

“dramatic falls in property values during the year... property prices now stabilising... improved performance from construction following re-organisation... positive cash flow during the period”

Chairman **Richard Fildes**



The results for the year ending 31 May 2009 reflect the most dramatic and sustained collapse in property values in living memory. This has led to a loss before tax for the year of £9.4m (2008: £1.8m profit) derived from turnover of £102.0m (2008: £115.3m). Under these circumstances the directors are not able to recommend a final dividend (2008: 3.0p) in addition to the interim dividend of 1.5p (2008: 3.0p) paid earlier in the year.

Values of commercial property have almost halved since their peak just over two years ago. This is the context in which the accounts for the year to May 2009 have been prepared, and impairments of investments and of property values have amounted to almost £11m. Taken with the write down of £2.6m of residential stock in work in progress, the downward re-assessment of property values has amounted to a total of £13.6m during the year.

Importantly, cashflow during the year has been positive. Excluding the impairments mentioned above, there was an underlying profit before tax of £2.2m which generated a positive cash flow from our operating activities of £4.2m.



Stobart, Widnes

The group is involved in two distinct but related areas of operation, each of which has traditionally been subdivided. First, the main trading activities comprise regional building contracting and national concrete pumping. The contracting division, restyled during the year as Pochin Construction, performed well following the extensive re-organisation reported a year ago. Profitability improved and it is encouraging that a number of valuable contracts were won in areas with which Pochin's has not generally been associated. For example, three recent contracts have been gained in the education sector. The concrete pumping division has had a tough year despite winning useful publicly funded infrastructure work. Reduced overall activity in public and private construction has led to an excess of capacity in concrete pumping resulting in an adverse effect on prices. There are few signs of improvement in the current year to date.

The second main area of group activity is in property investment and development. This is primarily commercial although there remains a small residential subdivision. While substantial losses have been incurred through the downward value of the group's wholly owned property and of its investments in joint ventures, the rents in its investment portfolio have held up well with relatively few voids being experienced. Additionally, despite the market conditions, profitable disposals were achieved during the period. The residential activity was limited with no speculative work being undertaken. The group's aim is to continue to realise its investment in both built homes and housing land in a controlled manner.

Speculation abounds about the end of the recession in the UK and about the pace of any recovery. There is evidence that the outward movement in yields for investment property has come to a halt, and the most recent Investment Property Databank UK Monthly Index shows the first rise in values for 26 months. Thus capital values of commercial property have stabilised, but a new area of difficulty has become apparent. Having grown excessively in recent years, rents are now falling in response to weak occupier demand. Even if yields were proved to have over-corrected, this new feature of the commercial property market suggests that total returns, though perhaps positive, will not rebound strongly, particularly given the overhang of property where the banks are effectively the new owners following the collapse in the value of their security.

In these conditions, property development, traditionally so important to both the construction and property areas of the group's activities, will be slow to recover. In general, many



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development sites now have no immediate prospects as either the cost of construction exceeds the perceived investment value or, even if that is not the case, finance is not available for their development. The effect of this will be continued low levels of development activity. Eventually with the limited supply of new commercial property which must result, and given improved demand if the substantial monetary stimulus now being undertaken is continued, rents will recover, enabling development gradually to resume. This cyclical process will take some time to progress.

It is likely, therefore, that the group will be operating in subdued market conditions for the foreseeable future. Accordingly, a significant degree of re-organisation has been undertaken during the year as costs have been curtailed. As is the case with many companies in the construction and property sectors, the number of people employed by the group has fallen substantially, from 417 in May 2008 to 329 at the date of this report. Not only is this contraction often painful for those leaving, it provides uncertainty and extra pressures for those who remain. I would like to record my thanks to David Shaw, the group's former chief executive, who initiated much of this process, and who himself retired at the end of the year after nearly 29 years with the group and 15 years as a director. I would also welcome his successor, John Moss, who has many years of experience in the construction sector, mainly with the Amec Group, and who too has played a key part in the restructuring of the group. These efforts will help Pochin's through the present difficult market conditions which are inevitably painful for both employees and shareholders alike.

As reported earlier, the group continues to generate cash, and combined with the continued strong support of its principal bankers, The Royal Bank of Scotland, this will enable it to position itself appropriately to take advantage of the improved conditions which will eventually materialise.

Fortunately, the group has great strengths and considerable resilience. It has a well deserved reputation for both quality and service in its trading divisions, and those attributes, allied to its considerable holdings of land and investment property, will enable it to benefit from profitable opportunities as the property cycle turns.

**Richard Fildes**  
Chairman  
22 September 2009