# Business review

## Group overview

The construction and property markets in which the group operates have seen little or no improvement during the year. The recent UK Construction Purchasing Managers' Index survey has confirmed the slowing of growth in the construction sector and property values remain subdued, again with limited signs of recovery.

With these factors in mind, the policy of exiting joint ventures to reduce group liabilities has continued. The concrete pumping division has been recognised as no longer core to group activities and negotiations to dispose of the business are well advanced. In a similar way, speculative residential developments are no longer being pursued. The legacy schemes within the residential division are now controlled by the property division.

The continued downturn in the construction sector had an adverse effect on group revenues in the year, with turnover down by 10% to £59.3m (2010 re-presented: £65.7m). Turnover in the construction division fell by 32% to £41.6m (2010: £61.0m), however it is reassuring to report that it has a firm order book of £53.0m secured at the date of this report. The property division, benefiting from the sale of the Birkenhead site, had a turnover of £14.7m (2010: £1.2m). Despite the reduced turnover, net profit before tax, excluding the pumping division, was £0.7m (2010 re-presented: £13.7m loss). This was chiefly due to improving margins on current contracts, successful completion of existing projects and a significantly reduced requirement for further impairments.

Staff levels have reduced during the year in line with the reduced turnover and the number of employees fell by 15% to 262 at the year end (2010: 308). Despite this reduction, the group has retained its core skills and capabilities to allow it to continue to provide a first class service to its customers. This is evident in the group's strong reputation and the volume of repeat business secured from our loyal clients. The core values of the group remain unchanged and it is these that will provide the platform for a better focused, restructured group in the future. As always, employees remain the key asset to the group and they have shown their continued support to the group in testing times. The group looks forward to being able to repay that support as and when markets recover.

## Group outlook

The actions taken in the last year in reducing outstanding liabilities and the proposed disposal of the concrete pumping business will leave the group better placed to control its future. A more streamlined group will be able to focus on the core activities of property (development and investment) and construction, without the distraction of legacy issues and loss making entities. The strong reputation and capabilities of these two businesses will allow the group to leverage opportunities from existing and new clients, with the intention of seeking out further opportunities for growth in other parts of the UK through existing client relationships. The restructured group will allow it to be more flexible, responsive and better able to capitalise on opportunities as the market recovers.

## Divisional review

### Construction

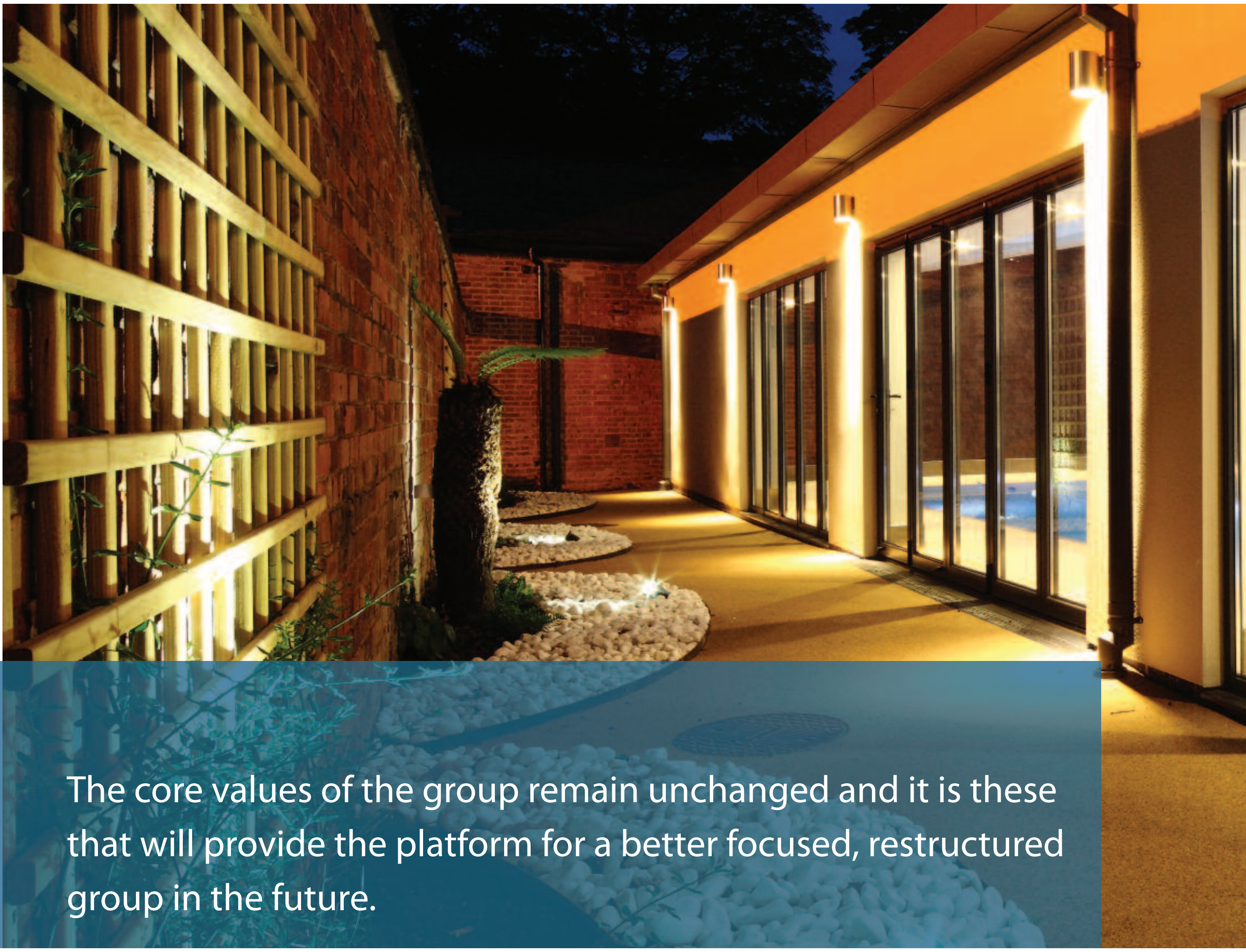
Following a positive start to the year, the construction division suffered from reduced turnover as contracts secured when the market was more buoyant came to an end and were not replaced. Some previously secured contracts never started on site as customers either withdrew or delayed the start date for various reasons, including lack of funding and constraints on planning. Public sector clients delayed projects before and after last year's government spending review in anticipation of the unknown or as a result of cuts in public spending. The reduction in turnover was therefore due mainly to the reduction in public sector work. However, as a result of the good relationships maintained with private sector clients, approximately 80% of work secured in the current financial year will be from the private sector.

Although total turnover fell to £41.6m (2010: £61.0m), as a result of good final account negotiations on completed contracts and improved margins on current contracts the division delivered a profit of £0.2m before restructuring costs of £0.2m. The result also reflected the good mix of clients and lack of dependency on any one particular sector, which also provides for a balanced portfolio moving forward.

As part of the division's growth strategy, work has been tendered and secured out of traditional areas, including a residential redevelopment at Hyde Park, London, industrial premises for Nestlé in Buxton and a retail store at Egham, Surrey. Current

| £m | Continuing | Discontinued | Total 2011 | 2010 |
|---|---|---|---|---|
| Operating profit/(loss) – own | 3.8 | (1.2) | **2.6** | 0.6 |
| Operating profit/(loss) – joint ventures | 0.7 | – | **0.7** | (1.9) |
| Property revaluations | (0.1) | – | **(0.1)** | 0.5 |
| Impairment of investments | (2.7) | – | **(2.7)** | (11.2) |
| Impairment of inventories | (0.8) | – | **(0.8)** | (3.5) |
| Costs of restructure and remeasurement of assets held for sale | (0.2) | (2.6) | **(2.8)** | (0.7) |
| Cost of disposal | – | (1.0) | **(1.0)** | – |
| **Group profit/(loss) before taxation** | **0.7** | **(4.8)** | **(4.1)** | **(16.2)** |

# Business review



The core values of the group remain unchanged and it is these that will provide the platform for a better focused, restructured group in the future.

tendering opportunities also include a project for student accommodation in Edinburgh.

The special projects team has continued to grow and having profitably completed approximately £3.5m of work last year, it has in excess of this figure already secured in the current financial year. Despite difficult trading conditions, the business has maintained its reputation for excellence in performance and this has been acknowledged by a RoSPA Gold Award for safety, a CSS National Site "Considerate Contractor" Silver Award and winning the 2011 Insider Property North West "Contractor of the Year" Award.

### Property (including Residential)

Due to continued uncertainty in the property market, there have been no speculative development schemes and a commitment only to limited investment where an end user and exit strategy are in place.

Following the sale of the retail scheme at Birkenhead, a number of smaller retail schemes have been secured during the year.

The investment portfolio, consisting of over 40 income generating properties located in the North West and North Wales, was valued at the year end at £33.0m (2010: £29.1m). The increased value during the year is attributable to acquiring full control of Lincoln House Properties Limited and Manchester House Properties Limited (previously held in joint venture). Investment properties have been valued at the same levels as prior years by the directors having regard to property yields data for the region supported by advice obtained by external professional valuers. The main focus has been on the good management and retention of tenants and it is therefore pleasing to report that occupancy levels have been maintained at 96%.

Throughout the year, assets have been sold in order to continue to reduce debt and, at Ellesmere, sales to McCarthy & Stone, Shropshire County Council and Bloor Homes have become unconditional. Planning permission for Midpoint 18 Phase 3 has been renewed and work continues on securing the Middlewich bypass in order to create development and investment opportunities for the future.

# Business review

The Mere Golf Resort and Spa, Knutsford

Some progress has been made during the year on residential schemes by completing and selling units at Burslem and Winsford. However, the market continues to be depressed and difficulties with Homes and Communities Agency funding has meant that some affordable housing schemes have been cancelled and land bank sales have been slow. No new speculative work is being undertaken and completion of historical residential schemes is being carried out within the property division (including residential).

Of the joint ventures, Manchester Technopark Limited and Keele Park Developments Limited continue to perform well given current market conditions. Aside from these, other joint venture schemes have struggled financially and therefore the focus has been to extricate group involvement from these schemes. To this end, agreements have been successfully concluded with external funders to settle the guarantee liabilities associated with the schemes at Heald Green, Manchester and Exchange Flags, Liverpool.

Since the year end, the group has acquired full control of UKLP (BrynCegin) Limited, which has allowed the group to take full control of the development of land at Parc Bryn Cegin, Bangor. Good progress has also been made at Hawarden Business Park, Deeside, with further lettings achieved to Airbus.

The group's strategy remains to exit joint ventures on acceptable terms wherever possible and to develop and manage new opportunities through the group's own in-house property team.

The property division (including residential) made a net profit before tax of £2.5m (2010: £13.0m loss).

### Concrete Pumping

The continued downturn of the construction market and lack of public sector funded infrastructure and utility projects led to a further fall in revenues during the year, down to £8.8m (2010: £9.1m). Further cost cutting measures were therefore introduced, reducing the operating loss for the year to £1.2m (2010: £2.9m loss). This was slightly worse than anticipated due to the severe winter weather, when a loss of £0.3m was suffered in the month of December 2010.

# Business review

| £m | Trading | Adjustments * | Total 2011 | 2010 |
|---|---|---|---|---|
| **Continuing Activities** | | | | |
| Construction | 0.2 | (0.2) | – | 0.7 |
| Property (including Residential) | 6.2 | (3.7) | **2.5** | (13.0) |
| Group | (1.8) | – | **(1.8)** | (1.0) |
| | 4.6 | (3.9) | **0.7** | (13.3) |
| **Discontinued Activities** | | | | |
| Concrete Pumping | (1.2) | (3.6) | **(4.8)** | (2.9) |
| **Group profit/(loss) before taxation** | **3.4** | **(7.5)** | **(4.1)** | **(16.2)** |

* Adjustments for impairments and restructuring.

Every effort has been made to increase both job price and utilisation and significant progress has been achieved in moving from historic lows. Average job price for the year rose to £581 from £570 in the previous year and utilisation rose from 72% to 73%. Unfortunately, over capacity in the market has restricted further improvement, although the current financial year is showing better progress as more infrastructure and utility work is commenced.

Despite the considerable efforts made to improve operating performance, the concrete pumping division continues to be a cash drain on the group's limited resources and as it is no longer regarded as being a core business in the future strategy of the group it is being treated as a discontinued activity and a business held for sale.

A full segmental analysis is set out in Note 1 to the accounts.

### Earnings per share and dividend

Allowing for the result from discontinued operations the total diluted earnings per share was -16.9p (2010: -76.2p). Diluted earnings per share for continuing operations was 4.6p (2010: -62.3p). No final dividend is proposed, consequently the dividend for the full year is nil (2010: nil).

### Balance sheet

Following provisions made for the disposal of discontinued operations the net asset value reduced to £23.8m (2010: £25.9m). This is equivalent to 117p per share (2010: 124p).

Corporation Street, St Helens

# Business review

Investment property values increased to £33.0m (2010: £29.1m) largely due to the addition of properties held in the newly acquired subsidiaries of Lincoln House Properties Limited and Manchester House Properties Limited, which had previously been held in joint venture.

Investment in joint ventures and associates decreased by £5.8m to £5.0m. This was in part due to the transfer out of the above mentioned acquisitions and to further impairments and settlement of outstanding liabilities in remaining joint venture interests.

Inventories reduced by £4.1m to £17.8m mainly as a result of disposal of housing stock and a reduction in the number of active construction projects.

### Cashflow and borrowings

Cash generation and debt repayment remained the principal financial focus during the year and although profitable trading was restricted by the difficult market conditions, positive cash flow was enhanced through further reductions in working capital and the sale of non-income producing assets.

An overall reduction in net borrowings was achieved of £3.9m (2010: £1.4m), with major movements summarised as follows:

| £m | 2011 | 2010 |
|---|---|---|
| Operating activities | **6.7** | 2.6 |
| Joint ventures & investments | **(1.7)** | (2.0) |
| Net interest paid | **(1.0)** | (0.1) |
| Taxation | **(0.1)** | 0.9 |
| **Decrease in net borrowings** | **3.9** | **1.4** |

### Going concern

During the year the group successfully concluded negotiations with its principal banker, The Royal Bank of Scotland PLC (RBS), to restructure its borrowing facilities. The aim of the restructure was to ensure that the group is adequately and appropriately funded to meet its forecasted obligations and cash requirements for the foreseeable future. The new facilities at the year end comprised an investment loan of £17.9m, asset disposal loans of £9.2m and an overdraft/multi option facility of £4.1m. These facilities are secured against assets in the business and are in place until 31 March 2012.

Based on the latest forecasts for the restructured group, further negotiations are in progress with RBS to extend its facilities to 30 November 2012, and re-set covenants accordingly. RBS has engaged independent external advisors who have recommended the revised covenants and extended facilities are put to the credit committee for approval; however this advice is subject to reaching satisfactory arrangements in relation to the disposal of the concrete pumping business. Significant progress has been made by the directors towards disposing of Pochin Concrete Pumping Limited and they are currently in advanced discussions with a prospective purchaser of the corporate entity.

Notwithstanding these ongoing discussions, the directors have also received confirmation from RBS of its intention to continue to support the group through their existing funding arrangement, subject to usual review and approval procedures, for a period of 12 months from 30 September 2011.

During the period the group acquired 100% holdings in Manchester House Properties Limited and Lincoln House Properties Limited (previously 50% joint ventures). Loans of £1.7m associated with these two companies are now recognised on the group balance sheet and represent outstanding property mortgages with the Nationwide Building Society.

At 31 May 2011 total group borrowings were £29.3m (2010: £35.2m). Cash held on deposit was £6.3m (2010: £8.3m), resulting in a net debt position of £23.0m (2010: £26.9m).

### Treasury and financing risk

The group continues to fund its operations through the use of cash, loans and various liquid resources such as debtors and trade creditors. Treasury management is performed by the finance department through implementation of the group's treasury policy, which is the responsibility of the Finance Committee. This remit includes development of relationships with principal funders, management of interest rates and liquidity risk. The Finance Committee is responsible to the main board.

The group has minimal fixed interest rate borrowings and reviews the need to hedge against interest rate movements continually. A three year swap arrangement fixing LIBOR exposure to 4.98% on £15m of debt expired in March 2011. This now allows the group to benefit across all of its facilities from the continued low floating rate of LIBOR and in part compensates for the higher commercial rates being charged by the banks.

The group continues to formally operate an effective interest rate hedging policy, which states that the sole purpose of any financial instrument employed by the group to fix interest rates is to protect the group from fluctuations in interest rates charged on its borrowings. As a consequence, any changes in the fair value of such hedging instruments are recognised directly in equity and not, unless deemed to be ineffective, through the income statement. Due to expiry of a number of hedging facilities during the year there was a favourable movement in financial derivatives of £0.6m (2010: £1.3m). This is shown against hedge reserve in the group balance sheet.

There remains both long term repayment loans and short to medium term development borrowings relating to associated companies and joint venture entities respectively, to which the group has exposure. As a consequence, the group regularly reviews the risk of exposure to interest rate movements with its partners and, where appropriate, hedges against that risk on a project by project basis.

# Business review


Financial focus remains cash generation and debt repayment.
Net borrowings reduced by £3.9m in the year.
Continuing operations back in profit.

Moor Park Health and Leisure Centre, Blackpool

The group continues to have minimal exposure to foreign currency exchange risk and accordingly does not require a policy to hedge such exposure.

### Pensions

The group continues to contribute to the recovery plan agreed with the Pensions Regulator for the now closed defined benefit (DB) pension scheme. The next triennial valuation is due in November 2011.

As a result of a potential debt crystallising under section 75 of the Pensions Act 1995 on the sale of the concrete pumping business, it will be necessary to apportion the pension liability relating to that business across the remaining group employers ahead of any sale. Following consultation between the group and the scheme trustees, the trustees have indicated their willingness in principle to approve such an apportionment. Accordingly, the liability has not been classified as held for sale.

Total contributions paid in the period to the DB scheme were £0.1m (2010: £0.2m). Payments to the defined contribution scheme were £0.4m (2010: £0.2m). The DB pension scheme obligations are shown in the group balance sheet and movement in the period reflected in the income statement and statement of comprehensive income. The actuarial deficit, calculated in accordance with IAS19, is reported as £1.0m (2010: £2.7m).

### Financial reporting

The consolidated financial statements have been produced in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. There have been no changes to the IFRS requirements this year that have a material impact on the group results.

**John Moss**
Chief Executive
30 September 2011

**John Edwards**
Group Finance Director