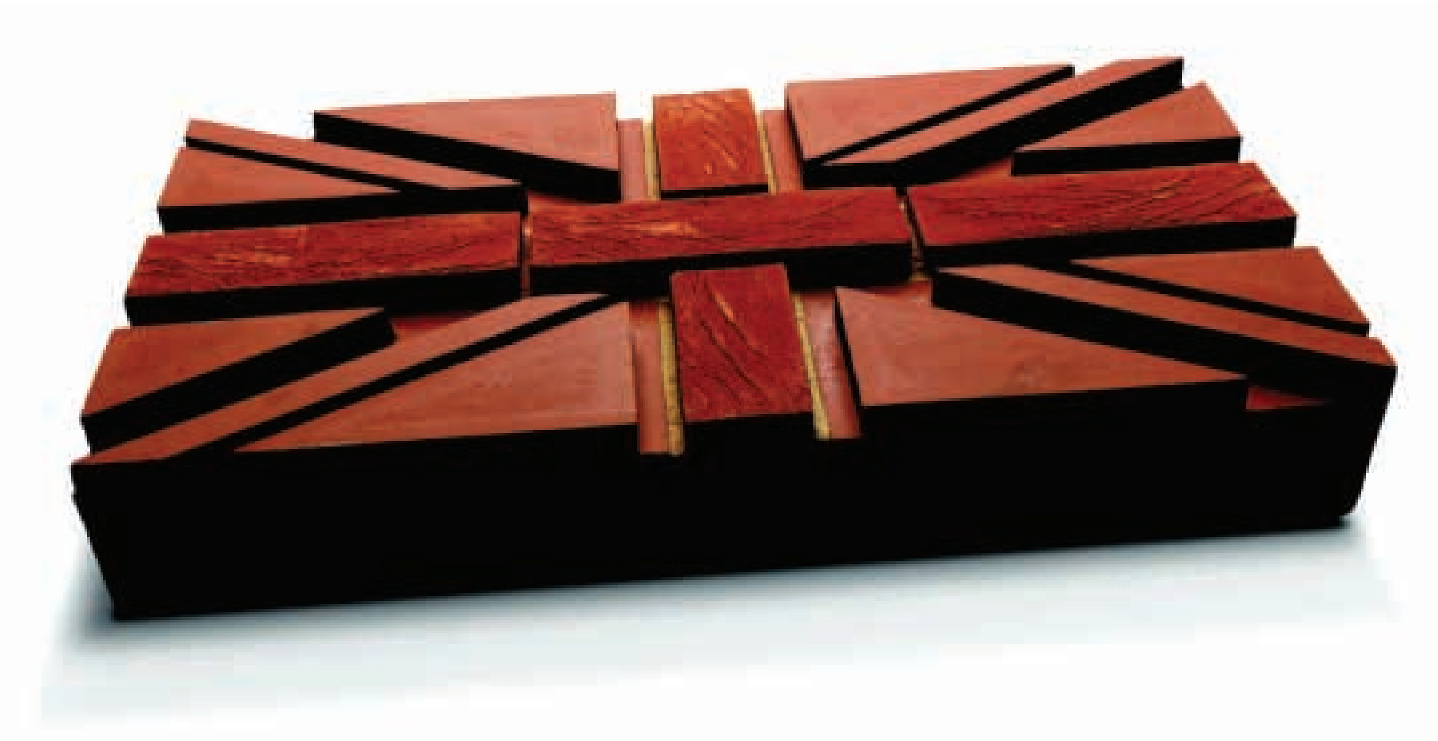
MICHELMERSH
Brick Holdings PLC

MICHELMERSH Brick Holdings PLC
Annual Report 2010



Britain's Brick Specialists

Dunton Michelmersh Charnwood Blockleys Taperell Taylor Hathern Terra Cotta Freshfield Lane

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Chairman's Statement

This year has been one of considerable change and progress for the Group following the acquisition of Freshfield Lane Brickworks Limited ("FLB") in March 2010. Whilst the Group has always covered most of England and Wales, we now have a very firm footing in the South East of England, where business has proved to be more resilient during the recession.

I am pleased to announce that change and progress have contributed to the results for the year to 31 December 2010 in which the Group has produced an operating profit before restructuring charges of £504,000 against a comparative loss of £374,000 in 2009.

The acquisition of FLB provided the opportunity, impetus and the scale to allow us to restructure the business and position ourselves better to deal with the current market conditions, in what has become a constantly changing construction industry. This has allowed the Group to:

- centralise the sales force enabling it to cross-sell all our products in new geographical areas;
- re-define the product range incorporating the enlarged family of products targeted at specific industry sectors RMI, specified house building and merchants;
- centralise finance and administrative functions leading to efficiencies and cost savings;
- rationalise production at our Telford plant to focus on paver and specification wire cut bricks; and
- undertake a corporate rebranding.

We had operated previously, as a collection of businesses with centralised management and direction. The changes implemented in 2010 have positioned the brick making operations of the Group as a single business, operating across five manufacturing sites. These moves have focused the business on a strengthened sales offering, weighted more to the very important South East markets which have been very well received by the Group's market place.

Financial Highlights

	2010	**2009**
Turnover	£23.3m	£17.9m
Operating profit/(loss) before restructuring costs	£0.5m	(£0.4m)
Operating loss, after restructuring costs	£(6.9)m	£(0.4)m
Total assets	£71.5m	£60.3m
Net assets	£37.1m	£30.4m
Net asset per share*	63.8p	75.2p
Gearing	35%	42%

* NAV following issue of 17.69 million shares in 2010

Following the acquisition of FLB, the Group took the opportunity to dispose of surplus land and property at FLB for £2.6 million with an excess of £600,000 over the recent external valuation included in the acquisition agreement. This 'profit' is not included in the Group's Income Statement, but has been reflected in the fair value of the assets acquired and has the effect of reducing the goodwill generated on acquisition being carried forward in the Balance Sheet. The proceeds of the sale of surplus land effectively reduced the net cost of the acquisition of FLB.

The 2010 Income Statement comprises certain elements that make direct comparison with that of 2009 difficult, including the addition of FLB for nine months of the year, reduced capacity at Blockleys for the whole of 2010 and exceptional costs of the restructuring. However, the improved operating loss from continuing operations demonstrates an improvement in the underlying contribution of our business in 2010 that is now enhanced as FLB brings additional income while central costs are further reduced.

Operating cash flows are strong and show an improvement over 2009 and the disposal of the surplus land assets acquired with FLB referred to above generated £2.6 million in cash. Inventories have been reduced by £430,000 to £9.2 million, despite the increased size of the Group. Group net assets have increased through the issue of 17.69 million new Ordinary Shares as consideration for the acquisition of FLB and in an associated share placing at 30p per share.

The Income Statement includes a number of exceptional costs associated with the restructuring of the Group, comprising:

- the restructuring of Telford, our largest plant, due to the recessionary impacts of the last three years. This led to the early mothballing and subsequent closure of Plants 6 and 7 at Telford. The one-off impact is that plant and engineering stocks to the value of £6.6 million were written off. We are keeping all options open for this site in the light of opportunities in the industry;
- redundancy and re-organisation costs amounted to £600,000. This included the cost of centralising all of the Group's finance and administration functions at FLB's site but this will benefit future years by reducing overhead costs; and
- other costs, including the cost of re-branding and the FLB acquisition costs which totalled £300,000.

The Group's term loan and overdraft facilities with Barclays Bank are due to expire in June 2011. We are currently in discussions with Barclays which has confirmed that it expects to extend the facilities for at least 12 months. The asset based funding from Venture continues to operate within terms and affords adequate headroom through the trading cycle. Despite the acquisition of FLB in the year and the cost of restructuring, the Group has marginally decreased its gearing over 2009. Headroom is comfortable but we continue to monitor and improve the balance of our working capital. We work closely with both our principal banks and I would like to recognise their support.

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.

Land and Reserves Assets

We have continued to develop the potential of our residential land at Telford during 2010. We have completed the S106 Agreement for the residential planning permission for 16 acres. We have a clear strategy to bring matters to a conclusion in the near future to maximise shareholder value and to reduce debt. Overall there are at least 80 acres at Telford which will eventually be capable of being developed.

All our sites have clay reserves for a considerable period of time and where appropriate we will add additional reserves should the opportunity arise within the planning system.

The Board

The past year has seen a number of changes to the Board reflecting the changes to our business. Former FLB directors, Frank Hanna and Alan Hardy were appointed to the Board in March 2010. Frank, who heads up the commercial sales team, has contributed strongly to the product rationalisation, restructuring, centralising the commercial operations and re-branding. Alan Hardy brings his experience to the benefit of the Group as a non-executive Director.

Stephen Morgan joined the Group as Finance Director in November 2010 and has overseen the centralisation of Finance and Administration. These changes to the Executive team give balance and depth to our operational management.

People

We have a highly experienced workforce to which I extend my thanks. During the year, we have completed the process of staff restructuring which has been a difficult period and I also thank those involved and especially those who have moved or been directly affected by the reorganisation of the business.

I would like to thank a number of people who have served the Company for many years, who are retiring this year, in particular Jim Spencer at Charnwood who has retired after some 29 years in the business although we are delighted that he is still available to us as a consultant.

Outlook

We believe that economic conditions will for the foreseeable future, continue to be tough and activity in the construction industry is likely to remain flat. Funding for developers is restrained and Government cuts in capital expenditure have yet to be felt.

The brick manufacturing market is increasingly divided into premium products, which is our expertise, and volume bricks, which can only be sold on price. It is the latter market that has been more adversely affected by the reduced building programmes of the major house builders. In fact, these house builders have cut back severely on their starter homes programmes and are concentrating more on higher value houses, which offers opportunities for us. We are also seeing that our customers are increasingly conscious of their carbon footprint and seeking to use local and regional suppliers.

Energy is becoming an even greater issue as recent political uncertainties in the oil producing regions have accelerated the long term trend of energy cost increases. We are concerned about the lack of strategic decision making, by the Government in particular, on long-term energy supplies and we are reviewing opportunities in respect of waste to energy link ups with emerging suppliers. These issues will certainly impact future investment in the industry.

Against this background, the message is slowly getting across that traditional, quality bricks are a long lasting, energy efficient, building material and their aesthetic qualities add value.

Our products are selling across a wider area and our market share is increasing, although industry pricing is holding back profitability at this time. We do not believe that the current situation is sustainable and have commented on many occasions that while the market is supplied by three multi-national manufacturers, there is a very strong likelihood of further rationalisation, changes in ownership, or business combination.

As a result of all the changes within the Group in 2010 Michelmersh Brick is now a well invested business with a high degree of complementary products, giving us a good defensive position from which we can prosper in the current economic climate, benefit from any market upturn and be uniquely placed to participate in any restructuring of the industry. There are some positive market indicators and our market place is proving resilient.

With our strengthened management team and the support of our banks and shareholders, together with the lack of competition issues, we are of the firm view that we are ideally placed to take advantage of, or lead opportunities as they arise.

Eric Gadsden
Chairman

Clay Products

The year has been one of great significance and accomplishment for Michelmersh Brick. During 2010, we worked hard to reposition our operational structure. Previously, with five separate businesses, there were areas of overlap and of duplication. By the end of the year, we had completed a process of amalgamating all clay product operations into one manufacturing company, and implemented centralised sales and finance functions. The production and sales functions are closely integrated around a strategy of product offerings targeted at specific markets.

The acquisition of Freshfield Lane Brickworks (FLB) has cemented our position as 'Britain's Brick Specialist' with a range of brands and a market offering which is unique and cannot be replicated. These businesses are iconic and their contribution to the vernacular is of inestimable value, not only to shareholders, but to the communities they serve.

The mix of repair, maintenance and improvement ("RMI"), specification and premium housing can be noted in some of the following current projects being supplied by the Group:

- Les Beaucamps High School, Castel, Guernsey. Product – using an FLB special blend;
- Marlborough College, Marlborough – Michelmersh Hand Made Vintage tiles for re-roofing the College, a building dating back to 1843;
- New Visitor Centre, Royal Armouries, Fort Nelson, Fareham – incorporating Charnwood Handmade Rutec Farnham Red; and
- New Sainsbury's Superstore, within Grade 2 listed former McMullen Brewery, Hertford, for which we supplied Michelmersh Handmade Edwardian Downs Blend plus bespoke Imperial bricks for the refurbishment of brewery.

Hathern Terracotta is involved in a number of key restoration projects underway in London, notably the Henry Cole building at the Victoria and Albert Museum, and Bury House, Bury Street, Piccadilly. Elsewhere, we are supplying product for the fire damage restoration of the Florence Institute in Liverpool, and also for the Australia Provident Mutual Society Building in Wellington, New Zealand.

Finally, we have successfully launched our new London Yellow product from Dunton, with a host of new enquiries and substantial orders being received for the new product, and deliveries due to commence this month.

Our strategy is to maximise the market entry points created by those seeking products which are a part of the local landscape around the Group's various production facilities and by cross-selling other complementary Group products through a focused sales force. At the same time we have sought to use the most modern technology consistent with retaining the natural characteristics of our bricks, tiles and pavers.

Over the past five years, the market for bricks has reduced by around 40%, from some 2.6 billion to 1.5 billion and with this, there has been intense acquisition activity and the closure of works, resulting in the majority of bricks now being produced in large manufacturing units. As this process has continued, and I believe that the market has now almost certainly bottomed out, Michelmersh Brick is in a strengthened position. Our strategy as set out above, which has been strengthened by the geographical location and product offering from FLB, has proved successful and resilient.

Aside from our success in our local markets, we have enjoyed success with exporting our clay pavers to the Middle East and our bricks to niche markets in Eastern Europe. Although we hope to see growth in exports, it is our home patch in the UK which is the focus of our main efforts.

As noted in the Chairman's Statement, comparisons with our 2009 results are difficult, due to the addition of FLB for nine months of the year and reduced capacity at Blockleys. However, we sold 67 million bricks and tiles over the year (2009: 50 million), at a healthy average selling price of £330 per thousand (2009: £350 per thousand), despite the adverse weather conditions in both January and December 2010. The reduction in average prices reflects the changed product mix resulting from the FLB acquisition.

We have a management structure that closely monitors performance of each of our production sites and their sales performance. Our principal Key Performance Indicators ("KPIs") are average selling price; cost of production; and, carbon usage. We also monitor environmental, health and safety and employment indices. KPIs are monitored by production unit, across a range of products and processes.

The Group is exposed to energy prices, principally gas, used in the production process. Traditionally, we have taken a defensive position and have the ability to hedge forward our gas purchases. In the current uncertain conditions, we have fixed forward 53% of our gas requirements for the next 12 months with further strategic fixes thereafter. As a result, we are satisfied that we are not at risk from further significant movements in prices. As gas prices peaked, so did the carbon market and we took advantage of that situation and sold surplus carbon credits available for the next 12 months to balance the increased cost of gas. The Group continues to monitor the short to medium term gas and carbon markets in order to protect costs and margins.

Staff Development

During 2010, we developed a tailored, in-house health and safety training programme for our employees covering key areas such as manual handling, noise and machinery guarding. Employees from Charnwood and Michelmersh have completed the programme that is delivered by our Group Health and Safety Manager. In 2010, we also expanded our successful 'Lean Manufacturing' programme at Blockleys where we have set up several improvement teams that are delivering process improvements while gaining valuable NVQ qualifications.

A key focus for 2011 is the continuing development of our site management teams. Managers from various sites are currently undertaking NVQ management training and will also be focusing on quarry and environmental management. We will also continue to expand and develop our successful Lean Manufacturing and Health and Safety programmes.

Landfill

Our landfill operation at Telford continues to perform well, achieving an increased turnover of £531,000 (2009: £410,000) on input levels of 171,000 tonnes (2009: 67,000 tonnes). Rates achieved of £3.10 per tonne (2009: £6.10) reflected the competitive market in a period of falling demand. There has been a strong pick-up in demand in the first months of 2011.

We continue to pursue other landfill opportunities at our Charnwood, Dunton and FLB sites.

Land Assets

As noted in the Chairman's Statement, our 16 acres of land at Telford is now fully permitted for the development of 168 dwellings. We have had extensive negotiations with Persimmon plc but, to date, these have not resulted in a proposal which accords with our expectations. The time this complex process is taking is frustrating, but we believe that we remain in a strong position and will only reach agreement when we believe we have secured the correct outcome for the Group. A process driven by the timeline set out in the Option Agreement with Persimmon is now underway.

With the opportunities potentially available in the brick market over the forthcoming period, we will look to maximise the return from the restored land whilst not ruling out other options for the remainder of the site.

Outlook

2011 has started strongly with orders, sales and production of brick products ahead of budget and increasing demand at our landfill operation. Our challenge, as with other manufacturers, is to achieve price recovery. However, I believe this will come as we face up to a future of increasing energy costs. We believe that our market share is increasing, and we will continue to compete in the current difficult market by offering quality and range to our chosen markets. We have recently announced our investment in a brick distribution business in the North East of England that is a strategic move into an area where Michelmersh Brick products have hitherto had limited penetration. There are now few opportunities to acquire one-off manufacturing sites. However, we will continue to consider these as and when they present themselves. More importantly though, the business, its market place, products and team are uniquely placed to play a key role in what will shape the brick industry in the UK, in years to come.

We are confident that with our good market coverage, enhanced executive management team, careful control of costs and rationalisation completed, we can go forward despite the rigours of the economy.

Martin Warner
Chief Executive

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 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	Arbuthnot Securities Arbuthnot House 20 Ropemaker Street London EC2Y 9AR
AUDITORS	Nexia Smith and Williamson Audit Limited Portwall Place Portwall Lane Bristol BS1 6NA
SOLICITORS	Burgess Salmon LLP Narrow Quay House Narrow Quay Bristol BS1 4AH
REGISTRARS	Equiniti The Causeway Worthing 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
	Venture Finance plc Sheencroft House 10-12 Church Road Haywards Heath West Sussex RH16 3SN

* Member of the Audit Committee

\+ Member of the Remuneration Committee

Directors' Biographies

Eric Gadsden, aged 66 – 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.

Martin Warner MSc FRICS, aged 57 – Managing Director

Martin Warner joined Dunton Group plc in 1989 and was appointed Chief Executive in 1990. In 1997 he left Dunton Group plc to form Michelmersh with Eric Gadsden. Martin is a Fellow of the Royal Institute of Chartered Surveyors and a director of a number of private companies.

Frank Hanna, aged 42 – Commercial Director

Frank joined Freshfield Lane Brickworks Limited ("FLB") in 1991 having formerly worked for Hanson Brick Ltd. Frank was appointed to the Board of FLB in 1996 as sales and technical director before becoming a shareholder in 2000. Frank is a board member of the Brick Development Association. Frank was appointed as a Director of the Company on 30 March 2010.

Stephen Morgan BA ACA, aged 50 – 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 joined Michelmersh Brick Holdings Plc in August 2010 as Interim Finance Director and Company Secretary and was appointed as Finance Director and Company Secretary on 9th November 2010.

Bob Carlton-Porter, aged 66 – 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 40 years experience as a financial and commercial director. He was previously Group Finance Director of English China Clays PLC and Chairman of Aram Resources PLC, Newport Holdings PLC, ROK Property Solutions PLC and Hawtin PLC.

Alan Hardy, aged 52 – Non-Executive Director

Alan Hardy has worked at Freshfield Lane Brickworks Limited ("FLB") since 1993 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 Bench, having been appointed in 1994. Alan was appointed as a Director of the Company on 30 March 2010. In October 2010 Alan stepped down to take a Non-Executive Director position.

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The main activity of the subsidiary companies was the manufacture of bricks, with one subsidiary operating a landfill site.

The Directors are satisfied with the performance of the Group for the year and with the position of the Group at 31 December 2010 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 13 to 44.

The Directors do not recommend the payment of a dividend for the year (2009: £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 2010 Ordinary Shares of 20p each	31 December 2009 Ordinary Shares of 20p each
E J S Gasden	22,658,257	21,757,892
M R Warner +	6,588,732	6,588,732
C W Robinson (resigned 1 August 2010)	n/a	34,500
R W Carlton-Porter *	76,628	76,628
F J Hanna (appointed 24 March 2010)	1,262,917	n/a
A R G Hardy (appointed 24 March 2010)	6,559,391	n/a
S H P Morgan (appointed 9 November 2010)	-	n/a

\+ M R Warner is a trustee of a discretionary trust which is the registered owner of 5,338,393 of Ordinary Shares

* 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 9 of the financial statements.

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 5. In addition, note 19 to the financial statements include 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 Term Loan is due for renewal in June 2011. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facility. The company has opened renewal negotiations with the bank and has received assurances that the bank currently expects to extend the facilities for at least 12 months. The detail of the extended facilities depends on the timing of proceeds of land asset disposals under the Persimmon option agreement.

No matters have been drawn to the Company's attention to suggest that renewal may not be forthcoming on acceptable terms. 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

Whilst there is no creditor payment policy, it is the policy of the Group to pay all creditors promptly. The average credit age for the Group is 19 days (2009: 29 days). The Group has continued to pay creditors to terms consistent with 2009.

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 19 in the financial statements.

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 and 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 individual companies 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.

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 16 May 2011

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

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

We have audited the Group financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity, and the related notes 1 to 28. 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.

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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the group 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 group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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 group 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:

- 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.

Ian Cooper
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

Portwall Place
Portwall Lane
Bristol
BS1 6NA

16 May 2011

Michelmersh Brick Holdings Plc
IFRS Financial Statements
Consolidated Income Statement

Consolidated Income Statement for the year ended 31 December 2010	Notes	Underlying business £'000	Restructuring costs £'000	2010 £'000	2009 £'000
Revenue	2	23,340	–	23,340	17,850
Cost of sales		(17,210)	(6,866)	(24,076)	(13,232)
Gross profit/(loss)		6,130	(6,866)	(736)	4,618
Administrative expenses	6	(6,032)	(554)	(6,586)	(5,156)
Other income	3	406	–	406	164
Operating profit/(loss)		504	(7,420)	(6,916)	(374)
Finance costs	4			(815)	(622)
Loss before taxation	5			(7,731)	(996)
Taxation	11			2,458	202
Loss for the financial year				(5,273)	(794)
Basic loss per share	28			(9.82)p	(1.96)p
Diluted loss per share	28			(9.82)p	(1.96)p

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

The accounting policies and notes on pages 18 to 44 form part of these financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010	**Notes**	**2010 £'000**	**2009 £'000**
Loss for the financial year		(5,273)	(794)
Other comprehensive income:			
Gain/(loss) on revaluation of property, plant and equipment	13	9,259	182
Deferred tax on revaluation movement	21	(2,500)	(51)
		6,759	131
Total comprehensive profit/(loss) for the year		1,486	(663)

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 18 to 44 form part of these financial statements.

Michelmersh Brick Holdings Plc
IFRS Financial Statements
Consolidated Balance Sheet

Consolidated Balance Sheet as at 31 December 2010	**Notes**	**2010 £'000**	**2009 £'000**
Assets			
Non-current assets			
Intangible assets	12	2,404	65
Property, plant and equipment	13	53,073	46,922
Total non-current assets		55,477	46,987
Current assets			
Inventories	15	9,171	9,601
Trade and other receivables	16	5,147	3,226
Investments		91	–
Cash and cash equivalents		1,566	505
Total current assets		15,975	13,332
Total assets		71,452	60,319
Liabilities			
Current liabilities			
Trade and other payables	17	3,558	3,947
Interest bearing borrowings	18	18,873	5,191
Total current liabilities		22,431	9,138
Non-current liabilities			
Deferred tax liabilities	21	8,836	7,441
Interest bearing borrowings	18	3,089	13,365
		11,925	20,806
Total liabilities		34,356	29,944
Net assets		37,096	30,375
Equity attributable to equity holders			
Share capital	25	11,620	8,083
Share premium account		6,422	5,703
Reserves		22,662	15,138
Retained earnings		(3,608)	1,451
Total equity		37,096	30,375

These financial statements were approved by the Directors and authorised for issue on 16 May 2011 and are signed on their behalf by

E J S GADSDEN
Director

M R WARNER
Director

The accounting policies and notes on pages 18 to 44 form part of these financial statements.

Michelmersh Brick Holdings Plc
IFRS 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 2009	8,083	183	–	5,703	15,021	2,048	31,038
Loss for the year	–	–	–	–	–	(794)	(794)
Revaluation in the year	–	–	–	–	182	–	182
Deferred taxation on revaluation	–	–	–	–	(51)	–	(51)
Total comprehensive income/expense	–	–	–	–	131	(794)	(663)
Transfer to retained earnings	–	–	–	–	(197)	197	–
As at 31 December 2009	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/(expense)	–	–	–	–	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

The accounting policies and notes on pages 18 to 44 form part of these financial statements.

Michelmersh Brick Holdings Plc
IFRS Financial Statements
Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for the year ended 31 December 2010	**2010 £'000**	**2009 £'000**
Cash flows from operating activities		
Loss before taxation	(7,731)	(996)
Write off plant and machinery	5,785	–
Write off value of investments	6	–
Finance costs	815	622
Depreciation	1,640	1,625
Amortisation	2	2
Usage of carbon emissions quota	662	382
Grant of carbon emissions quota	(723)	(458)
(Profit)/loss on sale of property, plant and equipment	–	2
Cash flows from operations before changes in working capital	456	1,179
Decrease/(increase) in inventories	2,297	(1,225)
(Increase)/decrease in receivables	(402)	251
(Decrease)/increase in payables	(1,160)	(434)
Net cash generated by/(used in) operations	1,191	(229)
Interest paid	(815)	(622)
Net cash generated by/(used in) operating activities	376	(851)
Cash flows from investing activities		
Acquisition of subsidiary undertaking	(5,000)	–
Overdraft balance assumed on acquisition of subsidiary undertaking	(357)	–
Purchase of property, plant and equipment	(201)	(387)
Proceeds of disposal of property, plant and equipment	2,812	–
Net cash used in investing activities	(2,746)	(387)
Cash flows from financing activities		
Net proceeds from issue of share capital	2,699	–
Proceeds/(repayment) of interest bearing borrowings	2,210	(377)
Repayment of hire purchase and finance lease obligations	(53)	(69)
Net cash generated by/(used in) financing activities	4,856	(446)
Net increase/(decrease) in cash and cash equivalents	2,486	(1,684)
Cash and cash equivalents at the beginning of the year	(4,242)	(2,558)
Cash and cash equivalents at the end of the year	(1,756)	(4,242)
Cash and cash equivalents comprise:		
Cash at bank and in hand	1,566	505
Bank overdraft	(3,322)	(4,747)
	(1,756)	(4,242)

The accounting policies and notes on pages 18 to 44 form part of these financial statements.

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 subsidiary companies was the manufacture of bricks, with one subsidiary operating a landfill site.

These financial statements cover the financial year from 1 January to 31 December 2010, with comparative figures for the year 1 January to 31 December 2009.

The principal companies within the Group during the financial year ended 31 December 2010 are disclosed in note 14.

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 2010 and 31 December 2009 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 translate 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 3 (revised), Business Combinations

The revised standard applies to business combinations completing on or after 1 January 2010 with no requirement to re-state previous business combinations. The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example, all payments to purchase a business are recorded at fair value at acquisition date, with contingent consideration payments classified as a liability and subsequently re-measured through the Group Income Statement. All acquisition related costs are expensed. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The impact to the Group's Financial Statements on adopting IFRS 3 (revised) has been an exceptional charge of £120,000 arising on acquisition costs that would previously have been capitalised. The effect on earnings per share of adopting IFRS 3 is a reduction in basic and diluted earnings per share of 0.2 pence.

The following amendments to existing standards and interpretations were also effective for the current period, but the adoption of these amendments to existing standards and interpretations did not have a material impact on the Financial Statements of the Group:

- IAS 27 (revised), Consolidated and Separate Financial Statements;
- IFRIC 17, Distributions of Non-cash Assets to Owners;
- IAS 39 (amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- IFRS 2 (amendment), Share-based Payment – Group Cash-settled Share-based Payment Transactions; and Improvements to IFRS's (2009).

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 2013, subject to EU endorsement. The standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement;
- IAS 32 (Amendment), Classification of Rights Issues, effective for annual periods commencing on or after 1 February 2010;
- IFRIC 14 (Amendment), Prepayments of a Minimum Funding Requirement, effective for annual periods beginning on or after 1 January 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective for annual periods beginning on or after 1 July 2010.

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. They are de-consolidated from the date that control ceases.

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 Venture Finance Plc, together with an overdraft facility provided by Barclays Bank Plc. The Venture facility was renegotiated following the acquisition of Freshfield Lane Brickworks Limited in March 2010 for a five year period. The Group's term loan and overdraft facilities with Barclays Bank plc are due to expire in June 2011. We are currently in discussions with Barclays which has confirmed that it expects to extend the facilities for at least 12 months.

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, 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.

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 12 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 13 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.

Accounting Policies (continued)

Property, plant and equipment (continued)
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.

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.

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 equity.

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.

Leases
Assets held under finance lease and hire purchase contracts and the related obligations are recorded in the balance sheet at the fair value of the assets at the inception of the contracts. The amounts by which the payments exceed the recorded obligations are treated as finance charges which are amortised over each contract term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the income statement in equal amounts over the period of the lease.

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 revalued clay in respect of mineral reserves, which have been extracted 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.

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.

Accounting Policies (continued)

Financial Instruments (continued)

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

Cash and cash equivalents
For the purposes of the statement of cash flows, 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.

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.

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.

Notes to Financial Statements for the year ended 31 December 2010

1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements and key sources of estimation 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 21).
- Freehold land and buildings are valued by the Directors and incorporate certain assumptions in relation to the future use of the properties and the estimated 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 26.

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 2010. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 18 to 23.

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

With effect from 1 January 2011, the business and operating assets of the above companies were amalgamated under a Group reconstruction into a single clay products manufacturing business in Blockleys Brick Limited. Blockleys Brick Limited has changed its name to Michelmersh Brick UK Limited.

Landfill
Engagement in landfill operations:
- New Acres Limited – based in Telford, Shropshire

Notes to Financial Statements for the year ended 31 December 2010 (continued)

2. SEGMENTAL REPORTING (continued)

Segment performance is evaluated by the Board based on revenue and profit before tax or contribution to central overheads. 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.

	2010		2009	
	Segmental revenue £'000	PBT £'000	Segmental revenue £'000	PBT £'000
Building materials				
Blockleys Brick	7,042	(7,451)	9,152	(169)
Dunton Brothers	1,654	(250)	1,519	(174)
Charnwood Forest	2,830	281	2,304	(42)
Michelmersh Brick	4,846	475	4,519	417
Freshfield Lane	6,446	893	–	–
	22,818	(6,052)	17,494	32
Landfill				
New Acres	531	105	410	158
	23,349	(5,947)	17,904	190
Inter-segmental revenue and unallocated costs	(9)	(1,784)	(54)	(1,186)
	23,340	(7,731)	17,850	(996)

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

Business assets and liabilities

	2010		2009	
	Segmental assets £'000	Segmental liabilities £'000	Segmental assets £'000	Segmental liabilities £'000
Building materials				
Blockleys Brick	32,066	1,534	31,654	4,653
Dunton Brothers	6,211	518	5,847	868
Charnwood Forest	6,577	501	6,052	952
Michelmersh Brick	15,708	2,565	13,059	2,079
Freshfield Lane	7,063	3,183	–	–
	67,625	8,301	56,612	8,552
Landfill				
New Acres	344	38	2,979	26
	67,969	8,339	59,591	8,578
Unallocated costs and liabilities	3,483	26,017	728	21,366
	71,452	34,356	60,319	29,944

Unallocated assets consist of central office equipment, other receivables and prepayments and cash held by the parent company in respect of corporate transactions. Unallocated liabilities consist of interest bearing loans, deferred tax liabilities, directors' current accounts and payables owed by the parent company in respect of corporate transactions.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

2. SEGMENTAL REPORTING (continued)

Other segmental disclosure

	2010		
	Property, plant and Equipment		Intangible fixed assets
	Acquisition £'000	Depreciation £'000	Amortisation £'000
Building materials			
Blockleys Brick	65	424	–
Dunton Brothers	22	133	–
Charnwood Forest	48	70	–
Michelmersh Brick	48	443	–
Freshfield Lane	18	355	-
	201	1,425	–
Landfill			
New Acres	–	215	2
	201	1,640	2

	2009		
	Property, plant and Equipment		Intangible fixed assets
	Acquisition £'000	Depreciation £'000	Amortisation £'000
Building materials			
Blockleys Brick	59	949	–
Dunton Brothers	12	129	–
Charnwood Forest	11	80	–
Michelmersh Brick	98	360	–
Freshfield Lane	–	–	–
	180	1,518	–
Landfill			
New Acres	207	107	2
	387	1,625	2

Revenue by geographical destination

	2010 £'000	2009 £'000
United Kingdom	23,634	17,627
Europe	136	–
Rest of the World	570	223
	23,340	17,850

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

Total Group revenue made to three customers amounted to £7.1 million. No other customers were individually material in revenue value.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

3. OTHER INCOME

	2010 £'000	2009 £'000
Rents receivable	25	41
Excess of carbon emission allowance over usage	376	94
Other	5	29
	406	164

4. FINANCE COSTS

	2010 £'000	2009 £'000
Interest expense	797	615
Charges in respect of hire purchase agreements	18	7
	815	622

5. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

		2010 £'000	2009 £'000
Amortisation	– other	2	2
Depreciation	– owned assets	1,604	1,588
	– assets held under hire purchase agreements	37	37
Operating lease costs	– plant and machinery	160	97
	– motor vehicles	260	76

6. RESTRUCTURING COSTS

During the year ended 31 December 2010, the Group undertook a range of actions to restructure the business. This included the acquisition of Freshfield Lane Brickworks Limited, (see note 23), and closure of part of the brick manufacturing facility at Blockley which resulted in redundancy costs, writing down of redundant plant and machinery, along with engineering spare parts held in stock. The finance and administration function was centralised to the new registered office with consequent relocation and redundancy costs. The corporate structure of the business was reorganised with transfers of business and assets within the Group to achieve a simpler functional structure. The restructured business was then rebranded. In addition, there were changes to the Board of Directors for which compensation payments were made. These costs are considered unusual and non-recurring and are intended to reduce the costs of manufacture and administration in subsequent years.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

6. RESTRUCTURING COSTS (continued)

	£'000
Charged to cost of sales – building material sector	
Write off of plant and machinery	5,785
Write off engineering stocks	780
Redundancy costs	301
	6,866
Charged to administrative expenses – inter segmental revue and unallocated costs	
Redundancy and relocation costs	100
Corporate re-branding and legal costs of reconstruction	148
Acquisition costs	120
Costs of changing the structure of the Board	186
	554

7. AUDITORS REMUNERATION

	2010 £'000	2009 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	35	33
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	37	33
– tax compliance services	18	16
– corporate finance services	11	30

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.

8. PARTICULARS OF EMPLOYEES

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

	2010	2009
Manufacture and supply of bricks	276	217
Administration	30	55
	306	272

	2010 £'000	2009 £'000
Wages and salaries	7,656	6,474
Social security costs	749	628
Other pension costs	221	213
	8,626	7,315

Notes to Financial Statements for the year ended 31 December 2010 (continued)

9. DIRECTORS' EMOLUMENTS

The emoluments of the individual Directors were as follows:

	Basic Salary 2010 £'000	Pension 2010 £'000	Total emoluments 2010 £'000	Total emoluments 2009 £'000
EJS Gadsden	20	–	20	20
MR Warner	114	–	114	109
CW Robinson	52	–	52	86
RW Carlton-Porter	27	–	27	27
F J Hanna	90	–	90	–
ARG Hardy	60	–	60	–
SHP Morgan	17	–	17	–
	380	–	380	242

The above Directors are considered to be the only key management personnel in the Group. Under IFRS, additional disclosure is required as follows:

	2010 £'000	2009 £'000
Short-term benefits	401	253
Compromise agreement	100	–
Post-employment benefits	86	–
	587	253

10. TRANSACTIONS WITH DIRECTORS

An amount of £27,000 (2009: £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 are any share options granted to Directors held at 31 December 2011.

No Director (2009: none) is a member of the defined contribution pension scheme run by the Group. No Director (2009: none) received contributions to his personal money purchase pension scheme.

11. TAXATION

(a) Recognised in the income statement

	2010 £'000	2009 £'000
Current tax expense		
Current year	36	–
Deferred tax credit		
Origination and reversal of temporary differences	(2,496)	(202)
Total income tax credit in the income statement	(2,458)	(202)

Notes to Financial Statements for the year ended 31 December 2010 (continued)

11. TAXATION (continued)

(b) Factors affecting the tax charge for the year

The tax assessed for the year is (higher)/lower than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below.

	2010 £'000	2009 £'000
Factors affecting the tax charge for the current year		
Reconciliation of effective tax rate		
Loss before taxation	(7,731)	(996)
Income tax using the domestic corporation tax rate	(2,165)	(279)
Effects of:		
Expenses disallowed	133	8
Depreciation in excess of capital allowances	(319)	–
Other timing differences	(107)	69
	(2,458)	(202)

(c) Factors affecting future tax charges

On 22 June 2010 the Government announced its intention to propose to Parliament a staggered reduction in the corporate income tax rate of 1% every year culminating in a rate of 24% for the tax year 2014-2015. As of 16 May 2011, the 1% changes relating to the tax years starting 2012, 2013 and 2014 have not been substantially enacted. The deferred tax expense for 2010 would have decreased by approximately £980,000 and the effective rate by approximately 12.7%, had the change in tax rate been substantively enacted as of 16 May 2011.

As at 31 December 2010, the Group had tax losses carried forward of approximately £1,726,000 (2009: £1,846,000).

A deferred tax asset has not been recognised in respect of £1,367,000 (2009: £1,268,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

12. INTANGIBLE ASSETS

	Goodwill	PPC license	Carbon emissions quota	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
As at 1 January 2009	–	75	–	75
Allowances received during the year	–	–	458	458
Offset against liability	–	–	(458)	(458)
As at 31 December 2009	–	75	–	75
Allowances received during the year	–	–	723	723
Offset against liability	–	–	(662)	(662)
On acquisition of subsidiary (see note 23)	2,280	–	–	2,280
At 31 December 2010	2,280	75	61	2,416
Amortisation				
As at 1 January 2009	–	8	–	8
Charge for the year	–	2	–	2
As at 31 December 2009	–	10	–	10
Charge for the year	–	2	–	2
At 31 December 2010	–	12	–	12
Net book value				
At 31 December 2010	2,280	63	61	2,404
At 31 December 2009	–	65	–	65

GOODWILL

Goodwill amounting to £2,280,000 arose during the year on acquisition of Freshfield Lane Brickworks Limited (see note 23).

In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2010, 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 (2009: £nil) and no reasonable change to the assumptions would lead to a material impairment.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

13. 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 2009	30,389	234	171	33,939	916	258	65,907
Additions	223	–	–	157	7	–	387
Disposals	–	–	–	(40)	(6)	–	(46)
Transfers to inventories	(141)	–	–	–	–	–	(141)
As at 31 December 2009	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
	42,548	234	270	25,784	919	393	70,148
Amortisation							
As at 1 January 2009	287	42	157	16,403	686	211	17,786
Charge for the year	197	3	5	1,375	32	13	1,625
Disposals	–	–	–	(39)	(5)	–	(44)
Revaluation in the year	(182)	–	–	–	–	–	(182)
As at 31 December 2009	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
At 31 December 2010	838	46	194	14,900	741	356	17,075
Net book value							
At 31 December 2010	41,710	188	76	10,884	178	37	53,073
At 31 December 2009	30,169	189	9	16,317	204	34	46,922

Included within the net book value of £53,073,000 is £160,000 (2009: £126,000) 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 £54,000 (2009: £37,000).

The Group's freehold land and buildings were revalued by the Directors on 31 December 2010, 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. 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 £41,710,000 at 31 December 2010 (2009: £30,169,000), resulting in an increase in the revaluation reserve of £9,259,000 (2009: increase £182,000) at that date. Deferred tax liabilities were decreased by £2,500,000 (2009: increase £51,000) and have been debited to the revaluation reserve.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

13. 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 £'000	2009 £'000
Historical cost		
At 1 January 2010	10,247	10,051
Additions	75	223
On acquisition of subsidiary	5,460	–
Transfer to inventories	(105)	(27)
At 31 December 2010	15,677	10,247

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 19.

14. 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	Manufacture Bricks
Charnwood Forest Brick Limited	England	Ordinary	100	Manufacture Bricks
Michelmersh Brick and Tile Limited	England	Ordinary	100	Manufacture Bricks
Freshfield Lane Brickworks Limited	England	Ordinary	100	Manufacture Bricks
New Acres Limited	England	Ordinary	100	Landfill operations

No entities have been excluded from the consolidated financial statements.

15. INVENTORIES

	2010 £'000	2009 £'000
Raw materials	3,705	4,393
Work in progress	947	245
Finished goods	4,519	4,963
	9,171	9,601

The cost of inventories expensed during the year is the cost of sales of £17,210,000 (2009: £13,232,000). The inventory cost disclosed above is used for security of the overdraft as disclosed in note 19.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

16. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year

	2010 £'000	2009 £'000
Trade receivables	4,691	2,998
Other receivables	284	1
Prepayments and accrued income	172	227
	5,147	3,226

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 19.

Included within trade receivables is £794,000 (2009: £244,000) are 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.

	2010 £'000	2009 £'000
30 days overdue	494	209
30–60 days overdue	183	22
60–90 days overdue	117	13
	794	244

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 £1,566,000 as shown in the balance sheet, totalling £6,541,000.

17. TRADE AND OTHER PAYABLES

Amounts falling due within one year

	2010 £'000	2009 £'000
Trade payables	777	1,067
Other taxation and social security	1,036	1,434
Corporation tax payable	37	–
Other payables	33	441
Accruals and deferred income	1,675	696
Directors' current accounts	–	309
	3,558	3,947

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 £21,962,000 as shown in note 18, totalling £24,484,000.

The average credit period for trade purchases is 19 days (2009: 29 days). Trade payables are not interest bearing and are generally settled within terms. Other payables are non–interest bearing.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

18. BORROWINGS

Interest rate risk of financial assets and liabilities

The Group has floating rate borrowings of £17,873,000 (2009: £18,461,000), 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 £89,000 (2009: £95,000) and other loans which have a set finance charge. The Group's financial assets at 31 December 2010 and 31 December 2009 comprise cash at bank and in hand for which no interest is earned.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2010 of £4,378,000 (2009: 1,005,000). The facilities are subject to periodic review.

Interest bearing liabilities

Obligations under hire purchase and finance lease agreements

	2010			2009		
	Minimum lease payment £'000	Interest £'000	Principal £'000	Minimum lease payment £'000	Interest £'000	Principal £'000
Less than one year	57	10	47	52	9	43
Between 1–2 years	37	7	30	42	9	33
Between 2–5 years	15	3	12	23	4	19
	109	20	89	117	22	95

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 19.

Bank loans and overdrafts

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

	2010 £'000	2009 £'000
Bank overdraft (on demand)	3,322	4,747
In one year or less	13,504	401
Between one and two years	311	13,313
Between two and five years	612	–
Over five years	124	–
	17,873	18,461

Interest is charged on the bank loan at 3.25% above base rate 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.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

18. BORROWINGS (continued)

Other borrowings

	2010 £'000	2009 £'000
Vendor loans (due between one and two years)	2,000	–
Shareholder loan (due within one year)	2,000	–
	4,000	–

The Vendor loan arose on acquisition of Freshfield Lane Brickworks Limited (see note 23) and formed part of the consideration, and is repayable in full on 6 April 2012.

The Shareholder Loan was granted by Mr. Eric Gadsden in March 2010 to provide funds for the acquisition of Freshfield Lane Brickworks Limited and is repayable in full on 25 February 2011. Subsequent to 31 December 2010, it has been informally agreed that repayment will be made in 12 equal instalments commencing in March 2011.

Interest is payable at 4.25% on the balance of the loan outstanding and is repaid 6 monthly in arrears.

The other borrowings are stated at fair value.

19. 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. There are no derivatives and no trading in financial instruments is undertaken.

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.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

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.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. Management monitors the utilisation of credit limits regularly. Sales to retail customers are settled in cash or using major credit cards.

The maximum exposure of the Group at the balance sheet date is £6,541,000 (2009: £3,504,000).

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.

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	–	–	–

At 31 December 2009	**Less than 1 year £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Borrowings including overdrafts	5,156	13,962	–	–
Hire purchase and finance lease obligations	52	42	23	–
Trade and other payables	3,947	–	–	–

Notes to Financial Statements for the year ended 31 December 2010 (continued)

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

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 (including 'borrowings' and 'trade and other payables' as shown in the consolidated balance sheet) 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 2010 and 2009 were as follows:

	2010 £'000	2009 £'000
Total borrowings excluding bank overdrafts	22,198	17,756
Add: cash and cash equivalents including bank overdrafts	1,756	4,242
Net debt	23,954	21,998
Total equity	37,096	30,375
Total capital	61,050	52,373
Gearing ratio	39%	42%

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.

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.

	2010 £'000	2009 £'000
1% increase/(decrease) in sterling interest rates	179	184

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.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

20. 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 £221,000 (2009: £213,000). Amounts unpaid at the year end in respect of contributions amounted to £1,000 (2009: £1,000).

21. DEFERRED TAXATION

Deferred tax at 31 December 2010 relates to the following.

	Losses £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost				
As at 31 December 2008	(311)	7,721	182	7,592
Recognised in income	149	(351)	–	(202)
Recognised in equity	–	51	–	51
As at 31 December 2009	(162)	7,421	182	7,441
On 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
As at 31 December 2010	(156)	8,817	175	8,836

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 £369,000 (2009: £355,000) in respect of unrelieved tax losses.

22. CONTINGENCIES

The bank holds a cross guarantee between the Parent Company and its subsidiaries dated 22 March 2006. At the year end, the total Group bank borrowings were £17,874,000 (2009: £18,461,000).

Notes to Financial Statements for the year ended 31 December 2010 (continued)

23. ACQUISITION OF SUBSIDIARY

On 12 April 2010, the Group acquired 100% of the issued share capital of Freshfield Lane Brickworks Limited for a consideration of £9.5 million. Freshfield Lane Brickworks Limited is a manufacturer of high quality clamp fired bricks based in Danehill in Sussex. The reasons for the acquisition are outlined in the Chairman's and Chief Executives Reports. This transaction has been accounted for by the acquisition method of accounting in accordance with IFRS 3 (revised).

Net assets acquired	**Book Value £'000**	**Fair Value £'000**
Property, plant and equipment	6,392	7,032
Inventories	1,809	1,766
Trade and other receivables	1,614	1,614
Cash and cash equivalents	1	1
Trade and other payables	(723)	(780)
Interest bearing borrowings	(984)	(984)
Deferred tax liabilities	(162)	(1,391)
Net assets	7,945	7,258
Goodwill		2,280
Total consideration		9,538
Satisfied by		
Cash		5,000
Loan notes		2,000
Ordinary shares		2,538
		9,538
Net cash outflow on acquisition		
Cash consideration		5,000
Transaction costs charged to administrative expenses		120
Transaction costs charged netted off share premium		20
Overdraft acquired		(357)
		4,783

If the acquisition of Freshfield Lane Brickworks Limited had been completed on the first day of the financial year, Group Revenues for the twelve months to 31 December 2010 would have been £25,084,000 and the Group's loss attributable to equity holders of the parent would have been £7,699,000.

Freshfield Lane Brickworks Limited contributed £6,500,000 million to the Group's revenue and £893,000 to the Group's profit before tax for the period from the date of acquisition to 31 December 2010.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

24. COMMITMENTS UNDER OPERATING LEASES

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

	2010 £'000	2009 £'000
Operating leases which expire		
Within one year	41	55
Between two and five years	823	468
	864	523

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

25. SHARE CAPITAL

Authorised share capital

	2010 Number	2010 £'000	2009 Number	2009 £'000
Ordinary shares of 20p each	110,000,000	22,000	60,000,000	12,000

Allotted, called up and fully paid:

	2010 Number	2010 £'000	2009 Number	2009 £'000
Ordinary shares of 20p each	58,102,154	11,620	40,409,846	8,083

During the year, 17,692,308 Ordinary shares were issued as follows:

- 10,000,000 Ordinary shares were issued at 30p to raise capital for the acquisition of Freshfield Lane Brickworks Limited (see note 23). The excess above par value has been credited to the Share Premium Reserve. Issue costs of £281,000 have been netted off Share Premium.
- 7,692,308 ordinary shares were issued as part of the consideration for the acquisition of Freshfield Lane Brickworks Limited (see note 23). These shares have been valued at the market price on the day of the acquisition. The excess above par value has been credited to the Merger Reserve.

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

26. SHARE BASED PAYMENTS

	2010 £'000	2009 £'000
Share option reserve	183	183

The share option charge arising in the current year has been determined to be immaterial as a result of a service criteria not being met, leading to higher than expected forfeitures, and therefore the charge for the year has been offset against the credit arising.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

26. SHARE BASED PAYMENTS (continued)

(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 2009	Options granted in the year	Options forfeited in the year	Options exercised in the year	No. of options as at 31 December 2010
2004	70p	August 2007 – August 2014	261,985	–	(83,299)	–	178,686
2004	71p	September 2007 – September 2014	42,253	–	(42,253)	–	–
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

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	Period of exercise	No. of options as at 31 December 2009	Options granted in the year	Options forfeited in the year	Options exercised in the year	No. of options as at 31 December 2010
2004	57.25p	November 2004 – December 2009	179,522	–	(179,522)	–	–
2006	78p	June 2006 – July 2009	26,360	–	(26,360)	–	–
2006	78p	June 2006 – July 2011	34,674	–	(664)	–	34,010
2007	102p	November 2007 – December 2010	66,239	–	(66,239)	–	–
2007	102p	November 2007 – December 2012	13,505	–	–	–	13,505

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 £nil (2009: £nil).

Notes to Financial Statements for the year ended 31 December 2010 (continued)

26. SHARE BASED PAYMENTS (continued)

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:

	2010		2009	
	No.	**Weighted average exercise price**	**No.**	**Weighted average exercise price**
Outstanding as at 1 January 2010	669,538	73.20p	762,975	73.80p
Granted	–	–	–	–
Forfeited	(398,337)	70.22p	(93,303)	78.15p
Exercised	–	–	(134)	70.00p
Outstanding as at 31 December 2010	271,201	77.57p	669,538	73.20p

The weighted average contractual life for the share options outstanding at 31 December 2010 is 4 years (2009: 0.5 years).

27. 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 26 to the financial statements.

Share premium account

The movements on the share premium account in the year relate to shares issued as disclosed in notes 23 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 13.

Notes to Financial Statements for the year ended 31 December 2010 (continued)

28. LOSS PER SHARE

Basic

The calculation of earnings per share is based upon the loss for the year of £5,273,000 (2009: £794,000) and 53,679,077 (2009: 40,409,779) weighted average number of ordinary shares.

Diluted

The diluted figure is based on the same figures as above since the options in place during the year are anti-dilutive for the years ended 31 December 2010 and 2009. At 31 December 2010 there were a total of 271,000 share options held by employees, as disclosed in note 26, which are not considered dilutive.

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Michelmersh Brick Holdings Plc
Parent Company Financial Statements

Year ended 31 December 2010

Michelmersh Brick Holdings Plc
Independent Auditors' Report to the Members

We have audited the parent company financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2010 which comprise the Balance Sheet, 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 2010;
- 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 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 group financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2010.

Ian Cooper
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

Portwall Place
Portwall Lane
Bristol
BS1 6NA

16 May 2011

Michelmersh Brick Holdings Plc
Company Balance Sheet

Company Balance Sheet as at 31 December 2010	**Notes**	**2010 £'000**	**2009 £'000**
Fixed assets			
Tangible assets	1	24,783	18,273
Investments	2	10,245	707
Intangible assets		62	–
Total fixed assets		35,090	18,980
Current assets			
Cash at bank and in hand		572	337
Debtors – due within one year	3	18,456	16,077
Total current assets		19,028	16,414
Creditors: Amounts falling due within one year	4	(20,475)	(895)
Net current (liabilities)/assets		(1,447)	15,519
Total assets less current liabilities		33,643	34,499
Creditors: Amounts falling due after more than one year	5	(2,000)	(13,030)
Provisions for liabilities and charges			
Deferred taxation	7	(119)	–
Net assets		31,524	21,469
Capital and reserves			
Share capital	9	11,620	8,083
Share premium account	9	6,422	5,703
Merger reserve	9	979	–
Revaluation reserve	9	16,377	9,859
Share option reserve	9	183	183
Profit and loss account	9	(4,057)	(2,359)
Equity shareholders' funds		31,524	21,469

These financial statements were approved by the Directors on 16 May 2011 and are signed on their behalf by:

……………………………

E J S Gadsen
Director

……………………………

M R Warner
Director

Accounting Policies - year ended 31 December 2010

Basis of preparation
The Company financial statements have been prepared 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 £1,874,000 (2009: £1,150,000). The company released a previous provision for an impairment loss, recognised directly in equity, of £6,732,000 (2009: £nil) in relation to the annual revaluation of land and buildings. 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 depreciation 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.

Accounting Policies - year ended 31 December 2010 (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 schemes for employees. The assets of the schemes 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.

Notes to Company Financial Statements for the year ended 31 December 2010

1. TANGIBLE FIXED ASSETS

	Freehold land and buildings	Equipment	Site development	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 2010	18,164	295	155	18,614
Additions	20	–	–	20
Revaluation	6,732	–	–	6,732
At 31 December 2010	24,916	295	155	25,366
Depreciation				
At 1 January 2010	219	122	–	341
Charge for the year	214	30	–	242
At 31 December 2010	431	152	–	583
Net book value				
At 31 December 2010	24,485	143	155	24,783
At 31 December 2009	17,945	173	155	18,273

Revaluation of fixed assets

The Company's freehold property was revalued by the directors on 31 December 2010, 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. 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 £24,485,000 at 31 December 2010 resulting in an increase in the revaluation reserve of £6,732,000 at that date. 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 2010	8,086	7,908
Additions	20	205
Transfer to inventories	–	(27)
At 31 December 2010	8,106	8,086

	2010	2009
	£'000	£'000
Historical cost depreciation		
At 1 January 2010	–	–
Charge for the year	–	–
At 31 December 2010	–	–

Notes to Company Financial Statements for the year ended 31 December 2010 (continued)

2. INVESTMENTS – UNLISTED

	2010 £'000	2009 £'000
Cost		
At 1 January 2009	707	551
Additions	9,538	156
At 31 December 2010	10,245	707

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	Manufacture of bricks
Michelmersh Brick & Tile Company Limited	England	Ordinary	100	Manufacture of bricks
Blockleys Brick Limited	England	Ordinary	100	Manufacture of bricks
New Acres Limited	England	Ordinary	100	Landfill operations
Charnwood Forest Brick Limited	England	Ordinary	100	Manufacture of bricks
Freshfield Lane Brickworks Limited	England	Ordinary	100	Manufacture of bricks

3. DEBTORS

Amounts falling due within one year

	2010 £'000	2009 £'000
Amounts owed by Group undertakings	18,191	15,852
Other debtors	259	173
Prepayments and accrued income	6	42
Deferred tax asset	–	10
	18,456	16,077

4. CREDITORS: Amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans due within one year	13,057	–
Trade creditors	91	96
Other creditors	32	750
Other taxation and social security	2	43
Other loans	2,000	–
Accruals and deferred income	311	6
Amounts owed to Group undertakings	4,982	–
	20,475	895

Notes to Company Financial Statements for the year ended 31 December 2010 (continued)

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

	2010 £'000	2009 £'000
Bank loans	–	13,030
Shareholder loan	2,000	–
	2,000	13,030

The Shareholder Loan was granted by Mr. Eric Gadsden in March 2010 to provide funds for the acquisition of Freshfield Lane Brickworks Limited and is repayable in full on 25 February 2011. Subsequent to 31 December 2010, it has been informally agreed that repayment will be made in 12 equal instalments commencing in March 2011.

6. CREDITORS – CAPITAL INSTRUMENTS

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

	2010 £'000	2009 £'000
In one year or less, or on demand	13,057	–
Over one year	–	13,030

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 3.25% 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

	2010 £'000	2009 £'000
At 1 January 2009	(10)	28
Decrease in provision	129	(38)
At 31 December 2009	119	(10)

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

The movement in the deferred taxation provision during the year was:

	2010 £'000	2009 £'000
Excess of taxation allowances over depreciation on fixed assets	119	(10)

Amounts unprovided at the year end are as follows:

	2010 £'000	2009 £'000
Revalued properties	3,907	3,029

Notes to Company Financial Statements for the year ended 31 December 2010 (continued)

7. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The balance of unprovided deferred tax of £3,029,000 (2008: £2,995,000) 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 2010 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 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 £'000	Share option reserve £'000	Share premium £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 1 January 2009	8,083	27	5,703	–	9,998	(1,360)	22,451
Loss for the year	–	–	–	–	–	(1,150)	(1,150)
Share options adjustment	–	156	–	–	–	–	156
Revaluation of freehold land and buildings	–	–	–	–	12	–	12
Transfer to profit and loss	–	–	–	–	(151)	151	–
Balance at 31 December 2009	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

10. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated 22 March 2006. At the year end the total Group bank borrowings were £17,874,000 (2009: £18,461,000).

Michelmersh Brick Holdings Plc
Notice of Annual General Meeting

This year's annual general meeting will be held at 11.30 a.m. on 13 June 2011 at 131 Finsbury Pavement, London EC2A 1NT. You will be asked to consider and pass the resolutions below. Resolutions 6, 7 and 8 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 2010.

2 To reappoint Bob Carlton-Porter who retires by rotation and who, being eligible, offers himself for reappointment as a director.

3 To reappoint Stephen Morgan who retires as a director following his appointment by the board of directors following the last AGM and who, being eligible, offers himself for reappointment as a director.

4 To reappoint Peter Sharp who retires as a director following his appointment by the board of directors following the last AGM and who, being eligible, offers himself for reappointment as a director.

5 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

6 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 £3,873,476.

7 That, subject to the passing of resolution 6, 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 6, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £581,021 being 5% 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.

8 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 5,810,215 (representing 10 per cent. of the Company's issued ordinary share capital);

(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.

16 May 2011

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
Explanatory Notes to the Notice of Annual General Meeting

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

Resolutions 1 to 5 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 6 to 8 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, 3 and 4: 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 6: 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 6 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £3,873,476, 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 7: 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 £581,021 (being 5% 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% 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 8: Authority to purchase Company shares

This resolution renews the Company's general authority to repurchase up to 5,810,215 of its own shares in the market (being 10% 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.

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Sussex
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www.mbhplc.co.uk

Britain’s Brick Specialists