

Esh Holdings Limited

Annual report and financial statements

Registered number 03724890

31 December 2010

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Contents

Chairman's Report	1
Chief Executive's Report	2
Corporate Governance	7
Corporate Social Responsibility	8
Directors and Advisors	15
Directors' Report	17
Statement of directors' responsibilities in respect of the Annual Report and the financial statements	20
Independent auditor's report to the members of Esh Holdings Limited	21
Consolidated Profit and Loss Account	23
Consolidated Balance Sheet	24
Company Balance Sheet	25
Consolidated Cash Flow Statement	26
Consolidated Statement of Total Recognised Gains and Losses	27
Reconciliations of Movements in Shareholders' Funds	27
Notes	28

Chairman's Report

Esh Group – we're doing good business, we're strong and we're well placed in the market

Esh Group has cash in the bank, is profitable, our balance sheet is strong and the business is well placed in the market

That is not to say that 2010 has been an easy year, quite the contrary, and we anticipate 2011 will be equally challenging

The core business has performed well despite trying circumstances, not least the weather. Heavy snowfalls and prolonged freezing conditions badly disrupted our operations at both the beginning and end of 2010.

Overall results are good, turnover is up and pre-tax profits have increased marginally, although margins have been squeezed.

Effective working capital control resulted in the group generating cash of £19.4m from operations. Cash balances at the end of the year were £28.1m.

All businesses and divisions within the Group have contributed financially and strategically to the year's results, which, in turn, are a testament to the continuing hard work and flexibility of our workforce and the ongoing support of suppliers and clients alike. On behalf of the Board, I would like to record our thanks to all.

Turnover, including share of joint ventures, was £169m, a rise of £35m on the previous year, representing an increase of 26%.

Although market conditions continue to represent significant challenges, the underlying business is very strong and has continued to perform well. The principal businesses within the Group, except Dunelm Homes, (which has been stabilised) have delivered satisfactory operating profits.

Of particular note have been our successes in retaining the long-term waste-water management framework contract with Northumbria Water and our continued management of our house building interests through Dunelm Homes.

The senior executive team was strengthened in the year, with Andy Radcliffe joining as Group Finance Director, enabling Andrew Pickett to focus his attention solely on Dunelm Homes. Andrew stood down from the Group's Board at the end of the year and, having led the finance team over many years, we would like to thank him for his support and contribution.

In the wake of the Comprehensive Spending Review, the short-termism which prevailed in 2009 has been replaced with stoical pragmatism. Demonstrating value for money is paramount in every contract negotiation and, in a business sector where margins are notoriously slender, our continuing focus is on ensuring meticulous cost control is exercised.

We have confidence in our business and a vision for our future. We have committed to an updated Five Year Plan to reflect the changed market, a key objective of which is the further strengthening of our position within the marketplace.

Notwithstanding the downgraded economic forecasts we remain optimistic, we firmly believe we are well-positioned in the sector. Sustaining the strength of the business will continue to be our priority as we dedicate ourselves to serve our clients through practical and pragmatic strategies delivered by well-qualified, hard-working and committed staff.



A Donohoe
Chairman

16 September 2011

Chief Executive's Report

Group - performance

Market conditions, best described as 'tough', prevailed throughout 2010 and all companies within the Group were affected

Whilst currently there may be scant opportunity for extravagant celebration there is certainly ample opportunity to be proud of our efforts and to be satisfied with our achievements in such circumstances

Throughout 2010 all trading businesses within the Group performed well and the 'Esh Group model' is standing up well to the test of current conditions. Turnover has increased, we are profitable, we have a strong balance sheet and cash in the bank, our strong cash balances further improved during 2010 and were £28.1m at the year-end

The Group's overall performance in the year has been very good. Turnover, including share of joint ventures, has increased from £134.1m to £169.3m and operating profits before exceptional items have increased to £5.9m in the current year from £5.7m reported in 2009

These results are a credit to all concerned, our staff who have worked hard and innovatively, our suppliers who work with us in partnership and our customers and clients who, whilst managing challenges of their own, are loyal and rewarding

We have continued to develop the best and most robust credentials in support of our business development activity

In order to demonstrate our versatility and the quality and extent of our services we have consolidated the main contracting companies within the Group into a newly named trading group headed by Esh Construction Limited

Lumsden & Carroll Construction Limited becomes the core trading element of Esh Construction and 'Lumsden & Carroll', with its famous green livery, becomes our civil engineering brand within this group

During 2011 Esh Construction will incorporate Lumsden & Carroll Northern, Dunelm Property Services, Stephen Easten Building, Dunelm National Projects and Wilkinson Facilities Services

Esh Construction is central to our growth ambitions, we believe this rationalisation will bring clarity to the marketplace and will enable us to demonstrate our compounded experience and extensive portfolio

Going forward, the simplified corporate structure comprises Esh Construction as the principal trading company flanked by our 'development businesses' and 'specialist businesses'. This structure is summarised on page 4

Esh Construction's pivotal role is emphasised thus, if 2010 performance was to be reported in the context of the new corporate structure the turnover split would be approximately 79% Esh Construction, 17% development businesses and 4% specialist businesses

Group - measurement of performance

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

	Group 2010 pre exceptional items	Group 2010 post exceptional items	Group 2009 pre exceptional items	Group 2009 post exceptional items
Turnover, including share of joint ventures	£169.3m	£169.3m	£134.1m	£134.1m
Exceptional items	n/a	£3.2m	n/a	£3.0m
Profit before tax	£3.6m	£0.5m	£3.3m	£0.3m
Gross profit margin	8.3%	6.4%	12.0%	9.7%
Overhead (administrative) expenses	£8.1m	£8.1m	£10.2m	£10.2m
Group interest cover (at operating profit level)	3.4 times	1.6 times	2.5 times	1.2 times
Balance sheet ratios				
Net debt / equity ratio	n/a		n/a	
Current ratio	n/a	23.0% 2.3	n/a	67.6% 1.3

Chief Executive's Report *(continued)*

Group – measurement of performance *(continued)*

The Group benchmarks relative performance and monitors other key performance indicators to provide more detailed analyses

These provide an effective measurement and reporting system to the Board thereby providing a high degree of control. These additional financial indicators include

- sector analyses of turnover and profit
- content of direct costs
- content of overheads
- debt levels
- contract liability levels
- key supplier expenditure
- key client turnover
- tender success levels

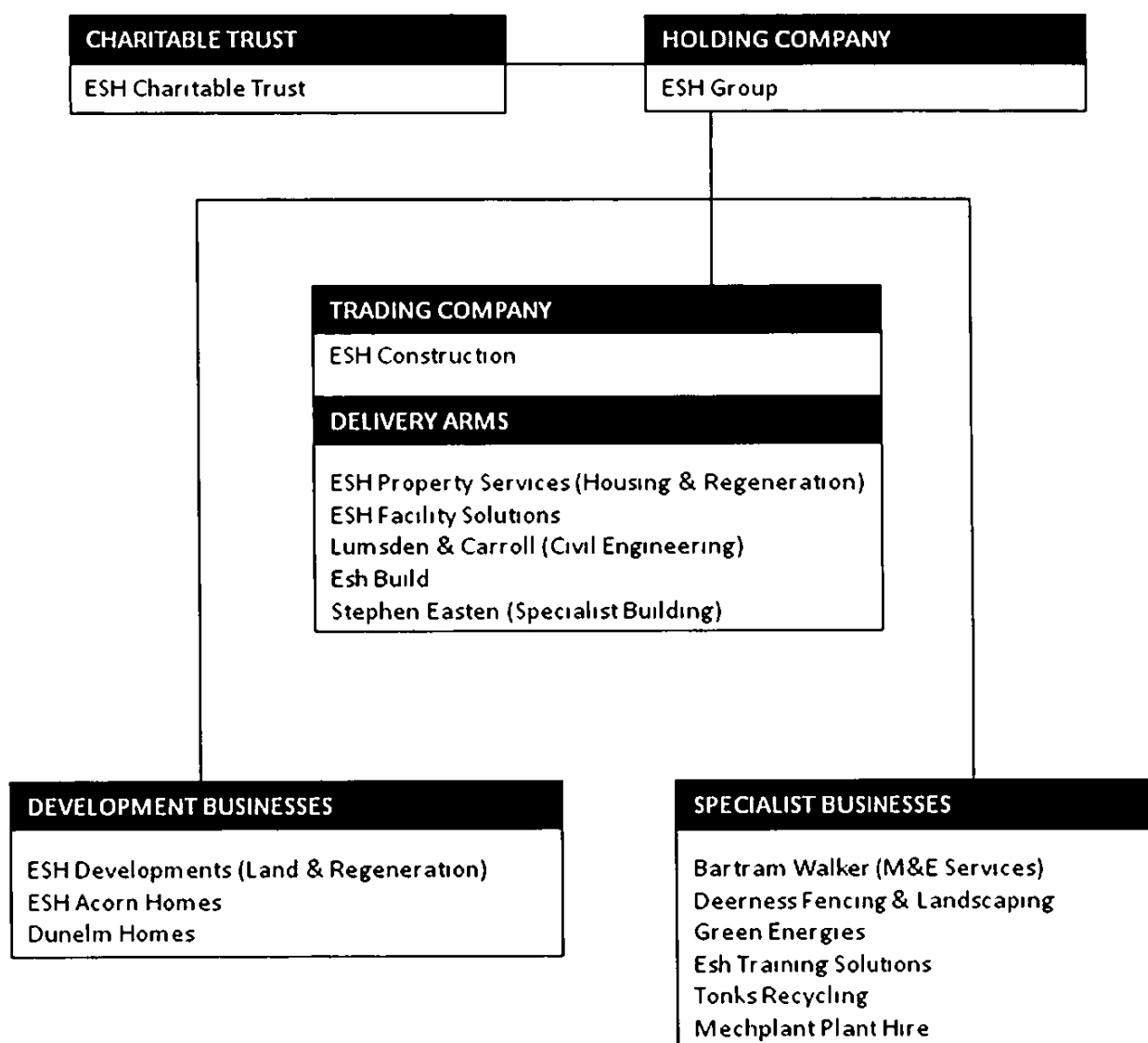
Non financial indicators include

- staffing levels and staff turnover
- customer service levels
- Health & Safety activity
- forward workload
- order book
- marketing activity

Chief Executive's Report *(continued)*

2011 Simplified Group structure

Our simplified corporate structure for 2011 onwards is provided below



Chief Executive's Report *(continued)*

Performance – business streams

The following section describes the performance of our business streams in the organisational structure deployed in 2010. The figures referred to are taken from the statutory accounts of these companies and are before the elimination of intra-group transactions.

Construction

Combined, our construction stream (**Lumsden & Carroll Construction, Stephen Easten Building and Lumsden & Carroll Northern**) achieved a turnover of £78.3m and profit before tax (PBT) of £1.9m. In light of the extraordinarily difficult market conditions this is a good performance.

We were pleased and proud to be reappointed by Northumbrian Water to the Wastewater Framework with the possibility that this work can be secured for the next ten years.

Yorkshire Water and the Environment Agency continue to be major clients and the business has strengthened its commercial build capability with appointments in both the commercial and construction departments.

The Leeds headquartered Yorkshire contracting operations are becoming better known in the region and developing a good reputation. We have a sound understanding of opportunities, excellent relationships with existing clients and we are now well placed to expand our business.

Property services

Our property services businesses (**Dunelm Property Services, Wilkinson Facilities Services, Bartram Walker, Deerness Fencing and Landscaping, and Dunelm National Projects**) experienced mixed fortunes in the year but combined to deliver a creditable performance overall.

The property services' stream turnover rose by 3% to £66.7m and PBT was £2.9m, a good performance given the market.

Although the Government's Comprehensive Spending Review is impacting on our workload in this sector we continue to work well with existing clients, Dale & Valley Homes, South Tyneside Homes, Cestria Community Housing, Housing Hartlepool, Tristar Homes, Three Rivers Housing Association, Endeavour Housing Association, Gateshead Housing Company, Two Castles Housing Association and Anchor Housing Association.

We are delighted to have started working with new clients including, Your Homes Newcastle, Durham City Homes, Accent Housing Association, Coast & Country Housing, Homes for Northumberland, Derwent & Solway Housing Association, 4HG (3 Rivers) and Riverside Housing Association.

We are included in a number of frameworks including, Your Homes Newcastle supported housing framework, Nottingham Community Housing framework, Riverside Partnership framework, Northumberland CC Strategic Developer framework, Cumbria & Lancashire Housing Partnership, Procurement Lincolnshire framework, Procurement For All framework and Procurement Plus framework.

The expansion of the business into Cumbria has been spearheaded through Dunelm Property Services, which has established an office in Kendal which serves Cumbria and the North West. We have been well received and given feedback that a new and alternative contractor in the area is welcome.

Wilkinson Facilities Services is showing signs of improved performance following introduction of a new management team whose attention has been strongly focused on process and systems. The company continues to serve Barclays Bank, Boots, Northumbria Police Authority, Northumberland County Council and South Tyneside College.

Plumbing is now the sole focus for **Bartram Walker**, the electrical division having been absorbed into Wilkinson Facilities Services. New clients include Taylor Wimpey and new contracts include a number for Gentoo involving renewables technologies. We are working to develop our 'green' credentials and capability and we achieved Approved Status on the Micro-generation Certificate Scheme for heat pump installation in early 2010.

Although turnover has reduced following the loss of long-standing grounds maintenance contracts and general market conditions, **Deerness Fencing and Landscaping** is managing the downturn relatively well. The team is to be particularly complimented on strong bank balances of circa £1m at year end which has provided competitive advantage and boosted purchasing power. Significant new clients include Places for People, Housing Hartlepool,

Chief Executive's Report *(continued)*

Performance – business streams *(continued)*

TATA Steel, Erimus Building Services and new contracts have been secured with Sunderland University, Erimus Housing, Corus Steelworks and the Environmental Agency as a framework partner

Dunelm National Projects has completed its first full year of trading. With clients including Oatlands Care and Avery Healthcare, much of our current work in this multi-room market is based in the south. We intend to establish a suitably located office base in the near future to support this team and to expand our portfolio beyond the care sector into student accommodation and hotels.

Housebuilding

We are pleased to report that **Dunelm Homes** has been stabilised and that we have established a sound basis on which to take the business forward. A robust two year plan has been approved and banking facilities are in place to the end of 2012.

Although slightly improved since 2009 the housing market remains very flat, suppressed by low mortgage availability, downward valuation by lenders and generally poor confidence in the market. Notwithstanding, forecasted sales for 2010 were achieved and an operating profit before exceptional items of £1.2m was made on turnover achieved of £22.9m. After exceptional items Dunelm Homes Limited recorded an operating loss of £2.8m (2009 £3.8m). Unit sales increased by 26% compared to 2009 and all sites are now active with a full programme of build, in particular Parkfield has been relaunched after a break of three years.

During the year the first ClimatHus, our niche range of 'green' houses, was completed, generating significant interest. In addition, three contracts to build Registered Social Landlord (RSL) properties have been secured and are in progress. The whole team is to be congratulated on their efforts and achievements in these testing times.

Business support

Overall the business support stream, Esh Developments, North East Construction Training, Mechplant and Bardon Esh performed well in the year.

Esh Developments continues to work on a number of strategic sites including Chilton, Middle Dock at South Shields and Feethams in Darlington, all of which present sound commercial opportunities going forward. Esh Developments complements other parts of the business and we accrue significant synergy and opportunity in this way.

North East Construction Training was rebranded at the turn of the year to **Esh Training Solutions**. The team continues to perform well and is developing its external client base with new clients including Carillion, CETG, MG Electric, WM Utilities, Mears Group and Bam Nuttall. It is a particular compliment to the team that the 'Esh Connex' template for delivering training to young people 'not in employment, education or training' (NEET) is to be rolled out by Connexions regionally with versions of the programme being delivered by Durham University, Marriott Hotels and, potentially, Boots. An exemplary report was received following the CITB Construction Skills audit.

Mechplant (NE) delivered a creditable performance with new contracts being gained with Durham County Council and ongoing with Darlington Borough Council and Gentoo. An interesting new contract involves supplying hoists to enable the demolition of the 'Dunston Rocket', one of the iconic, if much maligned 1960s landmark buildings in Gateshead.

Bardon Esh, our joint venture with Aggregate Industries, continues to suffer following the housing market downturn. However, recycling construction materials and aggregates is a valuable service provided to Group companies and to other construction businesses in the region and we are therefore keen to sustain this business.


B Manning
Chief Executive

16 September 2011

Corporate Governance

Guiding Principles

The Group and the Board are committed to maintaining and improving standards of corporate governance and, whilst adherence to the Combined Code on corporate governance issued by the Financial Reporting Council is not obligatory, complying meaningfully with the spirit of the Code ensures the creation and maintenance of sound systems and controls. The Code requires the review of all material controls including financial, operational, compliance and risk management systems.

Esh Group provides all employees with a comprehensive business conduct manual which explains required standards of behaviour and attitude, together with procedures and processes, thereby providing a comprehensive system of ethical governance.

The Board

The Board of Directors sets policy and takes responsibility for the Group's performance in relation to safety, health, the environment, business ethics, risk management, human rights and other social issues. The Board is engaged in a continuous process to identify, evaluate and manage significant risks faced by the Group. These include overall direction and strategy, major projects to be undertaken, acquisitions and entry to new markets. Where appropriate, business decisions are reached following a structured and documented review of potential opportunities and threats, with the process designed to manage or mitigate any residual risk exposure.

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

The Board has a schedule of matters reserved for its approval, covering areas such as company strategy, the appointment of key executives, approval of accounts, approval of the business plan, budget and financial policies, reviewing operating results, risk management strategy, ensuring the effectiveness of governance practices, succession planning and significant capital expenditure.

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

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

At present the Group does not deem it necessary to implement an internal audit function, although this position is kept under review.

Remuneration Committee

The Remuneration Committee consists of three non-executive directors, including the Group Chairman, and has access to independent advice where considered necessary.

The function of the Committee is to attract, retain and motivate the executive directors and to review their remuneration. Remuneration packages are designed to align the interests of the executive directors with those of the shareholders.

Audit Committee

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

Corporate Social Responsibility

Health & Safety

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

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

We operate a proactive monitoring system on all of our sites and premises. Site inspections measure the effectiveness of each project team in implementing policies and procedures. Key Performance Indicators (KPIs) are collated with three key areas monitored, construction activities, documents and environment. These are examined separately to ensure that weaknesses are recognised immediately and that effort and resources are quickly directed to where they are required.

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

At Esh Group we bring added value to our clients through the work we do.

This added value has economic, environmental and social benefit and often exceeds standards and requirements for the sector.

Our approach follows Business in the Community's (BITC) model, based on four impact areas, workplace, environment, marketplace and community.

Over the seven years during which we have been involved with BITC our work has been recognised with both regional and national awards.

Most recently we were awarded a Big Tick for 'Grow with Esh' at BITC's National Awards in 2010.

Esh Value Added - Workplace

Health & Safety

Health & Safety is paramount at Esh Group. We seek to ensure that the best conditions exist on all our sites, in all our buildings and across all of our businesses and much of our efforts are vested in education and awareness raising.

'Stay Safe' Campaign

'Stay Safe' is a high profile Esh Group road show which tours key construction sites. Through this campaign we raise awareness of health and safety issues, reduce accident levels and create a safer working environment.

Attendance is mandatory, senior management, site staff, subcontractors and customer care teams attend.

We use innovative ways to support our campaign. Dunelm Property Services' newest recruit is a large grey elephant, or, more accurately, a large grey elephant outfit. 'Dudley' supports the 'Stay Safe' campaign, particularly in our work with children where we highlight the dangers of playing on building sites.

Our People

People do business with people and at Esh Group our people really are our strength.

We value highly the wealth of experience and knowledge embodied in our workforce, which we consider to be our biggest asset.

Training and Development

We work hard to develop and protect our people through our employment policies and extensive training programmes. We aim to support everyone seeking technical or personal development training. Our appraisal process identifies these ambitions.

Policies and procedures covering grievance, discipline, equal opportunities and diversity, maternity, parental leave and whistle blowing are detailed in the Employee Handbook.

Corporate Social Responsibility *(continued)*

Whistle Blowing Policy

Whistle blowing policies and procedures ensure a system of ethical governance. The policy outlines our commitment to minimise the risk of fraud and corruption.

Implicit in this policy is the expectation that all directors, employees and third parties, including sub-contractors and their employees, are open, honest and fair. We expect that the highest standards of integrity and accountability are adopted and adhered to, always.

Employee Share Ownership Scheme (ESOS)

ESOS continues to be widely valued by management and employees alike. All employees with at least three years service are offered the opportunity of participation and ownership in the business.

CECA Training Company of the Year

Lumsden & Carroll Construction was awarded 'Training Company of the Year' Award 2010.

The judges fed back that, through the numerous examples provided, it was clear that training and development permeates every aspect of Esh Group's projects and schemes.

Family Fun Day

This annual event, now in its seventh year, is a highlight for employees and 'friends of the firm'. In 2010 proceeds of over £1,000 went to The Sir Bobby Robson Foundation. Sir Bobby was a great friend of Esh Group and had been a trustee of our own charity, the Esh Charitable Trust. We are proud to continue our connection with him in this way.

Esh Value Added - Environment

Environmental Policy

We are quality assured to comply with BS EN ISO 14001. This ensures the performance standards of our operations meet the needs of customers, employees and local communities.

Our dedicated Environmental Management team ensures that our system is up to date with regulations and associated codes of practice.

Sustainability

We are committed to managing our activities in order to minimise pollution and reduce waste production, as we believe that sustainable construction continues to be one of the most important challenges facing the construction industry.

Northumberland Headquarters

Our newly built headquarters in Northumberland, including offices and yards, are BREEAM rated 'very good'.

Energy efficiencies are achieved through solar photovoltaics and an air source heat pump. These provide 28% contribution to our energy needs from renewable energy sources, an equivalent annual saving of 11 tonnes of CO₂.

Retrofitting photovoltaic panels at the Bowburn head office will be carried out in 2011. This should contribute approximately 12.5% of the energy needs of these offices and achieve annual saving of 9 tonnes of CO₂.

Corporate Social Responsibility *(continued)*

Carbon Reduction Scheme

In 2010 we implemented our carbon reduction scheme using the ISO 16001 2009 Energy Management System and we are working with the Environmental Academy to attain accreditation to ISO 16001. This will create a company-wide carbon footprint measurement system which will be introduced in 2011.

"Esh Group is really punching above its weight in its carbon reduction strategy, the effort being expended is very significant, relative to the size of the organisation"

As one of the first construction companies in the North East to adopt BSEN 16001, Esh Group is showing a real commitment to carbon reduction."

Mark Armstrong, Energy Management Specialist, Environmental Academy

Vehicle Fleet Efficiencies

We have acquired the 'Masternaut' Transport Management system which provides real-time use and management data on the mobile workforce, so enabling efficient deployment and co-ordination of company vehicles.

The vehicle and machinery fleet uses over 2.8 million litres of diesel fuel annually. Masternaut provides 'Green Score' reports, recording miles per gallon and CO₂ emissions for individual vehicles. These data are used to build a clearer picture of our environmental impact and to educate employees to drive more economically. The best performing drivers receive financial rewards and the worst, more training.

The investment in this system has driven down CO₂ emissions (10% to 20% reductions depending on vehicle type) and substantially reduced fuel costs.

Smarter Driver Training

100 of the company's high mileage drivers have taken the Energy Saving Trust's 'smarter driving course' which shows how to reduce fuel consumption and carbon emissions.

Excavator drivers have undergone refresher training to help improve their efficiency too.

'It Pays To Be Green' Campaign

Significant CO₂ savings have been made by office-based staff as a result of our 'It Pays To Be Green' campaign. Cost leakages were highlighted as part of the campaign, such as:

- leaving on a PC 24/7, 52 weeks of the year costs £50.00
- turning off computers or a light outside working hours or when not in use, reduces electricity cost by up to 50%

'Energy Champions' have been appointed, electricity usage is displayed live in the foyer of Head Office and monthly energy consumption reports and statistics are produced.

Rainwater harvesting is used in the plant yard to reduce water usage. In the offices, self-stop taps and reduce-flush urinals have been retrofitted.

Garic 'Eco Combi Cabin'

Traditionally 240v welfare units have been used on our sites. We have trialled use of 12v Eco Combi Cabins which use solar generated power from a roof mounted panel. A micro generator operates as a stand-by power source.

The Garic cabins have resulted in:

- 50% lower running costs
- up to 60% reduction in emissions
- 80% reduction in noise levels (back-up generator not running constantly)
- 50% improvement in water efficiency (½ litre of water per flush)

Corporate Social Responsibility (continued)

Waste Management

Bardon Esh provides a complete recycling and waste management service. In 2010 we handled over 54,000 tonnes of composites waste from around the region and we recycled over 90% of inbound material.

Climat-Hus: the 'Zero Energy Bills' family home

In September 2010 Climat-Hus was launched, a Swedish-inspired, futuristic family home which offers the real prospect of an end to household energy bills for UK home buyers.

Developed by Esh Group in partnership with Swedish timber house designer and manufacturer, Trivselhus, the houses are marketed through Dunelm Homes.

Energy recovery, renewable energy and sustainable resource features combined with high levels of insulation, airtight design, an array of technological features and advanced construction techniques lead to the achievement of extensive energy efficiencies.

Using Government-backed incentive schemes, a robust financial model demonstrates that the average family can confidently expect (and plan) to pay nothing for the energy usage of their new home.

Esh Value Added – Marketplace

We have great respect for our stakeholders and, in order to achieve mutually agreed aims, we seek to work in partnership with customers and suppliers alike.

Customers

Our service delivery is wholly customer focused, underpinned by our comprehensive Customer Care Policies.

Considerate Constructors Scheme

Considerate Constructors Scheme is a national initiative set up to improve liaison with communities adjacent to sites. All sites registered with the scheme are monitored against a Code of Considerate Practice.

We enhance these standards with additional support over and above the Code which are relevant to specific areas and needs.

Customer Complaints Procedures

We aim to deal with all complaints promptly and in a positive manner. Our Quality Management System includes procedures for recording and responding to complaints.

Suppliers

We believe that by working in collaboration with our suppliers we benefit our local supply chain, our own business and our clients.

Our aim is always to establish and maintain excellent relationships with our suppliers, they are key to the successful delivery of client projects.

Local Procurement and the Supply Chain

We have an active policy of regional procurement. In this way we support the regional economy by a factor of 2.6, our LM3 (local multiplier) figure. This means that in 2010, Esh Group activity contributed over £440m to the regional economy.

A spin off benefit of this policy is to minimise travel time for delivery of supplies so leading to greater savings in CO₂ and a more sustainable supply chain.

Corporate Social Responsibility *(continued)*

Sustainable Procurement

In 2010 84 new vehicles (around 45% of Esh Group's total van fleet) were purchased from three suppliers in deals totalling over £1.4m as part of the revamping of the van fleets in Lumsden & Carroll Construction, Dunelm Property Services, Stephen Easton Building and Wilkinson Facilities Services

Of these, 35 are Ford 'econetic' vehicles, which feature up-to-date fuel efficiency technology, and which our research indicates will lead to average annual fuel savings of at least 25%. At 2010 pump prices this represents a saving of circa £29,000 annually

All the new vehicles are fitted with speed restrictors so leading to further fuel savings and improved Health & Safety

Christmas Gift Giving Campaign

Many clients and suppliers joined our inaugural 'Gift Giving' campaign, launched to celebrate the first anniversary of the completion of our Northumberland headquarters

Presents donated at Cramlington benefitted patients of St Oswald's Hospice, in Newcastle and were delivered by Esh Group staff and members of Newcastle Eagles basketball squad

Staff from Yorkshire Water and Lumsden & Carroll Construction teamed up to donate gifts to the children and young people at Martin House Children's Hospice in Boston Spa near Wetherby

Esh Value Added - Community

Work-Related Learning Programmes

Skill creation has been identified as a critical element in local economic development. Consequently Esh Group has designed and implemented programmes in partnership with the Local Authority and other agencies in an effort to influence the region's training infrastructure

Esh Group Business Club : Spennymoor School

'Learning the Business' was Esh Group's Business Club at Spennymoor School. This pilot scheme promoted the development of partnerships between schools and businesses and the Business Club has continued into 2011 with a condensed programme

Business for Castle View

Working with Northumbrian Water, Esh Group devised a programme to embed business learning throughout the curriculum for all Year 7 students at Castle View Enterprise Academy

The programme began in September 2010 and, through weekly business sessions, runs through the academic year

The scheme involves 40 local businesses, large and small, and is providing six lessons each week over 38 weeks together with nine workplace visits

Esh Connexits

Esh Training Solutions (formerly North East Construction Training) plays a key role in devising and delivering Esh Group's bespoke Work-Related Learning programmes

Working with Connexions, Esh Training Solutions has created and delivered a new training programme aimed at NEET (not in employment, education or training) students

'Esh Connexits' focuses on raising aspirations and leading young people to full time training or work

Corporate Social Responsibility *(continued)*

Future Business Magnates

Set up by Esh, now run by Durham County Council, 'Future Business Magnates' is an enterprising initiative which develops and nurtures productive links between schools and businesses and helps young people to prepare for the world of work

This annual competition provides an excellent insight as real business people help young people gain understanding and experience

The programme has fired young peoples' imaginations, encouraged competitiveness between the schools, fostered great links between schools and businesses and raised awareness among parents and staff of the opportunities of enterprise and business

Work-Related Learning Programmes

Young people are vital to the future of the construction industry The National Construction Academy is a partnership between Newcastle College and Esh Group and has been created in direct response to the difficulties in finding opportunities for apprentices under present market conditions The scheme will put apprentices to work on construction sites throughout the region

Investing in the Community

We are committed to the communities from which we draw our direct workforce and we recognise the impact we have on the local economy and on those communities As a result, Esh Group and its staff are involved in numerous community projects and many local charities benefit from our support

Newcastle Eagles Sponsorship

The Newcastle Eagles' basketball team is widely regarded as the most successful basketball team in British history Our long connection was further consolidated in September 2010 as Esh Group became the team's principal sponsor

Together with partner sponsors, Northumbrian Water and Northumbria University Sports Central, Esh Group is working closely with the Club to support its continued growth and its wide range of community-based programmes

The Newcastle Eagles Wheelchair Basketball Team is supported through the Esh Charitable Trust

Esh Winning Football Club

Esh Group, and its predecessor firms, has supported Esh Winning Football Club since the mid 1970s We are pleased that our continued sponsorship of the Club provides commercial and social links with our home village of Esh Winning

COCO Celebrity Golf Day

Retired Olympic runner, Steve Cram MBE formed COCO (Comrades of Children Overseas) in 2000 The Charity works to build, through education, brighter futures for poverty-stricken children throughout Africa Dunelm Property Services has supported the Celebrity Golf Day for three years This year £15,000 was raised towards COCO's work

Staff Activities

Esh Group staff find their own ways to support the community and numerous charities 2010's efforts included support for Children In Need, Macmillan's "World's Biggest Coffee Morning", Breast Cancer "Wear It Pink" campaign, St Cuthbert's Hospice in Durham and the North East Air Ambulance Service

Esh Charitable Trust

Established in 2005, Esh Charitable Trust continues to benefit young people, lifelong learning, the environment and the local community

An independent Board of Trustees together with the County Durham Community Foundation manages the Trust

Corporate Social Responsibility *(continued)*

Durham County Cricket Club Foundation

Earlier in 2010, Durham County Cricket Club launched the Durham County Cricket Foundation with Esh Charitable Trust as its main community partner

The Foundation aims to inspire and motivate. On an individual basis this involves building self-esteem, raising aspirations and encouraging people to become fitter, healthier and more active. In communities, the Foundation helps to tackle racism, bullying, anti-social behaviour and encourages more to commit to further education.

Grow with Esh

Now in its fourth year, 'Grow with Esh' was awarded a Big Tick at Business in the Community's 2010 Awards and was shortlisted as a National Example of Excellence.

To date 'Grow with Esh' has involved 80 schools, thousands of children, their friends, families and communities, in creating some remarkable gardening projects many of which are sustainable.

Working with 20 primary schools each year, the scheme helps young people across the region to develop horticultural projects in or near their school grounds by providing a 'seed funding' grant.

Each year additional prizes are announced which reward exceptional projects which have engaged pupils and the wider community, provided excellent classroom learning and highlighted issues such as healthy eating and entrepreneurship.

Directors and Advisors

Austin Donohoe, Non Executive Chairman CA

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

Brian Manning, Chief Executive

Brian joined Lumsden & Carroll as General Manager in 1990 and was appointed Managing Director in 1991. Following the formation of Esh Holdings in 1999 Brian became Group Managing Director.

Andy Radcliffe, Financial Director & Company Secretary

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

John Davies, Executive Director

John joined Lumsden & Carroll in 1990 and was appointed Managing Director in 2002. In 2006 he was additionally appointed Executive Director for Esh Group construction stream and in 2009 he became Operations Director for Esh Group contracting companies.

Tony Carroll Snr, Non Executive Director

A Founder Director, Tony formed Lumsden & Carroll in 1970 with Jack Lumsden. Tony is a well-recognised and respected figure among the construction fraternity and was responsible for the business' on-site operations before his retirement.

Freddie Fletcher, Executive Director

Freddie was appointed to the Board in October 2006. Previously Chief Executive and Chairman of Newcastle United plc, Freddie has extensive experience of the house building sector.

Michael Hogan, Non Executive Director

Michael is a founder director. He set up a fencing contracting business in 1970 and later formed Dunelm Homes and Deerness Fencing. In 1999 he formed Dunelm Castle Homes, a joint venture with Lumsden & Carroll. The relationship with Lumsden & Carroll was formalised later that year with the formation of Esh Holdings and Michael was Group Chairman until 2004. Separately, he is a Director of St Cuthbert's Care.

Jack Lumsden, Non-Executive Director

Jack is a Founder Director, forming Lumsden & Carroll with Tony Carroll in 1970. Before his retirement, Jack provided managerial support to the operational side of the business that was handled by Tony.

Jack is a past Regional Chairman (2001-3) of the Civil Engineering Contractors Association North East and is Chairman of Lumsden & Carroll Construction.

John Walker, Non Executive Director

John retired as Chief Executive of English Partnerships in November 2008. He has extensive experience of the property and housing sectors and has held a wide range of directorships throughout his career in both the public and private sectors. In addition to Esh Group John was appointed to the boards of Wynyard Park and Gentoo Group in spring 2009.

Directors and Advisors *(continued)*

Company registration number 03724890

Registered office

Esh House
Bowburn North Industrial Estate
Bowburn
DURHAM
DH6 5PF

Company Secretary

Andrew Radcliffe

Independent auditors

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Quayside House
110 Quayside
NEWCASTLE UPON TYNE
NE1 3DX

Legal Advisors

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Bankers

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HSBC
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National Australia Bank
4 Victoria Place
Manor Road
LEEDS
LS11 5AE

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2010

Principal activities

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

The principal activity of the company is that of holding investments

Business review

A balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and of the position at the end of the year (including key performance indicators) is included in the Chief Executive's Report. 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. The principal risks and uncertainties facing the Group as a whole are discussed below.

Principal risks and uncertainties

The current economic climate provides challenges for businesses across all sectors and we continue to position our business to deal with the risks and uncertainties associated with a general economic downturn. The Chief Executive's Report provides details of business specific risks and uncertainties which operating companies face with the following areas considered to be prevalent across the Group as a whole.

The severity of the housing sector downturn continued to present a significant challenge in 2010 and this sector is likely to be a difficult area for the foreseeable future. We have successfully restructured our housing division and results continue to improve, however, we are mindful the market remains uncertain. The widely reported economic downturn is expected to present problems in other sectors and affect other areas of our business which will test our business model. Esh Group has a diverse client base across most sectors of the economy and is geared to be flexible in arranging its resources to the best advantage. This flexibility will be a key element in reducing the risk in a general downturn by maximising opportunities within the stronger areas of our business.

Financial instruments

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

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

Interest rate risk

The Group finances its operations through a mixture of retained profits, share capital, bank borrowings and finance leases. The Group's principal borrowings comprise ring-fenced bank loans in Dunelm Homes. In January 2011 Dunelm Homes took out an interest rate cap arrangement which effectively limits the overall interest rate payable, on approximately 77% of these borrowings, to 4%. The group's finance lease borrowings are at fixed interest rates.

Directors' report *(continued)*

Liquidity risk

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

Dunelm Homes successfully renewed its banking facilities on 31 December 2010. The facility has a two year term ending 31 December 2012. The business is performing well against all of the covenants within the facility. As with the previous bank facility, the borrowings are discrete to Dunelm Homes Limited and, with the exception of Dunelm (Bowburn) Limited, are not subject to any cross guarantee or security over the assets of any other Group companies.

At 31 December 2010 the Group also had cash at bank and in hand of £28.1m which is expected to be more than sufficient to fund the Group's future working capital needs.

Proposed dividends

The directors have proposed final dividends in respect of the current financial year of £1,797,000. These have not been included within creditors as they were not approved before the year end.

Dividends paid during the year comprise final dividends of £1,241,000 in respect of the previous year ended 31 December 2009.

Further details of dividends are included in note 9.

Market value of land

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

Directors

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

AJ Carroll	
J Davies	(appointed 9 August 2011)
A Donohoe	
AO Fletcher	
MF Hogan	
JG Lumsden	
B Manning	
AE Radcliffe	(appointed 25 October 2010)
JR Walker	
AR Pickett	(resigned 25 October 2010)

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

Directors' report *(continued)*

Employees

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

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

Political and charitable contributions

Neither the Company nor any of its subsidiaries made any political contributions during the year. Donations to UK charities amounted to £7,000 (2009 £19,085). The Group contributed £100,000 to the Esh Charitable Trust in January 2011.

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


A Radcliffe
Company Secretary

Esh House
Bowburn North Industrial Estate
Bowburn
Durham
DH6 5PF

16 September 2011

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Esh Holdings Limited

We have audited the financial statements of Esh Holdings Limited for the year ended 31 December 2010 set out on pages 23 to 50. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Esh Holdings Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Paul Moran (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

16 September 2011

Consolidated Profit and Loss Account
for the year ended 31 December 2010

	Note	Before exceptional items £000	Exceptional items (note 3) £000	2010 Total £000	Before exceptional items £000	Exceptional items (note 3) £000	2009 Total £000
Turnover Group and share of joint ventures		169,266	-	169,266	134,092	-	134,092
Less share of joint ventures' turnover		(959)	-	(959)	(1,121)	-	(1,121)
Group turnover	2	168,307	-	168,307	132,971	-	132,971
Cost of sales	3	(154,267)	(3,163)	(157,430)	(117,066)	(3,009)	(120,075)
Gross profit/(loss)		14,040	(3,163)	10,877	15,905	(3,009)	12,896
Administrative expenses		(8,121)	-	(8,121)	(10,177)	-	(10,177)
Group operating profit/(loss)		5,919	(3,163)	2,756	5,728	(3,009)	2,719
Share of operating loss in joint ventures				(266)			(356)
Total operating profit				2,490			2,363
Profit/(loss) on sale of fixed assets				452			(2)
Impairment of fixed asset investments	13			(975)			-
Interest receivable and similar income	6			252			252
Interest payable and similar charges							
- Group	7			(1,764)			(2,266)
- Joint Ventures				(5)			(8)
Profit on ordinary activities before taxation	3-5			450			339
Tax on profit on ordinary activities	8			(420)			(95)
Profit on ordinary activities after taxation				30			244
Minority interests	21			15			(24)
Profit for the financial year	20			45			220

All results derive from continuing activities

Consolidated Balance Sheet at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets	10	168	200
Tangible assets	11	13,169	12,578
Investment properties	12	1,095	1,095
Investments	13		
Investments in joint ventures			
Share of gross assets		2,318	4,600
Share of gross liabilities		(2,269)	(3,752)
		<u>49</u>	<u>848</u>
Loans to joint ventures		2,058	2,353
Other investments		-	838
		<u>2,107</u>	<u>4,039</u>
		<u>16,539</u>	<u>17,912</u>
Current assets			
Stocks	14	30,373	45,473
Debtors	15	29,070	21,387
Cash at bank and in hand		28,063	18,061
		<u>87,506</u>	<u>84,921</u>
Creditors' amounts falling due within one year	16	<u>(38,187)</u>	<u>(65,124)</u>
Net current assets		<u>49,319</u>	<u>19,797</u>
Total assets less current liabilities		<u>65,858</u>	<u>37,709</u>
Creditors: amounts falling due after more than one year	17	<u>(32,979)</u>	<u>(3,707)</u>
Provisions for liabilities	18	<u>(123)</u>	<u>(35)</u>
Net assets		<u>32,756</u>	<u>33,967</u>
Capital and reserves			
Called up share capital	19	24,866	24,866
Share premium account	20	313	313
Revaluation reserve	20	18	18
Capital redemption reserve	20	212	212
Employment benefit trust reserve	20	(588)	(686)
Profit and loss account	20	7,291	8,585
		<u>32,112</u>	<u>33,308</u>
Shareholders' funds		<u>32,112</u>	<u>33,308</u>
Minority interests	21	644	659
Equity		<u>32,756</u>	<u>33,967</u>

These financial statements were approved by the board of directors on 16 September 2011 and were signed on its behalf by

A Donohoe

Non-Executive Chairman




Company registered number 03724890

Company Balance Sheet
at 31 December 2010

	<i>Note</i>	2010	2009
		£000	£000
Fixed assets			
Tangible assets	11	6,869	6,911
Investment properties	12	331	331
Investments	13	16,047	26,783
		<u>23,247</u>	<u>34,025</u>
Current assets			
Debtors	15	5,499	2,139
Cash at bank		10,756	6,289
		<u>16,255</u>	<u>8,428</u>
Creditors' amounts falling due within one year	16	<u>(10,355)</u>	<u>(12,136)</u>
Net current assets/(liabilities)		<u>5,900</u>	<u>(3,708)</u>
Total assets less current liabilities		<u>29,147</u>	<u>30,317</u>
Creditors: amounts falling due after more than one year	17	(2,975)	(3,241)
Provisions for liabilities	18	(154)	(171)
Net assets		<u>26,018</u>	<u>26,905</u>
Capital and reserves			
Called up share capital	19	24,866	24,866
Share premium account	20	313	313
Capital redemption reserve	20	212	212
Employee benefit trust reserve	20	(588)	(686)
Profit and loss account	20	1,215	2,200
Shareholders' funds		<u>26,018</u>	<u>26,905</u>

These financial statements were approved by the board of directors on 16 September 2011 and were signed on its behalf by



A Donohoe
Non-Executive Chairman

Company registered number 03724890

Consolidated Cash Flow Statement
for the year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Group operating profit		2,756	2,719
Depreciation, amortisation and impairment charges		2,055	2,101
Decrease in stocks		15,100	13,043
(Increase)/decrease in debtors		(7,785)	1,470
Increase/(decrease) in creditors		7,265	(917)
Net cash inflow from operating activities		19,391	18,416
Returns on investments and servicing of finance	25	(1,517)	(2,118)
Taxation		(30)	1,243
Capital expenditure	25	950	(2,164)
Dividends paid on shares classified in shareholders' funds		(1,241)	-
Cash inflow before financing		17,553	15,377
Financing	25	(7,530)	(11,423)
Increase in cash in the year		10,023	3,954
		2010 £000	2009 £000
Reconciliation of Net Cash Flow to Movement in Net Debt	26		
Increase in cash in the year		10,023	3,954
Cash outflow from decrease in debt and lease financing		7,530	11,423
Change in net debt resulting from cash flows		17,553	15,377
New finance leases		(2,405)	(237)
Movement in net debt in the year		15,148	15,140
Net debt at the start of the year		(22,520)	(37,660)
Net debt at the end of the year		(7,372)	(22,520)

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit for the financial year		
Group	301	575
Share of joint ventures	(256)	(355)
Loss on revaluation of investment properties	-	(45)
Total recognised gains and losses relating to the financial year	45	175

Reconciliations of Movements in Shareholders' Funds
for the year ended 31 December 2010

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Profit/(loss) for the financial year	45	220	354	(649)
Dividends on shares classified in shareholders' funds	(1,241)	-	(1,241)	-
Retained (loss)/profit	(1,196)	220	(887)	(649)
Loss on revaluation of investment properties	-	(45)	-	-
Net (reduction in)/addition to shareholders' funds	(1,196)	175	(887)	(649)
Opening shareholders' funds	33,308	33,133	26,905	27,554
Closing shareholders' funds	32,112	33,308	26,018	26,905

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investment properties

Going concern

Further information on the Group's business activities, together with factors likely to affect its future development are set out in the Chairman's Report, the Chief Executive's Report and the Directors' Report

The Group recorded a profit on ordinary activities before taxation for the year of £0.5m. This includes an exceptional charge of £3.2m arising on land write downs in the Group's housebuilding subsidiary, Dunelm Homes Limited (note 3). Excluding exceptional charges the Group recorded an operating profit of £5.9m.

The bank borrowings of Dunelm Homes Limited, which total £29.1m at the end of the year, are discrete to Dunelm Homes Limited and secured on the assets of Dunelm Homes Limited and by means of a cross guarantee over the assets of Dunelm (Bowburn) Limited. These bank borrowings are not subject to any cross guarantees or security over the assets of any other Group companies. Neither are there any other financial guarantees provided by the other Group companies to Dunelm Homes Limited.

At the end of the year the Group had cash at bank of £28.1m and bank and finance debt of £35.4m, with £29.1m of this debt relating to the bank borrowings of Dunelm Homes Limited. Details of the Group's borrowings are included in notes 16 and 17.

Going concern – Dunelm Homes Limited

Dunelm Homes Limited's revolving credit bank loan facilities were due for renewal on 17 October 2010. Following an agreed extension period to allow for an appropriate period of discussions, on 31 December 2010 these facilities were further extended through until 31 December 2012. This has the effect of reclassifying all but £1.0m of the bank debt as non-current at the balance sheet date. These facilities include financial covenants more appropriate to the current levels of trading and current asset values. Covenants are structured around four main requirements, 1) maintaining loan to value levels, 2) senior interest cover levels, 3) sales units, and 4) sales volumes. At the time of approval of these financial statements the company is performing well against these quarterly covenants and overall performance is ahead of target. Reservations and completions of houses to date are being taken at levels that suggest that the company should be able to continue to meet its banking covenants throughout the rest of the year, although market conditions remain challenging. These banking covenants are however flexed throughout the year and become more demanding towards the end of the financial year.

At the date of approval of these financial statements, Dunelm Homes Limited is in full compliance with the covenants attached to the current bank facility.

On 30 December 2010, Esh Holdings Limited converted £5.0m of debt due from Dunelm Homes Limited into issued ordinary share capital and waived another amount of £14.0m. This debt waiver has been accounted for as a capital contribution in the financial statements of Dunelm Homes Limited. These two transactions in aggregate result in a net increase of £19.0m in Dunelm Homes Limited's equity and a corresponding increase in the company's net current asset position. Esh Holdings Limited has indicated that it may be prepared to provide additional financial support to the company if this was required. However, as with any company placing reliance on other group entities for financial support, the directors of Dunelm Homes Limited acknowledge that there can be no certainty that this support will be forthcoming.

Notes (continued)

1 Accounting policies (continued)

Going concern – Dunelm Homes Limited (continued)

Dunelm Homes Limited generally meets its day to day working capital requirements through its bank loan facility. The directors of Dunelm Homes Limited have prepared detailed projected cash flow information for the period through until December 2012. These projections take into account selling price, unit sale volume, sales mix and build cost variations to an extent that they believe to be reasonable, based on information available at the time of approval of these financial statements. This bank loan facility is secured by a debenture over the assets of the company and a charge over its freehold land held for housing development. It is also secured by means of a cross guarantee over the assets of the company's subsidiary undertaking, Dunelm (Bowburn) Limited.

On the basis of this cash flow information and the current trading conditions the directors believe Dunelm Homes Limited will itself be able to operate within the new bank loan facility, including the covenants which are contained therein, through until 31 December 2012 when the current facility expires.

The forecasts also assume that ongoing bank loan facilities will continue to be available to Dunelm Homes Limited from 31 December 2012. The bank loan facility that was put in place on 31 December 2010 is for a 2 year period and the position will again be re-assessed in December 2012 when the bank loan facility comes up for renewal. The repayment terms of the bank facility are disclosed more fully in note 17 to the financial statements and include a maximum £25.0m being payable on 31 December 2012. Dunelm Homes Limited's ability to successfully refinance will depend on factors including but not limited to, the level of borrowings that the Dunelm Homes Limited will require, expectations for the housing market, conditions in the credit market and the financial performance of Dunelm Homes Limited at that time. As the current facility has just been put in place at the year end the directors of Dunelm Homes Limited have not as yet entered into detailed discussions about the 31 December 2012 refinancing but have no reason to believe that such a refinancing will not be forthcoming when it falls due.

After making enquiries and considering the above issues in detail, and whilst accepting that there are certain levels of risk associated with the above issues, the directors consider and have concluded that Dunelm Homes Limited will have adequate resources to continue in operation for the foreseeable future.

Going concern – Group companies other than Dunelm Homes Limited

The majority of the remaining Group undertakings, including the Parent Company, Esh Holdings Limited, but excluding Dunelm Homes Limited and Dunelm (Bowburn) Limited, are subject to Group cross guaranteed banking arrangements. The remainder of the Group trades with a large number of customers and suppliers across a number of sectors and expect to meet their day to day working capital requirements through existing considerable cash reserves, which totalled £26.8m at the year end, and ongoing trade which remains profitable.

The directors have prepared detailed projected cash flow information for the Group, excluding Dunelm Homes Limited, for the period through until 31 December 2012. These projections take into account such variations to an extent which they believe to be reasonable, based on information available at the time of approval of these financial statements. The forecasts assume no significant cash inflows or outflows between Dunelm Homes Limited and the remainder of the Group. On the basis of this cash flow information the directors believe that the Group, excluding Dunelm Homes Limited, will be able to operate comfortably within available cash reserves and banking facilities. As such the Group companies, excluding Dunelm Homes Limited, can demonstrate that they will have adequate resources to continue in operation for the foreseeable future.

Going concern – Group

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

Notes (continued)

1 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2010. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

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

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

Goodwill and negative goodwill

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

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

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

Investments

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

Tangible fixed assets and depreciation

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

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

No depreciation is provided on freehold land.

Investment properties

In accordance with Statement of Standard Accounting Practice No 19:

- a) Investment properties are revalued annually at open market values. All surpluses and deficits arising on valuation are taken directly to revaluation reserve except that any permanent diminution in the value of an investment property is taken to the profit and loss account for the year, and
- b) No depreciation is provided in respect of freehold investment properties.

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

Notes (continued)

1 Accounting policies (continued)

Impairment of fixed assets and goodwill excluding investment properties

The carrying amounts of the Group's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Otherwise impairments are recognised in the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed on intangible assets and goodwill only if subsequent external events reverse the effect of the original event which caused the recognition of the impairment or the loss arose on an intangible asset with a readily ascertainable market value and that market value has increased above the impaired carrying amount. For other fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Government grants

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

Leases

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

Post retirement benefits

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

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

Notes (continued)

1 Accounting policies (continued)

Stocks

a) *Housebuilding stocks and work in progress*

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

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

b) *Other stocks*

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

Long term contracts

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

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

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

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

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

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

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

Turnover

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

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

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

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

Own shares held by Employee Benefit Trust

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

Dividends on shares presented within shareholders' funds

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

Cash and liquid resources

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

Notes (continued)

2 Analysis of turnover

All turnover arises in the United Kingdom from the following activities

	2010 £000	2009 £000
Construction	78,332	62,316
Housing and land	21,545	12,585
Property services	67,087	56,925
Business support	1,343	1,145
Group turnover	<u>168,307</u>	<u>132,971</u>

3 Notes to the profit and loss account

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	1,360	1,100
Leased	663	961
Amortisation of goodwill	32	40
Hire of plant and machinery – operating leases	3,189	2,739
Hire of other assets – operating leases	1,129	1,054
Exceptional charge – land write downs (see below)	3,163	3,009
	<u> </u>	<u> </u>
	2010 £000	2009 £000
<i>Auditors' remuneration</i>		
Audit of these financial statements	23	25
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	125	140
	<u> </u>	<u> </u>

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis

Exceptional item – land and work in progress write downs

A full review of inventories held in Dunelm Homes Limited, a Group undertaking engaged in housebuilding, has been carried out in both 2010 and 2009. Write downs have been made where cost exceeds net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Estimated selling prices have been reviewed on a site by site basis and selling prices have been reduced based on an assessment of current market conditions. Those site reviews resulted in land write downs of £3,163,000 (2009: £3,009,000) which have been classified as exceptional items. The tax effect of the exceptional item is to reduce the group's tax charge by £886,000 (2009: £843,000).

Notes (continued)

4 Remuneration of directors

	2010 £000	2009 £000
Directors' emoluments	682	508
Company contributions to money purchase pension schemes	53	41
	<u>735</u>	<u>549</u>

The aggregate emoluments of the highest paid director were £208,000 (2009 £225,000), and company pension contributions of £18,000 (2009 £18,000) were made to a money purchase scheme on his behalf

	Number of directors 2010	2009
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	<u>3</u>	<u>3</u>

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

5 Staff numbers and costs

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

	Number of employees 2010	2009
Production staff	630	707
Administrative staff	322	208
	<u>952</u>	<u>915</u>

The aggregate payroll costs of these persons were as follows

	2010 £000	2009 £000
Wages and salaries	27,398	25,384
Social security costs	2,488	2,356
Other pension costs (note 24)	666	597
	<u>30,552</u>	<u>28,337</u>

6 Interest receivable and similar income

	2010 £000	2009 £000
Bank interest	<u>252</u>	<u>252</u>

Notes (continued)

7 Interest payable and similar charges

	2010 £000	2009 £000
On bank loans and overdrafts	1,670	1,982
On all other loans	-	75
Finance charges payable in respect of finance leases and hire purchase contracts	94	209
	<u>1,764</u>	<u>2,266</u>

8 Taxation

Analysis of charge/(credit) in the year

	2010 £000	2009 £000
<i>UK corporation tax</i>		
Current tax on income for the year	350	130
Adjustments in respect of prior years	(3)	(132)
	<u>347</u>	<u>(2)</u>
Share of joint ventures' current tax	(15)	(9)
Total current tax	<u>332</u>	<u>(11)</u>
<i>Deferred tax (see note 18)</i>		
Origination/reversal of timing differences	88	106
Effect of decreased tax rate	-	-
Total deferred tax	<u>88</u>	<u>106</u>
Tax on profit on ordinary activities	<u>420</u>	<u>95</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2009 credit lower) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	450	339
Current tax at 28% (2009 28%)	<u>126</u>	<u>95</u>
Capital allowances for period in excess of depreciation	(60)	(69)
Other timing differences	46	66
Expenses not deductible for tax purposes	223	32
Other items	-	(3)
Adjustments to tax charge in respect of previous periods	(3)	(132)
Total current tax (see above)	<u>332</u>	<u>(11)</u>

Notes (continued)

8 Taxation (continued)

Factors that may affect future current and total tax charges

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax liability of approximately £5,000. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reduction from 27% to 23%, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax liability by approximately £14,000.

9 Dividends

The aggregate amount of dividends paid in the year comprises

	2010 £000	2009 £000
Redeemable ordinary shares of £1 each		
Final dividends paid in respect of prior year but not recognised as liabilities in that year	414	-
Preference shares of £1 each		
Final dividend paid in respect of prior year but not recognised as liabilities in the year	827	-
	<u>1,241</u>	<u>-</u>

The aggregate amount of dividends proposed and not recognised as liabilities at the year end is £1,797,000 (2009 £1,241,000). Of this amount £754,000 relates to the Redeemable ordinary shares of £1 each and £1,043,000 relates to the Preference shares of £1 each.

10 Intangible fixed assets

Group	Goodwill £000	Negative goodwill £000	Total £000
Cost			
At beginning and end of year	965	(52)	913
Amortisation			
At beginning of year	765	(52)	713
Charged in year	32	-	32
At end of year	797	(52)	745
Net book value			
At 31 December 2010	168	-	168
At 1 January 2010	200	-	200

Notes (continued)

10 Intangible fixed assets (continued)

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

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

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

The Company has no intangible fixed assets.

11 Tangible fixed assets

Group	Freehold land and buildings £000	Leasehold properties £000	Plant and machinery £000	Total £000
Cost				
At beginning of year	6,405	21	13,699	20,125
Additions	16	-	3,276	3,292
Disposals	-	-	(1,957)	(1,957)
At end of year	6,421	21	15,018	21,460
Depreciation				
At beginning of year	57	16	7,474	7,547
Charge for year	44	2	1,977	2,023
On disposals	-	-	(1,279)	(1,279)
At end of year	101	18	8,172	8,291
Net book value				
At 31 December 2010	6,320	3	6,846	13,169
At 1 January 2010	6,348	5	6,225	12,578

Included in the total net book value of plant and machinery is £2,637,000 (2009 £2,143,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets is disclosed in note 3.

Notes (continued)

11 Tangible fixed assets (continued)

Company	Freehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At beginning of year	6,298	1,491	7,789
Additions	104	200	304
Disposals	-	(101)	(101)
At end of year	6,402	1,590	7,992
Depreciation			
At beginning of year	57	821	878
Charge for year	44	266	310
On disposals	-	(65)	(65)
At end of year	101	1,022	1,123
Net book value			
At 31 December 2010	6,301	568	6,869
At 1 January 2010	6,241	670	6,911

Included in the total net book value of plant and machinery is £45,000 (2009 £81,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £14,000 (2009 £23,000).

12 Investment properties

Group	Cost £000	Revaluation surplus £000	Valuation £000
At beginning and end of year	1,034	61	1,095

Notes (continued)

12 Investment properties (continued)

Company	Cost and valuation £000
At beginning and end of year	331

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

In accordance with SSAP 19 'Investment properties' the above properties are not being depreciated

All investment properties are freehold

13 Fixed asset investments

Group	Shares in joint ventures £000	Loans to joint ventures £000	Shares in participating interests £000	Loans to participating interests £000	Total £000
Cost					
At beginning of year	1,275	2,378	600	238	4,491
Additions	-	230	-	137	367
Repayments	-	(525)	-	-	(525)
Disposals	(554)	(25)	-	-	(579)
At end of year	721	2,058	600	375	3,754
Share of post acquisition reserves					
At beginning of year	(427)	-	-	-	(427)
Retained profits less losses	(256)	-	-	-	(256)
Disposals	11	-	-	-	11
At end of year	(672)	-	-	-	(672)
Provisions					
At beginning of year	-	(25)	-	-	(25)
Impairment losses	-	-	(600)	(375)	(975)
Disposals	-	25	-	-	25
At end of year	-	-	(600)	(375)	(975)
Net book value					
At 31 December 2010	49	2,058	-	-	2,107
At 1 January 2010	848	2,353	600	238	4,039

Notes (continued)

13 Fixed asset investments (continued)

Company	Shares in group undertakings £000	Loans to subsidiaries £000	Shares in joint ventures £000	Loans to joint ventures £000	Shares in participating interests £000	Loans to participating interests £000	Total £000
Cost							
At beginning of year	10,449	22,939	1,275	2,378	600	238	37,879
Additions	-	-	-	227	-	137	364
Recapitalisation of subsidiary	19,000	(19,000)	-	-	-	-	-
Disposals	(1,621)	(2,457)	(686)	(1,307)	-	-	(6,071)
Reclassified to current assets	-	(1,150)	-	-	-	-	(1,150)
At end of year	27,828	332	589	1,298	600	375	31,022
Provisions							
At beginning of year	-	10,730	-	366	-	-	11,096
Impairment losses	-	3,270	-	-	600	375	4,245
Transfers	14,000	(14,000)	-	-	-	-	-
Disposals	-	-	-	(366)	-	-	(366)
At end of year	14,000	-	-	-	600	375	14,975
Net book value							
At 31 December 2010	13,828	332	589	1,298	-	-	16,047
At 1 January 2010	10,449	12,209	1,275	2,012	600	238	26,783

All of the above are recorded at cost

The directors have conducted a review of the carrying value of the Company's investments in subsidiary undertakings. Where the estimated recoverable value of the Company's investments was less than its carrying value an impairment charge has been recorded. Recoverable amounts are based on value in use and the key assumptions applied in the value in use calculation include a discount rate of 10% and approved cash flow forecasts to 31 December 2012. These projected cash flows assume no growth from year 3 of the forecasts through into perpetuity. An impairment charge of £3,270,000 has been recognised in 2010. This impairment relates entirely to the Company's investment in Dunelm Homes Limited.

On 30 December 2010 £19.0m of the company's loans to Dunelm Homes Limited were capitalised. £5.0m of this represents an increase in share capital and £14.0m was converted into a capital contribution.

Notes (continued)

13 Fixed asset investments (continued)

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

	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings		
Lumsden & Carroll Construction Limited	100%	Civil engineering and building contractor
Sones Maintenance & Environmental Limited	100%	Landscaping contractor
Deerness Fencing Limited	100%	Fencing contractor
Esh Developments Limited ¹	100%	Land and property development
Bartram Walker Limited	100%	Mechanical, electrical and plumbing contractor
Dunelm Homes Limited	100%	Housebuilder
Philadelphia Estates Limited	*100%	Property letting
	+30%	
Philadelphia Properties Limited ¹	*100%	Property letting
	+30%	
Mechplant (North East) Limited	80%	Plant hire
Tursdale Business Park Limited	41%	Property letting
NE Construction Training Limited	100%	Construction training
Dunelm Property Services Limited	100%	Social housing – refurbishment of new build
Terry Robson Limited	100%	Non-trading
Bartram Robson Walker Street Lighting Limited ¹	100%	Electrical contractor
Dunelm Acorn Homes Limited ¹	100%	Housebuilder
Dunelm Lifestyle Homes Limited	100%	Housebuilder
Stephen Easten Building Limited ¹	100%	Commercial builder
Wilkinson Facilities Services Limited ¹	100%	Property and Facilities Management
Esh Communities Limited	100%	Non trading
Esh Education Limited	100%	Non trading
Lumsden & Carroll Northern Limited ¹	100%	Commercial builder
Dunelm Facility Services Limited ¹	100%	Non trading
Lumsden & Carroll Utilities Limited ¹	90%	Civil engineering
Dunelm Bowburn Limited (incorporated 9 April 2010)	100%	Land and property development
Green Energies Limited (incorporated 9 January 2010)	100%	Mechanical, electrical and plumbing
ABC Rental Properties Limited	100%	Property letting
Dunelm Homes (Seaham) Limited	100%	Housebuilder
Joint ventures		
Esh Energy Limited	49%	Renewable energy
Pure Renewable Energies Limited ¹	44%	Renewable energy
Bardon Esh Recycling Limited	*50%	Waste disposal and recycling
	+49%	
J Tonks (Transport) Limited ¹	*50%	Waste management
	+49%	
Stapleton Esh Limited ¹	50%	Dormant
Micropump (NE) Limited	50%	Plant hire
Banks Esh Limited	50%	Property developing
Holborn Regeneration LLP	50%	Property development
Participating interests		
Esh Space The Park Limited	15%	Property development

*voting +equity ¹investment held indirectly

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

Notes (continued)

14 Stocks

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Raw materials and consumables	17,794	19,945	-	-
Work in progress	12,579	25,528	-	-
	<u>30,373</u>	<u>45,473</u>	<u>-</u>	<u>-</u>

Stocks at the year end are stated after charging an exceptional write-down of land and work in progress in Dunelm Homes Limited of £3,163,000 (2009 £3,009,000) (note 3)

15 Debtors

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade debtors	11,449	9,374	32	28
Amounts recoverable on contracts	14,725	8,284	-	-
Amounts owed by group undertakings	-	-	3,260	1,484
Amounts owed by undertakings in which the Company has a participating interest	119	343	77	68
Corporation tax recoverable	-	99	178	250
Other debtors	2,150	2,420	1,666	222
Prepayments and accrued income	627	867	286	87
	<u>29,070</u>	<u>21,387</u>	<u>5,499</u>	<u>2,139</u>

Included in Group trade debtors is £1,239,000 (2009 £1,139,000) due after more than one year

16 Creditors: amounts falling due within one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank loans and overdrafts (note 17)	1,250	35,705	250	241
Obligations under finance leases and hire purchase contracts (note 17)	1,206	1,169	15	17
Payments received on account	2,918	3,478	-	-
Trade creditors	8,145	6,923	205	477
Amounts owed to group undertakings	-	-	9,092	10,865
Amounts owed to undertakings in which the Company has a participating interest	114	99	5	1
Corporation tax	203	-	-	-
Other taxation and social security	2,772	2,552	392	111
Other creditors	440	833	18	1
Accruals and deferred income	21,139	14,365	378	423
	<u>38,187</u>	<u>65,124</u>	<u>10,355</u>	<u>12,136</u>

Notes (continued)

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank loans	31,299	3,211	2,961	3,211
Other loans	50	50	-	-
Obligations under finance leases and hire purchase contracts	1,630	446	14	30
	<u>32,979</u>	<u>3,707</u>	<u>2,975</u>	<u>3,241</u>

Analysis of debt

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Debt can be analysed as falling due				
In one year or less, or on demand	2,456	36,874	265	258
Between one and two years	29,472	651	274	278
Between two and five years	1,602	868	845	825
In five years or more	1,905	2,188	1,856	2,138
	<u>35,435</u>	<u>40,581</u>	<u>3,240</u>	<u>3,499</u>

Amounts repayable in more than five years

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Loan from directors' of Mechplant (North East) Ltd	50	50	-	-
Secured bank loans	1,855	2,138	1,866	2,138
	<u>1,905</u>	<u>2,188</u>	<u>1,866</u>	<u>2,138</u>

On 31 December 2010 Dunelm Homes Limited's bank loan credit facilities were further extended through to 31 December 2012. Under the new facility the following capital repayments fall due:

31 October 2011	£1,000,000
31 January 2012	£3,000,000
31 October 2012	£1,000,000
30 November 2012	£1,500,000

The remaining outstanding balance is due on a final repayment date of 31 December 2012.

Dunelm Homes Limited's bank loan facility is secured by a debenture over the assets of Dunelm Homes Limited and a charge over its freehold land held for housing development. It is also secured by means of a cross guarantee over the assets of the company's subsidiary undertaking, Dunelm (Bowburn) Limited. The bank facility carries interest at 3% over LIBOR. In January 2011 Dunelm Homes Limited took out an interest rate cap arrangement which effectively limits the overall interest rate payable on approximately 77% of the bank loan to 4%.

These banking facilities are secured by fixed and floating charges over the assets of Dunelm Homes Limited and are not secured on any other group assets.

Notes (continued)

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

The loan from the directors of Mechplant (North East) Limited is unsecured and interest free

The Company secured bank loan is repayable in quarterly instalments of £73,588 including capital and interest. The loan will be fully repaid by 2014, and is secured on Esh House, Bowburn. Interest is payable at 0.75% above the base rate.

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Within one year	1,260	1,268	16	18
In the second to fifth years	1,693	444	15	33
	<u>2,953</u>	<u>1,712</u>	<u>31</u>	<u>51</u>
Less future finance charges	(117)	(97)	(2)	(4)
	<u>2,836</u>	<u>1,615</u>	<u>29</u>	<u>47</u>

18 Deferred taxation

	Group £000	Company £000
At beginning of year	35	171
Charge/(credit) to the profit and loss for the year	88	(17)
	<u>123</u>	<u>154</u>
At end of year	<u>123</u>	<u>154</u>

The elements of deferred taxation are as follows

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Difference between accumulated depreciation and amortisation and capital allowances	123	37	154	171
Other timing differences	-	(2)	-	-
	<u>123</u>	<u>35</u>	<u>154</u>	<u>171</u>

Notes (continued)

19 Called up share capital

	2010		2009	
	Number of shares	£000	Number of shares	£000
Authorised				
Non-voting ordinary shares of 0.1p each	14,000,000	14	14,000,000	14
Variable dividend ordinary shares of £1 each	14,400,000	14,400	14,400,000	14,400
Preference shares of £1 each	7,350,000	7,350	7,350,000	7,350
Redeemable ordinary shares of £1 each	7,000,000	7,000	7,000,000	7,000
	42,750,000	28,764	42,750,000	28,764
	2010		2009	
	Number of shares	£000	Number of shares	£000
Allotted, called up and fully paid				
Non-voting ordinary shares of 0.1p each	9,487,030	9	9,487,030	9
Variable dividend ordinary shares of £1 each	14,286,791	14,287	14,286,791	14,287
Preference shares of £1 each	6,133,396	6,133	6,133,396	6,133
Redeemable ordinary shares of £1 each	4,437,094	4,437	4,437,094	4,437
	34,344,311	24,866	34,344,311	24,866

Preference shares of £1 each

Shareholders are entitled to dividends as may be declared by the Board subject to such dividend taking priority over all classes of dividend other than the redeemable ordinary shares. They are not entitled to vote unless resolutions relate to changes in share capital. On liquidation, return of assets or winding up they are entitled to payment of £1 per share. They are redeemable only at the option of the company.

Variable dividend ordinary shares

Shareholders are entitled to such dividend as declared by Board. Not entitled to vote unless resolutions relate to changes in share capital. On return of assets, liquidations or winding up entitled to payment of £1.50 per share.

Non-voting ordinary shares

Shareholders are entitled to such dividend as may be declared by the Board. Not entitled to vote unless resolutions relate to changes in share capital. 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.

Redeemable ordinary shares of £1 each

Redeemable at company's option only. Shareholders are entitled to dividends as may be declared by the Board, such dividend taking priority over all other classes of dividend but being limited to a maximum of £1 per share. Entitled to vote at all meetings. On return of assets, liquidation or winding up entitled to amount paid up on shares.

Notes (continued)

20 Share premium and reserves

Group	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Employment benefit trust reserve £000	Profit and loss account £000
At beginning of year	313	18	212	(686)	8,585
Profit for the year	-	-	-	-	45
Dividends on shares classified in shareholders' funds	-	-	-	-	(1,241)
Transfers	-	-	-	98	(98)
At end of year	<u>313</u>	<u>18</u>	<u>212</u>	<u>(588)</u>	<u>7,291</u>

Company	Share premium account £000	Capital redemption reserve £000	Employment benefit trust reserve £000	Profit and loss account £000
At beginning of year	313	212	(686)	2,200
Profit for the year	-	-	-	354
Dividends on shares classified in shareholders' funds	-	-	-	(1,241)
Transfers	-	-	98	(98)
At end of year	<u>313</u>	<u>212</u>	<u>(588)</u>	<u>1,215</u>

The Company's profit for the financial year was £354,000 (2009 loss £649,000)

Employee Benefit Trust (EBT)

At the end of the year the EBT held 228,599 preference shares of £1 each (2009 228,599), 6,507 non-voting shares of 0.1p each (2009 70,207) and 237,709 voting ordinary shares of £1 each (2009 237,709) at a combined cost of £588,336 (2009 £685,909)

During the year the company issued 63,700 non-voting shares of 0.1p each

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

21 Minority interests

	Group £000
At beginning of year	659
Share of loss for year	(15)
At end of year	<u>644</u>

Notes (continued)

22 Contingent liabilities

The Group has a composite banking arrangement. All indebtedness incurred by Group companies is secured by a Parent Company cross guarantee enabling credit balances within the Group to be offset against debit balances elsewhere in the Group. The total indebtedness at the year end under this arrangement was £nil (2009 £nil).

The Company is party to a Group composite arrangement with certain of the companies in the Esh group under which overdrafts and cash balances can be offset. The total Group liability and Group net overdraft at 31 December 2010 amounted to £855,361 (2009 £913,951). The composite arrangement does not include Dunelm Homes Limited which has its own discrete banking arrangements.

23 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Operating leases which expire				
Within one year	44	1	107	51
In the second to fifth years inclusive	-	6	34	3
	<u>44</u>	<u>7</u>	<u>141</u>	<u>54</u>

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 £666,000 (2009 £597,000).

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

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 £94,000 (2009 £78,000).

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

Notes (continued)

25 Analysis of cash flows

	2010 £000	2009 £000
Returns on investment and servicing of finance		
Interest received	252	252
Interest paid	(1,675)	(2,065)
Interest element of finance lease rental payments	(94)	(209)
Dividends paid to minority interest	-	(96)
	<u>(1,517)</u>	<u>(2,118)</u>
Capital expenditure		
Purchase of tangible fixed assets	(887)	(2,797)
Sale of tangible fixed assets	704	799
Loans to joint ventures and participating interests	(367)	(220)
Return of loans to joint ventures	525	54
Sale of fixed asset investments	975	-
	<u>950</u>	<u>(2,164)</u>
Financing		
Repayment in bank borrowings	(6,346)	(9,284)
Capital element of finance lease rental payments	(1,184)	(2,139)
	<u>7,530</u>	<u>(11,423)</u>

26 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non cash changes £000	At end of year £000
Cash in hand, and bank	18,061	10,002	-	28,063
Overdrafts	(21)	21	-	-
	<u>18,040</u>	<u>10,023</u>	<u>-</u>	<u>28,063</u>
Debt due after one year	(3,261)	-	(28,088)	(31,349)
Debt due within one year	(35,684)	6,346	28,088	(1,250)
Finance leases	(1,615)	1,184	(2,405)	(2,836)
	<u>(22,520)</u>	<u>17,553</u>	<u>(2,405)</u>	<u>(7,372)</u>

The non cash change of £28.1m arises as a result of the renegotiation of the Dunelm Homes Limited bank loan on 31 December 2010 (note 17). The non cash change of £2.4m is new finance leases taken out during 2010.

Notes (continued)

27 Related party disclosures

Transactions by Group companies with related parties during the year were as follows

J Tonks (Transport) Limited is a joint venture company between the Group and Aggregate Industries Holdings Limited. During the year the Group made £439,254 (2009 £417,897) of purchases from J Tonks (Transport) Limited and made £156 (2009 £13,021) of sales. Included in creditors is £63,828 (2009 £50,176) owed to J Tonks (Transport) Limited and included in debtors is £80 (2009 £42,507) owed from J Tonks (Transport) Limited.

Esh Space The Park Limited is a consortium company in which the Group owns 15%. During the year the Group made £279,232 (2009 £4,268) of sales to Esh Space The Park Limited. At 31 December 2010 the Group is owed £30,964 (2009 £193) by Esh Space The Park Limited.

The Group owes £50,000 (2009 £50,000) to the directors of Mechplant (NE) Limited. This loan is interest free.

Micropump (North East) Limited is reported as an undertaking in which the Group has a participating interest. The Group is owed £25,000 by Micropump (North East) Limited. The loan has no fixed repayment date and is interest free.

During the year the Group made purchases of £50,486 (2009 £46,582) from Micropump Limited and sales of £16,389 (2009 £13,690). £20,467 (2009 £16,397) was included in debtors owed by Micropump Limited.

Pure Renewable Energies Limited is a joint venture company between the Group and Vestbrowne Limited. During the year the Group made £59,415 (2009 £142,452) of sales to Pure Renewable Energies Limited. Included in debtors is £22,588 (2009 £4,396) owed from Pure Renewable Energies.

Holborn Regeneration LLP is a partnership in which the Group owns 50%. During the year the Group made £3,944 (2009 £26,203) of sales to Holborn Regeneration LLP and £8,196 is included in debtors owed by Holborn Regeneration LLP.

Esh Space Birtley Limited is a joint venture company between the Group and Vestbrowne Limited. During the year the Group made £nil (2009 £180,975) of sales and £11,705 (2009 £209,826) is included in debtors owed by Esh Space Birtley Limited.

28 Ultimate parent company and parent undertaking of larger group

The Company is a subsidiary undertaking of Vestbrowne Limited, a company incorporated in England and Wales. The directors consider the ultimate controlling party to be Mr MF Hogan.

The largest group in which the results of the Company are consolidated is that headed by Vestbrowne 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.