29 June 2012

Mountfield Group Plc

ANNUAL REPORT & FINANCIAL STATEMENTS

Mountfield Group plc (the "Company"), the AIM listed construction company specialising in building and refurbishing data centres, announces publication of its Annual Report and Financial Statements for the year ended 31 December 2011.

- Revenue up 30% to £11.1m (2010 £8.5m)
- Operating loss from continuing trading operations reduced to £0.7m (2010 £0.8m) after £0.6m cost of sales provision (2010 nil)
- Underlying operating loss from continuing trading operations reduced to £0.1m (2010 £0.8m)
- Gross margin, pre cost of sales provision, of 12.2% (2010 9.4%)
- £16m of contract wins at MBG and Connaught, including data centre projects worth over £6m commenced in 2011 with over £5m in the course of completion in 2012
- Discontinuation of the business of Mountfield Land and write down in the value of the goodwill arising from the acquisition of Connaught resulting in a reduction in the value of the Group's intangible assets by £5.0m to £10.8m
- Board optimistic for prospects of two new construction initiatives

Graham Read, Chief Executive Officer, said:

> "General levels of activity and enquiries regarding potential new business are at levels that the Company has not experienced since before the recession began. These, taken together with the growing revenue that the Board anticipates that the Group will gain from its new construction initiatives, leads it to expect that the Group will perform strongly in 2012 and at the same time create a platform for future growth.

The Annual Report and Financial Statements have been posted to shareholders. A copy is now available on the Company's website www.mountfieldgroupplc.com.

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CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

The Company is pleased to present the Group's financial statements for the year ended 31 December 2011.

2011 was the year during which the Company's business started to recover from the recession, with revenue increasing by 30% to £11.1m (2010: £8.5m). The underlying operating loss from continuing trading operations was reduced to £0.7m (2010: £0.8m) notwithstanding the impact of a £0.6m cost of sales provision (2010: £nil). Excluding this provision, the underlying operating loss from continuing trading operations reduced to £0.1m (2010: £0.8m). Gross margin, after exclusion of the provision, improved to 12.2% (2010: 9.4%).

Results

	2011	2010
	£m	£m
Revenue	**11.1**	8.5
Underlying operating loss (continuing operations)	**(0.7)**	(0.8)
Underlying operating loss before cost of sales provision	**(0.1)**	(0.8)
Loss before tax – continuing trading operations	**(4.3)**	(0.8)

Mountfield Building Group Limited ("MBG")

MBG's principal business is the design and construction of data centres and IT installations. The recession affected construction companies severely (even those like MBG that had a business built on specialist skills) but during that time when new business was in short supply the directors of MBG made a particular effort to maintain relationships and gained from this approach in 2011 when levels of activity in its areas of interest increased markedly.

MBG made a pre-tax loss of £0.8m (2010: £0.95m) on turnover of £7.6m (2010: £4.5m) after eliminating inter-company trading. Included in this loss is a cost of sales provision of £0.6m relating to balances brought forward from 2010.

After two years in which there has been little sign of activity, the data centre market is now showing strong growth in certain areas, such as the banking and retail sectors. This is driven by companies setting up their own facilities in order to reduce costs rather than outsourcing them to data centres operated by telecom companies. The Directors believe that over the next three years there will be further growth in the data centre market and that with the Company's experience, reputation and contacts, it is ideally placed to benefit from this growth.

MBG has shown itself able to adapt to changes within the data centre market. An example has been the recent move to centres composed of individual and separate pods that are constructed off-site and installed into the data centre structure. This change can result in greater flexibility of layout for tenants and also greater levels of security. MBG has won construction work from a new client that wishes to build a number of this style of data centre in the UK.

Contracts with a gross value of approximately £13.0m were won in 2011 and these included:

- Data centre projects worth over £6m commenced in 2011 with in excess of a remaining £5m in the course of completion in 2012. These works included new data centre fit-outs in Romford, Enfield, Swindon and Farnborough as well as a large scale National IT Facility upgrade;
- Student accommodation in the South of England;
- A major residential refurbishment;
- Refurbishment of a National Art Gallery;
- Refurbishment of the House of Commons; and
- General property maintenance works for a National IT Facility provider.

Connaught Access Flooring Ltd (“Connaught”)

Connaught is a provider of flooring systems to both main contractors and corporate end users, primarily focused on the refurbishment and fitting out of commercial offices and the data centre market. The Company has established itself as one of the few recognised specialists for fitting commercial office space for corporate end users. However, with the continuing decline in the commercial office market, Connaught has diversified into refurbishment projects in existing office space as end users take stock.

Connaught made a pre-tax profit of £314,000 (2010: £309,000) on turnover of £3.5m (2010: £4m).

One of the effects of the recession has been to increase competition significantly between specialist flooring contractors who have seen overall market turnover decline, with the result that work has become harder to win for companies in the sector and margins have been under pressure. Connaught has been affected along with its competitors; although it has done well to maintain margins in recent years, it is not anticipated that this situation will change materially in the medium term. Emphasis is therefore being placed on diversifying the product offering and seeking to reduce operating costs without adversely affecting the quality of service.

Contracts with a gross value of approximately £2.9m were won in 2011 and these included:

- A data centre in East London;
- Refurbishment of an existing office space in the City of London;
- Fit out for a new office space;
- Acoustic flooring in an up market residential block in central London;
- An urban sustainability centre for a manufacturing company; and
- A large auditorium.

Although the Company is confident that the prospects for Connaught remain good over the longer term, the Board has decided that since it is not confident about the likelihood of achieving the levels of turnover and overall profitability achieved in 2008 in the current market, it should reflect this by a reduction of £3.5m in the value of the goodwill arising from the acquisition of Connaught from £8.4m to £4.9m.

Board changes

In August 2011 Tom Spanner joined the Board as a non-executive director. Tom is a member of the Royal Institute of Chartered Surveyors. His knowledge of, and expertise in, the property market and in particular high-end construction projects is proving extremely valuable.

Strategy

The Group’s principal strategy is to continue as a leading player in the data centre market, while also providing a full range of specialist construction services on a nationwide basis.

In furtherance of this strategy, the Company is undertaking two initiatives that have the potential to be of material importance in the context of its turnover and profitability.

The first derives from the Company’s decision to exploit MBG’s reputation for timely delivery of high quality projects, which it has gained from its experience of working on data centres, to build links with developers requiring contractors with similar skills to work on non-data centre related projects.

The initial response has been extremely positive and MBG has commenced negotiations for a contract with a value of approximately £1m for construction works on two units on a retail park. It is also in advanced discussions with clients on a number of other, more substantial projects. The Directors believe that MBG’s construction operation is likely to have a significant, positive impact on the Group’s financial performance.

The second initiative is a joint venture (in which the Company is taking an equity stake) in a start-up company, led by an entrepreneur who had previously developed a significant fit-out business, which will undertake design and re-fit projects. Under the joint venture, MBG has agreed to provide construction services on projects sourced by its partner.

Mountfield Land Limited

Mountfield Land had no turnover during the year to 31 December 2011 (2010: £nil) and recorded a pre-tax profit of £141 (2010: £1,073 loss).

Mountfield Land was acquired by the Company at the time of the admission of its shares to AIM in October 2008. Its business was centred on acquiring options over sites on which it was intended to undertake residential or, more particularly, social housing development schemes. Mountfield Land's business suffered badly as the residential market deteriorated post 2009 and the substantial reduction in the programmes for social housing persuaded the Board that the prospects for Mountfield Land's type of business were not good enough to justify maintaining the subsidiary. As a result the Board has taken the decision to discontinue Mountfield Land's operations and to close the company. There has been a consequent write off of £1.5m from the Group's goodwill as a result of this decision.

Financial

The Company completed a fundraising of £560,000, before expenses, in May 2011, which resulted in a strengthening of the institutional shareholder base and it received a loan from Graham Read of £300,000 (of which £280,700 was outstanding at year end). The loan is unsecured, attracts interest at up to 6% per annum (which was waived by Mr Read in 2011) and has no fixed repayment date. The Board, excluding Mr Read, consider, having consulted with W H Ireland, the Company's nominated adviser, that the terms of the loan are fair and reasonable insofar as shareholders are concerned. The Board remains committed to the effective management of working capital.

The decision to discontinue the business of Mountfield Land and to write down the value of the goodwill arising from the acquisition of Connaught resulted in a reduction in the value of the Group's intangible assets in its Consolidated Statement of Financial Position by £5.0m to £10.8m.

In order to expedite the process of conversion of work in progress into cash, a decision was made to seek an agreed settlement of certain accounts rather than to prolong the timeline through detailed negotiations. It was therefore decided to write down a number of items of work in progress brought forward from 2010 resulting in a 2011 provision within cost of sales of £0.6m.

At the balance sheet date the Company had net current borrowings of £1.6m (2010: £1.8m) and net non-current borrowings of £4.1m (2010: £4.4m).

Outlook

Both Mountfield and Connaught have experienced a very good trading performance in the year to date. In addition, enquiries regarding potential new business and requests for quotations are at levels that the Company has not experienced since before the recession began and the return of tendering activity in the data centre and IT has continued to gather pace into 2012.

As a result of the resurgence of the data centre construction market and the consequent growth in the Group's order pipeline, the improving activity levels in the construction operations under its new initiatives and the result of the first five months' trading, the Board views 2012 and beyond with increasing confidence.

On behalf of the Board we would like to thank our staff whose dedication has helped the business during these lean times. Their professional approach and success in bringing new skills to the business has meant that the Group has emerged with considerably greater potential now than ever before and can continue to look forward to a positive future.

Peter Jay
Executive Chairman

Graham Read
Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £	2010 £
Continuing operations			
Revenue	2	**11,063,041**	8,498,436
Cost of sales		**(10,289,113)**	(7,694,878)
Gross profit		**773,928**	803,558
Administrative expenses		**(1,482,741)**	(1,600,509)
Operating loss – before impairment		**(708,813)**	(796,951)
Impairment of Goodwill	4	**(3,500,000)**	-
Operating loss – continuing operations		**(4,208,813)**	(796,951)
Net finance costs		**(127,517)**	(74,191)
Loss before income tax – continuing operations		**(4,336,330)**	(871,142)
Income tax credit		**102,028**	244,044
Loss for the year from continuing operations		**(4,234,302)**	(627,098)
Discontinued operations			
Loss for the year from discontinued operations		**(1,565,286)**	(1,073)
Total comprehensive loss for the year		**(5,799,588)**	(628,171)
Loss per share			
Basic and diluted loss per share:			
Continuing operations		**(2.11)p**	(0.36)p

Discontinued operations		**(0.78)p**	- p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 £	2010 £
ASSETS			
Non-current assets			
Intangible assets	**4**	**10,788,521**	15,816,529
Property plant and equipment		**127,590**	140,587
Deferred income tax assets		**728,849**	664,240
		11,644,960	16,621,356
Current assets			
Inventories		**75,567**	76,381
Trade and other receivables		**2,292,624**	2,224,408
Cash and cash equivalents	**5**	**328,344**	600,852
		2,696,535	2,901,641
TOTAL ASSETS		**14,341,495**	19,522,997
EQUITY AND LIABILITIES			
Issued share capital		**216,744**	175,311
Share premium		**1,120,432**	608,074
Share based payments reserve		**294,022**	294,022
Merger reserve		**12,951,180**	12,951,180
Reverse acquisition reserve		**(2,856,756)**	(2,856,756)
Retained earnings		**(6,915,201)**	(1,115,613)
TOTAL EQUITY		**4,810,421**	10,056,218
Current liabilities			
Trade and other payables		**3,836,328**	3,245,601
Short-term borrowings	**6**	**1,619,442**	1,786,357
Finance lease liabilities	**6**	**8,482**	8,573
Income tax		**-**	30
		5,464,252	5,040,561
Non-current liabilities			
Loan notes	**6**	**4,051,513**	4,412,705
Finance lease liabilities	**6**	**15,309**	13,513
Provision for deferred taxation		**-**	-
		9,531,074	9,466,779
TOTAL EQUITY AND LIABILITIES		**14,341,495**	19,522,997

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £	2010 £
Cash flows from operating activities			
Operating loss – continuing operations		**(708,813)**	(796,951)

Operating profit (loss) – discontinued operations		**141**	(1,073)
Adjusted for:			
Depreciation		**26,968**	46,839
Loss on disposal of property, plant and equipment		**1,400**	3,091
Decrease in inventories		**814**	49,543
(Increase)/decrease in trade and other receivables		**(68,216)**	1,008,542
Increase/(decrease) in trade and other payables		**520,651**	(778,501)
Cash used in operations		**(227,055)**	(468,510)
Finance costs		**(57,484)**	(37,501)
Finance income		**13**	1,570
Taxation received		**-**	100,663
Net cash outflow from operating activities		**(284,526)**	(403,778)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(5,358)**	(9,630)
Proceeds from sale of fixed assets		**1,800**	7,941
Net cash used in investing activities		**(3,558)**	(1,689)
Cash flows from financing activities			
Proceeds from issue of shares		**621,490**	120,000
Costs of shares issued		**(67,699)**	-
Finance lease rentals		**(10,108)**	(16,115)
Repayment of non-convertible loan notes		**(472,992)**	(420,621)
Proceeds from short-term loans		**280,700**	350,000
Net cash flows generated from financing activities		**351,391**	33,264
Net cash increase/(decrease) in cash and cash equivalents		**63,307**	(372,203)
Cash and cash equivalents brought forward		**(362,513)**	9,690
Cash and cash equivalents carried forward	**5**	**(299,206)**	(362,513)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	**Share premium**	**Share based payment reserve**	**Merger reserve**	**Reverse acquisitio n reserve**	**Retained earnings**	**Total**
	£	£	£	£	£	£	£
At 1 January 2010	171,311	492,074	294,022	12,951,180	(2,856,756)	(487,442)	10,564,389
Total comprehensive income for the year	-	-	-	-	-	(628,171)	(628,171)

Shares issued in period	4,000	116,000	-	-	-	-	120,000
At 31 December 2010	175,311	608,074	294,022	12,951,180	(2,856,756)	(1,115,613)	10,056,218
Total comprehensive income for the year	-	-	-	-	-	(5,799,588)	(5,799,588)
Shares issued in period	41,433	580,057	-	-	-	-	621,490
Costs of shares issued	-	(67,699)	-	-	-	-	(67,699)
At 31 December 2011	**216,744**	**1,120,432**	**294,022**	**12,951,180**	**(2,856,756)**	**(6,915,201)**	**4,810,421**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

1.1 General information

Mountfield Group plc is a company incorporated in England and Wales. The registered number of the Company is 06374598. The address of its registered office is 3C Sopwith Crescent, Wickford Business Park, Wickford, Essex SS11 8YU.

1.2 IFRS compliance and adoption

Statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), IFRIC Interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The adoption of these standards has not resulted in any changes to the Group's accounting policies and has not affected amounts reported in prior years.

The financial statements have been prepared under the historical cost.

Sources of estimation uncertainty

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis and any revision to estimates or assumptions are recognised in the period in which they are revised and in future periods affected.

Significant judgements

The material areas in which estimates and judgements are applied are as follows:

Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the Company to estimate future cashflows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £10.8 million. Details regarding the goodwill carrying value and assumptions used in carrying out the impairment reviews are provided in note 9.

Receivables
The Group reviews the net recoverable value of its accounts receivables on a periodic basis to provide assurance that recorded accounts receivables are stated net of any required provision for impairment. Factors that could impact recoverability include the financial propriety of customers and related economic trends. Changes in these factors that differ from managements estimates can result in an adjustment to the carrying value and amounts charged to income in specific periods. More details on gross balances and provisions made are included in note 12.

Accounting for construction contracts
In accordance with IAS 11 “Construction Contracts”, management is required to estimate total expected contract costs and the percentage of contract completion in determining the appropriate revenue and profit to recognise in the period. The Group uses the work of expert professional Chartered Surveyors to determine accurately the level of work that has been completed by the year-end. The Group also has appropriate control procedures to ensure that all estimates are determined on a consistent basis and are subject to appropriate review and authorisation.

Significant judgements

Deferred taxation
The Group provides for deferred taxation using the liability method. Deferred tax assets are recognised in respect of tax losses where the Directors believe that it is probable that future profits will be relieved by the benefit of tax losses brought forward. The Board considers the likely utilisation of such losses by reviewing budgets and medium term plans for each taxable entity within the Group. If the actual profits earned by the Group’s taxable entities differ from the budgets and forecasts used then the value of such deferred tax assets may differ from that shown in these financial statements.

Presentation and functional currency
The financial statements are presented in pounds sterling, which is the Group’s functional currency.

1.3 New standards and interpretations

As at the date of approval of these financial statements, the following standards were in issue but not yet effective. These standards have not been adopted early by the Company as they are not expected to have a material impact on the financial statements other than requiring additional disclosure or alternative presentation:

		Effective Date
IFRS 1	First time adoption (amendment)	1st July 2011
IFRS 7	Disclosures – Transfers of financial assets (amendment)	1st July 2011
IFRS 9	Financial instruments*	1st January 2015
IFRS 10	Consolidated financial statements	1st January 2013
IFRS 11	Joint arrangements	1st January 2013
IFRS 12	Disclosure of interests in other entities	1st January 2013
IFRS 13	Fair value measurement	1st January 2013
IAS 1	Presentation of items of other comprehensive income (amendment)	1st July 2012
IAS 12	Deferred tax – Recovery of underlying assets (amendment)	1st January 2012
IAS 19	Employee benefits (revised)	1st January 2013
IAS 27	Separate financial statements (revised)	1st January 2013
IAS 28	Investments in associates and joint ventures (revised)	1st January 2013
IAS 32	Financial Instruments: Presentation (amendment)	1st January 2014

* This standard has not yet been endorsed by the EU.

The International Financial Reporting Interpretations Committee has also issued interpretations which the Company does not consider will have a significant impact on the financial statements.

1.4 Basis of consolidation

Subsidiaries
The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Subsidiaries include all entities over which the Group has the power to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control commences until the date that control ceases. Intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 2 to the Company's separate financial statements.

Business combinations and goodwill
On 16 October 2008, Mountfield Group plc ("the Company") acquired the entire issued share capital of Mountfield Building Group Limited, which has one wholly owned subsidiary, MBG Construction Limited (the "MBG Group") acquired in August 2008. The consideration of £7,622,000 was satisfied by the issue of 51,220,000 Ordinary Shares of 0.1p each at a price of 10p per share and by the issue of £2,500,000 unsecured non-convertible loan notes.

As a result of these transactions, the former shareholders of MBG Group became the majority shareholders in the Company. Accordingly, the substance of the transaction was that MBG Group acquired the Company in a reverse acquisition.

Under IFRS 3 'Business Combinations', the acquisition of MBG Group has been accounted for as a reverse acquisition.

The acquisitions of Connaught Access Flooring Limited, MBG Construction Limited and Mountfield Land Limited are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree plus any costs directly attributable to the business combination.

Goodwill
Goodwill on acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets and contingent liabilities acquired. Identifiable assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but tested annually for impairment or when trigger events occur, and is carried at cost less accumulated impairment losses.

1.5 Revenue recognition
Revenue is stated exclusive of VAT and consists of sales of services to third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Retentions are recognised throughout the life of a contract and are deducted from the sales invoice.

Revenue relating to contracts includes the amount initially agreed in the contract plus any variations in contract work to the extent that it is probable they will result in revenue and can be reliably measured. As soon as the outcome of the contract can be measured reliably, revenue and expense is recognised in the statement of comprehensive income on a stage of completion basis. The stage of completion is determined by reference to a survey of work performed. Any losses are recognised immediately in the statement of comprehensive income as soon as they are foreseen.

1.6 Contract work in progress
Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of contract costs incurred for work performed to date to the estimated total contract costs or the proportion of the value of work done to the total value of work under the contract, except where these would not be representative of the stage of

completion. Full provision is made for all known or expected losses on individual contracts immediately once such losses are foreseen.

1.7 Amounts recoverable on long term contracts

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen. Amounts which are recoverable on long-term contracts are shown within debtors under the heading ‘Amounts Recoverable on Contracts’ which have not yet been invoiced and are stated net of discounts allowed.

1.8 Share-based payments

The Group makes equity-settled share-based payments to its employees and directors. The fair value of options and warrants granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options and warrants granted is measured based on the Black-Scholes framework, taking into account the terms and conditions upon which the instruments were granted. At each balance sheet date, the Company revises its estimate of the number of options and warrants that are expected to become exercisable.

1.9 Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the year to which they relate.

1.10 Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

Property, plant and equipment is depreciated over the estimated useful life of the asset, as follows:

Freehold land	Not depreciated
Freehold buildings	2% per annum straight line
Leasehold improvements	Over the period of the lease
Fixtures, fittings and equipment	10% per annum reducing balance
Plant and equipment	20% - 25% per annum straight line
Motor vehicles	20% - 25% per annum straight line

1.12 Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. All other leases are classified as operating leases. Classification is made at the inception of the lease.

Assets obtained under finance leases are capitalised as property, plant and equipment and depreciated over the shorter of the lease term and their useful lives. Obligations under such arrangements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce constant periodic rates of charge on the net obligations outstanding in each period.

Rentals paid under operating leases are charged to the statement of comprehensive income as incurred on a straight line basis over the lease term.

1.13 Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving items. Cost includes direct materials, direct labour and those overheads that have been incurred in bringing the inventory to its present location and condition.

1.14 Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

The financial instruments, which excludes current receivables and payables, comprise cash or overdraft and unsecured non-convertible loan notes. The directors consider the fair value not to be materially different to the carrying value for the financial instruments. During the years under review, the Group did not enter into derivative transactions and did not undertake trading in any financial instruments.

1.15 Trade and other receivables

Trade receivables are recognised at fair value less any provision for impairment. A provision for impairment is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The fair value of trade and other receivables are equivalent to their book values as set out in the financial information.

1.16 Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, demand deposits and other short-term highly liquid investments that is readily convertible to a known amount of cash and is subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts.

1.17 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

1.18 Share capital

The Company has one class of ordinary share, which carries no rights to fixed income. All ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company’s residual assets.

Ordinary shares issued by the Company are classified as equity and recorded at fair value on initial recognition received, net of direct issue costs.

1.19 Trade and other payables

Trade payables are initially recognised at fair value and subsequently at amortised cost. The fair value of the trade and other payables are equivalent to their book values as set out in the financial information.

1.20 Taxation

The taxation charge represents the sum of current tax and deferred tax.

The current tax charge is based on the taxable loss/profit for the period using the tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from the net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided using the liability method, in respect of temporary differences between the carrying amount of the assets and liabilities and their tax base. Deferred tax is recognised in the statement of comprehensive income, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised in equity.

Deferred tax assets are recognised only when it can be regarded as probable that there will be suitable taxable profits in the foreseeable future against which the deductible temporary difference can be utilised. Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

2 Segmental reporting

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 31 December 2011.

The chief operating decision-maker has been identified as the Board of Directors (the Board). The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports and on the internal report's structure.

Segment performance is evaluated by the Board based on revenue and profit before tax (PBT). Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, such as centrally managed costs relating to individual segments and costs relating to land used in more than one individual segment.

Given that income taxes and certain corporate costs are managed on a centralized basis, these items are not allocated between operating segments for the purposes of the information presented to the Board and are accordingly omitted from the analysis below.

The Group comprises the following segments:

Construction
Direct contracting and trade contracting services to both main contractors and corporate end users.

Fit out
Providing raised flooring systems to both main contractors and corporate end users

Land sourcing
Sourcing land and enhancing value.

Segmental operating performance

	2011		2010	
	Revenue	**Profit /(loss) before tax**	Revenue	Profit / (loss) before tax
	£'000	**£'000**	£'000	£'000
Construction	**7,581**	**(811)**	4,516	(953)
Fit-out	**3,672**	**(3,186)**	4,010	309
Land sourcing	**-**	**(1,528)**	-	(1)
	11,253	**(5,525)**	8,526	(645)
Inter-segmental revenue and unallocated	**(190)**	**(339)**	(28)	(227)

	11,063	**(5,864)**	8,498	(872)

Business segments assets and liabilities

	2011		2010	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Construction	**2,039**	**4,301**	1,503	3,378
Fit-out	**1,236**	**505**	1,814	827
Land sourcing	**-**	**2**	38	9
	3,275	**4,808**	3,355	4,214
Goodwill – Construction	**5,914**	**-**	5,914	-
Goodwill – Fit-out	**4,874**	**--**	8,374	-
Goodwill – Land sourcing	**-**	**-**	1,528	-
Other unallocated assets & liabilities	**278**	**4,723**	352	5,253
	14,341	**9,531**	19,523	9,467

Unallocated assets consist of deferred tax, trade and other receivables and cash held by the Parent Company. Unallocated liabilities consist of trade and other payables and interest bearing loans owed by the Parent Company.

Revenue by geographical destination
All revenue is attributable to the United Kingdom market.

Total assets including property, plant and equipment and intangible assets are all held in the United Kingdom.

3 Loss per share

The basic loss per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average number of shares in issue. In calculating the diluted loss per share, share warrants outstanding have been taken into account where the impact of these is dilutive.

	2011	2010
Basic and diluted	**£**	£
Loss for the financial year –continuing operations	**(4,234,302)**	(627,098)
Loss for the financial year – discontinued operations	**(1,565,286)**	(1,073)
	(5,799,588)	(628,171)
Weighted average number of shares	**200,902,211**	172,648,673

In the year ended 31 December 2011, the conditions attached to the warrants were not met and as such there is no dilutive effect on the average weighted number of ordinary shares or the diluted loss per share.

4 Intangible assets

The carrying amount of goodwill relates to the construction and fit-out, and land sourcing segments of the business.

	Goodwill £
Cost	
At 1 January 2010	15,816,529
Additions	-
At 31 December 2010	15,816,529
Additions	-
At 31 December 2011	**15,816,529**
Amortisation and impairment	
At 1 January 2010 and 31 December 2010	-
Impairment loss – continuing operations	3,500,000
Impairment loss – discontinued operations	1,528,008
Balance at 31 December 2011	**5,028,008**
Net book value	
At 31 December 2011	**10,788,521**
At 31 December 2010	15,816,529

Impairment of goodwill

Goodwill has been allocated for impairment testing to three groups of cash – generating units ('CGU') identified according to operating segments being Construction, Fit out and Land sourcing as disclosed in Note 2.

For the purposes of impairment testing of goodwill the carrying value of the CGUs (including goodwill) are compared to the recoverable amount of the CGUs and any deficits are provided. The carrying value of the CGUs includes only those assets that can be attributed directly, or allocated on a reasonable and consistent basis.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on three year financial budgets approved by management. Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in the value-in-use calculations for each CGU are as follows:

- Terminal value based on between 2.25% future growth in cash flows
- Discount rate of 7.37%

Revenue was based upon actual amounts measured in prior periods which were projected forward in accordance with expected trends.

The CGU called Land sourcing was originally set-up to exploit land opportunities in the residential and social housing sector. The Board has determined that given the current economic climate, there are better opportunities to be exploited elsewhere. The Board has therefore impaired the full carrying value of Goodwill of this CGU (£1,528,008).

In addition, a provision has been made against the Goodwill of Fit out CGU. Although, the business continues to deliver significant profits, forecast growth has been reduced to reflect current market conditions, thereby reducing projected future cash flows.

5 Cash and cash equivalents

	2011 £	2010 £
Cash at bank and in hand	**328,344**	600,852

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

The Group currently has a bank overdraft facility of £400,000 with Barclays Bank Plc, which is secured by a fixed charge over the book debts and property of the Group and a floating charge over all other assets of the Group and directors' limited guarantees for up to £400,000

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at 31 December 2011:

	2011 £	2010 £
Cash at bank and in hand	**328,344**	600,852
Bank overdraft	**(627,550)**	(963,365)
	(299,206)	(362,513)

6 Borrowings

	2011 £	2010 £
Current		
Bank overdrafts	**627,550**	963,365
Net obligations under finance leases	**8,482**	8,573
Short-term unsecured loan	**350,000**	350,000
Short-term unsecured loan from Director	**280,700**	-
Unsecured non-convertible loan notes	**361,192**	472,992
	1,627,924	1,794,930
Non - current		
Unsecured non-convertible loan notes	**4,051,513**	4,412,705
Net obligations under finance leases	**15,309**	13,513
	4,066,822	4,426,218
Total borrowings	**5,694,746**	6,221,148

On 16 October 2008 the Company issued £2,500,000 unsecured non-convertible loan notes to the vendors of Mountfield Building Group Limited and £3,000,000 unsecured non-convertible loan notes to the vendors of Connaught Access Flooring Holdings Limited as part of the consideration for the acquisition of the entire share capital of each company. Repayments of £472,992 (2010: £420,621) were made against the loan notes in the period.

The loan notes are non-transferrable and carry interest at a rate of 2 per cent above the base rate of Barclays Bank plc per annum. The non–current portion of the unsecured loan notes is redeemable on 30 June 2016. The current portion of the unsecured loan notes is due for repayment during 2012.

During the year, all interest on the loan notes was waived.

The short-term unsecured loan was drawn down in June 2010 to provide additional working capital. It was due for repayment on 14 December 2011 but repayment has been deferred to a number of installments being £100,000 on 1 July 2012 and four further installments each of £62,500 on 27 July, 31 August, 30 September and 31 October 2012. Accrued interest to 31 December was paid on 5 January, net of income tax. Interest continues to accrue at 20% p.a. and interest accrued to 30 June 2012 is payable on 1 July 2012. Interest accrued from 1 July is payable with final installment of the loan on 31 October 2012. At the balance sheet date £108,306 of interest (gross of income tax) had accrued.

The short-term unsecured loan from a Director accrues interest at 6% pa but all interest to 31 December 2011 was waived.

	2011	2010
	£	£
Non-current borrowings		
Analysis		
Repayable between one and two years	**341,892**	341,892
Repayable between two and five years	**3,709,621**	4,070,813
Repayable after five years	**-**	
	4,051,513	4,412,705

	2011	2010
	£	£
Net obligations under finance leases		
Analysis		
Repayable within one year	**8,482**	8,573
Repayable between one and five years	**15,309**	13,513
	23,791	22,086
Included in current liabilities	**(8,482)**	(8,573)
	15,309	13,513