

ESH CONSTRUCTION LIMITED  
**DIRECTORS' REPORT  
AND FINANCIAL  
STATEMENTS**

31 DECEMBER 2010





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# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2010

## THE DIRECTORS PRESENT THEIR DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010.

### PRINCIPAL ACTIVITIES

The principal activities of the Group are Civil Engineering, Property Maintenance, Property Construction and Facility Services.

### BUSINESS REVIEW

As part of a group re-organisation, Lumsden and Carroll Construction Limited changed its name to Esh Construction Limited on the 23rd December 2010. Lumsden and Carroll Construction continues to be the trading brand and identity for civil engineering and construction activities, alongside our long established Stephen Easten brand. Following the change of name, and also as part of this group reorganisation, the other main contracting subsidiaries of Esh group became direct subsidiaries of Esh Construction Limited. Those subsidiaries are Dunelm Property Services Limited, Dunelm National Projects Limited and Wilkinson Facilities Services Limited. The purpose of these changes was to create a large, consolidated yet diversified construction and contracting business, demonstrating a greater consolidated turnover level and larger balance sheet, positioning the combined businesses to be able to operate in a much broader and increasingly competitive marketplace. The Group financial statements have been prepared using merger accounting principles, as if all of these subsidiaries had been part of the Esh Construction Limited Group from the date they joined the Esh Holdings Limited group.

### Performance

In a very tough market, the Group performed well, achieving turnover £142m compared with £115m in the previous year, an increase of 24%. Much of this growth stemmed from the commencement of our National Projects business as well as organic growth from our Dunelm Property Services business and our Lumsden and Carroll Construction brand. Profit before tax (PBT) of £4.7m (PBT margin of 3.3%) represents a very credible performance given the tough and highly competitive market conditions faced by the Group during the year. This level of profitability demonstrates the robust nature of our business during a year when several large, well known construction and property service businesses fell into administration.

### Lumsden and Carroll Construction

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 are now well placed to expand our business.

### Dunelm Property Services

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.



# DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### Business review (continued)

#### Dunelm National Projects

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.

#### Wilkinson Facilities Services

Performance at Wilkinson Facilities Services is considerably improved following the 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.

### Measurement

The Esh Construction Group uses a number of performance indicators, both non-financial and financial to ensure that activities are monitored and controlled effectively. These are reported to the Board and staff at frequent and regular intervals and include: health and safety, staff welfare and retention, sickness monitoring, training and development, personal development programmes, customer service levels and environmental activities. In addition, we benchmark our performance to ensure that we continue to operate effectively and at the upper end of the sector. Our financial indicators included turnover, gross and net profit, cash management, overheads and retention levels. We rigorously maintain our market awareness to ensure we continue to operate competitively.

The Board considers these measures ensure a high level of control over our activities and form an effective measurement and reporting system.

	2010	2009
Turnover (£000)	141,984	114,660
Profit before tax (£000)	4,713	5,697
Cash (net of external debt) (£000)	11,649	9,072
Year end staff numbers	716	723





## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### Principal risks and uncertainties

The directors believe that the challenging economic conditions are set to continue for some time, and therefore remain focused upon their strategy of a diversified business model covering a broad range of clients, geographies and sectors. In particular, the severity of the housing sector downturn continues to present significant challenges and is likely to do so for the foreseeable future. The widely reported economic downturn is expected to present problems in other sectors which will continue to test our business model.

The aforementioned reorganisation will ensure that the Esh Construction Group can remain responsive to changing market conditions, as well being able to drive best practice and efficiencies across the entire group of companies.

The Esh Holdings Limited 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 maximizing opportunities within the stronger areas of our business. The Esh Holdings Limited group had considerable cash reserves of £28.1m at the year end and is therefore well placed financially to meet these challenges. The financial statements of Esh Holdings Limited provide additional details on the performance of the individual group companies.

Tight control of a healthy cash position provides security for clients, employees and all other stakeholders.

### FINANCIAL INSTRUMENTS

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

The main risks arising from these financial instruments are interest rate risk and liquidity risk. These are managed at a group level, and further details can be obtained from the Esh Holdings Limited financial statements.

### PROPOSED DIVIDENDS

Dividends paid during the year comprise an interim dividend in respect of the year ended 31 December 2010 of £4,070,000 (2009: £4,500,000).

### DIRECTORS

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

AJ Carroll  
S Conn  
JP Davies  
MP Henderson  
MF Hogan  
MJ Laverick  
A Law  
JG Lumsden  
B Manning

WR McCafferty  
D Pratt  
AE Radcliffe (appointed 25 October 2010)  
D Thompson  
C Walker (appointed 1 May 2010)  
P Watson  
ST Wilkie  
AR Pickett (resigned 25 October 2010)

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

### POLITICAL AND CHARITABLE CONTRIBUTIONS

Neither the Company nor any of its subsidiaries made any political contributions during the year. Donations to UK charities amounted to £6,650 (2009: £18,885) for the Group.

### 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.

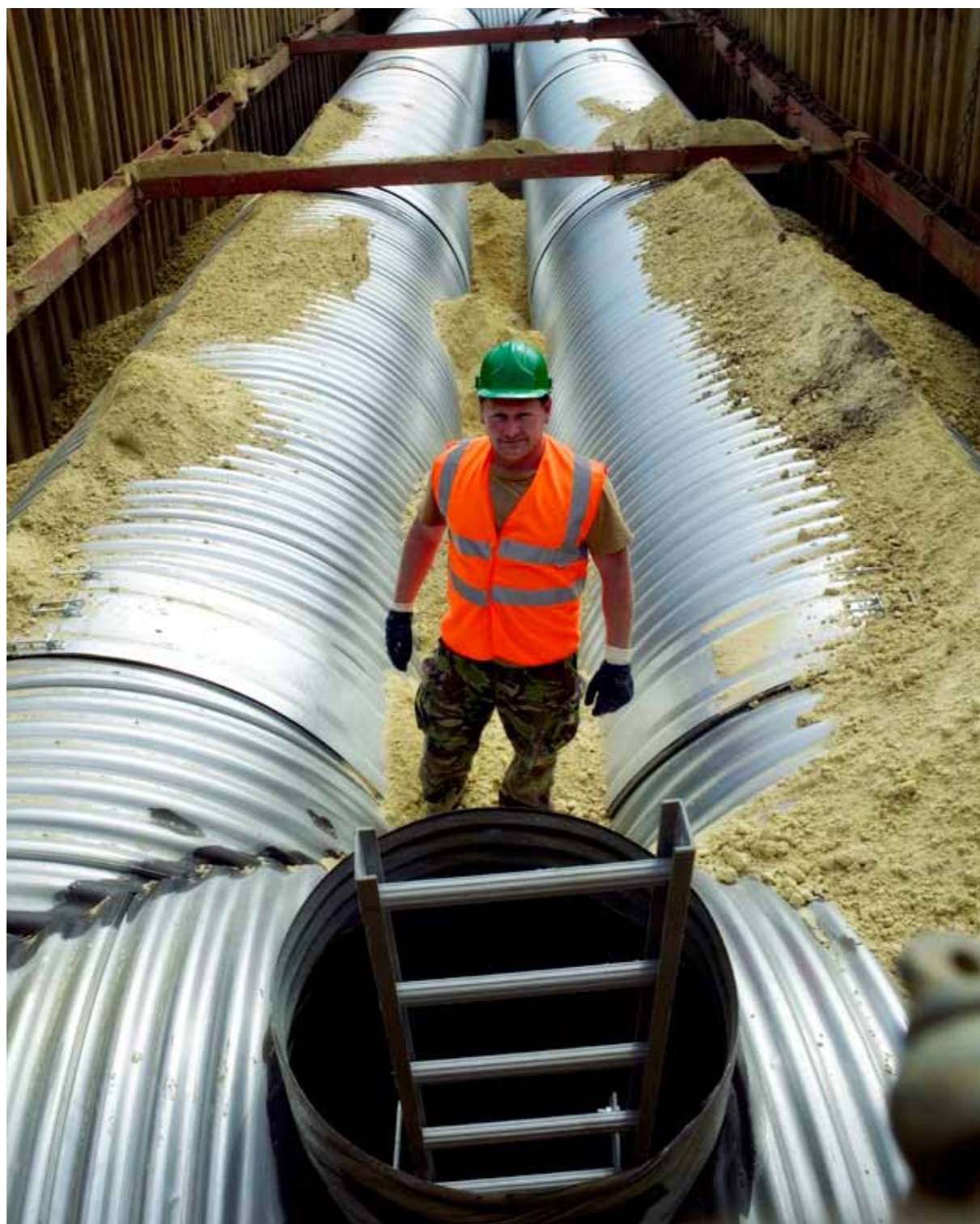
### AUDITORS

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

**AE Radcliffe**  
Director  
12 September 2011

Esh House  
Bowburn North Industrial Estate  
Bowburn, Durham DH6 5PF





# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

Company law requires the directors to prepare financial statements for each financial 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;
- 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 its 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.





# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESH CONSTRUCTION LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2010



## KPMG LLP

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

We have audited the financial statements of Esh Construction Limited (formerly Lumsden Et Carroll Construction Limited) for the year ended 31 December 2010 set out on pages 15 to 34. 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 AUDITOR

As explained more fully in the directors' responsibilities statement set out on page 10, 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](http://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 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.

### 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

12 September 2011



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Note</i>	2010 £000	2009 £000
<b>Group turnover</b>	2	141,984	114,660
Cost of sales		<u>(128,716)</u>	<u>(101,213)</u>
<b>Gross profit</b>		13,268	13,447
Administrative expenses		<u>(8,522)</u>	<u>(7,682)</u>
<b>Group operating profit</b>		4,746	5,765
Other interest receivable and similar income	6	20	73
Interest payable and similar charges	7	<u>(53)</u>	<u>(141)</u>
<b>Profit on ordinary activities before taxation</b>	2-7	4,713	5,697
Tax on profit on ordinary activities	8	<u>(496)</u>	<u>(377)</u>
<b>Profit for the financial year</b>	19	<u>4,217</u>	<u>5,320</u>

All results derive from continuing activities.

The Group had no recognised gains and losses other than those reflected in the profit and loss account.



## CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2010

	Note	2010		2009	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	10		163		189
Tangible assets	11		4,110		3,066
			<u>4,273</u>		<u>3,255</u>
<b>Current assets</b>					
Stocks	13	828		1,568	
Debtors	14	29,349		24,761	
Cash at bank and in hand		14,861		10,930	
		<u>45,038</u>		<u>37,259</u>	
<b>Creditors: amounts falling due within one year</b>	15	<u>(36,912)</u>		<u>(29,251)</u>	
<b>Net current assets</b>			<u>8,126</u>		<u>8,008</u>
<b>Total assets less current liabilities</b>			<u>12,399</u>		<u>11,263</u>
<b>Creditors: amounts falling due after more than one year</b>	16		<u>(1,359)</u>		<u>(370)</u>
<b>Net assets</b>			<u>11,040</u>		<u>10,893</u>
<b>Capital and reserves</b>					
Called up share capital	18		978		978
Share premium account	19		12		12
Other reserves	19		35		35
Profit and loss account	19		10,015		9,868
			<u>11,040</u>		<u>10,893</u>
<b>Shareholders' funds</b>			<u>11,040</u>		<u>10,893</u>

These financial statements were approved by the board of directors on 12 September 2011 and were signed on its behalf by:

**AE Radcliffe**  
Director  
Company registered number: 02529939



## COMPANY BALANCE SHEET

AT 31 DECEMBER 2010

	Note	2010		2009	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	10		454		605
Tangible assets	11		3,104		2,461
Investments	12		1,500		-
			<u>5,058</u>		<u>3,066</u>
<b>Current assets</b>					
Stocks	13	207		411	
Debtors	14	15,236		13,060	
Cash at bank and in hand		6,744		5,017	
		<u>22,187</u>		<u>18,488</u>	
<b>Creditors: amounts falling due within one year</b>	15	<u>(18,079)</u>		<u>(12,914)</u>	
<b>Net current assets</b>			<u>4,108</u>		<u>5,574</u>
<b>Total assets less current liabilities</b>			<u>9,166</u>		<u>8,640</u>
<b>Creditors: amounts falling due after more than one year</b>	16		<u>(955)</u>		<u>(315)</u>
<b>Provisions for liabilities</b>	17		<u>(16)</u>		<u>-</u>
<b>Net assets</b>			<u>8,195</u>		<u>8,325</u>
<b>Capital and reserves</b>					
Called up share capital	18		978		978
Share premium account	19		12		12
Profit and loss account	19		7,205		7,335
			<u>8,195</u>		<u>8,325</u>
<b>Shareholders' funds</b>			<u>8,195</u>		<u>8,325</u>

These financial statements were approved by the board of directors on 12 September 2011 and were signed on its behalf by:

**AE Radcliffe**  
Director  
Company registered number: 02529939



## RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2010

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Profit for the financial year</b>	<b>4,217</b>	5,320	<b>3,940</b>	2,974
Dividends on shares classified in shareholders' funds	(4,070)	(4,500)	(4,070)	(3,000)
<b>Net addition to/(reduction in) shareholders' funds</b>	<b>147</b>	820	<b>(130)</b>	(26)
Opening shareholders' funds	10,893	10,073	8,325	8,351
<b>Closing shareholders' funds</b>	<b>11,040</b>	10,893	<b>8,195</b>	8,325



## NOTES

FOR THE YEAR ENDED 31 DECEMBER 2010

### 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.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Esh Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

#### 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 merger accounting principles have been adopted. Under this method the companies, businesses and assets comprising the Esh Construction Limited Group are presented as if they had been part of this Group from the date on which they joined the Esh Holdings Limited group. This basis of accounting has been adopted in order to present a true and fair view.

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

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

The directors consider that to apply acquisition accounting to any part of the reorganisation would fail to give a true and fair view of the Group's state of affairs or results for shareholders as the ultimate shareholders remain the same before and after the reorganisation. Had this departure not been necessary the effect on these financial statements would have been to consolidate the financial statements of the subsidiary undertakings based on the fair values of the related assets and liabilities at 23 December 2010 and to present the results of the group from 23 December 2010 to 31 December 2010. Owing to the number and complexity of transactions involved, it is not practicable to quantify the effect of this departure.

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

#### Going concern

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

The Company is subject to a cross guarantee banking arrangement with its parent undertaking, Esh Holdings Limited, and certain other group undertakings. Detailed information regarding the financial position of the group headed by Esh Holdings Limited, its cash flows, liquidity position and borrowing facilities are included in the financial statements of Esh Holdings Limited, which can be obtained from the address given in note 24.

The group headed by Esh Holdings Limited recorded an operating profit in 2010 and has substantial net assets.

Excluding Dunelm Homes Limited, the group headed by Esh Holdings Limited had cash at bank of £26.8m and secured debt of £6.3m.



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Going concern (continued)

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

Including Dunelm Homes Limited, the group headed by Esh Holdings Limited had cash at bank of £28.1m, and secured debts of £35.4m.

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

The directors have prepared detailed projected cash flow information for the group headed by Esh Holdings 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 cash inflows or outflows between Dunelm Homes Limited and the remainder of the group headed by Esh Holdings Limited. On the basis of this cash flow information the directors believe that the group headed by Esh Holdings Limited will be able to operate comfortably within available cash reserves and banking facilities.

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

#### Goodwill 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 business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

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

#### Investments

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

#### Tangible fixed assets and depreciation

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

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

No depreciation is provided on freehold land.



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Impairment of fixed assets and goodwill

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.

#### Leases

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

#### Post-retirement benefits

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

#### Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 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 contract work to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of contracts is assessed by reference to completion of a physical proportion of the contract work. Provision is made for any losses as soon as they are foreseen.

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.

#### 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.

#### 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.

#### 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:

- 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
- 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.

#### 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.



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Turnover

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

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

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

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

### 2. TURNOVER

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

	2010 £000	2009 £000
Construction	80,269	63,708
Property services	61,715	50,952
	<u>141,984</u>	<u>114,660</u>

### 3. NOTES TO THE PROFIT AND LOSS ACCOUNT

	2010 £000	2009 £000
<b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b>		
Depreciation:		
Owned assets	497	573
Leased assets	547	443
Amortisation of goodwill	26	26
Hire of plant and machinery - operating leases	3,189	2,659
Hire of other assets - operating leases	1,109	962
	<u>5,368</u>	<u>4,663</u>
<i>Auditors' remuneration</i>		
	2010	2009
	£000	£000
Audit of these financial statements	20	12
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	40	48
	<u>60</u>	<u>60</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 4. REMUNERATION OF DIRECTORS

	2010 £000	2009 £000
Directors' emoluments	609	670
Company contributions to money purchase pension schemes	40	39
	<u>649</u>	<u>709</u>

The aggregate of emoluments of the highest paid director were £109,659 (2009: £175,868) and company pension contributions of £7,718 (2009: £12,512) 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>6</u>	<u>6</u>

### 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	579	642
Administrative staff	<u>132</u>	<u>85</u>
	<u>711</u>	<u>727</u>

The aggregate payroll costs of these persons were as follows:

	2010 £000	2009 £000
Wages and salaries	21,420	19,606
Social security costs	1,929	1,791
Other pension costs (note 22)	455	402
	<u>23,804</u>	<u>21,799</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 6. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2010 £000	2009 £000
Interest receivable from group undertakings	18	33
Other	<u>2</u>	<u>40</u>
	<u>20</u>	<u>73</u>

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £000	2009 £000
Interest payable to group undertakings	-	23
Finance charges payable in respect of finance leases and hire purchase contracts	53	117
Other	<u>-</u>	<u>1</u>
	<u>53</u>	<u>141</u>

### 8. TAXATION

Analysis of charge in period

	2010		2009	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	278		264	
Group relief payable for the current period	169		145	
Adjustments in respect of prior periods	<u>(3)</u>		<u>(2)</u>	
Total current tax		444		407
<i>Deferred tax (see note 17)</i>				
Origination/reversal of timing differences	74		(30)	
Effect of decreased tax rate	1		-	
Adjustment in respect of previous years	<u>(23)</u>		<u>-</u>	
Total deferred tax		52		(30)
Tax on profit on ordinary activities		<u>496</u>		<u>377</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 8. TAXATION (CONTINUED)

*Factors affecting the tax charge for the current period*

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

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,713	5,697
Current tax at 28% (2009: 28%)	1,320	1,595
<i>Effects of:</i>		
Expenses not deductible for tax purposes	72	62
Other timing differences	64	(46)
Depreciation for the period less than capital allowances	(107)	-
Group relief paid for at less than full UK tax rate	(901)	(1,202)
Tax paid at lower rate	(1)	-
Adjustments to tax charge in respect of previous periods	(3)	(2)
Total current tax charge (see above)	444	407

*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 asset of approximately £1,000. 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 £3,000.

### 9. DIVIDENDS

The aggregate amount of dividends comprises:

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Interim dividends paid in respect of the current year	4,070	4,500	4,070	3,000



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 10. INTANGIBLE FIXED ASSETS

Group	Goodwill £000
<i>Cost</i>	
At beginning and end of year	510
<i>Amortisation</i>	
At beginning of year	321
Charged in year	26
At end of year	347
<i>Net book value</i>	
<b>At 31 December 2010</b>	<b>163</b>
At 1 January 2010	189

Goodwill of £251,000 arose on the acquisition of Wilkinson Facilities Services Limited on 31 May 2007. This is being amortised over 20 years which is the period over which the directors consider that the group will derive continuing economic benefit.

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

Company	Goodwill £000
<i>Cost</i>	
At beginning and end of year	757
<i>Amortisation</i>	
At beginning of year	152
Charged in year	151
At end of year	303
<i>Net book value</i>	
<b>At 31 December 2010</b>	<b>454</b>
At 1 January 2010	605

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



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 11. TANGIBLE FIXED ASSETS

	Freehold property £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
<b>Group</b>					
<i>Cost</i>					
At beginning of year	12	4,036	328	1,918	6,294
Additions	-	1,332	30	1,097	2,459
Disposals	-	(591)	-	(612)	(1,203)
At end of year	12	4,777	358	2,403	7,550
<i>Depreciation</i>					
At beginning of year	9	2,081	221	917	3,228
Charge for year	1	555	75	413	1,044
On disposals	-	(438)	-	(394)	(832)
At end of year	10	2,198	296	936	3,440
<i>Net book value</i>					
<b>At 31 December 2010</b>	<b>2</b>	<b>2,579</b>	<b>62</b>	<b>1,467</b>	<b>4,110</b>
At 1 January 2010	3	1,955	107	1,001	3,066

Included in the total net book value is £2,960,102 (2009: £1,384,237) relating to assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £546,972 (2009: £443,096).



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 11. TANGIBLE FIXED ASSETS (CONTINUED)

	Freehold property £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
<b>Company</b>					
<i>Cost</i>					
At beginning of year	12	3,832	177	1,002	5,023
Additions	-	1,315	21	336	1,672
Disposals	-	(592)	-	(325)	(917)
At end of year	12	4,555	198	1,013	5,778
<i>Depreciation</i>					
At beginning of year	9	1,996	105	452	2,562
Charge for year	1	504	50	199	754
On disposals	-	(438)	-	(204)	(642)
At end of year	10	2,062	155	447	2,674
<i>Net book value</i>					
<b>At 31 December 2010</b>	<b>2</b>	<b>2,493</b>	<b>43</b>	<b>566</b>	<b>3,104</b>
At 1 January 2010	3	1,836	72	550	2,461

Included in the total net book value of plant and machinery is £2,271,436 (2009: £1,139,870) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £404,526 (2009: £341,125).

### 12. FIXED ASSET INVESTMENTS

	Shares in group undertakings £000
<b>Company</b>	
<i>Cost and net book value</i>	
At beginning of year	-
Additions in year	1,500
At end of year	1,500



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 12. FIXED ASSET INVESTMENTS (CONTINUED)

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

Subsidiary undertaking	Class and percentage of shares held		Nature of business
	2010	2009	
Stephen Easten Building Limited	100% Ordinary		Commercial builder
Lumsden Et Carroll Construction Northern Limited	100% Ordinary		Commercial builder
Lumsden Et Carroll Utilities Limited	100% Ordinary		Civil engineering
Dunelm Property Services Limited	100% Ordinary		Housing construction and refurbishment
Dunelm Acorn Homes Limited	100% Ordinary		Regeneration and development of affordable housing
Wilkinson Facilities Services Limited	100% Ordinary		Building and maintenance services

### 13. STOCKS

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Land for development	610	1,150	-	-
Raw materials and consumables	218	178	207	171
Finished goods	-	240	-	240
	<u>828</u>	<u>1,568</u>	<u>207</u>	<u>411</u>

### 14. DEBTORS

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade debtors	8,773	8,074	2,818	1,974
Amounts recoverable on contracts	14,396	7,821	8,791	5,732
Amounts owed by group undertakings	5,753	7,757	3,338	4,742
Amounts owed by undertakings in which the ultimate parent company has a participating interest	32	262	32	214
Deferred tax assets (note 17)	32	84	-	19
Other debtors	22	119	-	90
Prepayments and accrued income	341	644	257	289
	<u>29,349</u>	<u>24,761</u>	<u>15,236</u>	<u>13,060</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Bank overdraft	853	766	-	-
Obligations under finance leases and hire purchase contracts (note 16)	1,000	722	750	587
Payments received on account	2,742	3,397	984	-
Trade creditors	6,511	5,366	4,558	3,204
Amounts owed to group undertakings	3,553	3,892	387	414
Amounts owed to undertakings in which the Parent Company has a participating interest	96	89	41	16
Corporation tax	399	129	210	70
Other taxation and social security	2,257	1,986	1,256	1,212
Other creditors	1	229	-	139
Accruals and deferred income	19,500	12,675	9,893	7,272
	<u>36,912</u>	<u>29,251</u>	<u>18,079</u>	<u>12,914</u>

The bank overdraft facilities are secured by means of a group composite banking arrangement (note 20).

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Obligations under finance leases and hire purchase contracts	1,359	370	955	315

#### Analysis of debt:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Debt can be analysed as falling due:				
In one year or less, or on demand	1,853	1,488	750	587
Between one and two years	705	327	499	274
Between two and five years	654	43	456	41
	<u>3,212</u>	<u>1,858</u>	<u>1,705</u>	<u>902</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

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

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Within one year	1,038	783	768	640
In the second to fifth years	1,446	381	1,028	325
	<u>2,484</u>	<u>1,164</u>	<u>1,796</u>	<u>965</u>
Less future finance charges	(125)	(72)	(91)	(63)
	<u>2,359</u>	<u>1,092</u>	<u>1,705</u>	<u>902</u>

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

### 17. DEFERRED TAXATION

	Group £000	Company £000
At beginning of year – asset	84	19
Charge to the profit and loss for the year	(52)	(35)
At end of year – asset/(liability)	<u>32</u>	<u>(16)</u>

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Differences between accumulated depreciation and capital allowances	<u>32</u>	<u>84</u>	<u>(16)</u>	<u>19</u>

### 18. CALLED UP SHARE CAPITAL

	2010		2009	
	Number of shares	£000	Number of shares	£000
<i>Authorised</i>				
Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000</u>	<u>10,000,000</u>	<u>10,000</u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	<u>978,150</u>	<u>978</u>	<u>978,150</u>	<u>978</u>



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 19. SHARE PREMIUM AND RESERVES

Group	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	12	35	9,868
Profit for the year	-	-	4,217
Dividends on shares classified in shareholders' funds	-	-	(4,070)
At end of year	<u>12</u>	<u>35</u>	<u>10,015</u>

Company	Share premium account £000	Profit and loss account £000
At beginning of year	12	7,335
Profit for the year	-	3,940
Dividends on shares classified in shareholders' funds	-	(4,070)
At end of year	<u>12</u>	<u>7,205</u>

### 20. CONTINGENT LIABILITIES

The Company and Group are party to a group composite arrangement with certain of the companies in the Esh group under which overdrafts and cash balances can be offset. The total unprovided Group and Company liability at 31 December 2010 amounted to £nil (2009: £nil) and £855,361 (2009: £913,591) respectively. The composite arrangement does not include Dunelm Homes Limited which has its own discrete banking arrangements.

### 21. COMMITMENTS

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

Group	2010		2009	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	<u>44</u>	<u>1</u>	<u>105</u>	<u>1</u>

The Company has no commitments under operating leases.



## NOTES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2010

### 22. PENSION SCHEME

#### Group term

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 £455,311 (2009: £402,354).

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

### 23. RELATED PARTY DISCLOSURES

Mechplant (North East) Limited is a subsidiary of Esh Holdings Limited, the ultimate parent, with 80% of the voting rights controlled within the group. During the year the Group made £900,291 (2009: £939,025) of purchases from and £101,441 (2009: £102,594) of sales to Mechplant (North East) Limited. Included in creditors is £14,740 (2009: £31,986) owed to Mechplant (North East) Limited and included in debtors is £19,413 (2009: £21,109) owed from Mechplant (North East) Limited.

Micropump (North East) Limited is a joint venture company with 50% of the voting rights controlled within the group. During the year the Group made £50,486 (2009: £46,582) of purchases from and £16,389 (2009: £13,690) of sales to Micropump (North East) Limited. Included in creditors is £20,467 (2009: £16,397) owed to Micropump (North East) Limited and included in debtors is £9,712 (2009: £3,659) owed from Micropump (North East) Limited.

J Tonks (Transport) Limited is a joint venture company between Esh Holdings Limited, the ultimate parent and Aggregate Industries Holdings Ltd. During the year the Group made £396,203 (2009: £372,103) of purchases from and £nil (2009: £1,021) of sales to J Tonks (Transport) Limited. Included in creditors is £60,514 (2009: £40,725) owed to J Tonks (Transport) Limited and included in debtors is £nil (2009: £70) owed from J Tonks (Transport) Limited.

Pure Renewable Energies Limited is a joint venture between Esh Holdings Limited, the ultimate parent company and Vestbrown Limited. During the year the Group made £nil (2009: £3,611) of sales to Pure Renewal Energies Limited. Included in debtors is £nil (2009: £1,095) owed from Pure Renewal Energies Limited.

Esh Space (Birtley) Limited is a joint venture in which Esh Holdings Limited, the ultimate parent company controls 49% of the voting rights. During the year the Group made £nil (2009: £180,975) of sales to Esh Space (Birtley) Limited. Included in debtors is £1,705 (2009: £235,826) owed from Esh Space (Birtley) Limited.

Esh Space (The Park) Limited is a joint venture in which Esh Holdings Limited, the ultimate parent company controls 15% of the voting rights. During the year the Group made £279,232 (2009: £4,268) of sales to Esh Space (The Park) Limited. Included in debtors is £1,264 (2009: £193) owed to Esh Space (The Park) Limited.

During the year Esh Holdings Limited advanced an unsecured loan of £55,000 to Stephen Thomas Wilkie, a director of the Company. This loan carries interest at 3% per annum, is unsecured, and is repayable at any time on the demand of Esh Holdings Limited.

### 24. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

The Company is a subsidiary undertaking of Esh Holdings Limited.

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

The results of the Company are also consolidated in the group headed by Esh Holdings Limited. The consolidated accounts of this company are available to the public and may be obtained from Esh House, Bowburn North Industrial Estate, Bowburn, Durham DH6 5PF.

The directors consider the ultimate controlling party to be Mr MF Hogan, the majority shareholder in Vestbrown Limited which owns 67.6% of the issued voting share capital of Esh Holdings Limited.



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