



Annual Report 2011

MICHELMERSH Brick Holdings PLC

BRITAIN'S BRICK SPECIALISTS



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Michelmersh Brick Holdings Plc
Financial Statements
Chairman's Statement

I am pleased to report the Group's results for the year ended 31 December 2011. This is the first full year incorporating the Freshfield Lane Brickworks (FLB) acquisition and reflects work done to strengthen our business in a number of areas.

Turnover increased by 4% to £24.3 million (2010: £23.3 million) and gross margins improved to 30%, despite significant cost pressures, as a result of improved management and focus under the new corporate identity and structure. On a like-for-like basis, operating profit increased from £504,000 to £1,335,000, which helped to generate earnings per share of 2.60 pence (2010: loss per share 9.82 pence).

The results for the year reflect the successful restructuring of the business in 2010. The Group has seen the benefits of the corporate reconstruction, integration of FLB into the Group, rationalised production at Telford, the geographical advantage in serving the more robust South Eastern market and the business is set to benefit from scarcer supply in the market of our product offering.

During the year, we agreed new bank facilities, progressed our development opportunities and therefore are able to benefit from, and potentially participate in, the further industry consolidation which we believe will take place over the next 18 months.

Financial Highlights

	2011	2010
Turnover	£24.3m	£23.3m
Operating profit before restructuring costs	£1.335m	£0.5m
Operating profit /(loss)	£1.335m	(£6.916m)
EPS	2.60 pence	(9.82 pence)
Net assets per share	60 pence	64 pence

Our term facilities with Barclays Bank were renewed in December 2011 with a five year term loan that restored the true nature of the business funding and demonstrates the continued and enthusiastic support of our principal bank. As a result, the balance sheet shows net current assets of £3.2 million compared to net current liabilities of £6.5 million in the comparative period, and net borrowings of £19.8 million (2010: £20.4 million).

As a part of the restructuring of the Group's funding, indebtedness to the principal shareholder and the FLB vendors was amended by mutual agreement, resulting in a longer debt profile that further reduces pressure on seasonal cash flows.

Cash generated by operating activities of £1.1 million (£0.4 million) contributed to the reduction in net debt over the year.

The Group's property and mineral assets were revalued, by independent external valuers, during 2011, which resulted in a £4.7 million reduction in asset value. The basis of valuation recognises the increase in the age of the properties and current rebuild costs, but the major areas of reduction related to assets with development potential, which reflect revised timing assumptions on the receipt of proceeds in the light of the current market and the potential use of the disused factory site at Telford for residential development.

Production capacity was reduced at Duntons, the Group's smallest plant, resulting in a number of redundancies at the end of the year. As a result of a reduced contribution from this plant going forward, the Group also suffered an impairment charge of £1.3 million. The overall impact of impairment along with revaluation has been to reduce the value of the Group's fixed assets by approximately £6 million.

Our net assets per share has therefore fallen, but at 60 pence, represents a prudent base and considerable premium over the recent share price.

Dividend

The Directors do not recommend the payment of a dividend for the year but it is our objective to return to dividend payments as soon as reasonably practicable, when market and economic circumstances permit.

Michelmersh Brick Holdings Plc
Financial Statements
Chairman's Statement (continued)

Land and Reserves Assets

Despite having made disappointingly slow progress with our consented land at Telford, we believe that this is now nearing a conclusion under the expert determination process.

We are, however, bringing forward further surplus land at Telford, which is not optioned, and following extensive consultation with the local authority and the public, a planning application, for over 170 residential units will be made within the next few weeks.

Since the year end, we have received consent for a time extension and additional clay reserves at our Dunton site and are rationalising our consents at our Michelmersh works.

The Board

In May 2011 Peter Sharp, was appointed to the Board as Operations Director. Peter joined the Group in 2004 and has 28 years experience in the clay and ceramic manufacturing industry. We now have a strong, balanced team capable of meeting current and future challenges.

People

Our workforce is hardworking and dedicated and I extend my thanks to them in these continuing difficult times. We are fortunate in having a stable and loyal group of people without whom we could not have accomplished the progress we have made to date.

Outlook

Whilst there was a small uptick in national demand for bricks in 2011, the economy in the South East of England appears more resilient than the remainder of the country. We are now seeing house builders adjust to a smaller economy where new build will be constrained, not only by the complexities of the planning process, but by the availability of mortgage finance. The market is not only divided geographically, but also between 'stock' bricks required for appearance, (often driven by planning conditions), and 'wire-cut' bricks which are in good supply and serve the economically weaker areas of the country where volume house builders are more active. Our competitors have made further plant closures in 2011 and already in 2012. Our business will in due course benefit from the reduction in over capacity in the high end, quality brick market.

Energy continues to be a key issue and despite some abatement in late 2011, long term trends will be upwards, and with the introduction of Phase 3 of EU-ETS in 2013, the carbon regime will change significantly for the industry and drive further the focus on matching supply to demand. This, along with other factors, will constrain investment in the UK by internationally owned businesses.

There is a strong push to gain a recovery of costs and ultimately this will work its way through into the bottom line, but in the meantime our business is well invested, and has a high degree of complementary products demanded by an increasingly discerning market.

We are aware of a number of potential opportunities to grow our business and we will consider all of these, and believe that we are uniquely able to progress and lead them. We are able to look forward with cautious optimism.

Eric Gadsden
Chairman

26 March 2012

Michelmersh Brick Holdings Plc
Financial Statements
Chief Executive's Review

Clay Products

We have continued to make good progress over the year. We manufactured 70 million units and sold 70 million units, and achieved an improved price of £345 per thousand (2010: £330 per thousand) while industry prices elsewhere are flat.

Our new centralised sales team is working well, with all of our businesses contributing to the overall result. Blockleys performed particularly well, which is the reward for the hard work put in to re-structure the business and focus it on its traditional strengths of clay paving and specification quality wire cut bricks. Blockleys performance benefited from stability under the new structure after a very difficult period of redundancy and closure in 2010. In 2011, it won high profile orders and opened new routes to market through our strengthened South Eastern focus, in particular with London based architects. FLB continues to operate at full capacity and with record production performances.

In 2011 the Group saw the successful launch of two new blended products, received 11 nominations and two category wins at the 2011 Brick Awards and introduced a new comprehensive specifiers guide and literature.

Our role in improving the UK's built environment has been emphasised with our involvement in key regeneration programmes such as the St. George (Berkeley Group) Battersea Reach project, providing an award winning prestige development of apartments and over 30,000 sq. ft. of commercial space. Our products are also being used in an important urban regeneration project in the St. James, Arton Wilson project in Roehampton.

Examples of our specification successes include Roger Stephenson Architects contemporary award winning design of the Holiday Inn, Oxford Road in Manchester. In addition, 2011 saw the completion of the Hopkins Architects designed extension to Henrietta Barnet School sympathetically complementing the original Lutyens building, in the heart of Hampstead Garden Suburb in North London. The Falmer Academy in Brighton was the first project to feature our new Mosaic range.

Repair Maintenance and Improvement distribution remained strong with robust demand for core products, improving and growing our relationships with key national and regional merchant distribution base. There was also a notable growth in high end, high value housing projects particularly in the South East.

The Group saw continued success in the export market through 2011, with over 1.4 million pavers shipped to the Pearl Project, Doha and a further 300,000 pavers supplied to Norway and Scandinavian markets. There were also new orders for over 100,000 bricks, pavers and special shapes for the south of France. Export enquiries remain robust. As we have noted in previous statements, brick demand has reduced dramatically in the past five years, but in 2011, demand increased marginally and national brick stocks reduced. These are tentatively encouraging signs, but we believe that 2012 will remain challenging for the industry as a whole.

The Construction Materials Price Index has increased by 40% since 2005 whereas the comparative brick figure is under 20%. Brickworks continue to close, and there are signs that the underinvestment of past years is being seen in plant breakdowns. All these factors will in due course lead to a rebalancing to the long term rates of return necessary to maintain this capital intensive industry where barriers to entry are so high.

Against this background we have continued to gain market share and presence with our well invested plants.

Management Systems

We continued to improve and integrate our operational management systems during the year, highlighted by our health and safety audit programme, with all five operating sites achieving improvement. We also extended and implemented our successful site operating manuals to Freshfield Lane. Since its launch in 2001, we have been active members of The Ceramic Industry Health and Safety Pledge and we are proud to have received three awards at the annual conference in 2011.

Our environmental management system at Charnwood was updated during the year and the site is now fully operating to ISO 14001 and we expect to achieve full independent accreditation in due course.

Michelmersh Brick Holdings Plc
Financial Statements
Chief Executive's Review (continued)

Staff Development

We are pleased to note that more than 50% of our Blockleys employees have achieved our targeted lean manufacturing qualification NVQ Business Improvement Techniques. Several other employees are currently studying the programme that, as detailed earlier, has helped to deliver real improvements in performance.

During the year we appointed a group health safety and environmental manager to focus our strategy going forward which is to further integrate our site and group systems and continue the development of our environmental and sustainability management.

Landfill

Our landfill facility at Telford produced a good performance during 2011 with turnover increasing to £686,000 (2011: £531,000) on a tonnage of 190,000 (2011: 171,000). We have other opportunities to progress landfill facilities at our Charnwood, Dunton and FLB sites which we are actively pursuing.

Land Assets

As noted in the Chairman's statement, progress remains slow with Persimmon on the fully consented 168 units at Telford, but is reaching a conclusion. At the same time, we are making excellent progress on obtaining outline consent on our surplus factory land at Telford which will produce a further 170 units. This is a significant step in finalising the shape of Blockley's future.

We have also received planning committee approval for a time extension and additional clay workings at our Dunton site and approval for a comprehensive long term scheme which will improve operational efficiency at Michelmersh.

Outlook

Whilst 2012 has started reasonably well, we believe that this year will enjoy a stronger second half. Sales and margin have been in line with our targets for the start of the year but there remains uncertainty in the economy. We are focused on recovering prices, alongside the rest of the industry, but the challenges to achieve this are outlined above.

The value of our brands continues to gain ground and there is a growing appreciation of the contribution of the brick businesses, not only to the built environment, but also to the communities in which they are based. We have hosted a number of visits from politicians in the last year and it is encouraging to note the increased interest in understanding the issues faced by the industry.

The Group is now stable, profitable and cash generating, with re-balanced funding in place. We firmly believe that there will be further opportunities in our chosen field and we have the team and resources in place to make the right strategic decisions and to build a leading position in our market.

Martin Warner
Chief Executive

26 March 2012

Michelmersh Brick Holdings Plc
Financial Statements
Officers and Professional Advisers

DIRECTORS	E J S Gadsden – Chairman * + M R Warner MSc FRICS – Chief Executive F J Hanna – Commercial Director S H P Morgan BA ACA – Finance Director P N Sharp – Operations Director R W Carlton-Porter * + A R G Hardy * +
COMPANY SECRETARY	S H P Morgan
REGISTERED OFFICE	Freshfield Lane Danehill Haywards Heath West Sussex RH17 7HH
NOMINATED ADVISER AND BROKER	Westhouse Securities Limited One Angel Court London EC2R 7HJ
AUDITORS	Nexia Smith and Williamson Audit Limited Chartered Accountants and Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA
SOLICITORS	Burgess Salmon LLP One Glass Wharf Bristol BS2 0ZH
REGISTRARS	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA
FINANCIAL PUBLIC RELATIONS	Tavistock Communications Limited 131 Finsbury Pavement London EC2A 1NT
PRINCIPAL BANKERS	Barclays Bank plc 15 Colmore Row Birmingham B3 2WN ABN AMRO Commercial Finance plc Sheencroft House 10-12 Church Road Haywards Heath West Sussex RH16 3SN

* Member of the Audit Committee

+ Member of the Remuneration Committee

Michelmersh Brick Holdings Plc
Financial Statements
Directors' Biographies

Eric Gadsden, aged 67 – Chairman

In 1997, Eric Gadsden formed the Company with Martin Warner. Eric has spent all his working life in the construction industry and is currently Managing Director of W.E. Black Limited, a Buckinghamshire based construction and property company.

M R Warner MSc FRICS, aged 58 – CEO

Martin formed Michelmersh with Eric Gadsden in 1997 and has served as Chief Executive since that date. Martin is a Fellow of the Royal Institution of Chartered Surveyors. He is also a Director of the Brick Development Association

F J Hanna, aged 43 – Group Commercial Director

Frank was appointed to the Board of MBH plc following its acquisition of Freshfield Lane Brickworks in March 2010. Frank joined FLB 1991, having formally worked for Hanson Brick Ltd, and became a member of the Board in 1996 as sales and technical director before becoming a shareholder in FLB in 2000. Frank is a Board member of the Brick Development Association.

S H P Morgan BA ACA, aged 51 – Finance Director

Stephen Morgan is a Chartered Accountant having trained with KPMG. He was previously Finance Director and Company Secretary at Hawtin PLC, an AIM listed property company where he experienced a range of corporate acquisitions and disposals. He was appointed as Finance Director and Company Secretary on 9th November 2010.

Peter Sharp, aged 44 – Group Operations Director

Peter Sharp has more than 25 years experience in the heavy clay and ceramics sector. Following 14 years with Ibstock Brick, Peter Joined the group as Works Manager at Charnwood. He was appointed Group Production Director in 2006 and Group Operations Director in 2009. Peter is a member of the Institute of Materials, Minerals & Mining and holds various qualifications in ceramics, management and building construction. He joined the Board in May 2011.

Bob Carlton-Porter, aged 67 – Non-Executive Director

An Associate of the Chartered Institute of Bankers and a Fellow of the Association of Corporate Treasurers, Bob Carlton-Porter is an international industrialist with over 30 years experience as a financial and commercial director. He was previously Group Finance Director of English China Clays PLC, Chairman of Aram Resources PLC and Newport Holdings PLC, and more recently ROK Property Solutions PLC.

Alan Hardy, aged 53 – Non-Executive Director

Alan joined the Board of MBH plc on its acquisition of FLB. He has worked at FLB since 1983 apart from a period of time at Redland Bricks Limited in 1985. Alan became a shareholder in FLB in 1983 and he became managing director in 1986. Alan is also a Justice of the Peace for the Sussex Northern Bench, having been appointed in 1992.

Michelmersh Brick Holdings Plc
Financial Statements
Directors' Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The principal activity of the main trading subsidiary company was the manufacture of bricks, with another subsidiary operating a landfill site. All other subsidiary companies were dormant.

The Directors are satisfied with the performance of the Group for the year and with the position of the Group at 31 December 2011 given the turbulent economic conditions. The Directors monitor the business predominantly through review of financial results, including revenue, operating profit and cash flow, as well as through quality control indicators such as health and safety reporting, employee welfare and efficiency reviews. The Directors are satisfied that these indicators adequately address the principal business risks faced by the Group which include energy prices, the failure of quality control systems and skill shortages as well as the prevailing economic climate. For further information regarding the business in the year, refer to the Chairman's Statement and the Chief Executive's Review.

FUTURE DEVELOPMENTS

The Directors consider the prospects for the Group to be encouraging through increased efficiency as a result of past and ongoing investment, together with current developments in the construction sector.

TRADING RESULTS AND DIVIDENDS

The trading results for the year and the Group's financial position at the end of the year are shown in the financial statements on pages 12 to 41.

The Directors do not recommend the payment of a dividend for the year (2010: £nil).

DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The Directors who served the Company during the year together with their beneficial interests in the shares of the Company were as follows:

	31 December 2011	31 December 2010
	Ordinary Shares of 20p each	Ordinary Shares of 20p each
E J S Gasden	22,658,257	22,658,257
M R Warner +	6,588,732	6,588,732
R W Carlton-Porter *	76,628	76,628
F Hanna	1,262,917	1,262,917
A R G Hardy	6,559,391	6,559,391
S H P Morgan	—	—
P N Sharp (appointed 16 May 2011)	—	—
	<u> </u>	<u> </u>

+ M R Warner is a trustee of a discretionary trust which is the registered owner of 5,338,393 of Ordinary Shares which are included in the above.

* R W Carlton-Porter has a controlling interest in a business which owns 76,628 Ordinary Shares.

Analysis of Directors' emoluments for the year is shown in note 8 of the financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Directors' Report (continued)

EMPLOYEES

The Group's loyal and skilled workforce is essential for its future prosperity. Where appropriate, employees are provided with information on matters of interest and concern to them. The Group encourages contact and interaction between members of staff at all levels.

EMPLOYMENT OF THE DISABLED

It is the policy of the Group to give full and fair consideration to the employment of disabled persons in jobs suited to their individual circumstances and, as appropriate, to consider them for recruitment opportunities, career development and training. Where possible, arrangements are made for continuing employment of employees who have become disabled whilst in the Group's employment.

CORPORATE GOVERNANCE

The Company's shares are traded on the AIM Market of the London Stock Exchange and the Company is not therefore required to report on compliance with the Combined Code ("The Code"). However the Board of Directors supports The Code, and also the recommendations of the Quoted Companies Alliance ("QCA") in its bulletin "Guidance for Smaller Quoted Companies". The bulletin provides a series of recommendations for smaller quoted companies in approaching the question of corporate governance.

Accordingly, the Board has established an Audit Committee and a Remuneration Committee, and complies with The Code in areas where it is felt justified by reference to the QCA comments as being relevant to a business the size of Michelmersh Brick Holdings Plc.

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Chief Executive's Review on pages 1 to 4. In addition, note 18 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk. The company meets its funding requirements through a combination of a Term Loan, asset backed finance agreements and overdraft facilities.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

INTERNAL CONTROL

The Directors acknowledge their responsibilities for the Group's system of internal control. The Board has continued to review the effectiveness of the systems, and has considered major business and financial risks. The Directors believe that the established systems of internal control are appropriate to the business.

POLICY ON PAYMENT OF CREDITORS

It is the policy of the Group to pay all creditors promptly. The average credit age for the Group is 25 days (2010: 19 days). The Group has continued to pay creditors on terms consistent with 2010.

FINANCIAL INSTRUMENTS

The Group's policy is to finance working capital through appropriate bank borrowings and retained earnings. The Group is exposed to the usual credit and cash flow risk associated with selling on credit and manages this through credit control procedures. For further details refer to note 18 in the financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Directors' Report (continued)

HEALTH AND SAFETY

The Group has established a procedure for works safety inspections, the results of which are reviewed for each location. This programme is supplemented by risk surveys carried out both internally and by external specialist consultants.

In addition to the foregoing, there is regular communication with employees on safety matters. There is an ongoing safety training programme for employees. The induction programme for all new employees emphasises all safety considerations relevant to the Group's operations.

All safety incidents are fully investigated and where appropriate, employees are made aware of the circumstances relating thereto in order to minimise the chances of any recurrence.

ENVIRONMENT

The Michelmersh Group is committed to the protection of the environment and aims to minimise the impact of its business activities by maintaining a management structure, which ensures effective environmental management and compliance with all relevant legislation. Management will review environmental considerations as part of the decision making process, and strive to improve performance by minimising waste, maximising recycling and optimising the use of energy, water and raw materials. Management will communicate and consult with interested parties on environmental issues, and provide employees with relevant environmental training.

PROVISION OF INFORMATION TO AUDITORS

So far as each of the Directors who held office at the date of this Director's Report is aware:

- There is no relevant audit information of which the Company's auditors are unaware: and
- Each Director has taken all 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.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Group and Parent Company financial statements in accordance with the applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements of the parent company in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and have prepared the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair review of the state of affairs of the Company and of the Group for that period. In preparing these 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 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 Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and Group and hence take reasonable steps for the prevention and detection of fraud and other irregularities.

Michelmersh Brick Holdings Plc
Financial Statements
Directors' Report (continued)

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

DONATIONS

No charitable or political donations were made by the Group in the year.

AUDITORS

A resolution to re-appoint Nexia Smith and Williamson Audit Limited as auditor for the ensuing year will be put to the Annual General Meeting.

Signed by order of the Board

M R Warner
Director

Approved by the Directors on 26 March 2012

Michelmersh Brick Holdings Plc
Registered in England and Wales No. 03462378

Michelmersh Brick Holdings Plc
Financial Statements
Independent Auditors' Report to the Members of Michelmersh Brick Holdings Plc

We have audited the financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2011 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 9, 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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements 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.

Other matter

We have reported separately on the parent company financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2011.

Carl Deane
 Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
 Statutory Auditor
 Chartered Accountants

Portwall Place
 Portwall Lane
 Bristol
 BS1 6NA

26 March 2012

Michelmersh Brick Holdings Plc
Financial Statements
Consolidated Income Statement

Consolidated Income Statement for the year ended 31 December 2011	Notes	2011 £'000	2010 £'000
Revenue	2	24,268	23,340
Cost of sales		(17,006)	(24,076)
Restructuring costs		—	(6,866)
Gross profit/(loss)		7,262	(736)
Administrative expenses		(6,356)	(6,586)
Restructuring costs		—	(554)
Other income	3	429	406
Operating profit/(loss)		1,335	(6,916)
Finance costs	4	(805)	(815)
Profit/(loss) before taxation	5	530	(7,731)
Taxation	10	982	2,458
Profit/(loss) for the financial year		<u>1,512</u>	<u>(5,273)</u>
Basic earnings/(loss) per share	25	2.60 p	(9.82)p
Diluted earnings /(loss) per share	25	2.59 p	(9.82)p

The profit/(loss) for the financial year is wholly attributable to the equity holders of the Parent Company

The accounting policies and notes on pages 7 to 40 form part of these financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011	Notes	2011 £'000	2010 £'000
Profit/(loss) for the financial year		<u>1,512</u>	<u>(5,273)</u>
Other comprehensive income:			
(Loss)/gain on revaluation of property, plant and equipment	12	(6,090)	9,259
Deferred tax on revaluation movement	20	<u>2,167</u>	<u>(2,500)</u>
		<u>(3,923)</u>	<u>6,759</u>
Total comprehensive (loss)/profit for the year		<u>(2,411)</u>	<u>1,486</u>

The total comprehensive loss for the year is wholly attributable to the equity holders of the Parent Company.

The accounting policies and notes on pages 17 to 40 form part of these financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Consolidated Balance Sheet

Consolidated Balance Sheet as at 31 December 2011	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Intangible assets	11	2,340	2,404
Property, plant and equipment	12	45,737	53,073
		<u>48,077</u>	<u>55,477</u>
Long term financial asset	17	195	–
Total non-current assets		<u>48,272</u>	<u>55,477</u>
Current assets			
Inventories	14	9,562	9,171
Trade and other receivables	15	5,201	5,147
Corporation tax recoverable		32	–
Investments		74	91
Cash and cash equivalents		47	1,566
Total current assets		<u>14,916</u>	<u>15,975</u>
Total assets		<u>63,188</u>	<u>71,452</u>
Liabilities			
Current liabilities			
Trade and other payables	16	2,943	3,558
Interest bearing borrowings	17	8,775	18,873
Total current liabilities		<u>11,718</u>	<u>22,431</u>
Non-current liabilities			
Deferred tax liabilities	20	5,704	8,836
Interest bearing borrowings	17	11,035	3,089
		<u>16,739</u>	<u>11,925</u>
Total liabilities		<u>28,457</u>	<u>34,356</u>
Net assets		<u>34,731</u>	<u>37,096</u>
Equity attributable to equity holders			
Share capital	22	11,645	11,620
Share premium account		6,440	6,422
Reserves		18,443	22,662
Retained earnings		(1,797)	(3,608)
Total equity		<u>34,731</u>	<u>37,096</u>

These financial statements were approved by the Directors and authorised for issue on 26 March 2012 and are signed on their behalf by

M R WARNER
Director

The accounting policies and notes on pages 17 to 40 form part of these financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Consolidated Statement of Changes in Equity

	Share capital £'000	Share option reserve £'000	Merger reserve £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2010	8,083	183	–	5,703	14,955	1,451	30,375
Loss for the year	–	–	–	–	–	(5,273)	(5,273)
Revaluation in the year	–	–	–	–	9,259	–	9,259
Deferred taxation on revaluation	–	–	–	–	(2,500)	–	(2,500)
Total comprehensive income	–	–	–	–	6,759	(5,273)	1,486
Shares issued during the year	3,537	–	979	719	–	–	5,235
Transfer to retained earnings	–	–	–	–	(214)	214	–
As at 31 December 2010	11,620	183	979	6,422	21,500	(3,608)	37,096
Profit for the year	–	–	–	–	–	1,512	1,512
Revaluation in the year	–	–	–	–	(6,090)	–	(6,090)
Deferred taxation on revaluation	–	–	–	–	2,167	–	2,167
Total comprehensive (expense)/income	–	–	–	–	(3,923)	1,512	(2,411)
Share based payment	–	3	–	–	–	–	3
Shares issued during the year	25	–	–	18	–	–	43
Transfer to retained earnings	–	–	–	–	(299)	299	–
As at 31 December 2011	11,645	186	979	6,440	17,278	(1,797)	34,731

The accounting policies and notes on pages 17 to 40 form part of these financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for the year ended 31 December 2011	2011 £'000	2010 £'000
Cash flows from operating activities		
Profit/(loss) before taxation	530	(7,731)
Write off plant and machinery	–	5,785
Write off value of investments	–	6
Finance costs	805	815
Depreciation	1,530	1,640
Amortisation	3	2
Usage of carbon emissions quota	877	662
Grant of carbon emissions quota	(816)	(723)
Share based payment charge	3	–
	<hr/>	<hr/>
Cash flows from operations before changes in working capital	2,932	456
(Increase)/decrease in inventories	(371)	2,297
Increase in receivables	(69)	(402)
Decrease in payables	(550)	(1,160)
	<hr/>	<hr/>
Net cash generated by operations	1,942	1,191
Taxation paid	(37)	–
Interest paid	(821)	(815)
	<hr/>	<hr/>
Net cash generated by operating activities	1,084	376
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of subsidiary undertaking	–	(5,000)
Overdraft balance assumed on acquisition of subsidiary undertaking	–	(357)
Proceeds of sale of investments	49	–
Purchase of property, plant and equipment	(323)	(201)
Proceeds of disposal of property, plant and equipment	56	2,812
	<hr/>	<hr/>
Net cash used in investing activities	(218)	(2,746)
	<hr/>	<hr/>
Cash flows from financing activities		
Net proceeds from issue of share capital	–	2,699
Repayment of interest bearing borrowings	(15,002)	–
Proceeds of interest bearing borrowings	13,067	2,210
Repayment of hire purchase and finance lease obligations	(72)	(53)
	<hr/>	<hr/>
Net cash (used in)/generated by financing activities	(2,007)	4,856
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(1,141)	2,486
Cash and cash equivalents at the beginning of the year	(1,756)	(4,242)
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	(2,897)	(1,756)
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	47	1,566
Bank overdraft	(2,944)	(3,322)
	<hr/>	<hr/>
	(2,897)	(1,756)
	<hr/>	<hr/>

The accounting policies and notes on pages 17 to 40 form part of these financial statements.

Michelmersh Brick Holdings Plc
Financial Statements
General Information and Accounting Policies

General Information

Introduction

Michelmersh Brick Holdings Plc (“the Company”) is a public limited company incorporated in the United Kingdom under the Companies Act 2006.

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The main activity of the main trading subsidiary company was the manufacture of bricks, with another subsidiary operating a landfill site. All other subsidiary companies were dormant.

These financial statements cover the financial year from 1 January to 31 December 2011, with comparative figures for the year 1 January to 31 December 2010.

The principal companies within the Group during the financial year ended 31 December 2011 are disclosed in note 13.

Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the financial years ended 31 December 2011 and 31 December 2010 have been prepared under the historical cost convention, as modified by the revaluation of certain items as stated in the accounting policies.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (“£000”) except where otherwise indicated.

The financial statements of the parent company and its subsidiary undertakings are prepared to the same reporting date under UK GAAP. Adjustments are made to remove any differences that may exist between UK GAAP and IFRS for consolidation purposes.

The preparation of the financial statements, in conformity with IFRS requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Although these results are based on management’s best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

New Standards and interpretations

Accounting standards and interpretations adopted during the year

The following standards, amendments and interpretations became effective and were adopted during the current year:

- IFRS 7 (amendment), Financial Instruments: Disclosures
- IAS 12 (amendment), Deferred Tax: Recovery of Underlying Assets
- IAS 24 (amendment), Related Party Disclosures
- IFRS 1 (amendment), removal of fixed dates for first time adopters

Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Group

At the date of authorisation of these Financial Statements, the following standards, amendments to existing standards and interpretations, which have not been applied in these consolidated Financial Statements, were in issue but not yet effective:

- IFRS 9, Financial Instruments, effective for annual periods beginning on or after 1 January 2015, subject to EU endorsement. The standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement.
- IFRS 10 Severe hyperinflation effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement.
- IFRS 11 Joint arrangements, effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement.

Michelmersh Brick Holdings Plc
Financial Statements
Accounting Policies

Accounting Policies (continued)

- IFRS 12 Disclosure of Interests in Other Entities, effective for annual periods beginning on or after 1 January 2013, subject to EU endorsement.
- IAS 27 (Amendment), Separate Financial Statements, effective for annual periods beginning on or after 1 January 2013 subject to EU endorsement.
- IAS 28 (Amendment), Investments in Associates and Joint Ventures, effective for annual periods beginning on or after 1 January 2013 subject to EU endorsement.
- IFRS 13 Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013 subject to EU endorsement.
- IAS 1 (Amendment), Presentation of items of Other Comprehensive income, effective for annual periods beginning on or after 1 January 2012 subject to EU endorsement.
- IAS 19 (Amendment), Employee Benefits, effective for annual periods beginning on or after 1 January 2013 subject to EU endorsement.
- IAS 32 (Amendment), Financial Instruments: Presentation, effective for annual periods beginning on or after 1 January 2014 subject to EU endorsement.

The Directors are currently assessing the impact of these but they are not expected to have a material impact on the Group's results, assets or liabilities. The Directors do not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

Basis of consolidation

The financial statements comprise a consolidation of the financial statements of Michelmersh Brick Holdings Plc and all its subsidiaries. Subsidiaries include all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which the Group has the power to control. When control of a subsidiary is lost, a disposal occurs and the subsidiary is no longer consolidated from that date.

On consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the Company and its subsidiaries are consistent with the policies adopted by the Group.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out the Chairman's Statement and the Chief Executive's Review.

The Group meets its day-to-day working capital requirements principally through inventory and receivables discounting facilities provided by ABN AMRO Commercial Finance Plc , together with an overdraft facility provided by Barclays Bank Plc. During the year, the Group entered into a five year term loan facility which replaced existing facilities where the term had expired. The current economic conditions create uncertainty, particularly over the level of demand for the Group's brick products and over the costs of production, particularly of gas prices.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its facilities.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

Michelmersh Brick Holdings Plc
Financial Statements
Accounting Policies

Accounting Policies (continued)

The following specific recognition criteria must also be met before revenue is recognised:

Building materials product revenue

Revenue is recognised when the significant rights and rewards of ownership of the goods have passed to the buyer, normally on despatch of the goods. Discounts are negotiated with customers at the beginning of each financial year.

Landfill revenue

Revenue is recognised following delivery of service in line with quantities of inert landfill waste tipped by customers.

Rental Income

Rental income arising from operating leases is accounted for on a straight line basis over the term of the lease.

Goodwill

Purchased goodwill, representing the difference between the fair values of the consideration and the underlying assets and liabilities acquired, is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. See note 11 for further details.

Licences

The costs of preparing and submitting applications for licences have been capitalised as an intangible fixed asset. Amortisation is calculated so as to write off the cost of the licence on a straight line basis, through cost of sales, over the operational life of the landfill site to which it relates.

Property, plant and equipment

Plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Land and buildings are carried at appropriate valuation for the land and buildings concerned. Further details are disclosed in note 12 to the financial statements.

Freehold buildings are revalued annually.

Depreciation is calculated so as to write off the cost or valuation of an asset, less its estimated residual value based on current prices at the balance sheet date, over the useful economic life of the asset as follows:

Freehold buildings	–	life of brickworks site
Plant and machinery	–	3% – 25%
Motor vehicles	–	25%
Fixtures and fittings	–	20% – 25%
Equipment	–	3% – 25%

Freehold land used in landfill activities is amortised over the life of the site on a usage basis. Mineral reserves are included within freehold land and buildings and are amortised on a usage basis. All other freehold land is not depreciated.

Site development costs are capitalised. These costs are written off over the operational life of the site as and when the void space created as a result of this expenditure is consumed. Provision for site restoration costs is made and capitalised once the Group creates a legal or constructive obligation in respect of restoration work on landfill sites. This is deemed to be a cost of disposal and is recognised in the income statement within profit or loss on disposal when disposal occurs. Provision is made, where material, for the net present value of the Group's estimated unavoidable costs in relation to the restoration and aftercare of landfill sites operated by the Group. Provision is not made where no significant cost is expected, or where costs are not deemed reliably measurable.

An amount equal to the excess of the annual depreciation charge on certain revalued assets over the notional historical cost depreciation charge on those assets is transferred from the revaluation reserve to retained earnings.

Michelmersh Brick Holdings Plc
Financial Statements
Accounting Policies

Accounting Policies (continued)

Impairment of assets

At each balance sheet date the Group reviews the carrying amount of its assets other than inventories to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The review period is based on the expected life of the brickworks and this is linked with available clay reserves. The expected life of Group's brickworks may be up to 30 years and future growth rates are assumed at 5%, falling to 3% to assess profits generated at each site.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement, except to the extent that it represents the reversal of a previous valuation, where it is recognised directly in other comprehensive income.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is calculated using the average cost formula on the basis of direct cost plus attributable overheads based on a normal level of activity and includes as part of the deemed cost an element of clay in respect of mineral reserves, which have been extracted at valuation and transferred from the freehold land. No element of profit is included in work in progress and no revaluations of inventories are made after recognition.

The average cost considers total production costs incurred in the year against total production output in the year, applied to the year end stock holding.

Financial Instruments

Financial Instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

Interest-bearing borrowings

Interest-bearing borrowings relating to finance lease obligations are recognised initially at fair values less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis, matching the expense to the value of borrowings in issue.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any provision for impairment. A provision for impairment is established when it becomes probable that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The reduction in carrying amount of the asset is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Michelmersh Brick Holdings Plc
Financial Statements
Accounting Policies

Accounting Policies (continued)

Financial Instruments (continued)

Derivative financial instruments

Financial assets and liabilities, whose value changes in response to changes in its underlying components and are settled at a future date are designated as derivative financial instruments. Derivatives are used by the Company to mitigate financial risks, such as changes in interest rates. Such instruments are initially recognised at cost or premium paid and subsequently carried at fair value determined by reference to a quoted market price. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less. Bank overdrafts are also included as they are an integral part of the Group's cash management.

Share based payment transactions

An expense for equity instruments granted under employee share schemes and the Save-As-You-Earn Schemes is recognised in the financial statements based on the fair value at the date of the grant. This expense is recognised over the vesting period of the scheme. The cumulative expense recognised at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest. The Group has adopted the principles of the Black Scholes Model for the purposes of computing fair value.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risk of ownership remain with the lessor are charged against profits on a straight line basis over the life of the lease.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that deferred tax relates to items recognised directly in equity, in which case, this element of the deferred tax charge is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are neither taxable or deductible.

Deferred tax is provided using the balance sheet liability method and is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets is realised based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

Michelmersh Brick Holdings Plc
Financial Statements
Accounting Policies

Accounting Policies (continued)

Pension costs

Individual subsidiary companies operate defined contribution pension schemes for employees. The assets of the schemes are held separately from those of the companies. Contributions are charged to the income statement in the year in which they are incurred.

Carbon emissions allowances policy

The annual quota of carbon emissions allowed under the European Union Environment Agency regulations is recognised as an asset in the Balance Sheet as a Government Grant in accordance with IAS 20, in accordance with the guidance given in IFRIC 3.

A corresponding liability is recognised as carbon emissions are produced in the year based on the market value units that would be required to settle the liability.

Unused and acquired carbon emission quotas held at the Balance Sheet date are recognised as intangible assets and are valued at open market value. Any gain or loss arising is recognised in the Income Statement.

The asset and liability at the end of the year are offset and recorded as a single line item in the Income Statement, offset against any disposals (or purchases) of excess quotas in the year.

Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Michelmersh Brick Holdings Plc
Financial Statements
Notes to Financial Statements

Notes to Financial Statements for the year ended 31 December 2011

1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements and key sources of accounting uncertainty employed in the preparation of these financial statements are as follows:

- Future taxation payments and receipts, which have been estimated on the basis of the best information available (see note 10).
- Freehold land and buildings are valued by the Directors, after taking into account external professional advice, and incorporate certain assumptions in relation to the future use of the properties and the estimates useful economic life relating to clay extraction and landfill facilities.
- Estimated useful life of property, plant and equipment is estimated and reviewed at each financial year end. The Group also tests for impairment whenever a trigger event occurs. Impairment test assumptions include cash flows based on trading forecasts generated from current performance of each of the cash generating units. Cash generating units are deemed to be each integrated trading site, due to the integrated business model adopted by the Group. Discounting is applied based on weighted average cost of capital.
- The fair value of share based payments is calculated using the appropriate fair value model with the estimated level of vesting being reviewed annually by management. The key assumptions of this model are set out in note 23.

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. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 17 to 22.

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 have determined the operating segments based on these reports and on the internal report's structure.

The Board assesses the performance of the operating segments based on measures of revenue and profit before tax. 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.

The Group comprises the following segments:

Building materials:

With effect from 1 January 2011, the business and operating assets of Dunton Brothers Limited, Charnwood Forest Brick Limited, Michelmersh Brick and Tile Company Limited, Blockleys Brick Limited and Freshfield Lane Brickworks Limited were amalgamated under a group reconstruction into a single clay products manufacturing business in Michelmersh Brick UK Limited (formerly Blockleys Brick Limited).

Manufacture of bricks, tiles and building products being principally facing bricks and clay paviers:

- Dunton Brothers Limited – based in Chesham, Buckinghamshire
- Charnwood Forest Brick Limited – based in Shepshed, Leicestershire
- Michelmersh brick and Tile Company Limited – based in Romsey, Hampshire
- Blockleys Brick Limited – based in Telford, Shropshire
- Freshfield Lane Brickworks Limited – based in Danehill, West Sussex

Landfill

Engagement in landfill operations:

- New Acres Limited – based in Telford, Shropshire

Michelmersh Brick Holdings Plc
Financial Statements
Notes to Financial Statements

Notes to Financial Statements for the year ended 31 December 2011 (continued)

2. SEGMENTAL REPORTING (continued)

Segment performance is evaluated by the Board based on revenue and profit before tax. Given that income taxes and certain corporate costs are managed on a centralised basis, these items are not allocated between segments for the purposes of the information presented to the Board and are accordingly omitted from the analysis below.

	2011		2010	
	Segmental revenue £'000	PBT £'000	Segmental revenue £'000	PBT £'000
Building materials				
Blockleys	5,868	1,428	7,042	(7,451)
Dunton	1,788	96	1,654	(250)
Charnwood	2,563	609	2,830	281
Michelmersh	5,092	884	4,846	475
Freshfield Lane	8,694	2,026	6,446	893
Less rebates *	(383)	(383)	–	–
	23,622	4,660	22,818	(6,052)
Landfill				
New Acres	686	197	531	105
	24,308	4,857	23,349	(5,947)
Inter-segmental revenue and unallocated costs**	(40)	(4,327)	(9)	(1,784)
	24,268	530	23,340	(7,731)

* Rebates were allocated against individual plants in 2010

**All inter-segmental revenues transactions are at arms length prices

Business assets and liabilities

	2010			2009		
	Property, plant and Equipment		Intangible fixed assets	Property, plant and Equipment		Intangible fixed assets
	Additions £'000	Depreciation £'000	Amortisation £'000	Additions £'000	Depreciation £'000	Amortisation £'000
Building materials						
Blockleys	98	230	–	65	424	–
Dunton	22	112	–	22	133	–
Charnwood	31	55	–	48	70	–
Michelmersh	108	390	–	48	443	–
Freshfield	100	444	–	18	355	–
	359	1,231	–	201	1,425	–
Landfill						
New Acres	–	299	3	–	215	2
	359	1,530	3	201	1,640	2

Michelmersh Brick Holdings Plc
Financial Statements
Notes to Financial Statements

Notes to Financial Statements for the year ended 31 December 2011 (continued)

2. SEGMENTAL REPORTING (continued)

Revenue by geographical destination

	2011	2010
	£'000	£'000
United Kingdom	23,704	22,634
Europe	228	136
Rest of the World	336	570
	<u>24,268</u>	<u>23,340</u>

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

Total Group revenue made to the top five customers amounted to £9,858,000. No other customers were individually material in revenue value.

3. OTHER INCOME

	2011	2010
	£'000	£'000
Rents receivable	23	25
Excess of carbon emission allowance over usage	406	376
Other	–	5
	<u>429</u>	<u>406</u>

4. FINANCE COSTS

	2011	2010
	£'000	£'000
Interest expense	798	797
Charges in respect of hire purchase agreements	7	18
	<u>805</u>	<u>815</u>

5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is stated after charging:

	2011	2010
	£'000	£'000
Amortisation – other	3	2
Depreciation – owned assets	1,426	1,604
– assets held under hire purchase agreements	104	37
Operating lease costs – plant and machinery	301	160
– motor vehicles	321	260
	<u>3,155</u>	<u>3,663</u>

Michelmersh Brick Holdings Plc
Financial Statements
Notes to Financial Statements

Notes to Financial Statements for the year ended 31 December 2011 (continued)

6. AUDITORS REMUNERATION

	2011	2010
	£'000	£'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	35	35
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	37	37
– tax compliance services	15	18
– corporate finance services	3	11
	<u>3</u>	<u>11</u>

Services provided to the Group by the auditors are reviewed by the Board of Directors to ensure that the independence of the auditors is not compromised.

7. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the year amounted to:

	2011	2010
Manufacture and supply of bricks	263	276
Administration	34	30
	<u>297</u>	<u>306</u>

	2011	2010
	£'000	£'000
Wages and salaries	7,985	7,656
Social security costs	819	749
Other pension costs	200	221
	<u>9,004</u>	<u>8,626</u>

8. DIRECTORS' EMOLUMENTS

The emoluments of the individual Directors were as follows:

	Basic		Total	Total
	Salary	Pension	emoluments	emoluments
	2011	2011	2011	2010
	£'000	£'000	£'000	£'000
E J S Gadsden	20	–	20	20
M R Warner	138	–	138	114
C W Robinson	–	–	–	52
R W Carlton-Porter	27	–	27	27
F J Hanna	120	–	120	90
A R G Hardy	20	–	20	60
S H P Morgan	100	–	100	17
P Sharp	47	2	49	–
	<u>472</u>	<u>2</u>	<u>474</u>	<u>380</u>

The above Directors are considered to be the only key management personnel in the Group.

Michelmersh Brick Holdings Plc
Financial Statements
Notes to Financial Statements

Notes to Financial Statements for the year ended 31 December 2011 (continued)

8. DIRECTORS' EMOLUMENTS (continued)

Under IFRS, additional disclosure is required as follows:

	2011	2010
	£'000	£'000
Short-term benefits	5	–
Compromise agreement	–	100
Post-employment benefits	–	86
	<u>5</u>	<u>186</u>

9. TRANSACTIONS WITH DIRECTORS

During the year the company made sales to WE Black Limited of £122,000 (2010 – nil) a related party by virtue of common directorship. At 31 December 2011 the company was owed £4,000 (2010 – £nil) by W E Black Limited.

An amount of £27,000 (2010: £27,000) was paid to Lansdown Consultants Limited in respect of the services of R W Carlton-Porter as non-executive Director and is included within the above emoluments.

No share options were exercised by any of the Directors during the year nor were any share options granted to Directors held at 31 December 2011.

One Director (2010: none) is a member of the defined contribution pension scheme run by the Group. No Director (2010: none) received contributions to his personal money purchase pension scheme.

10. TAXATION

(a) Recognised in the income statement

	2011	2010
	£'000	£'000
Current tax expense		
Current year	–	38
Prior year	(17)	–
	<u>(17)</u>	<u>38</u>
Deferred tax credit		
Origination and reversal of temporary differences	(965)	(2,496)
Total income tax credit in the income statement	<u>(982)</u>	<u>(2,458)</u>

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10. TAXATION (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below.

	2011	2010
	£'000	£'000
Factors affecting the tax charge for the current year		
Reconciliation of effective tax rate		
Profit/(loss) before taxation	530	(7,731)
	<hr/>	<hr/>
Income tax using the domestic corporation tax rate	141	(2,165)
Effects of:		
Expenses disallowed	29	133
Depreciation in excess of capital allowances	(249)	(319)
Change to prior year estimate	(989)	–
Rate changes	(13)	–
Other timing differences	99	(107)
	<hr/>	<hr/>
	<u>(982)</u>	<u>(2,458)</u>

(c) Factors affecting future tax charges

The Chancellor has announced that the main UK corporation tax rate will be reduced from the current rate of 26%, which has applied from 1 April 2011, to 23%, via a series of 1% annual reductions. The reduction in the corporation tax rate to 25% from 1 April 2012 was enacted on 19 July 2011. As this rate was enacted at the balance sheet date, and reduces the tax rate expected to apply when temporary differences reverse, it has the effect of reducing the UK deferred tax balance.

As at 31 December 2011, the Group had tax losses carried forward of approximately £1,952,000 (2010: £1,726,000).

A deferred tax asset has not been recognised in respect of £1,397,000 (2010: £1,367,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

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11. INTANGIBLE ASSETS

	Goodwill	PPC license	Carbon emissions quota	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
As at 1 January 2010	–	75	–	75
Allowances received during the year	–	–	723	723
Offset against liability	–	–	(662)	(662)
On acquisition of subsidiary	2,280	–	–	2,280
As at 31 December 2010	2,280	75	61	2,416
Allowances received during the year	–	–	816	816
Offset against liability	–	–	(877)	(877)
At 31 December 2011	2,280	75	–	2,355
Amortisation				
As at 1 January 2010	–	10	–	10
Charge for the year	–	2	–	2
As at 31 December 2010	–	12	–	12
Charge for the year	–	3	–	3
At 31 December 2011	–	15	–	15
Net book value				
At 31 December 2011	2,280	60	–	2,340
At 31 December 2010	2,280	63	61	2,404

GOODWILL

In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2011, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections discounted at the Group's weighted average cost of capital.

The key assumptions used in the value in use calculations are those regarding discount rates and revenue and cost growth rates. The Group prepares cash flow forecasts as part of the budget process, and these are extrapolated forward for the expected life of the business.

There were no impairment losses recognised on goodwill during the year (2010: £nil) and no reasonable change to the assumptions would lead to a material impairment.

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12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site development £'000	Motor vehicles £'000	Plant and machinery £'000	Equipment £'000	Fixtures and fittings £'000	Total £'000
Cost or valuation							
As at 1 January 2010	30,471	234	171	34,056	917	258	66,107
Additions	75	–	–	111	15	–	201
Transfers to inventories	(105)	–	–	–	–	–	(105)
Disposals	(2,612)	–	(751)	(14,342)	(13)	–	(17,718)
Revaluation	9,259	–	–	–	–	–	9,259
On acquisition of subsidiary	5,460	–	850	5,959	–	135	12,404
As at 31 December 2010	42,548	234	270	25,784	919	393	70,148
Additions	6	–	44	309	–	–	359
Transfers to inventories	(18)	–	–	–	–	–	(18)
Disposals	–	–	(122)	(304)	–	–	(426)
Revaluation	(6,090)	–	–	–	–	–	(6,090)
At 31 December 2011	<u>36,446</u>	<u>234</u>	<u>192</u>	<u>25,789</u>	<u>919</u>	<u>393</u>	<u>63,973</u>
Amortisation							
As at 1 January 2010	302	45	162	17,739	713	224	19,185
Charge for the year	415	1	49	1,106	41	29	1,641
Disposals	–	–	(552)	(8,558)	(13)	–	(9,123)
On acquisition of subsidiary	121	–	535	4,613	–	103	5,372
As at 31 December 2010	838	46	194	14,900	741	356	17,075
Charge for the year	295	–	20	1,150	48	17	1,530
Disposals	–	–	(65)	(304)	–	–	(369)
At 31 December 2011	<u>1,133</u>	<u>46</u>	<u>149</u>	<u>15,746</u>	<u>789</u>	<u>373</u>	<u>18,236</u>
Net book value							
At 31 December 2011	<u>35,313</u>	<u>188</u>	<u>43</u>	<u>10,043</u>	<u>130</u>	<u>20</u>	<u>45,737</u>
At 31 December 2010	<u>41,710</u>	<u>188</u>	<u>76</u>	<u>10,884</u>	<u>178</u>	<u>37</u>	<u>53,073</u>

Included within the net book value of £45,737,000 is £61,000 (2010: £160,000) relating to assets held under hire purchase and finance lease agreements. The depreciation charged to the financial statements in the year in respect of such leases amounted to £104,000 (2010: £37,000).

The Group's freehold land and buildings were revalued by the Directors on 31 December 2011, on a depreciated replacement cost basis for brickwork properties, and an existing use value for the land used for mineral extraction or waste disposal. Other property has been valued at open market value. The Directors relied on external valuations of the land and buildings performed by Gerald Eve LLP as at 31 December 2011, and on valuations of the landfill and mineral reserves by Wardell Armstrong LLP conducted in August 2011. These valuations incorporated certain assumptions in relation to the future use of the properties and the estimated useful economic life relating to clay extraction and waste disposal where appropriate to do so. The Group's freehold land and buildings were valued at £35,313,000 at 31 December 2011 (2010: £41,710,000), resulting in a decrease in the revaluation reserve of £6,090,000 (2010: increase £9,259,000) at that date. Deferred tax liabilities were decreased by £2,167,000 (2010: increase £2,500,000) and have been credited to the revaluation reserve.

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

In respect of the freehold property stated at a valuation, the comparable historical cost and depreciation values are as follows:

	2010	2009
	£'000	£'000
Historical cost		
At 1 January 2011	15,677	10,247
Additions	6	75
On acquisition of subsidiary	–	5,460
Transfer to inventories	(18)	(105)
At 31 December 2011	<u>15,665</u>	<u>15,677</u>

All other property, plant and equipment are stated at historical cost.

The freehold land and property disclosed above is used for security for the overdraft and loans as disclosed in note 17.

13. SUBSIDIARIES

The following subsidiaries have been included within the consolidated financial statements.

Company	Country of incorporation	Class of shares held	% age of holding	Nature of business
Michelmersh Brick UK Limited (formerly Blockleys Brick Limited)	England	Ordinary	100	Manufacture Bricks
Dunton Brothers Limited	England	Ordinary	100	Dormant
Charnwood Forest Brick Limited	England	Ordinary	100	Dormant
Michelmersh Brick and Tile Limited	England	Ordinary	100	Dormant
Freshfield Lane Brickworks Limited	England	Ordinary	100	Dormant
New Acres Limited	England	Ordinary	100	Landfill operations

No entities have been excluded from the consolidated financial statements.

14. INVENTORIES

	2011	2010
	£'000	£'000
Raw materials	3,562	3,705
Work in progress	998	947
Finished goods	5,002	4,519
	<u>9,562</u>	<u>9,171</u>

The cost of inventories expensed during the year is £16,867,000 (2010: £16,851,000). The inventory cost disclosed above is used for security of the overdraft as disclosed in note 17.

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15. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year

	2011	2010
	£'000	£'000
Trade receivables	4,803	4,691
Other receivables	58	284
Prepayments and accrued income	340	172
	<u>5,201</u>	<u>5,147</u>

There are no receivables due after one year, and the fair values of the trade and other receivables are approximate to their carrying value. The trade receivables disclosed above are used for security of the overdraft as disclosed in note 17.

Included within trade receivables is £807,000 (2010: £794,000) of receivables past due but not impaired. The Directors do not feel there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows.

	2011	2010
	£'000	£'000
30 days overdue	521	494
30–60 days overdue	79	183
60–90 days overdue	207	117
	<u>807</u>	<u>794</u>

The carrying amount of the Group's trade and other receivables are denominated in sterling. The total loans and receivables category comprises trade and other receivables above together with cash of £47,000 as shown in the balance sheet, totalling £4,908,000.

16. TRADE AND OTHER PAYABLES

Amounts falling due within one year

	2011	2010
	£'000	£'000
Trade payables	970	777
Other taxation and social security	814	1,036
Corporation tax payable	–	37
Other payables	239	33
Accruals and deferred income	897	1,675
Pension	23	–
	<u>2,943</u>	<u>3,558</u>

The fair values of trade and other payables are approximate to their carrying value. The total financial liabilities at amortised cost category comprises the above payables excluding other taxation and social security and including borrowings of £19,810,000 as shown in note 17, totalling £21,939,000.

The average credit period for trade purchases is 25 days (2010: 19 days). Trade payables are not interest bearing and are generally settled within terms. Other payables are non-interest bearing.

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17. BORROWINGS

Interest rate risk of financial assets and liabilities

The Group has floating rate borrowings of £17,258,000 (2010: £17,873,000), which consist of bank loans and overdrafts and bear interest linked to the bank base rate and LIBOR. It also has hire purchase liabilities of £52,000 (2010: £89,000) and other loans which have a set finance charge. The Group's financial assets at 31 December 2011 and 31 December 2010 include cash at bank and in hand for which no interest is earned.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2011 of £2,407,000 (2010: 4,378,000). The facilities are subject to periodic review.

Interest bearing liabilities

Obligations under hire purchase and finance lease agreements

	2011			2010		
	Minimum lease payment £'000	Interest £'000	Principal £'000	Minimum lease payment £'000	Interest £'000	Principal £'000
Less than one year	29	6	23	57	10	47
Between 1 - 2 years	8	3	5	37	7	30
Between 2 - 5 years	29	5	24	15	3	12
	<u>66</u>	<u>14</u>	<u>52</u>	<u>109</u>	<u>20</u>	<u>89</u>

Under the terms of the agreements, no contingent rents are payable.

Obligations under agreements are secured on the relevant assets.

The Group's policies and objectives in respect of financial risk relating to the adequacy of funding, interest rate fluctuations and currency exposure are explained in note 18.

Bank loans and overdrafts

Bank loans and overdrafts in the balance sheet are due for repayment as follows:

	2011 £'000	2010 £'000
Bank overdraft (on demand)	2,944	3,322
In one year or less	4,444	13,504
Between one and two years	1,279	311
Between two and five years	3,327	612
Over five years	5,264	124
	<u>17,258</u>	<u>17,873</u>

During 2011, interest was charged on the bank loan at 3.25% above LIBOR per annum in addition to a base rate linked formula dependent upon Barclays Bank Plc's borrowing ratios ("Mandatory Cost Rate"). The loan is repayable in amounts other than regular instalments. The bank loan is secured by a fixed and floating charge over all property and assets of the Group, both present and future, dated 23 March 2006, in favour of Barclays Bank Plc.

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17. BORROWINGS (continued)

On 30 December 2011, the Group entered into a new Term Loan Facility which replaced the previous facility. The new Barclays Term Loan facility is for an amount of £13,426,081 for a period of 5 years. The loan is repayable in quarterly instalments of £250,000 commencing in March 2012 and with repayment of £3,162,825 when certain conditions are met. Interest is charged on the bank loan at 4.0% above LIBOR per annum in addition to a base rate linked formula dependent upon Barclays Bank Plc's borrowing ratios ("Mandatory Cost Rate"). The bank loan is secured by a fixed and floating charge over all property and assets of the Group, both present and future, dated 23 March 2006, in favour of Barclays Bank Plc.

Other borrowings

		2011	2010
	Payable	£'000	£'000
Vendor Loan	In one year or less	1,364	–
	Between one and two years	136	2,000
	Between two and five years	500	–
Shareholder loan	In one year or less	–	2,000
	Between two and five years	500	–
		<u>2,500</u>	<u>4,000</u>

The Vendor loan arose on acquisition of Freshfield Lane Brickworks Limited and formed part of the consideration, and was repayable in full on 6 April 2012. The Loan Note holders have agreed to amend the repayment terms to £1 million on 6 April 2012, followed by 11 monthly instalments of £45,454 with the remaining balance of £500,000 to be paid in March 2014. An additional payment of £50,000 will be paid on completion of the repayment of the loan.

The Shareholder Loan was granted by Mr. Eric Gadsden in March 2010 to provide funds for the acquisition of Freshfield Lane Brickworks Limited and was repayable in full on 25 February 2011. Subsequent to 31 December 2010, it was agreed that repayment will be made in 12 equal instalments commencing in March 2011. The repayments were halted by agreement after 9 instalments, with the remaining balance to be repaid in March 2014. An additional payment of £50,000 will be paid on completion of the repayment of the loan.

Interest is payable on both the Vendor and Shareholder loans at 4.25% on the balance of the loan outstanding and is paid 6 monthly in arrears.

The other borrowings are stated at fair value.

Interest rate Cap

In December 2011, the Company entered into an interest rate cap arrangement with Barclays Bank Plc. The terms of the cap are outlined in note 18. The present value of future payments in respect of the cap have been recognised as a liability and as an asset.

2011	2010
£'000	£'000
<u>195</u>	<u>–</u>

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18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial instruments

As the Group predominantly operates within the United Kingdom, and the majority of overseas sales are conducted in sterling, the directors consider there is minimal exposure to currency risk.

The Group's principal financial instruments comprise bank loans, overdrafts and hire purchase and finance lease facilities. The purpose of these is to provide finance for the Group's operations.

The Group has entered into an interest rate cap agreement which limits the exposure to interest charges in respect of the Barclays term loan to a LIBOR rate of 2%. The agreement is in respect of the reducing balance on the whole of the loan for the five year term of the loan.

There is no material difference between the book values and fair values of the Group's financial instruments.

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Operational Board under policies approved by the Board of Directors. The Operating Board identifies, evaluates and takes measures to adequately mitigate financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Market risk

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contract maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant with the exception of Hire Purchase.

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18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

At 31 December 2011	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings including overdrafts	9,357	1,803	4,666	5,447
Hire purchase and finance lease obligations	29	8	29	–
Trade and other payables	2,943	–	–	–
<hr/>				
At 31 December 2010	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
Borrowings including overdrafts	19,500	2,406	633	128
Hire purchase and finance lease obligations	57	37	15	–
Trade and other payables	3,558	–	–	–
<hr/>				

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefit other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011 £'000	2010 £'000
Total borrowings excluding bank overdrafts	16,866	18,640
Add: cash and cash equivalents including bank overdrafts	2,897	1,756
Net debt	19,763	20,396
Total equity	34,731	37,096
Total capital	54,494	57,492
Gearing ratio	36%	35%

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar instruments.

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18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

Sensitivity analysis

Interest rate sensitivity

The table below shows the Group's sensitivity to interest rates on its floating rate financial instruments. The Group has concluded that a 1% increase is a reasonable benchmark. Debt with a maturity of less than one year is floating rate for this calculation. A 1% movement in interest rate is deemed to have an equal effect on equity.

	2011	2010
	£'000	£'000
1% increase/(decrease) in sterling interest rates	<u>165</u>	<u>179</u>

A 1% decrease in these interest rates would have an equal and opposite effect. Interest rate movements on obligations under hire purchase and finance leases, trade payables, trade receivables and other financial instruments not in net debt do not present a material exposure to the Group's balance sheet based on a 1% increase or decrease in these interest rates.

19. PENSIONS

Defined contribution Scheme

The Group operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the Group in trustee administered funds. The pension charge for contributions made by the Group to the defined contribution scheme amounted to £200,000 (2010: £221,000). Amounts unpaid at the year end in respect of contributions amounted to £23,000 (2010: £1,000).

20. DEFERRED TAXATION

Deferred tax at 31 December 2011 relates to the following:

	Losses	Property	Other	Total
	£'000	plant and	items	£'000
		equipment	£'000	
		£'000		£'000
Cost				
As at 1 January 2010	(162)	7,421	182	7,441
Acquisition of subsidiary undertaking	(120)	1,511	–	1,391
Recognised in income	126	(2,615)	(7)	(2,496)
Recognised in equity	–	2,500	–	2,500
	<u>(156)</u>	<u>8,817</u>	<u>175</u>	<u>8,836</u>
As at 31 December 2010	(156)	8,817	175	8,836
Recognised in income	17	(916)	(66)	(965)
Recognised in equity	–	(2,167)	–	(2,167)
	<u>(139)</u>	<u>5,734</u>	<u>109</u>	<u>5,704</u>
As at 31 December 2011	<u>(139)</u>	<u>5,734</u>	<u>109</u>	<u>5,704</u>

Deferred tax assets included above are deemed recoverable against future taxable profits in certain Group companies.

In addition to the above, the Group has un-provided deferred tax assets of £349,000 (2010: £369,000) in respect of unrelieved tax losses.

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21. COMMITMENTS UNDER OPERATING LEASES

Total future minimum lease payments under non-cancellable operating leases in respect of plant and machinery are set out below:

	2011	2010
	£'000	£'000
Operating leases which expire		
Within one year	615	41
Between two and five years	1,600	823
	<u>2,215</u>	<u>864</u>

Under the terms of the lease agreements, no contingent rents are payable.

22. SHARE CAPITAL

Authorised share capital

	2011	2011	2010	2010
	Number	£'000	Number	£'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:

	2011	2011	2010	2010
	Number	£'000	Number	£'000
Ordinary shares of 20p each	58,227,154	11,645	58,102,154	11,620

During the year, 125,000 Ordinary shares were issued in consideration for a 25% holding in Jeffery Building Products limited.

There were no unusual rights or restrictions attaching to the Ordinary shares of the company.

23. SHARE BASED PAYMENTS

	£'000
Share option reserve	
As at 1 January 2010 and 2011	183
Charge for the year	3
As at 31 December 2011	<u>186</u>

Two new Sharesave schemes were launched in the year - see below.

(a) Michelmersh Brick Holdings Plc Group share option scheme

Year of Grant	Subscription price per share	Period of exercise	No. of options as at 31 December 2010	Options forfeited in the year	No. of options as at 31 December 2011
2004	70p	August 2007 – August 2014	178,686	(25,000)	153,686
2005	95p	November 2008 – November 2015	12,500	–	12,500
2007	118p	April 2010 – April 2017	10,000	–	10,000
2008	93p	January 2011 – January 2018	10,000	(10,000)	–
2008	96p	February 2011 – February 2018	12,500	–	12,500

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23. SHARE BASED PAYMENTS (continued)

Vesting conditions under the scheme include a three year vesting period. The options are also subject to performance criteria set when the options were granted. Employees may exercise options after they leave employment if exercised within six months of ceasing to be an employee. The exercise period is seven years from the vesting date.

(b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Subscription price per share	Vesting period	No. of options as at 31 December 2010	Options granted in the year	Options forfeited in the year	No. of options as at 31 December 2011
2006	78p	June 2006 – July 2011	34,010	–	(987)	33,023
2007	102p	November 2007 – December 2012	13,505	–	(1,647)	11,858
2011	19p	November 2011 – December 2014	–	639,435	(7,578)	631,857
2011	19p	November 2011 – December 2016	–	393,152	–	393,152

Vesting conditions under the scheme include a three or five year vesting period but do not include any performance criteria.

Options were valued using the principles of the Black-Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £3,000 (2010: £nil).

The following key inputs have been used in the valuation of the share options using the Black-Scholes Model, as deemed applicable at the vesting date.

Weighted average share price	£0.868
Expected volatility	30%
Expected dividend yield	1%
Risk free rate	5%

Expected volatility is derived from historic share price of the Group .

The weighted average exercise prices for both schemes combined were as set out below:

	2011		2010	
	No.	Weighted average exercise price	No.	Weighted average exercise price
Outstanding as at 1 January 2011	271,201	77.6p	669,538	73.2 p
Granted	1,032,587	19.0 p	–	–
Lapsed and forfeited	(45,212)	67.9 p	(398,337)	70.2p
Outstanding as at 31 December 2011	<u>1,258,576</u>	<u>29.9p</u>	<u>271,201</u>	<u>77.6p</u>

The weighted average contractual life for the share options outstanding at 31 December 2011 is 4 years (2010: 4 years).

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24. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

Share option reserve

The share option reserve relates to the Executive Approved Share Option and SAYE Share Option Schemes. Additional details are disclosed in note 23 to the financial statements.

Share premium account

The movements on the share premium account in the year relate to shares issued as disclosed in note 22 to the financial statements.

Merger reserve

The merger reserve relates to the premium of fair value of ordinary shares issued on acquisition of a subsidiary over the par value of the shares.

Revaluation reserve

The revaluation reserve relates to revaluation of property as disclosed in note 12.

25. EARNINGS/(LOSS) PER SHARE

Basic

The calculation of earnings per share is based upon the profit for the year of £1,512,000 (2010: loss £5,273,000) and 58,194,277 (2010: 53,679,077) weighted average number of ordinary shares.

Diluted

The diluted figure disclosed in respect of 2010 is based on the same figures as above since the options in place during that year are anti-dilutive. At 31 December 2010 there were a total of 271,201 share options held by employees, as disclosed in note 23, which are not considered dilutive.

The diluted figures for 2011 include options issued during the year. At 31 December 2011 there were 233,567 existing options which are under water and are not included in the diluted figures for 2010.

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**Michelmersh Brick Holdings Plc
Parent Company Financial Statements**

Year ended 31 December 2011

Michelmersh Brick Holdings Plc
Independent Auditors' Report to the Members

We have audited the financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2011 which comprise the Balance Sheet, the Accounting Policies and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company 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 parent company 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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the parent company financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 December 2011;
- Have been properly prepared in accordance with United Kingdom 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Other matter

We have reported separately on the group financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2011.

Carl Deane
 Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
 Statutory Auditor
 Chartered Accountants

Portwall Place
 Portwall Lane
 Bristol
 BS1 6NA

26 March 2012

Michelmersh Brick Holdings Plc
Company Balance Sheet

Company Balance Sheet as at 31 December 2011	Notes	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	1	17,570	24,783
Investments	2	10,288	10,245
Intangible assets		–	62
Total fixed assets		<u>27,858</u>	<u>35,090</u>
Current assets			
Cash at bank and in hand		14	572
Debtors – due within one year	3	12,540	18,456
Total current assets		<u>12,554</u>	<u>19,028</u>
Creditors: Amounts falling due within one year	4	<u>(5,925)</u>	<u>(20,475)</u>
		6,629	(1,447)
Total assets less current liabilities		34,487	33,643
Creditors: Amounts falling due after more than one year	5	(10,145)	(2,000)
Provisions for liabilities and charges			
Deferred taxation	7	(45)	(119)
Net assets		<u>24,297</u>	<u>31,524</u>
Capital and reserves			
Share capital	9	11,645	11,620
Share premium account	9	6,440	6,422
Merger Reserve	9	979	979
Revaluation reserve	9	9,144	16,377
Share option reserve	9	186	183
Profit and loss account	9	(4,097)	(4,057)
Equity shareholders' funds		<u>24,297</u>	<u>31,524</u>

These financial statements were approved by the Directors on 26 March 2012 and are signed on their behalf by:

M R Warner
Director

Michelmersh Brick Holdings Plc
Accounting Policies

Accounting Policies – year ended 31 December 2011

Basis of preparation

The Company financial statements have been prepared in accordance with UK GAAP under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The loss after tax for the Company was £339,000 (2010: £1,912,000). The company has revalued its land and buildings. A downward revaluation of £6,934,000 (2010: upwards of £6,732,000) has been recognised directly in equity. There are no other recognised gains or losses in the year.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

Depreciation

Plant and equipment are stated at cost less accumulated depreciation and impairment losses. Land and buildings are carried at appropriate valuation for the land and buildings concerned.

Freehold land and buildings are revalued on an annual basis.

Depreciation is calculated so as to write off the cost or valuation of an asset, less its estimated residual value over the useful economic life of the asset as follows:

Freehold buildings	–	life of brickworks site straight line
Equipment	–	3% - 25% straight line

Freehold land used in landfill activities is amortised over the life of the site on a usage basis. All other freehold land is not depreciated.

Site development costs are capitalised. These costs are written off over the operational life of the site as and when the void space created as a result of this expenditure is consumed. Provision for site restoration costs is made and capitalised once the Company creates a legal or constructive obligation in respect of restoration work on landfill sites. This is deemed to be a cost of disposal and is recognised in the profit and loss account within profit or loss on disposal when disposal occurs. Provision is made, where material, for the net present value of the Group's estimated unavoidable costs in relation to the restoration and aftercare of landfill sites operated by the Company. Provision is not made where no significant cost is expected, or where costs are not deemed reliably measurable.

Mineral reserves are included within freehold land and buildings and are amortised on a usage basis.

An annual amount equal to the excess of the annual depreciated charge on certain revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

Share based payment transactions

An expense for equity instruments granted under employee share schemes and the Save-As-You-Earn Schemes is recognised in the financial statements based on their fair value at the date of grant. This expense is recognised over the vesting period of the scheme. The cumulative expense recognised at each reporting date, until the vesting date, reflects the extent to which the vesting period has expired and the Directors' best estimate of the number of equity instruments that will ultimately vest. The Company has adopted the principles of the Black-Scholes Model for the purposes of computing fair value.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Michelmersh Brick Holdings Plc
Accounting Policies

Accounting Policies – year ended 31 December 2011 (continued)

Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that their recovery is considered more likely than not.

Pension costs

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. Contributions are charged to the profit and loss account in the year in which they are incurred.

Carbon emissions allowances

The annual quota of carbon emissions allowed under the European Union Environment Agency regulations is recognised as an asset in the Balance Sheet as a Government Grant in accordance with SSAP 4.

A corresponding liability is recognised as carbon emissions are produced in the year.

Unused and acquired carbon emissions quotas held at the balance sheet date are recognised as intangible assets and are valued at open market value. Any gain or loss arising is recognised in the profit and loss account.

The asset and liability at the end of the year are offset and recorded as a single line item in the income statement, offset against any disposals (or purchases) of excess quotas in the year.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Derivative financial instruments

Financial assets and liabilities, whose value changes in response to changes in its underlying components and are settled at a future date are designated as derivative financial instruments. Derivatives are used by the Company to mitigate financial risks, such as changes in interest rates. Such instruments are initially recognised at cost or premium paid and subsequently carried at fair value determined by reference to a quoted market price. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

Michelmersh Brick Holdings Plc
Notes to Company Financial Statements

Notes to Company Financial Statements for the year ended 31 December 2011

1. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Equipment £'000	Motor vehicles £'000	Site development £'000	Total £'000
Cost or valuation					
At 1 January 2011	24,916	295	–	155	25,366
Additions	6	–	44	–	50
Revaluation	(6,934)	–	–	–	(6,934)
At 31 December 2011	<u>17,988</u>	<u>295</u>	<u>44</u>	<u>155</u>	<u>18,482</u>
Depreciation					
At 1 January 2011	431	152	–	–	583
Charge for the year	295	34	–	–	329
At 31 December 2011	<u>726</u>	<u>186</u>	<u>–</u>	<u>–</u>	<u>912</u>
Net book value					
At 31 December 2011	<u>17,262</u>	<u>109</u>	<u>44</u>	<u>155</u>	<u>17,570</u>
At 31 December 2010	<u>24,485</u>	<u>143</u>	<u>–</u>	<u>155</u>	<u>24,783</u>

Revaluation of fixed assets

The Company's freehold property was revalued by the directors on 31 December 2011, on a depreciated replacement cost basis for brickwork properties, and an existing use value for the land used for mineral extraction or waste disposal. Other property surplus to requirements has been valued at open market value. The Directors relied on external valuations of the land and buildings performed by Gerald Eve LLP as at 31 December 2011, and on valuations of the landfill and mineral reserves by Wardell Armstrong LLP conducted in August 2011. These valuations incorporated certain assumptions in relation to the future use of the properties and the estimated useful economic life relating to clay extraction and landfill facilities. The directors adjusted these valuations in respect of the land used for mineral extraction or waste disposal where appropriate to do so.

The Company's freehold land and buildings were valued at £17,262,000 at 31 December 2011 resulting in a revaluation deficit of £6,934,000 at that date. In respect of the freehold property stated at a valuation, the comparable historical cost and depreciation values are as follows:

	2011 £'000	2010 £'000
Historical cost		
At 1 January 2011	8,106	8,086
Additions	6	20
At 31 December 2010	<u>8,112</u>	<u>8,106</u>
Historical cost depreciation		
At 1 January 2011	–	–
Charge for the year	–	–
At 31 December 2011	<u>–</u>	<u>–</u>

Michelmersh Brick Holdings Plc
Notes to Company Financial Statements

Notes to Company Financial Statements for the year ended 31 December 2011 (continued)

2. INVESTMENTS – UNLISTED

	2011	2010
	£'000	£'000
Cost		
At 1 January 2011	10,245	707
Additions	43	9,538
At 31 December 2011	<u>10,288</u>	<u>10,245</u>

The company's investment in the ordinary share capital of unlisted companies at the balance sheet date includes the following:

Company	Country of incorporation	Class of shares held	% age holding	Nature of business
Dunton Brothers Limited	England	Ordinary	100	Dormant
Michelmersh Brick & Tile Company Limited	England	Ordinary	100	Dormant
Michelmersh Brick UK Limited	England	Ordinary	100	Manufacture of bricks and clay products
New Acres Limited	England	Ordinary	100	Landfill operations
Charnwood Forest Brick Limited	England	Ordinary	100	Dormant
Freshfield Lane Brickworks Limited	England	Ordinary	100	Dormant

3. DEBTORS

Amounts falling due within one year

	2011	2010
	£'000	£'000
Amounts owed by Group undertakings	12,326	18,191
Other debtors	28	259
Prepayments and accrued income	186	6
	<u>12,540</u>	<u>18,456</u>

4. CREDITORS: Amounts falling due within one year

	2011	2010
	£'000	£'000
Bank loans due within one year	4,087	13,057
Trade creditors	–	91
Other creditors	215	32
Other taxation and social security	–	2
Other loans	1,364	2,000
Accruals and deferred income	254	311
Hire Purchase	5	–
Amounts owed to Group undertakings	–	4,982
	<u>5,925</u>	<u>20,475</u>

Michelmersh Brick Holdings Plc
Notes to Company Financial Statements

Notes to Company Financial Statements for the year ended 31 December 2011 (continued)

5. CREDITORS: Amounts falling due after more than one year

	2011	2010
	£'000	£'000
Bank loans	8,980	–
Hire Purchase	29	–
Other Loans	1,136	2,000
	<u>10,145</u>	<u>2,000</u>

6. CREDITORS – CAPITAL INSTRUMENTS

Creditors include finance capital which is due for repayment as follows:

	2011	2010
	£'000	£'000
In one year or less, or on demand	4,092	13,057
Between one and two years	1,005	–
Between two and five years	3,024	–
Over five years	4,980	–
	<u>13,101</u>	<u>13,057</u>

The bank overdraft is secured by debentures given by all Group companies and a charge over the freehold land and buildings. All Group companies have provided a cross guarantee in respect of the borrowings.

Interest is charged on the Barclays Bank PLC bank loan at 4% above Barclays Bank PLC LIBOR per annum in addition to a base rate linked formula dependent upon Barclays Bank Plc's borrowing ratios ("Mandatory Cost Rate"). The loan is repayable in amounts other than regular instalments. The bank loan is secured by a fixed and floating charge over all property and assets of the Group, both present and future, dated 23 March 2006 in favour of Barclays Bank plc.

7. PROVISIONS FOR LIABILITIES AND CHARGES

	2011	2010
	£'000	£'000
At 1 January 2011	(119)	10
Decrease in provision	74	(129)
At 31 December 2011	<u>(45)</u>	<u>(119)</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2011	2010
	£'000	£'000
Excess of taxation allowances over depreciation on fixed assets	<u>(45)</u>	<u>(119)</u>

Amounts unprovided at the year end are as follows:

	2011	2010
	£'000	£'000
Revalued properties	<u>1,710</u>	<u>3,907</u>

Michelmersh Brick Holdings Plc
Notes to Company Financial Statements

Notes to Company Financial Statements for the year ended 31 December 2011 (continued)

7. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The balance of unprovided deferred tax of £1,710,000 (2010: £3,907,000) relating to revalued properties represents the tax on the deferred capital gain on the revaluation of the freehold property. It is the Directors' intention to keep the trading property for use in the business, and as such the gain is unlikely to crystallise and therefore the deferred tax liability has not been recognised, in accordance with Financial Reporting Standard 19 'Deferred Tax'. The deferred tax on the element of the gain in respect of land subject to an option to sell for residential development in the future has not been provided at 31 December 2011 as the Company has not yet entered into a binding agreement to sell the land. Provisions will be made on a phased basis as and when building agreements are signed. Deferred tax assets in respect of other timing differences and tax losses available amounting to £745,000 (2010: £1,059,000) have not been provided, as the Directors do not consider their recovery to be sufficiently certain in the near future.

8. RELATED PARTY TRANSACTIONS

The Company has taken the exemption in FRS 8 not to disclose transactions with other Group companies.

9. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital	Share option reserve	Share premium	Merger reserve	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2010	8,083	183	5,703	–	9,859	(2,359)	21,469
Loss for the year	–	–	–	–	–	(1,912)	(1,912)
Shares issued in the year	3,537	–	719	979	–	–	5,235
Revaluation of freehold land and buildings	–	–	–	–	6,732	–	6,732
Transfer to profit and loss	–	–	–	–	(214)	214	–
Balance at 31 December 2010	11,620	183	6,422	979	16,377	(4,057)	31,524
Loss for the year	–	–	–	–	–	(339)	(339)
Shares issued in the year	25	–	18	–	–	–	43
Share save option	–	3	–	–	–	–	3
Revaluation of freehold land and buildings	–	–	–	–	(6,934)	–	(6,934)
Transfer to profit and loss	–	–	–	–	(299)	299	–
Balance at 31 December 2011	11,645	186	6,440	979	9,144	(4,097)	24,297

10. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated 30 December 2011. At the year end the total Group bank borrowings were £17,258,000 (2010: £17,874,000).

Michelmersh Brick Holdings Plc
Notice of Annual General Meeting

This year's annual general meeting will be held at 11.30 a.m. on 14 May 2012 at 131 Finsbury Pavement, London EC2A 1NT. You will be asked to consider and pass the resolutions below. Resolutions 5, 6, and 7 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary Business

- 1 To receive the Company's Accounts and Reports of the directors and the auditors for the financial year ended 31 December 2011.
- 2 To reappoint Eric Gadsden who retires by rotation and who, being eligible, offers himself for reappointment as a director.
- 3 To reappoint Martin Warner who retires by rotation and who, being eligible, offers himself for reappointment as a director.
- 4 To appoint Nexia Smith & Williamson Audit Limited as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.

Special Business

- 5 That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**2006 Act**") to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the 2006 Act) of £3,881,810.
- 6 That, subject to the passing of resolution 5, the directors of the Company be and they are hereby empowered pursuant to sections 570 of the Companies Act 2006 (the "**2006 Act**") to allot equity securities (as defined in section 560 of the 2006 Act) of the Company for cash pursuant to the authority conferred by resolution 6 as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash:
 - (a) in connection with or pursuant to an offer or invitation in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates, or legal, regulatory or practical problems which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and
 - (b) in the case of the authority granted under resolution 5, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £582,272 being 5 per cent. of the Company's issued ordinary share capital as at the date of this Notice.

This power shall expire at the conclusion of the next Annual General Meeting, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry.

- 7 That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "**2006 Act**") to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) of fully paid ordinary shares of 20p each in the capital of the Company provided that:
 - (a) the maximum aggregate number of ordinary shares authorised to be purchased is 5,822,715 (representing 10 per cent. of the Company's issued ordinary share capital);

Michelmersh Brick Holdings Plc
Notice of Annual General Meeting

- (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share shall be the lower of the nominal value or an amount not less than 5 per cent. below the average of the middle market quotations for an ordinary share, as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
- (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share, as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
- (d) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Company's next Annual General Meeting; and
- (e) the Company may make a contract or contracts to purchase ordinary shares under this authority prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

26 March 2012

By order of the Board
Stephen Morgan
Company Secretary

Registered Office:
Freshfield Lane
Danehill
Haywards Heath
RH17 7HH

Michelmersh Brick Holdings Plc
Notice of Annual General Meeting

Notes

- 1 To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company 48 hours before the time appointed for holding the meeting or adjourned meeting. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 2 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- 3 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Company's registrars no later than 48 hours before the time appointed for holding the meeting.
- 4 The return of a completed proxy form will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.
- 5 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
- 6 Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
- 7 Copies of the service contracts of the directors of the Company or any of its subsidiary undertakings are available for inspection at the registered office of the Company during normal business hours (excluding weekends and public holidays) from the date of this notice until the conclusion of the AGM, and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion.

**Michelmersh Brick Holdings Plc
Notice of Annual General Meeting**

PART III

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on this page give an explanation of the proposed resolutions.

Resolutions 1 to 4 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 5 to 7 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 2, and 3: Reappointment of directors

In accordance with the Company's Articles of Association any Director newly appointed by the Board is required to retire and submit himself for re-appointment at the first Annual General Meeting following his appointment. In addition at every Annual General Meeting a certain number of Directors must retire by rotation.

Resolution 5: Authority to allot shares

This resolution proposes that the Directors' authority to allot shares be renewed. The authority previously given to the Directors at the last AGM of the Company will expire at this year's AGM. Under the Companies Act 2006, the Directors of the Company may only allot shares or grant rights to subscribe for or convert into shares if authorised to do so.

Resolution 5 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £3,881,810, which is equal to approximately one third of the total issued ordinary share capital of the Company as at the date of this Notice.

If passed the authority given by this resolution will expire at the conclusion of the Company's next Annual General Meeting. The Directors have no present intention to allot new shares or grant rights, however, the Directors may consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

Resolution 6: Disapplication of pre-emption rights

Under the Companies Act 2006, if the Directors wish to allot shares for cash (other than in connection with an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings ("a pre-emption offer"). There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emption offer to existing shareholders.

This resolution seeks to renew the directors' power to allot equity securities in certain limited circumstances otherwise than to in relation to pre-emption offers. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £582,272 (being 5 per cent. of the issued ordinary share capital as at the date of this Notice. If given, this power will expire at the conclusion of the 2011 AGM.

The Board does not intend to issue more than 7.5 per cent. of the issued share capital of the Company on a non pre-emptive basis in any rolling three-year period. This is in line with corporate governance guidelines.

Resolution 7: Authority to purchase Company shares

This resolution renews the Company's general authority to repurchase up to 5,822,715 its own shares in the market (being 10 per cent. of the Company's issued share capital as at the date of this notice), at or between the maximum and minimum prices specified in the resolution giving the authority.

Current legislation allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Directors may use the authority to purchase shares and hold them in treasury (and subsequently sell or transfer them out of treasury as permitted in accordance with legislation) rather than cancel them, subject to institutional guidelines applicable at the time. Shares will only be purchased if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally.

MICHELMERSH Brick Holdings PLC

Freshfield Lane

Danehill

Haywards Heath

Sussex

RH17 7HH

Tel: 0844 9310022

www.mbhplc.co.uk

BRITAIN'S BRICK SPECIALISTS