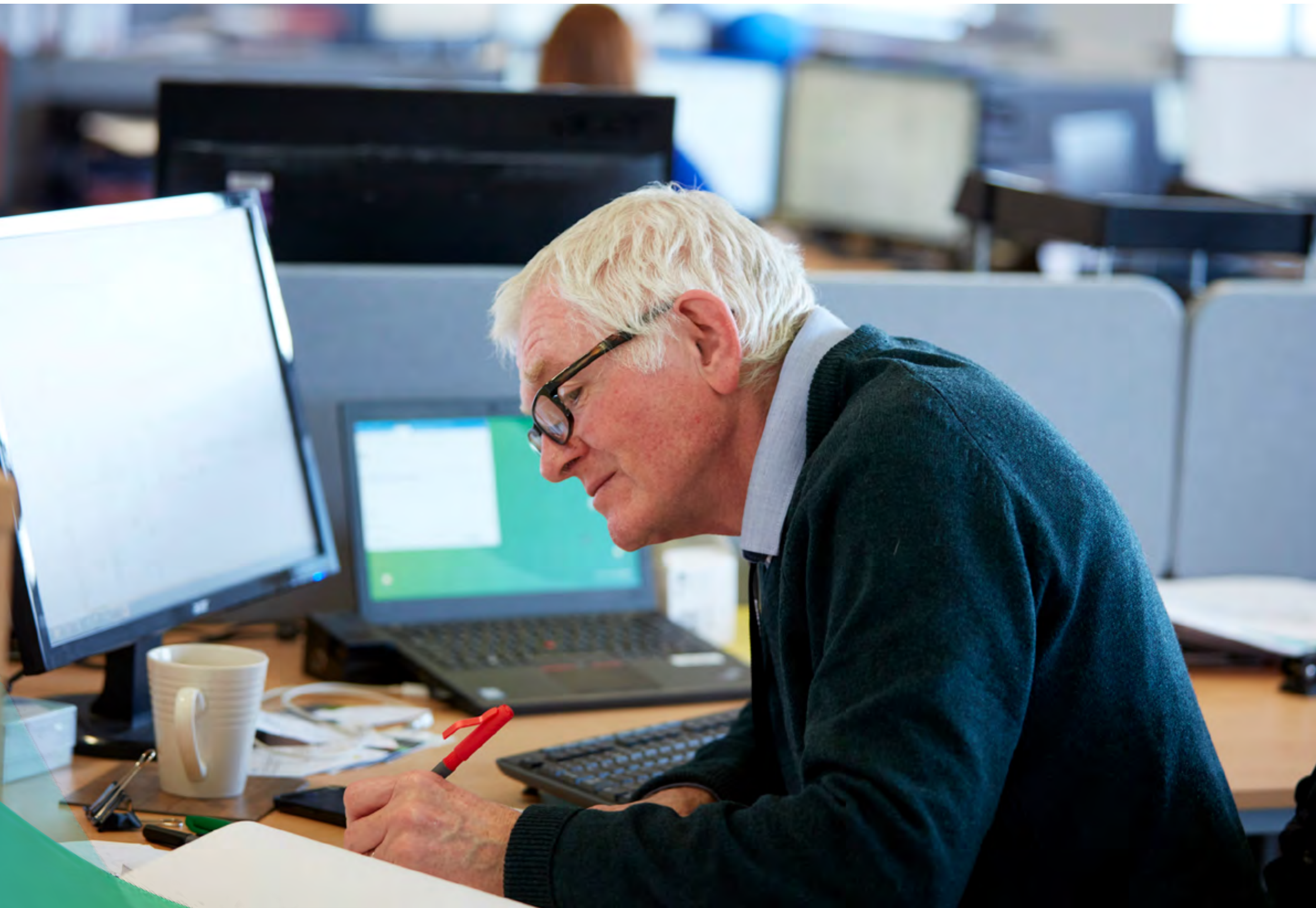
Esh Construction was one of the first construction companies in the UK to achieve certification to ISO 50001:2011, the standard for Energy Management and this year achieved certification of the updated ISO 14001:2015 standard for Environmental Management – one year before the deadline.

We continue to minimise our environmental impact through our 'Summit 2026' strategy which focuses on five critical areas of:

1. Culture
2. Carbon Emissions
3. Waste & Water Management
4. Environmental Protection, and;
5. Supply Chain.

In 2018 we aligned Summit 2026 to the United Nations Sustainable Development Goals, helping us address the needs of our clients whilst providing an identity to promote environmental sustainability across the group.

It is our aim to go beyond compliance and be regarded as one of the leading sustainable construction firms in the UK..



WORKPLACE

Health and Safety

Esh Group is committed to continuous improvement in health and safety, developed through compliance with the Occupational Health and Safety Management System OHSAS 18001 and our promotion of our in-house Health & Safety campaign, Everyone Safely Home abbreviated to 'ESH' Safe.

In 2018 we continued with the promotion of our health and safety welfare policy which provided further focus on occupational health issues. In addition to resources created internally (posters, tool box talks, safety stand downs) we participated in external campaigns including:

- The Institution of Occupational Safety and Health's "No Time to Lose" anti-occupational cancer campaign;
- The British Occupational Hygiene Society's "Breathe Freely" campaign to reduce occupational lung disease in the UK;
- The Health and Safety Executive's "Go Home Healthy" campaign to reduce lung disease, musculoskeletal disorders and work-related stress.

Awareness of Mental Health issues was promoted and included the "Smash the Stigma" campaign which was produced in conjunction with Northumbrian Water Group's safety forum.

In 2018 we carried out 1,672 site safety inspections and simulated a number of 'Realistic Accident Scenarios'. Our safety advisor team undertook several 'mock' accidents on site to ensure all were fully compliant with relevant safety documentation in the event of any accident. This led to improved performance, improved site teams understanding, higher standards across our sites.

High risk activities were specifically controlled on sites with emphasis on avoidance of utility strikes, control of excavations and work at height operations.

On site documentation has been streamlined as part of the group's investment in new technology. Our tablet based 'Field View' system will be rolled out across all sites by the end of 2019.

Gender Pay

We continue to review pay to ensure that there is consistency between roles and employees within roles; in this regard, we believe we are an equal and fair employer. We, like most construction contractors have a gender pay gap, ours is not because women earn less than men in similar roles, but that regrettably, in common with the broader construction sector, we have a higher number of men in senior positions in the business.

Our Challenge

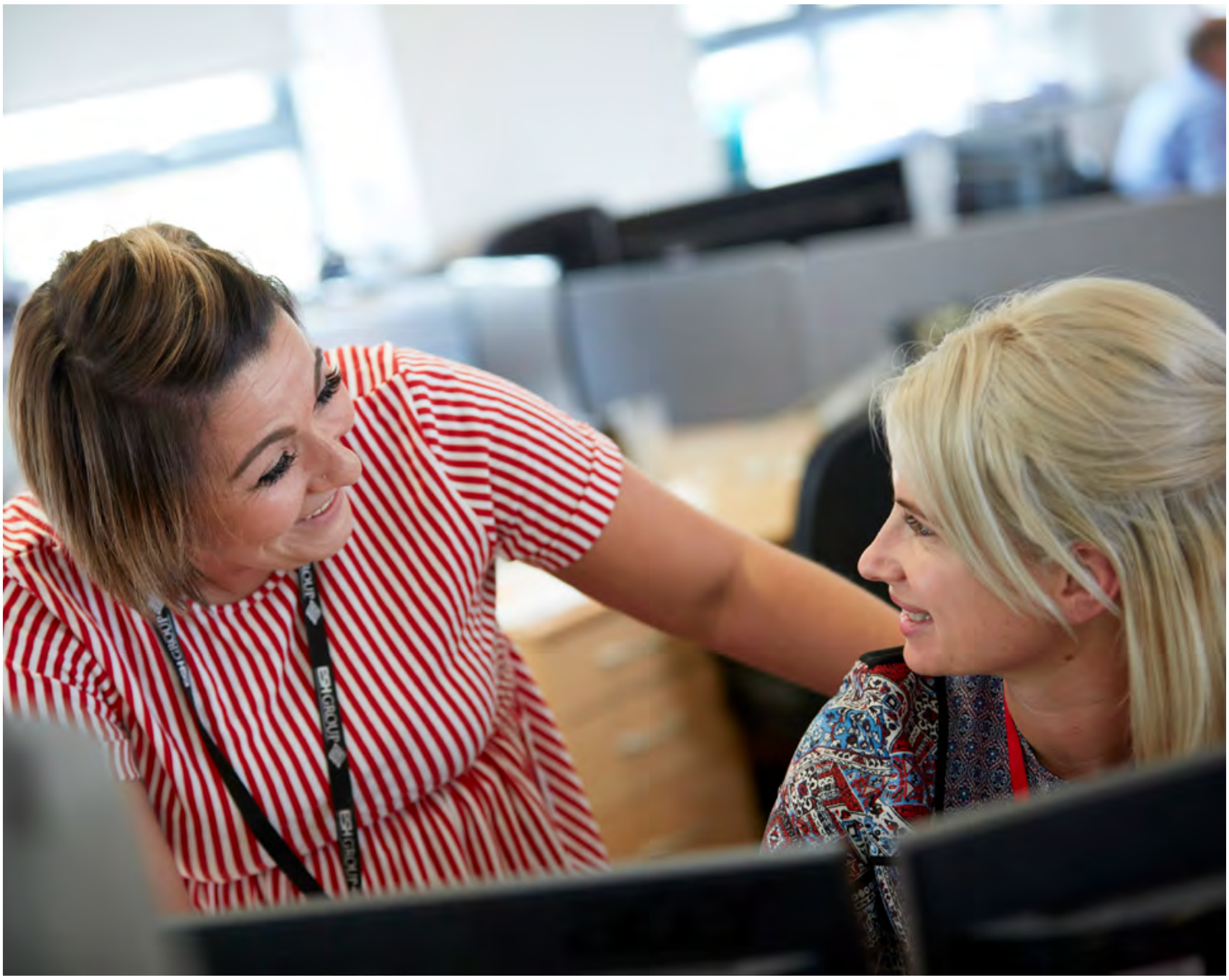
The construction sector traditionally attracts significantly fewer women than men. This is more notable in the subsectors in which Esh Construction Limited operates, where 90% of our employees are male.

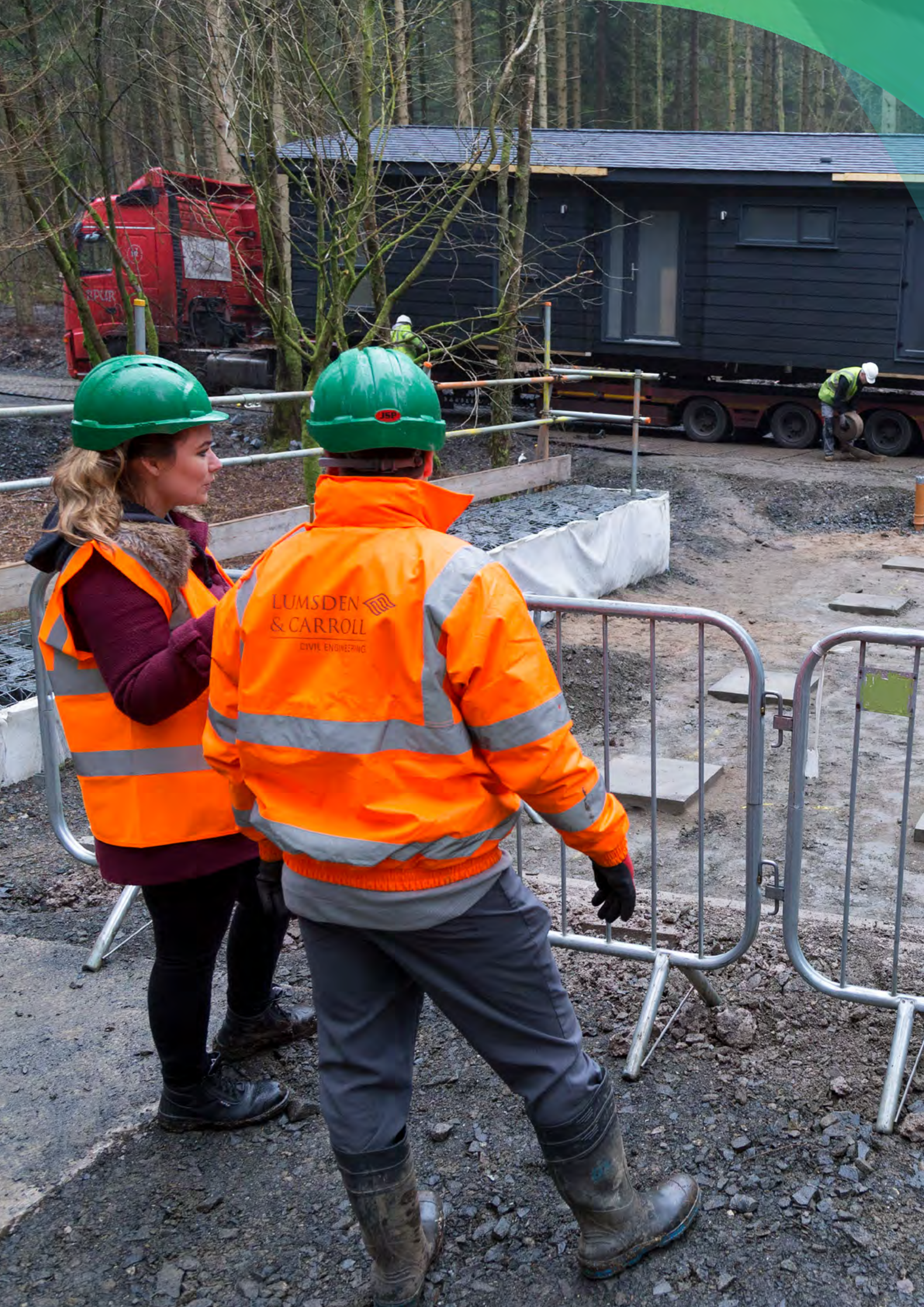
Broadly, not enough women choose to study science, technology, engineering and maths (STEM) subjects which pave the way for a wide range of careers in the construction industry. Some old perceptions remain hard to shift; a recent report by the Construction Industry Training Board (CITB) found young people still see the industry as being "low qualified, mundane and unglamorous, and focused on outdoor work, suitable only for those who are physically strong."

There is still a huge amount of work to be done by the sector to change the outdated misconceptions of our industry.

Engaging Women in Construction through Education

We are committed to attracting more women into built environment, engineering, operational and general construction roles through school engagement. So great is our commitment, during 2018, we engaged 100 times more women than we employed through our education, engagement and employment programmes.




LUMSDEN
& CARROLL
CIVIL ENGINEERING

Corporate Governance

Esh Group Guiding Principles

The Esh Group 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.

The governance model outlined below has been designed by the Esh Group Board as an adaptation of the traditional best practice, three lines of defence to risk management.

Esh Group Sector Directors and Management

Sector Directors and Management own the risks and take responsibility for directly assessing, controlling and mitigating risks in their areas by way of organisation strength, a strong and well understood chain of command and strict oversight and scrutiny. They employ a range of internal controls which are built into the design of the control environment using either manual processes or system generated control, which forms the first line of defence in the Esh Group governance model to manage risks.

Esh Group maintains a program of continuous improvement in respect of all its internal control. However, during 2018 and 2019 there has been a significant amount of new work undertaken to re-design processes and find technological solutions wherever possible as part of the Gateway Project. Once this transformation is complete and fully launched, it will, together with the recent significant restructuring of the business sectors and their associated management teams, establish a strong position to mitigate both the current and future challenges for the Group.

The Esh Group Board and Group Policies

The Board consists of both Executive and Non-Executive members and therefore draws on a wide range of experience both internally and externally when considering the establishment of Group Strategy and Policy. It has established the foundations that are the core of Esh Group in terms of its culture, vision and values. The Esh Group Corporate Values are documented and communicated directly to all employees, workers and business partners.

The Board delegate to the Sector Directors and Management, the day to day operation of the businesses within clear well-defined authority limits. 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.

However, the Board retains a schedule of matters reserved for its approval only, namely; the company strategy and review of performance, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, consideration of potential major projects, acquisitions or disposals of business sectors, opportunities in new markets, health and safety, the environment, business ethics, risk management, human rights and other social issues.

The Board set Group Policies and formal delegations of authority as appropriate to all companies, subsidiaries and associations. The Group Policies provided by the Board, require that all procedures and systems of control must be built and operated in line with any mandatory requirements and these therefore formulate a second line of defence in the Esh Group governance model.

Internal and independent of operational management, are a range of Group functional teams. These include teams in Health, Safety Quality and Environment, Commercial, HR, IT and Internal Audit. All compliance teams report directly to the Board and have access to expert or specialist resources from professional advisors as required. The Compliance team will assess the adherence to Group Policies and Procedures. The outcome of compliance assessments will be reported to the Board and an appropriate action plan devised with management, who are supported through to implementation. These compliance teams bring up the third line of defence in the Esh Group governance model.

Deviation from any aspect of a Group Policy requires the express consent of the Chief Executive Officer in writing in advance.

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

All Group Policies are also publicly available in full detail on our website and intranet, but specific comment is made on the following core areas:

Employment Policies and Procedures
For all our employees, across all companies in the Group, there is a comprehensive Employee Handbook. This Handbook explains the required and mandatory standards of employee and manager behaviour and incorporates specifically: the Esh Group Values, Employee Code of Conduct and aspects of Health, Safety and Wellbeing.

It is also required that all workers for Esh Group, irrespective of engagement status, that they understand and comply with the above standards where they are appropriate for their role.
The Group supplements the Employee Handbook with other related policies or statements covering Slavery & Human Trafficking, Gender Pay and Equality & Diversity.

Ethical Governance Approach
Through the Ethical Governance Approach, 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, and are evident throughout all relevant Group Policies.

A range of whistle blowing, anti-corruption and bribery policies and procedures support 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. Any employee, worker or member of the public is encouraged to speak out if they see any wrong doing or area of concern and to enable this, the Group provides a range of reporting routes to facilitate this in a safe, appropriate and confidential manner.

Health and Safety Policy and Procedures
It is Esh Group Policy that its operations shall be conducted in such a way as to ensure, so far as is reasonably practicable, the health, safety and welfare of all its employees, subcontractors and site visitors and that its activities will not adversely affect the health and safety of others i.e. members of the public, children and any other interested parties. We believe there is no conflict between our requirement to keep our workforce and members of the public safe and our long-term financial success.

The Group recognises the importance of health and safety in all its undertakings. It relies upon the active participation of management and workforce including sub-contractors to maintain safe working practices and procedures in order to fulfil its legal obligations under the Health & Safety at Work Act 1974 and all other relevant health and safety legislation. In addition to fulfilling its legal obligations, the aim of the Group is to achieve best health and safety practice in all that it does primarily through adherence to ESH SAFE – Everyone Safely Home our bespoke brand and commitment.

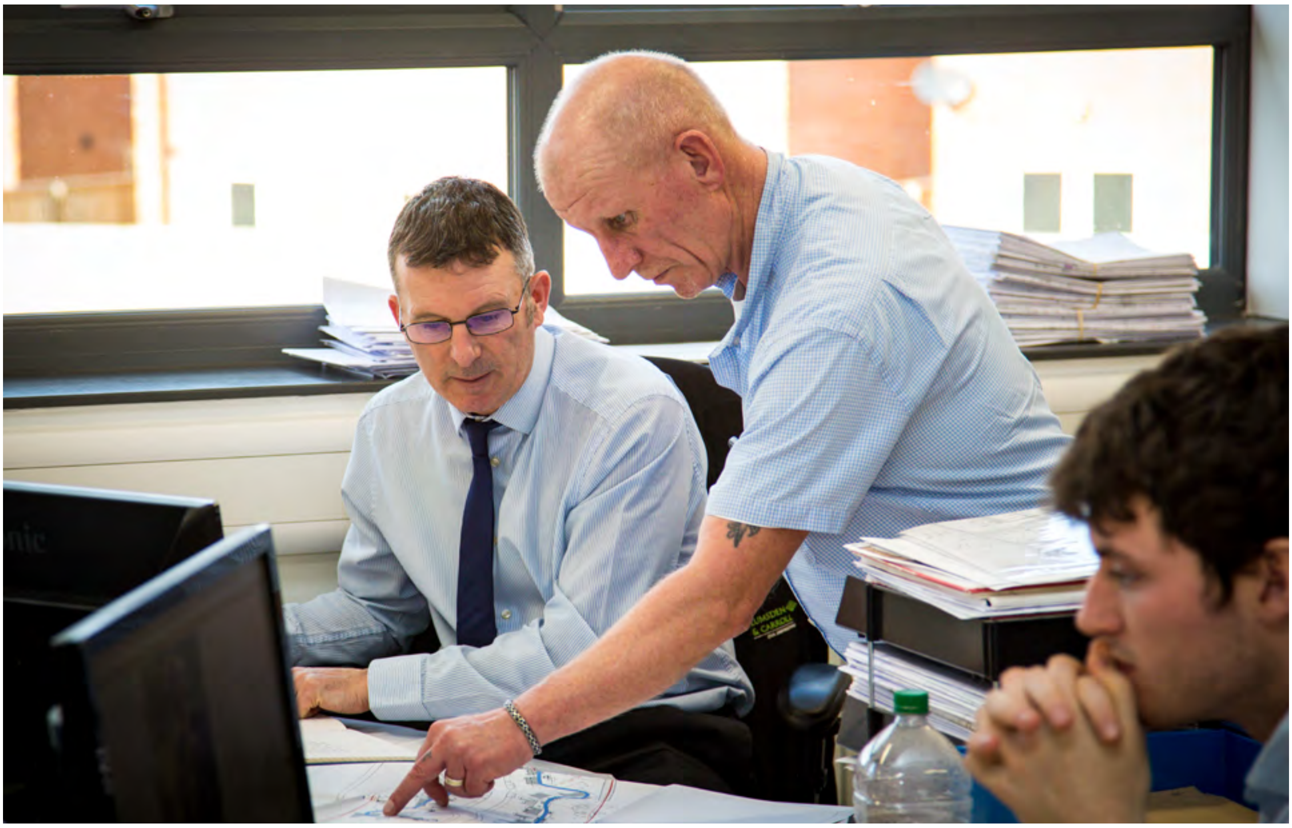
General Data Protection Regulation 2019 (GDPR)

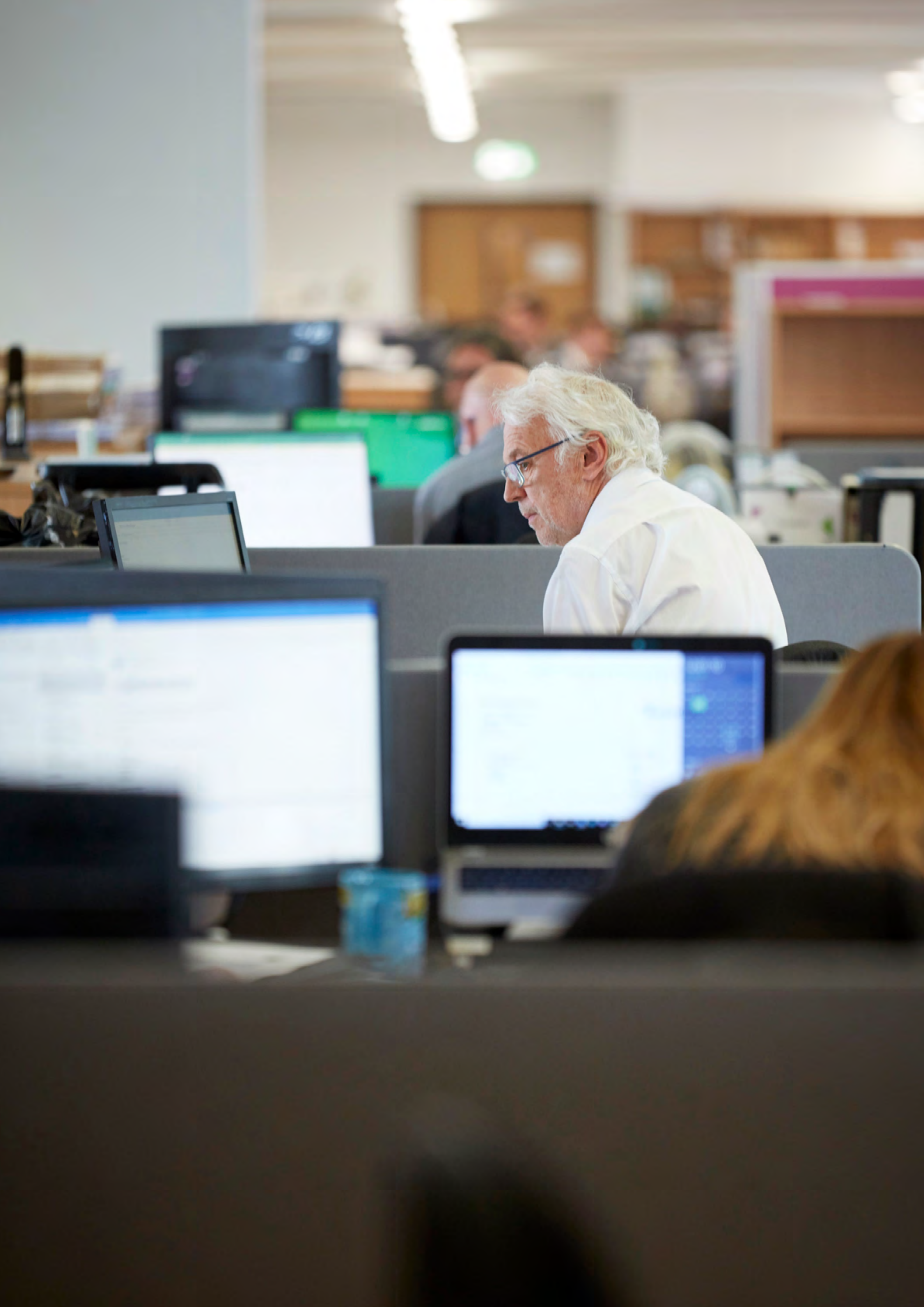
During 2018, GDPR legislation became effective. In preparation, 318 employees successfully undertook GDPR training.

In addition to this, the following approach has been adopted:

- Ensuring people throughout the business are aware of GDPR through Group wide communications and inclusion in the Group's induction process.
- Promoting a culture of shared responsibility — it lies with everyone who handles and processes data, not just the data controller. Departments have nominated "GDPR Champions" to ensure data protection principles are observed.
- All personal data that we hold has been mapped and documented in a data register including how we use it, who we share it with, why we need it and how we communicate to data subjects. We have extended this to identify which special category areas require an Impact Assessment.
- We have checked and amended current procedures to ensure they cover all the rights individuals have under GDPR.
- We have ensured that we have a full audit trail on data relevant notices and requested consent.
- We have refreshed supplier contracts, contracts of employment, employee terms and conditions and codes of conduct to ensure that they are GDPR compliant.

Further details of our Group Policy can be obtained from the Group website.





Directors & Advisors

Michael Hogan - Non-Executive Chairman - Tenure: 49 Years

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

Andy Radcliffe - Group Chief Executive Officer - Tenure: 10 Years

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 several 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.

Mark Sowerby - Chief Financial Officer and Company Secretary

Tenure: 2 Years

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.

Stephen Wilkie - Executive Director - Tenure: 32 Years

Stephen joined Lumsden and Carroll in 1987 as a trainee Engineer and was appointed Managing Director in 2008. In 2016 he was additionally appointed Executive Director of Esh Group's construction business. Stephen was a board member of CECA for 11 years and is also a Director of Esh Constructions utility JV company, Esh-Stantec. Stephen now oversees Esh Civils and Deerness Fencing & Landscaping across the North East and Yorkshire.

Paul Watson - Executive Director - Tenure: 32 Years

Paul joined Lumsden & Carroll in 1999 as a Senior Quantity Surveyor. In 2006 Paul was appointed as Commercial Director of Lumsden and Carroll and became Commercial Director of Esh Construction in 2009. In 2012 Paul was appointed to the main board of Esh Group as Commercial Director. Since 2019 Paul has taken on the newly formed position of Executive Director with responsibility for all commercial build, housing and facilities sectors within the business. Paul represents Esh Group on the Constructing Excellence's North East Advisory Board.

Tony Carroll Jr - Non-Executive Director

Tenure: 27 Years

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 Jr - Non-Executive Director

Tenure: 28 Years

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.

Philip Coates - Non-Executive Director

Tenure: 2 Years

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,
Aykley 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 2018, much of which is covered by the Chairman's and Chief Executive's Report.

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

As discussed, 2018 was a year of change for the Group as we focussed on implementing our new strategy. This had a significant impact on the result for the year, and as such the results are presented so as to show Continuing and Discontinued Operations separately.

During the year we took the decision to close down our businesses in Scotland and the North West. This exercise is now largely complete, with a handful of projects rolling into 2019 and expected to conclude through Q3. This has been a costly process as illustrated by the £8m Operating loss in Discontinued operations. Following the decision to close these businesses, a review of overheads was performed in order to right size the business for the year ahead. This resulted in a £1.1m exceptional restructuring cost. Continuing operations have shown a steady improvement in performance as the year has progressed, benefiting from stronger delivery and commercial controls.

Having undertaken the above actions the Group is well placed for 2019 and closes 2018 with net assets of £36.0m of which £13.3m is represented as cash. Workload for 2019 is good, with a healthy pipeline of opportunities in the Civils and Social Housing sectors. Our Private Housing business enters 2019 with a good platform of ongoing sites being developed and a number of prospective new sites expected to meet our ongoing needs. The Commercial Build sector remains the most impacted by Brexit, but we are confident that the market will improve in the future. We continue to monitor our overheads in the light of the ongoing market uncertainty, and actions to realise our discontinued development activities remain well advanced.

2018 was a year of change for the Group as we focussed on implementing our new strategy.

	2018	2017
Turnover, including share of joint ventures from continuing operations	**£186.5m**	£184m
Change in turnover from continuing operations	**1.3%**	N/a
Gross profit margin from continuing operations	**3.5%**	3.4%
Overhead (administrative) costs from continuing operations	**£6.4m**	£8.7m
Profit before taxation from continuing operations attributable to owners of the parent	**£1.3m**	£1.1m
Cash at bank and in hand	**£13.3m**	£20.0m
Net cash (used in)/generated from operating activities	**(£2.2m)**	£3m

Full commentary on each business sector can be found in the Chief Executive's Report.

Principal risks and uncertainties

Market conditions within the construction industry remain challenging, although the dynamics are 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 safeguar`
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. 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.

Risk description	How it is mitigated
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 cyclical and non-cyclical sectors of the market, ensuring we do not stray from our core skills, 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

Andy Radcliffe
Date: 23rd September 2019

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 2018.

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.

During 2018 the Group made use of a £10m multipurpose credit facility with Lloyds Banking Group to provide working capital flexibility and also to fund certain development activities.

At 31 December 2018, the Group had cash at bank and in hand of £13.3m, which is expected to be more than sufficient to fund the working capital needs for the Group.

Credit risk

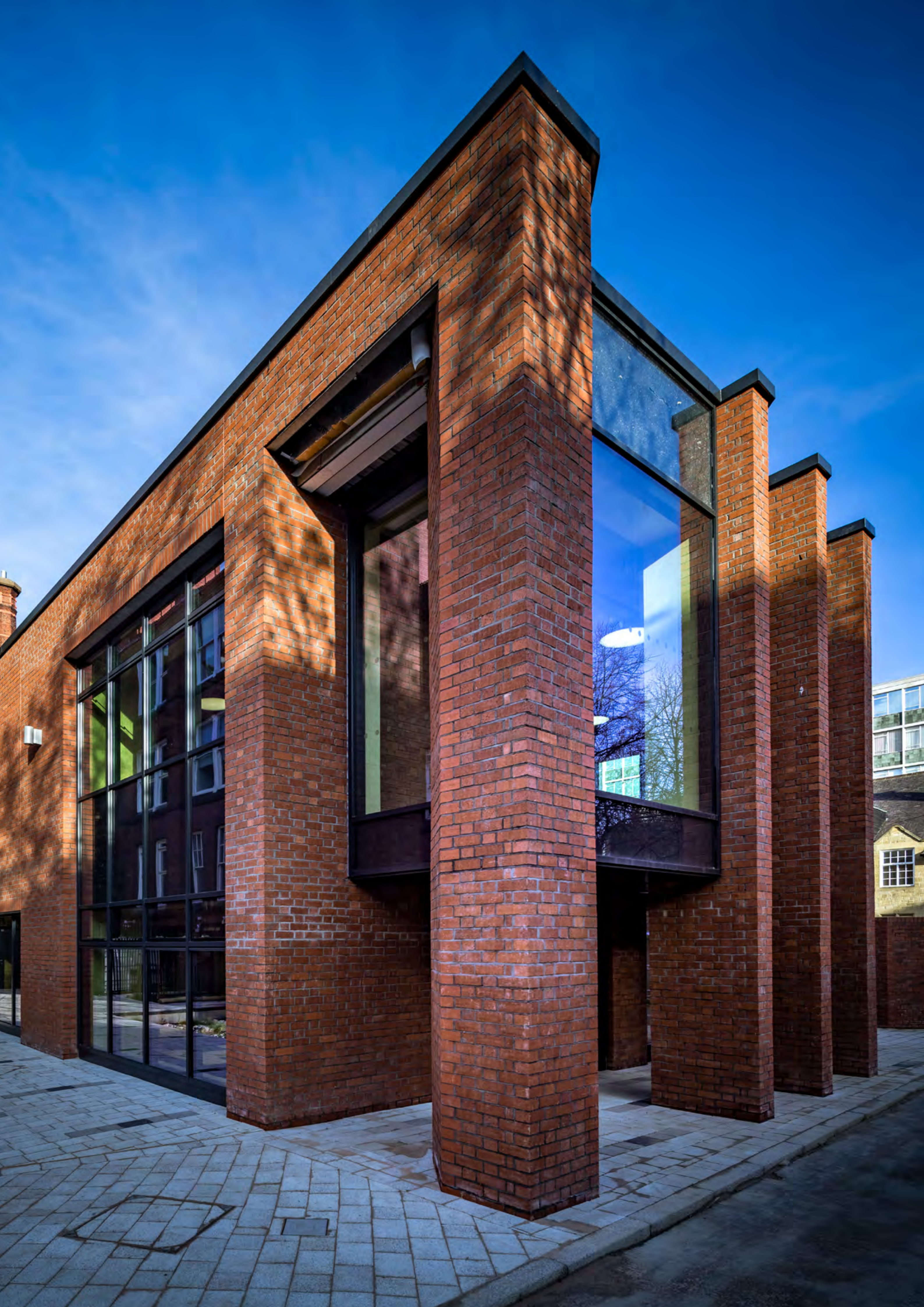
The Group trades largely with public funded and quasi-public-sector organisations. Whilst the Group engages with private clients, these are credit risk assessed before trading commences and the directors believe that any credit risk is effectively managed. Exposure to credit risk is therefore believed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

Paid dividends

£1.8m dividends were paid in the year (2017 £3.1m).

Share capital

In the year, additional share capital of £1.8m was introduced.



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
J P Davies (resigned 12 July 2019)
M F Hogan
J G Lumsden Jnr.
A E Radcliffe
M A Sowerby (appointed 17th January 2018)
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.

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 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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Future developments

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

Independent auditors

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

Signed on behalf
of the Board

Andy Radcliffe
Date: 23rd September 2019

Esh House
Bowburn North Industiral 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 2018 and of the group's loss 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 2018; 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
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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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 2018 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, 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:

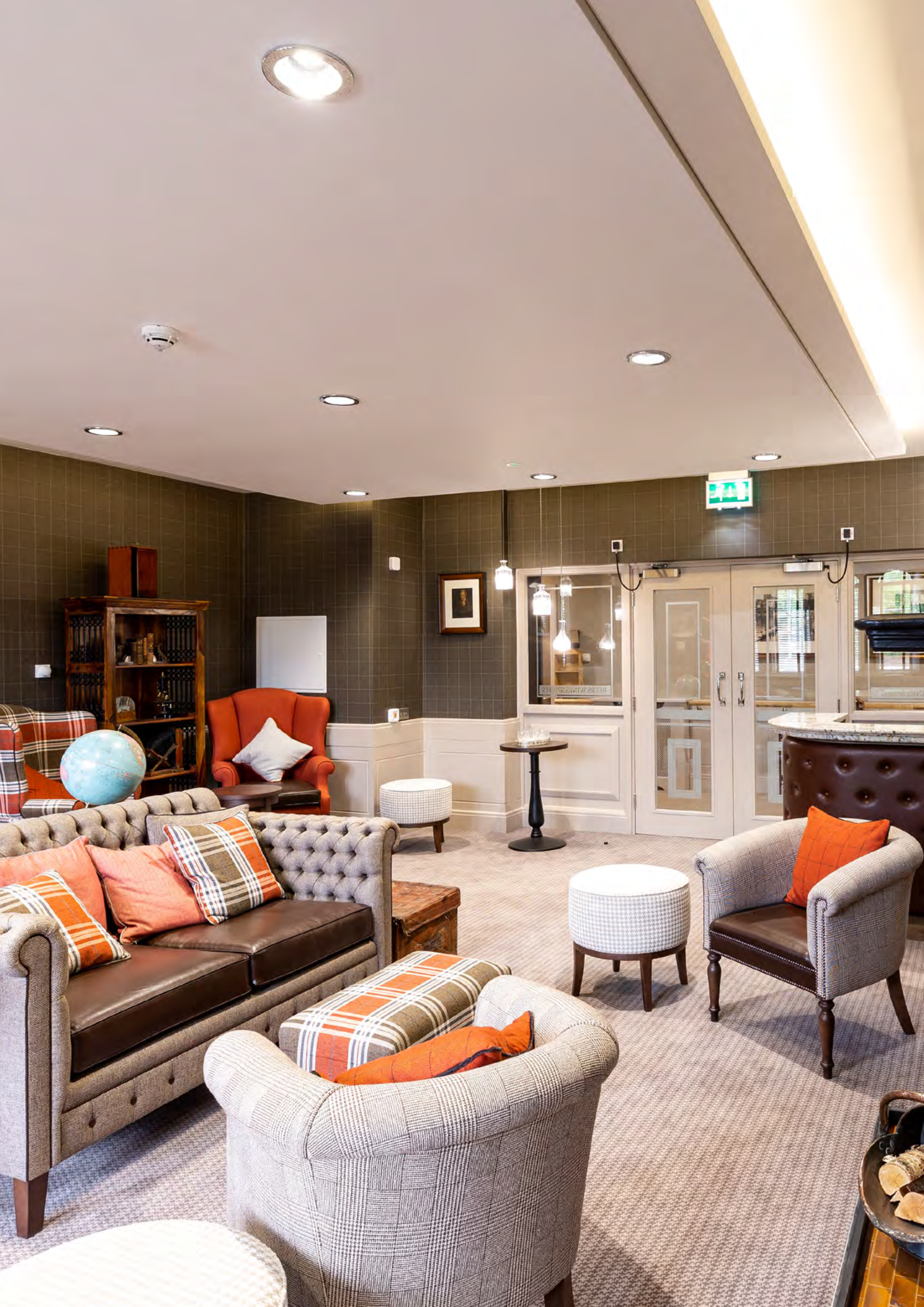
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified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

25th September 2019



Consolidated statement of comprehensive income for the year ended 31 December 2018

		2018			2017		
		Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Turnover							
Group and share of joint ventures		**186,531**	**21,883**	**208,414**	184,047	35,973	220,020
Less: share of joint ventures' turnover		**(12,376)**	**-**	**(12,376)**	(17,431)	-	(17,431)
Group Turnover	1	**174,155**	**21,883**	**196,038**	166,616	35,973	202,589
Cost of sales		**(167,658)**	**(26,874)**	**(194,532)**	(160,334)	(33,747)	(194,081)
Gross profit/(loss)		**6,497**	**(4,991)**	**1,506**	6,282	2,226	8,508
Administrative expenses before exceptional items		**(6,423)**	**(1,931)**	**(8,354)**	(8,670)	(2,970)	(11,640)
Exceptional administrative expenses		**-**	**(1,122)**	**(1,122)**	-	-	-
Total administrative expenses		**(6,423)**	**(3,053)**	**(9,476)**	(8,670)	(2,970)	(11,640)
Share of operating profit in joint ventures		**220**	**-**	**220**	546	-	546
Other operating income		**222**	**-**	**222**	2,111	-	2,111
Operating (loss)/ profit before exceptional items		**516**	**(6,922)**	**(6,406)**	269	(744)	(475)
Operating (loss)/ profit after exceptional items	2	**516**	**(8,044)**	**(7,528)**	269	(744)	(475)
Profit on sale of fixed assets		**817**	**-**	**817**	151	3	154
(Loss)/gain on sale of investments		**46**	**(200)**	**(154)**	829	332	1,161
Interest receivable and similar income	5	**100**	**-**	**100**	68	1	69
Interest payable and similar expenses	6	**(570)**	**-**	**(570)**	(514)	-	(514)
(Loss)/profit before taxation		**909**	**(8,244)**	**(7,335)**	803	(408)	395
Add back loss attributable to minority interest		434	-	434	259	-	259
(Loss)/profit before taxation attributable to owners of the parent		**1,343**	**(8,244)**	**(6,901)**	1,062	(408)	654
Tax on (loss)/profit attributable to owners of the parent	7	(173)	1,702	1,529	(699)	355	(344)
(Loss)/profit for the financial year attributable to owners of the parent		**1,170**	**(6,542)**	**(5,372)**	363	(53)	310

Consolidated balance sheet as at 31 December 2018

		2018		2017	
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9		**8,103**		5,063
Tangible assets	10		**14,023**		18,776
Investment properties	11		**1,314**		1,087
Investments	12				
Investments in joint ventures and participating interests		**202**		(114)	
Loans to joint ventures and participating interests		**287**		658	
			489		544
			23,929		25,470
Current assets					
Stocks	13	**16,682**		20,247	
Debtors: amounts falling due within one year	14	**41,883**		44,820	
Cash at bank and in hand		**13,312**		20,035	
		71,877		85,102	
Creditors: amounts falling due within one year	15	**(55,799)**		(60,795)	
Net current assets			**16,078**		24,307
Total assets less current liabilities			**40,007**		49,777
Creditors: amounts falling due after more than one year	16		**(4,003)**		(7,422)
Provisions for liabilities	17		**-**		(505)
Net assets			**36,004**		41,850

Consolidated balance sheet as at 31 December 2018

			2018		2017
	Note	£'000	£'000	£'000	£'000
Capital and reserves					
Called up share capital	19		**22,256**		20,500
Share premium account			**29**		29
Employment benefit trust reserve	19		**(641)**		(641)
Retained earnings			**14,366**		21,494
Total shareholders' funds			**36,010**		41,382
Minority interests	20		**(6)**		468
Capital employed			**36,004**		41,850

The financial statements on pages 46 to 93 were approved by the board of directors on 23 September 2019 and were signed on its behalf by:

M A Sowerby
Director
Company registered number: 03724890

Company balance sheet as at 31 December 2018

		2018		2017	
	Note	**£'000**	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	9		**8,148**		5,108
Tangible assets	10		**8,271**		9,952
Investment properties	11		**387**		387
Investments	12		**5,711**		5,954
			22,517		21,401
Current assets					
Debtors: amounts falling due within one year	14	**26,888**		21,212	
Debtors: amounts falling due after more than one year	14	**-**		-	
Cash at bank and in hand		**-**		7,608	
		26,888		28,820	
Creditors: amounts falling due within one year	15	**(24,162)**		(22,289)	
Net current assets			**2,726**		6,531
Total assets less current liabilities			**25,243**		27,932
Creditors: amounts falling due after more than one year	16		**(3,328)**		(6,180)
Provisions for liabilities	17		**(186)**		(527)
Net assets			**21,729**		21,225

Company balance sheet as at 31 December 2018

	Note	£'000	2018 £'000	£'000	2017 £'000
Capital and reserves					
Called up share capital	19		**22,256**		20,500
Share premium account			**29**		29
Employment benefit trust reserve	19		**(641)**		(641)
Retained earnings					
At 1 January			**1,337**		5,078
Profit/(loss) for the year			**504**		(641)
Other changes in retained earnings			**(1,756)**		(3,100)
At 31 December			**85**		1,337
Total Shareholders' Funds			**21,729**		21,225

The financial statements on pages 46 to 93 were approved by the board of directors on 23 September 2019 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 2018

	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 2017	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**
Loss for the financial year	-	-	-	(5,372)	(5,372)
Other comprehensive income	-	-	-	-	-
Total comprehensive expense for the year	-	-	-	(5,372)	(5,372)
Share issuance	1,756	-	-	-	1,756
Dividend on shares	-	-	-	(1,756)	(1,756)
Balance at 31 December 2018	**22,256**	**29**	**(641)**	**14,366**	**36,010**

Company statement of changes in equity for the year ended 31 December 2018

	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 2017	20,500	29	(653)	5,078	24,954
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**
Profit for the financial year	-	-	-	504	504
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	504	504
Share issuance	1,756	-	-	-	1,756
Dividend on shares	-	-	-	(1,756)	(1,756)
Balance at 31 December 2018	**22,256**	**29**	**(641)**	**85**	**21,729**

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash (used in)/generated from operating activities	21	**(2,213)**	2,964
Taxation received		**143**	25
Net cash (used in)/generated from operating activities		**(2,070)**	2,989
Cash flow from investing activities			
Purchase of tangible assets		**(1,053)**	(704)
Purchase of Intangible assets		**(3,040)**	(4,019)
Proceeds from disposals of tangible assets		**5,276**	483
(Purchase)/Sale of investments		**(88)**	2,146
(Purchase)/Sale of investment property		**(228)**	424
Sale of EBT shares		**-**	13
Interest received		**100**	69
Dividends received		**-**	-
Net cash generated from/(used in) investing activities		**967**	(1,588)
Cash flow from financing activities			
Repayment of obligations under finance leases		**(1,773)**	(2,712)
Repayment of bank borrowings/debt capitalisation		**(3,352)**	(750)
Dividends paid		**(1,768)**	(3,130)
Interest paid		**(483)**	(465)
Share issuance		**1,756**	-
Net cash used in financing activities		**(5,620)**	(7,057)
Net decrease in cash at bank and in hand		**(6,723)**	(5,656)
Cash and cash equivalents at the beginning of the year		**20,035**	25,691
Cash and cash equivalents at the end of the year		**13,312**	20,035

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 Chief Executive's Report, the Strategic Report and the Directors' Report.

The Group's continuing operations achieved EBITDA of £3.0m and recorded a profit before taxation attributable to owners of the parent of £1.3m for 2018 (2017: £1.0m). Closing net assets were £36.0m. 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 £13.3m.

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 2018

1. Group turnover

	2018	2017
	£'000	£'000
Construction	**134,793**	137,544
Housing and land	**6,276**	1,154
Property services	**52,842**	51,971
Business support	**2,127**	11,920
Group turnover	**196,038**	202,589

2. Operating loss

	2018	2017
	£'000	£'000
Operating loss is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**1,511**	1,581
Leased	**654**	895
Amortisation of goodwill	**-**	7
Hire of assets	**8,210**	10,165
Exceptional items:		
Restructuring costs	**1,122**	-

Exceptional items reflect the one-off impact to the business during the year including £1,122,000 (2017: £nil) of restructuring costs.

2. Operating loss continued ...

Auditors' remuneration

	2018 £'000	2017 £'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	**145**	132
Taxation compliance services	**20**	25
Other tax advisory services	**20**	14
Other corporate finance services	**-**	43

3. Directors' emoluments

Company

	2018 £'000	2017 £'000
Directors' emoluments	**826**	738
Company contributions to money purchase pension schemes	**100**	54

The aggregate emoluments of the highest paid director were £227,281 (2017: £283,816), and company pension contributions of £33,460 (2017: £26,544) were made to a money purchase scheme on his behalf.

	Number of directors 2018	Number of directors 2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**5**	**3**

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

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	
	2018	2017
Production staff	**385**	425
Administrative staff	**579**	613
	964	1,038

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£'000	£'000
Wages and salaries	**35,937**	36,414
Social security costs	**3,566**	3,670
Other pension costs (note 24)	**1,268**	1,364
	40,771	41,448

Included in staff costs are redundancy payments of £284,175 (2017: £63,794).

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	
	2018	2017
Production staff (Weekly Paid)	**-**	-
Administrative staff (Monthly Paid)	**96**	109
	96	109

4. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£'000	£'000
Wages and salaries	**4,950**	4,382
Social security costs	**404**	425
Other pension costs (note 24)	**221**	190
	5,575	4,997

Included in staff costs are redundancy payments of £30,630 (2017: £8,811).

5. Interest receivable and similar income

	2018	2017
	£'000	£'000
Bank interest	**100**	69

6. Interest payable and similar expenses

	2018	2017
	£'000	£'000
On bank loans and overdrafts	**498**	411
Finance charges payable in respect of finance leases and hire purchase contracts	**72**	103
	570	514

7. Tax on (loss)/profit attributable to owners of the parent

(a) Tax credit included in profit or loss

	2018	2017
	£'000	£'000
UK corporation tax		
Current tax on income for the year	101	278
Adjustments in respect of prior years	(624)	(71)
	(523)	207
Share of joint ventures' current tax	-	(12)
Total current tax	(523)	195
Deferred tax (see note 17)		
Origination/reversal of timing differences	(1,067)	130
Adjustments in respect of prior years	61	19
Total deferred tax	(1,006)	149
Tax on loss/profit	(1,529)	344

(b) Reconciliation of tax credit

Factors affecting the tax credit for the current year

The tax charge for the year is lower (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018	2017
	£'000	£'000
Total tax reconciliation		
(Loss)/profit before taxation	(6,971)	654
Current tax at 19% (2017: 19.25%)	(1,324)	126
Effects of:		
Tax losses	9	190
Gains/rollover relief	(41)	-
Income not taxable	(7)	(40)
Tax Rate changes	103	(17)
Group relief surrendered/claimed	(30)	-
Deferred tax not provided	170	114
Expenses not taxable for tax purposes	154	23
Adjustments in respect of prior years	(563)	(52)
Total tax credit for the year (see above)	(1,529)	344

7. Tax on (loss)/profit attributable to owners of the parent (continued)

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.

8. Dividens

The aggregate amount of dividends paid in the year comprises:

	2018	2017
	£'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	**1,756**	3,100
	1,756	3,100

9. Intangible assets

Group

	Software costs	Goodwill	Negative goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2018	5,108	1,128	(2,322)	3,914
Acquisition	3,040	-	-	3,040
At 31 December 2018	**8,148**	**1,128**	**(2,322)**	**6,954**
Accumulated amortisation				
At 1 January 2018	-	1,128	(2,277)	(1,149)
Charged in year	-	-	-	-
At 31 December 2018	**-**	**1,128**	**(2,277)**	**(1,149)**
Net book value				
At 31 December 2018	**8,148**	**-**	**(45)**	**8,103**
At 31 December 2017	5,108	-	(45)	5,063

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
	2018	2017
	£'000	£'000
Cost		
At 1 January 2018	5,108	5,108
Addition	3,040	3,040
At 31 December 2018	**8,148**	**8,148**
Accumulated amortisation		
At 1 January and 31 December 2018	**-**	**-**
Net book value		
At 31 December 2018	**8,148**	**8,148**
At 31 December 2017	5,108	5,108

10. Tangible assets

Group

	Freehold land and buildings	Leasehold properties	Plant and machinery	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 January 2018	10,201	130	18,485	28,816
Transfer	-	-	-	-
Additions	42	8	1,821	1,871
Disposals	(1,569)	(92)	(7,323)	(8,984)
At 31 December 2018	**8,674**	**46**	**12,983**	**21,703**
Accumulated depreciation				
At 1 January 2018	582	25	9,433	10,040
Transfer	-	-	-	-
Charge for year	126	31	2,008	2,165
On disposals	(66)	(47)	(4,412)	(4,525)
At 31 December 2018	**642**	**9**	**7,029**	**7,680**
Net book value				
At 31 December 2018	**8,032**	**37**	**5,954**	**14,023**
At 31 December 2017	9,619	105	9,052	18,776

Included in the total net book value of plant and machinery is £3,538,191 (2017: £4,816,771) 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.

10. Tangible assets (continued)

Company

	Freehold land and buildings	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 January 2018	10,189	1,868	12,057
Additions	42	81	123
Disposals	(1,569)	3	(1,566)
At 31 December 2018	**8,662**	**1,952**	**10,614**
Accumulated depreciation			
At 1 January 2018	570	1,535	2,105
Charge for year	126	175	301
On disposals	(66)	3	(63)
At 31 December 2018	**630**	**1,713**	**2,343**
Net book value			
At 31 December 2018	**8,032**	**239**	**8,271**
At 31 December 2017	9,619	333	9,952

Included in the total net book value of plant and machinery is £nil (2017: £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2017: £nil).

11. Investment properties

	Group	Company
	£'000	**£'000**
Valuation and net book value		
At 1 January 2018	1,087	**387**
Additions	360	**-**
Fair value movements	(133)	**-**
At 31 December 2018	**1,314**	**387**

The fair values of the Group's investment property at December 31, 2018 and 2017 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 £887,000 (2017: £1,020,000).

The historical cost of the Company's investment properties is £386,000 (2017: £386,000).

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 2018	132	1,009	600	390	2,131
Additions	-	-	-	-	-
Repayments	-	-	-	-	-
Disposal	(132)	(371)	-	-	(503)
At 31 December 2018	**-**	**638**	**600**	**390**	**1,628**
Provisions					
At 1 January 2018	-	(366)	(600)	(375)	(1,341)
Disposal	-	-	-	-	-
At 31 December 2018	**-**	**(366)**	**(600)**	**(375)**	**(1,341)**
Share of post-acquisition reserves					
At 1 January 2018	(246)	-	-	-	(246)
Retained profits less losses	316	-	-	-	316
Disposal	132	-	-	-	132
At 31 December 2018	**202**	**-**	**-**	**-**	**202**
Net book value					
At 31 December 2018	**202**	**272**	**-**	**15**	**489**
At 31 December 2017	(114)	643	-	15	544

12. Investments (continued)

Company

	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 2018	**26,652**	**556**	**530**	**592**	**28,330**
Disposal	**(243)**	**-**	**(132)**	**(226)**	**(601)**
At 31 December 2018	**26,409**	**556**	**398**	**366**	**27,729**
Provisions					
At 1 January 2018	**(20,698)**	**(556)**	**(530)**	**(592)**	**(22,376)**
Disposal	**-**	**-**	**132**	**226**	**358**
Impairment					
At 31 December 2018	**(20,698)**	**(556)**	**(398)**	**(366)**	**(22,018)**
Net book value					
At 31 December 2018	**5,711**	**-**	**-**	**-**	**5,711**
At 31 December 2017	5,954	-	-	-	5,954

At the end of 2018 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.

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
ABC Rental Properties Limited[1]	100%	Property letting
Boathouse Lane Projects Limited[1]	100%	Land and property development
Border Construction (Holdings) Limited[1,2]	100%	Civil engineering and building contractor
Border Construction Limited[1]	100%	Civil engineering and building contractor
David Wilkinson Building Contractors Limited[1]	100%	Dormant
Deerness Fencing & Landscaping Limited	100%	Fencing contractor
Dunelm (Bowburn) Limited[1]	100%	Land and property development
Dunelm Homes (Seaham) Limited[1]	100%	Housebuilder
Dunelm Homes Limited	100%	Housebuilder
Dunelm National Projects Limited[1]	100%	Property development
Dunelm Property Services Limited[1]	100%	Social housing – refurbishment of new build
Esh Acorn Homes Limited[1]	100%	Housebuilder
Esh Construction Limited	100%	Civil engineering and building contractor
Esh Developments Limited	100%	Land and property development
Esh EBT Trustee Limited	100%	Non- trading
Esh Green Limited[1]	100%	Non- trading
Esh Homes Limited	100%	Housebuilder
Esh Remedios Limited[1,2]	51%	Site investigation
Finlaysons Contracts Limited[2]	100%	Building contractor
Green Energies Limited[1]	90%	Mechanical, electrical and plumbing
J Tonks (Transport) Limited	100%	Waste disposal and recycling
Lumsden & Carroll Limited[1]	100%	Commercial builder
Mechplant (North East) Limited	80%	Plant hire
Philadelphia Estates Limited[1]	*100%	Property letting
	+30%	

12. Investments (continued)

Subsidiary undertakings (continued)	Proportion of voting rights and shares held	Nature of business
Philadelphia Properties Limited[1]	*100%	Property letting
	+30%	
Remedios Limited[1,2]	75%	Site investigation
Speed 8767 Limited[1]	*100%	Property letting
	+30%	
Stephen Easten Building Limited[1]	100%	Commercial builder
Tonks Recycling Limited	100%	Waste disposal and recycling
Tursdale Business Park Limited[1]	41%	Property letting
	+12.5%	
Tursdale Recycling Limited	100%	Waste disposal and recycling
West Park JV Limited	100%	Housebuilder
Wilkinson Facilities Services Limited[1]	100%	Property and Facilities Management
Joint ventures		
Boathouse Lane (Freehold) Limited[1]	50%	Non-trading
Eastbourne JV Limited	50%	Housebuilder
Esh Energy Limited[1]	49%	Renewable energy
Esh Stantec Ltd	50%	Civil engineering
Esh Salutation Road Limited	50%	Housebuilder
Heighington JV Limited	50%	Housebuilder
Micropump (NE) Limited	50%	Plant hire
Middleton St George JV Limited	50%	Housebuilder
Prestige Exclusive Homes Limited[1]	50%	Property development
Participating interests		
Esh Space The Park Limited[1]	15%	Property development
M62 Developments Limited[1]	43%	Dormant

***voting +equity [1]investment held indirectly [2]Scottish 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.

12. Investments (continued)

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 companies (indicated) which are registered at:

Botany Mill, Roxburgh Street, Galashiels TD1 1PB
Finlaysons Contracts Limited
Border Construction (Holdings) Limited
Esh Remedios Limited
Remedios Limited

13. Stocks

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	**£'000**	£'000
Land stocks and work in progress	**16,187**	19,760	**-**	-
Raw materials and consumables	**495**	487	**-**	-
	16,682	20,247	**-**	-

The amount of stock recognised as an expense during the year was £7,657,317 (2017: £5,862,000).

There is no significant difference between the replacement cost of the stock and it's carrying amount.

14. Debtors

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Trade debtors	7,979	9,495	438	39
Amounts recoverable on contracts	24,097	28,135	-	-
Amounts owed by group undertakings	3,144	1,417	24,991	20,322
Deferred tax	447	-	-	-
VAT receivable	-	-	-	20
Amounts owed by undertakings in which the entity has a participating interest (note 25)	4,311	4,097	544	21
Corporation tax recoverable	577	75	500	193
Other debtors	247	304	211	278
Prepayments and accrued income	1,081	1,297	204	339
	41,883	44,820	26,888	21,212

Group 'other debtors' include £nil (2017: £nil) due after more than one year. Company 'other debtors' include £nil (2017: £nil) due after more than one year.

15. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 16)	**11,502**	12,030	**15,058**	12,030
Obligations under finance leases and hire purchase contracts (note 16)	**1,120**	1,507	**-**	-
Payments received on account	**1,299**	1,763	**-**	-
Trade creditors	**6,386**	6,698	**1,239**	1,349
Amounts owed to group undertakings	**-**	-	**5,307**	8,437
Amounts owed to undertakings in which the entity has a participating interest (note 25)	**32**	527	**-**	-
Corporation tax	**-**	-	**-**	-
Other taxation and social security	**1,498**	2,946	**190**	158
Other creditors	**1,223**	1,471	**234**	78
Accruals and deferred income	**32,739**	33,853	**2,134**	237
	55,799	60,795	**24,162**	22,289

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

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	**3,327**	6,180	**3,328**	6,180
Other loans	**50**	50	**-**	-
Obligations under finance leases and hire purchase contracts	**626**	1,192	**-**	-
	4,003	7,422	**3,328**	6,180

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

Analysis of debt

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	£'000	**£'000**	£'000
Debt can be analysed as falling due:				
In one year or less, or on demand	**12,622**	13,537	**15,058**	12,030
Between one and two years	**3,538**	2,458	**3,030**	1,530
Between two and five years	**465**	4,964	**298**	4,650
In five years or more	**-**	-	**-**	-
	16,625	20,959	**18,386**	18,210

Further details of bank loans are provided below:

Esh Holdings Limited

Esh Holdings Limited bank loans represent:

- A Commercial Mortgage £1.4m (2017: £3.2m) that is repayable in quarterly instalments on a ten-year repayment profile. Next review date December 2020.
- A Commercial Mortgage of £3.5m (2017: £5m) that is repayable in seven instalments with a three-year profile.
- A 5-year Revolving Credit Facility (RCF) £10m. Review date December 2020.
- An Overdraft facility of £3.5m (see note 22).

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

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

Finance leases

The future minimum finance lease payments are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	£'000	**£'000**	£'000
Not later than one year	**1,156**	1,555	-	-
Later than one year and not later than five years	**643**	1,211	-	-
Later than five years	**-**	-	-	-
Total gross payments	**1,799**	2,766	-	-
Less: finance charges	**(53)**	(67)	-	-
Carrying amount of liability	**1,746**	2,699	-	-

17. Provisions for liabilities

	Group	Company
	£'000	**£'000**
At 1 January 2018	505	527
Credit to the profit and loss current year	(1,013)	-
Charge to the profit and loss prior year	61	(429)
At 31 December 2018	**(447)**	**186**

The elements of deferred taxation are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	£'000	**£'000**	£'000
Differences between accumulated depreciation and capital allowances	**(447)**	505	**186**	527

18. Financial instruments

Group

The Group has the following financial instruments:

	Note	2018	2017
		£'000	£'000
Financial assets measured at amortised cost:			
Trade debtors	14	**7,979**	9,495
Prepayments and accrued income	14	**1,081**	1,297
Amounts recoverable on contracts	14	**24,097**	28,135
Amounts owed by group undertakings	14	**3,144**	1,417
Amounts owed by undertakings in which the entity has a participating interest	14	**4,311**	4,097
Other debtors	14	**247**	304
		40,859	44,745
Financial liabilities measured at amortised cost:			
Bank loans and overdrafts	16	**14,829**	18,210
Obligations under finance leases and hire purchase contracts	16	**1,746**	2,699
Amounts owed to undertakings in which the entity has a participating interest	15	**32**	527
Payments received on account	15	**1,299**	1,763
Trade creditors	15	**6,386**	6,698
Other loans	16	**50**	50
Other creditors	15	**1,223**	1,471
Accruals and deferred income	15	**32,739**	33,853
Tax	15	**1,498**	2,946
		59,802	68,217

18. Financial instruments (continued)

Company

The Company has the following financial instruments:

	Note	2018	2017
		£'000	£'000
Financial assets measured at amortised cost:			
Trade debtors	14	**438**	39
Prepayments and accrued income	14	**204**	339
Amounts owed by group undertakings	14	**24,991**	20,322
Amounts owed by undertakings in which the entity has a participating interest	14	**544**	21
Other debtors	14	**211**	278
Corporation tax	14	**500**	193
VAT receivable	14	**-**	20
		26,888	21,212
Financial liabilities measured at amortised cost:			
Bank loans and overdrafts	15/16	**18,386**	18,210
Obligations under finance leases and hire purchase contracts	15	**-**	-
Amounts owed to group undertakings	15	**5,307**	8,437
Trade creditors	15	**1,239**	1,349
Other creditors	15	**234**	78
Accruals and deferred income	16	**2,134**	237
Other taxation and social security	15	**190**	158
		27,490	28,469

19. Called up share capital

Group & Company

	2018		2017	
	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	**7,959,638**	**7,959**	6,203,396	6,203
	32,081,396	**22,256**	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.

19. Called up share capital (continued)

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 (2017: 229,743), nil non-voting shares of 0.1p each (2017: nil) and 305,783 voting ordinary shares of £1 each (2017: 305,783) at a combined cost of £640,972 (2017: £640,972).

None of the shares held by the EBT are under option to employees and none of them have been conditionally gifted to any employees.

20. Minority interests

	Group
	£'000
At 1 January 2018	468
Total comprehensive loss before tax attributable to minority interests	(434)
Tax attributable to minority interest	(29)
Dividends paid to minority interest	(11)
At 31 December 2018	**(6)**

21. Reconciliation of operating profit/(loss) to operating cash flows

	2018	2017
	£'000	£'000
(Loss)/profit for the financial year attributable to owners of the parent	**(5,372)**	310
(Loss)/profit for the financial year attributable to minority interest	**(463)**	(148)
(Loss)/profit for the financial year	**(5,835)**	162
Tax on (loss)/profit attributable to owners of the parent	**(1,529)**	344
Tax on (loss)/profit attributable to minority interest	**29**	(111)
Net interest expense	**470**	445
Income from shares in group undertakings	**-**	-
Gain/(loss) from sale of investments	**154**	(1,161)
Income/(loss) from joint ventures	**(220)**	(546)
Negative goodwill on acquisition	**-**	45
Profit on sale of fixed assets	**(817)**	(154)
Operating loss	**(7,748)**	(976)
Amortisation of intangible assets	**-**	7
Depreciation of tangible assets	**2,165**	2,475
Revaluation of investment property	**-**	-
Working capital movements		
- Decrease/(increase) in inventories	**3,566**	(1,496)
- Decrease in debtors	**3,885**	2,108
- (Decrease)/increase in payables	**(4,081)**	846
Cash (used in)/generated from operating activities	**(2,213)**	2,964

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 £13.5m (2017: £7.4m) at the year-end. Aggregate Group borrowings guaranteed by the company but not provided for in the company's financial statements amounted to £13.5m (2017: £7.4m).

There are no 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	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	£'000	£'000
Contracted	–	–	–	–

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

	2018	**2017**
	£'000	£'000
Group		
Operating leases which expire:		
Within one year	**228**	476
Two to five years	**658**	601
More than five years	**-**	98
	886	1,175

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 £1,267,696 (2017: £1,364,171).

Contributions amounts to £115,961 (2017: £383,638) 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 £221,241 (2017: £190,405).

Contributions amounting to £32,778 (2017: £52,801) 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Esh Space The Park Limited	**-**	1	**-**	-	**336**	336	**-**	-
Micropump (NE) Limited								
Trade	**14**	12	**42**	7	**-**	6	**1**	-
Loan	**-**	-	**-**	-	**21**	21	**-**	-
Pure Renewable Energies Limited								
Loan	**-**	-	**-**	-	**-**	87	**-**	-
Prestige Exclusive Homes Limited								
Trade	**45**	9,300	**-**	-	**10**	29	**13**	524
Loan	**-**	-	**-**	-	**500**	750	**-**	-
Eastbourne JV Limited								
Trade	**-**	-	**-**	-	**25**	8	**-**	2
Loan	**-**	-	**-**	-	**620**	1,250	**-**	-
Salutation Road								
Trade	**452**	2	**-**	-	**-**	10	**-**	-
Loan	**-**	-	**-**	-	**2,640**	1,600	**-**	-
Tonks Recycling								
Trade	**16**	-	**-**	-	**-**	-	**-**	-
Holborn LLP								
Trade	**13**	-	**-**	-	**-**	-	**-**	-
Speed 8767 Limited	**-**	-	**-**	-	**159**	-	**-**	-
Heighington JV Limited	**-**	-	**-**	-	**-**	-	**18**	-
	540	9,315	**42**	7	**4,311**	4,097	**32**	527

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 (2017: £50,000) to the directors of Mechplant (North East) Limited. This loan is interest free.

26. Ultimate parent company and parent undertaking of largest 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.

27. Post balance sheet events

The Group disposed of its interest in Mechplant (North East) Limited in April 2019.

From 12th August 2019, the Group has changed its funding arrangement following the repayment of £6m of loan provided to our Philadelphia Estates Joint Venture. This has allowed the Group to repay all funding provided by Lloyds and all outstanding hire purchase finance. Philadelphia Estates Limited has secured £6m of bridging finance after it agreed land sales with a reputable house builder.

Going forward, the Group will now fund its short-term working capital needs through a £10m asset backed financing arrangement provided by Nucleus Commercial Finance Limited. The directors believe these facilities provide ample access to liquidity to fund the future plans for the business.

28. Discontinued operations

In 2018 the Group announced restructuring plans, which included closing down several business units. These business units include the Group's operations in Scotland and North West England, Esh Developments and Bartram Walker Limited. Bartram Walker Limited was disposed of during 2018.

Each of the above business units have been reported in the current and prior period (restated) as a discontinued operation. Financial information relating to the discontinued operations is presented in the profit and loss account.

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