



MICHELMERSH BRICK  
HOLDINGS PLC

# Michelmersh Brick Holdings PLC

## ANNUAL REPORT 2009



**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**

**Year ended 31 December 2009**

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**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Chairman's Statement**

I am pleased to report our results for 2009 which, despite being a very challenging year, have laid strong foundations for the Group's future. In my Interim Statement in September last year I highlighted several potential opportunities for the business which have now been progressed during and since the end of the period.

Results are in line with forecasts and are near break even at the operating level despite lower revenues resulting from reduced production. Revenue reduced to £17.9 million compared to £24.2 million in 2008, although gross profit increased to £4.6 million compared to £3.9 million in the previous year.

The brick industry as a whole has consolidated throughout the year with many plants being closed or mothballed. We have stressed for a number of years the pending rationalisation of the sector and a large part of that has now occurred, driven by lower demand.

Michelmersh concentrates on the specialist end of the market and, post the year end, in March 2010, we completed the acquisition of Freshfield Lane Brickworks (FLB) which enhances our position as a supplier to the more resilient south and south-east areas of the country. In January we also rationalised production at Telford to focus on our specialist wire cut and clay paviour products. These moves concentrate the business on specialist products and increasingly differentiate us from our competitors.

After some four years in the system, Persimmon, assisted by the Michelmersh team, has achieved detailed planning consent for 170 units on 16 of the 85 acres zoned for residential development at Telford and we are finalising the Section 106 agreement. On conclusion, expected during the second half of this year, we will receive payment from Persimmon for this first tranche of land which will be applied to reducing indebtedness.

We have also moved swiftly to dispose of some £1.5 million of assets at FLB which will reduce the effective purchase consideration and improve our return on capital. It is our expectation that asset sales over the coming five years will defray existing debt or release funding for other acquisitions.

These are key accomplishments which open up a number of options for the business going forward. At present we are working through an integration process for our brick manufacturing business.

### **Financial Highlights**

Turnover for the year amounted to £17.9 million (2008 - £24.2 million) and the profit before interest and depreciation was £1.3 million compared to the loss in 2008 of £0.1 million.

Risks previously associated with fluctuations in fuel prices have been mitigated by our current strategic gas buying policy, of using an energy broker to advise and take forward positions within the market where considered appropriate.

In order to maximise cash flow during the year we have continued to manage stock levels against demand, through restricted production. Sales during the second half of the year were less than originally budgeted but stock levels continue to be lower than the industry average.

Administrative expenditure reduced to £5.2 million for the year (2008 - £5.9 million) reflecting the reorganisation that took place within the Group during 2008. The operating loss for the year totalled £0.4 million (2008 - £1.8 million).

Bad debts were minimal during the period, reflecting the benefit of our rigorous credit control procedures currently being used throughout the Group.

The Group's balance sheet remains strong with net assets at 31 December 2009 of £30.4 million (2008 - £31.0 million).

In March 2010 we successfully raised £3.0 million (gross) by way of a Placing of 10.0 million shares at a price of 30 pence.

**Michelmersh Brick Holdings PLC**  
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**Chairman's Statement (continued)**

**Dividend**

Under the current circumstances the Board intends to conserve cash and is therefore not proposing a dividend for the year under review. However, as the market recovers and debt is paid down the Board will review this approach and intends to resume the payment of dividends.

**People**

As previously stated, it has been a difficult year and my thanks go to all those who have worked so hard to contribute to this result.

I would also like to take this opportunity to welcome Alan Hardy and Frank Hanna, who were directors of FLB, to the Board of Michelmersh Brick Holdings and I am sure they will make a very valuable contribution to the future of the business.

Alan will lead the integration of FLB into the Group and Frank will focus on the commercial and marketing aspects of the business.

**Outlook**

We must continue to be cautious in the current economic climate particularly with the General Election before us; demand, however, is picking up across each of our works and I am therefore more optimistic than in recent statements.

Markets have stabilised and stocks of new homes for sale remain low. Most housebuilders have sold excess stock and are now starting to build again and this is reflected in national brick demand.

We also believe that, with 90% of brick production in the hands of three internationally owned companies, capacity and consolidation issues will be resolved over the next 24 months. We are well placed to participate in any opportunities should they arise and, with our experienced management team, are ambitious to do so.

In FLB, we have made an important strategic acquisition with potential to release value across the Group and whilst we will focus our efforts on extracting synergies we will also continue to consider other opportunities as well as progress our land and landfill assets.

**Eric Gadsden**  
**Chairman**  
**22 April 2010**

**Michelmersh Brick Holdings PLC**  
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**Chief Executive's Review**

As noted in the Chairman's Statement we have had a busy year and have taken significant steps forward in both the brickmaking and land management areas of our business.

### **Clay Products**

We have continued to focus our efforts on our niche product range. This drive to distinguish ourselves and focus on high quality products has resulted in satisfactory results, under the circumstances, from each of our works.

Production was in line with our targets and sales close to budgeted levels. Average selling prices were strong having increased to £350 per thousand from £305 per thousand in 2008.

In the first quarter of the new financial year we have completed the acquisition of Freshfield Lane Brickworks (FLB) and mothballed production at our Heritage plant at Telford.

FLB is an important strategic acquisition for us. It is a well located and well invested business with a strong, well recognised brand name that fits well with the Group's existing brands.

The product is well liked and respected and will sell alongside our existing products, strengthening the Group's position in the stronger South East England market.

The combined group is uniquely placed to provide a complementary range of clay products across a wider customer base and will differentiate the business even more from its volume competitors. Our focus is on premium products, popular with discerning specifiers and planners.

We continue to make good progress with the establishment of our Hathern Terracotta business and have already won high profile work including the refurbishment of the prestigious Savoy Hotel in London.

### **Landfill**

Our landfill operation at Telford continues to operate well, achieving a turnover of £410,000 (2008 - £652,000) on reduced input levels of 67,000 tonnes (2008 - 111,000 tonnes) but rates remained firm at an average of £6.20 per tonne (2008 - £5.90). Over the course of the year, we increased our available void space to some 1.5 million tonnes.

We are also pursuing opportunities at our Charnwood, Dunton and FLB sites.

### **Development land**

As previously noted in the Chairman's Statement the land at Telford is now fully restored and the Section 106 agreement nearing finalisation. Accordingly, we are now in final negotiations with Persimmon and are agreeing a timetable for passing the site over to them for building work to commence.

### **Assets**

We have again reviewed the value our assets and believe that no further impairment is needed and we are of course mindful of the planning consent obtained and value of surplus assets at FLB.

### **Outlook**

Whilst we continue to take a cautious view of the market there is undoubtedly more activity and we are now experiencing good demand for all our products. Sales for the period to date are on budget, despite the difficult weather conditions in January.

We are swiftly integrating our operations with our new acquisition, releasing value from our assets, reducing debt and planning production across our works to maximise profitability.

Our business is cyclical and whilst we believe that housebuilding levels will remain at low levels, we do believe that demand has stabilised.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Chief Executive's Review (continued)**

During 2009, we have strengthened our brand, continued to develop our land asset base and look forward to the future with cautious optimism. There will be challenges this year but we will progress our plans for product sales and development, and move to effect land asset sales to reduce debt.

**Martin Warner**  
**Chief Executive**  
**22 April 2010**

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Finance Director's Report**

## **Financial Review**

I now report on the results for the financial year ended 31 December 2009 for Michelmersh Brick Holdings Plc, which although not profitable due to continued adverse market conditions saw our integrated business model further consolidate and benefit from the investments made in prior years.

### **Revenue and operating profit**

During the year, the Group achieved turnover of £17.9 million (2008: £24.2 million) which resulted in a total operating loss before interest, tax, and finance charges of £0.4 million (2008: loss of £1.8 million).

The reduction in revenue in the second half year, together with bad debts, redundancy and restructuring costs, contributed to an increase on the operating loss reported at the half year stage.

Administrative expenditure reduced to £5.2 million for the year (2008: £5.9 million).

### **Finance Costs**

Interest expense reduced during the period to £0.6 million (2008: £1.1 million). The reduction in interest payable was as a direct result of interest rate reductions.

### **Taxation**

During the year the Group continued to utilise group relief to offset tax losses against taxable profits to ensure that no liability to Corporation Tax arose for the year. The effective rate of tax for 2009 was (20) per cent. (2008: (10) per cent.).

### **Financing**

Net borrowings at the year-end had increased to £18.0 million (2008: £16.7 million). This was partly as a result of the increased levels of stock being held at year end, being at £9.6 million compared to £8.2 million in 2008, and also the loss for the year totalling £1 million.

### **Earnings per Share**

The basic earnings per share for the year is (1.96) pence (2008: (6.40) pence).

### **Group Balance Sheet**

The balance sheet continues to remain healthy and is underpinned by the land and mineral assets of the Group.

As at 31 December 2009, the net asset value of the Group totalled £30.4 million (2008: £31.0 million).

At £13.3 million, the level of current assets was higher than the £11.8 million reported in 2008 as the Directors sought to manage production levels to meet anticipated levels of demand.

Trade and other receivables reduced to £3.2 million (2008: £3.4 million) reflecting a reduction in turnover during the second half of the year and a more stringent approach to credit control. Receivable days totalled 60 days (2008: 61 days).

### **Treasury**

The Board assesses and manages the risks associated with the treasury function to ensure that adequate financial resources are available for the development of the Group's business and assets. The Group borrows at floating rates of interest, but regularly reviews and assesses the potential benefit of available hedging arrangements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Finance Director's Report (continued)**

**Liquidity**

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, and finance leases. The cash requirements of the Group are carefully monitored and sufficient borrowing facilities are in place to ensure an appropriate level of funding for the business.

**Cash Flow**

The Group used a total of £0.2 million in operations (2008: generated £0.6 million from operations) which helped to fund interest payments and finance lease charges of £0.6 million (2008: £1.0 million)

Capital expenditure in 2009 amounted to £0.4 million (2008: £1.4 million) and was restricted to ad hoc projects with short periods of payback.

Outflows of cash included the capital element of hire purchase agreements and loan repayments of £0.4 million (2008: £0.6 million)

Overall, there was a decrease in cash and cash equivalents of £1.7 million (2008: £2.1 million).

**Risk**

There is an inherent and accepted risk in any business. The Board has identified the principal risks and maintains and develops a risk management system that is appropriate to our business.

I set out below the key risks to our business, together with the mitigating factors or action we have taken.

The main financial risks of the Group relate to the availability of funds, customers defaulting on amounts due to the Group, and interest rate fluctuations. The Group finance function is responsible for managing these risks using a series of risk avoidance strategies including stringent cash and performance management, and robust forecasts.

The Group is heavily reliant on energy and fuel in the manufacture of its products, and the fluctuations in gas prices in recent years underline the volatility of the profitability of the UK brick industry. During the year the Group enlisted the support of an Energy broker who advises the Group on its energy purchasing policy. The price of gas is monitored daily and a strategic forward purchasing plan is in place in an attempt to mitigate risk. We have, and will continue to invest in energy efficient equipment to reduce overall usage and wastage.

The Group has demonstrated that it can retain market share through the quality of its products, investment in efficient plants and modern production techniques and continuing to operate as a niche player in a saturated high volume market. It is further felt that the consolidation and closures that have been seen within the industry during the last 12 months will continue to negate this risk.

The Group is subject to health and safety and environmental risks inherent in brick manufacture and landfill operations. Consistent review, training and control systems are in place to reduce and prevent these risks. Furthermore, the progression and development of the Group as a fully integrated business model ensures that the Group as a whole is better placed to combat risk.

**International Financial Reporting Standards**

In accordance with The London Stock Exchange's requirements the Group has prepared the consolidated financial statements for the year ended 31 December 2009 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

**Going Concern**

After making appropriate enquiries, and on the basis of the financial position contained in the accounts for the year ended 31 December 2009 the Directors have a reasonable expectation that the Group has adequate resources and facilities in place to continue in operation for the foreseeable future. For these reasons they continue to adopt the going concern basis in preparing its financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Finance Director's Report (continued)**

### **Key Performance Indicators**

A Key Performance Indicator (KPI) is a measure which is used by management to judge and assess a company or group's performance. Michelmersh uses the following financial and non financial KPI's to measure the operational and strategic performance of the business.

### **Earning per Share and Net Asset Value**

The primary performance indicators are the Group's earnings per share and net asset value as set out on pages 15 and 17. The Directors aim is to increase earnings per share through growth and consolidation of the existing business and to increase the net asset value of the Group by enhancing the value of our assets through controlled extraction of reserves and strategically managed landfill operations.

### **Operating Profit**

The Group uses operating profit as a KPI to measure and monitor the profitability of each business unit. Within our integrated business model each site is recognised as being an individual unit. During 2009 the operating loss reduced to £0.4 million (2008: loss £1.8 million).

### **Cash Management**

Each cash generating unit is monitored and responsible for maintaining an appropriate level of cash generation.

### **Non-Financial KPI's**

Non-financial KPI's include the monitoring of mineral reserves, and current and anticipated future usage of these reserves to ensure the sustainability of each manufacturing business within the Group

At 31 December 2009 the Group's mineral reserves comprised 22 years (2008: 23 years) of resource based on current extraction rates. As further mineral reserves are extracted, additional landfill capacity is released.

Other Non-financial KPI's include those in respect of landfill, health and safety and staff training, and these are discussed further in the Directors' Report on page 12.

### **Other KPI's**

The Group also monitors a range of other KPI's including actual selling price, cost of production, interest cover and net debt.

### **Bank Facilities**

It is Group policy to maintain committed bank and other facilities to meet anticipated financial requirements based on forecast borrowings for the next financial year. At the 31 December 2009, total undrawn bank facilities amounted to £1.0 million. During the year the Group renegotiated its facilities with its current bankers and negotiated additional facilities with Venture Structured Finance.

The Group's main financial covenants are in respect of interest cover, EBITDA, receivables turnover and minimum net assets.

### **Dividend**

The directors do not intend to propose the payment of a dividend for the year.

**Craig Robinson**  
**Finance Director**  
**22 April 2010**

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**Officers & Professional Advisers**

<b>DIRECTORS</b>	E J S Gadsden – Chairman * + M R Warner MSc FRICS – Managing Director + C W Robinson FCCA – Finance Director * R W Carlton-Porter – Non-Executive Director * + A R G Hardy – appointment date – 30 March 2010 F J Hanna – appointment date – 30 March 2010
<b>COMPANY SECRETARY</b>	C W Robinson FCCA
<b>REGISTERED OFFICE</b>	121 High Street Berkhamsted Hertfordshire HP4 2PJ
<b>NOMINATED ADVISER AND BROKER</b>	Charles Stanley & Co Limited 25 Luke Street London EC2A 4AR
<b>AUDITORS</b>	Nexia Smith & Williamson LLP Chartered Accountants & Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA
<b>SOLICITORS</b>	Burges Salmon LLP Narrow Quay House Narrow Quay Bristol BS1 4AH
<b>REGISTRARS</b>	Equiniti The Causeway Worthing West Sussex BN99 6DA
<b>FINANCIAL PUBLIC RELATIONS</b>	Tavistock Communications Limited 131 Finsbury Pavement London EC2A 1NT
<b>PRINCIPAL BANKERS</b>	Barclays Bank plc 15 Colmore Row Birmingham B3 2WN  Venture Finance plc Sheencroft House 10-12 Church Road Haywards Heath West Sussex RH16 3SN

\* Members of Audit Committee

+ Members of Remuneration Committee

**Michelmersh Brick Holdings PLC**  
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**Directors' Biographies**

Eric Gadsden, aged 65, 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, F.R.I.C.S., aged 57, Chief Executive

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 Institution of Chartered Surveyors and Director of a number of private companies. He is also a non-executive Director of Hawtin plc.

Craig Robinson FCCA, aged 48, Finance Director

A Fellow of the Chartered Association of Certified Accountants, Craig spent eight years working in practice before moving into the construction industry in the early 1990's. In 1998 he joined Morgan Sindall and was appointed Finance Director of their Midlands based wholly owned subsidiary Wheatley Construction Ltd. He was then appointed Finance Manager of Bluestone Plc, again within the Morgan Sindall group, before leaving to join Michelmersh in April 2002.

Bob Carlton-Porter, aged 65, Non-Executive Director

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

Alan Hardy, aged 51, Director

Alan Hardy has worked at Freshfield Lane Brickworks Limited ("FLB") since 1983 apart from a period of time at Redland Bricks Limited in 1985. Alan became a shareholder in FLB in 1983 and he became managing director in 1986. Alan is also a Justice of the Peace for the Sussex Bench, having been appointed in 1994. Alan was appointed as a Director of the Company on 30 March 2010.

Frank Hanna, aged 42, Director

Frank joined 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.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Directors' Report**

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2009.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company during the year was that of 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 2009 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, Chief Executive's Review and the Finance Director's Report.

**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.

**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 attached financial statements. Refer also to the Finance Director's Report.

The Directors do not recommend the payment of a dividend for the year (2008 - none).

**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 2009	31 December 2008
	Ordinary shares of 20p each	Ordinary shares of 20p each
E J S Gadsden	21,575,892	21,575,892
M R Warner	6,588,732	6,588,732
C W Robinson	34,500	34,500
R W Carlton-Porter	-	-
	<u>                    </u>	<u>                    </u>

As a result of the Michelmersh Brick Holdings PLC SAYE scheme, C W Robinson has a beneficial interest in 1,647 share options granted on 30 November 2007. These are exercisable at a price of 102p per option between 30 November 2007 and 1 December 2012. Of the interests of M R Warner, 5,338,393 are due to his position as trustee of a discretionary trust, which is the registered owner of the shares. Analysis of directors' emoluments for the year is shown in note 9 of the financial statements.

In addition to the shareholding above, R W Carlton-Porter has an interest in 76,628 ordinary shares held by another business in which he has a controlling interest.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Directors' Report (continued)**

**EMPLOYEES**

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

**EMPLOYMENT OF THE DISABLED**

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

**INTERNAL CONTROL**

The Directors acknowledge their responsibilities for the Group's systems 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 THE PAYMENT OF CREDITORS**

Whilst there is no formal creditor payment policy, it is the policy of the Group to pay all creditors promptly. The average credit age for the Group is 29 days (2008 - 38 days). The Group has continued to pay creditors on terms consistent with 2008.

**OTHER INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT**

The changes in other intangible assets and property, plant and equipment are summarised in notes 13 and 14 of the financial statements.

**FINANCIAL INSTRUMENTS**

The Group's policy is to finance working capital through appropriate bank borrowing 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 20 in the financial statements.

**SUBSTANTIAL INTERESTS**

The Board is aware of the following substantial interests in the issued share capital of the Company as at the date of this report, other than those of Directors of the Company:

The Bank of New York (Nominees) Ltd	1,561,871 ordinary shares (3.87%)
Octopus Investments Nominees Ltd	2,410,252 ordinary shares (5.96%)
Rock Nominees Limited	2,802,483 ordinary shares (6.94%)

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**Directors' Report (continued)**

## **HEALTH AND SAFETY**

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

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

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

## **ENVIRONMENT**

The Michelmersh Group is committed to the protection of the environment and aims to minimise the impact of its business activities by maintaining a management structure, which ensures effective environmental management and compliance with all relevant legislation. Management will review environmental considerations as part of decision-making processes, 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 Directors' Report are 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 the Parent Company financial statements in accordance with 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and have elected to prepare 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 view of the state of affairs of the Company and of the Group and of the profit or loss 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 1985. The Directors are also responsible for safeguarding the assets of the Company and Group and hence for taking 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.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Directors' Report (continued)**

**DONATIONS**

No charitable or political contributions were made by the Group in the year

**AUDITORS**

A resolution to appoint Nexia Smith & 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 22 April 2010

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 financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2009 which comprise the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Accounting Policies and the related notes 1 to 29. The financial reporting framework that has been applied in the preparation of the group financial statements 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

**Opinion on financial statements**

In our opinion the IFRS Financial Statements:

- Give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its loss for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**

We have reported separately on the parent company financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2009.

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

Portwall Place  
 Portwall Lane  
 Bristol  
 BS1 6NA

22 April 2010

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Consolidated Income Statement**

<b>Consolidated Income Statement for the year ended 31 December 2009</b>	<b>Notes</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
<b>Revenue</b>	2	17,850	24,245
Cost of sales		<u>(13,232)</u>	<u>(20,329)</u>
<b>Gross Profit</b>		4,618	3,916
Administrative expenses	5	(5,156)	(5,909)
Other income	3	<u>164</u>	<u>176</u>
<b>Operating loss</b>		(374)	(1,817)
Finance costs	4	<u>(622)</u>	<u>(1,053)</u>
<b>Loss before taxation</b>	5	(996)	(2,870)
Taxation	10	<u>202</u>	<u>286</u>
<b>Loss for the financial year</b>		<u>(794)</u>	<u>(2,584)</u>
Earnings per share	29	(1.96)p	(6.40)p
Diluted earnings per share	29	(1.96)p	(6.40)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 20 to 43 form part of these financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Consolidated Statement of Comprehensive Income**

<b>Consolidated Statement of Comprehensive Income for the year ended 31 December 2009</b>	<b>Notes</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Loss for the financial year		(794)	(2,584)
<b>Other comprehensive income:</b>			
Gain/(loss) on revaluation of property, plant and equipment	14	182	(14,202)
Deferred tax on revaluation movement	22	(51)	3,666
Net income/(expense) recognised directly in equity		<u>131</u>	<u>(10,536)</u>
<b>Total comprehensive loss for the year</b>		<u>(663)</u>	<u>(13,120)</u>

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

The accounting policies and notes on pages 20 to 43 form part of these financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Consolidated Balance Sheet**

<b>Consolidated Balance Sheet as at 31 December 2009</b>	<b>Notes</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	13	65	67
Property, plant and equipment	14	<u>46,922</u>	<u>48,121</u>
<b>Total non-current assets</b>		<u>46,987</u>	<u>48,188</u>
<b>Current assets</b>			
Inventories	16	9,601	8,235
Trade and other receivables	17	3,226	3,377
Cash and cash equivalents		<u>505</u>	<u>225</u>
<b>Total current assets</b>		<u>13,332</u>	<u>11,837</u>
<b>Total assets</b>		<u>60,319</u>	<u>60,025</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	3,947	4,327
Interest bearing borrowings	19	<u>5,191</u>	<u>16,290</u>
<b>Total current liabilities</b>		<u>9,138</u>	<u>20,617</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	7,441	7,592
Interest bearing borrowings	19	<u>13,365</u>	<u>778</u>
		<u>20,806</u>	<u>8,370</u>
<b>Total liabilities</b>		<u>29,944</u>	<u>28,987</u>
<b>Net assets</b>		<u>30,375</u>	<u>31,038</u>
<b>Equity attributable to equity holders</b>			
Share capital	26	8,083	8,083
Share premium account		5,703	5,703
Reserves		15,138	15,204
Retained earnings		<u>1,451</u>	<u>2,048</u>
<b>Total equity</b>		<u>30,375</u>	<u>31,038</u>

These financial statements were approved by the Directors and authorised for issue on 22 April 2010 and are signed on their behalf by:

**E J S Gadsden**  
**Director**

**M R Warner**  
**Director**

The accounting policies and notes on pages 20 to 43 form part of these financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Consolidated Statement of Changes in Equity**

**Consolidated Statement of Changes in Equity**

	Share capital	Share option reserve	Share premium	Revaluation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 1 January 2008</b>	8,073	195	5,671	25,908	4,725	44,572
Loss for the year	-	-	-	-	(2,584)	(2,584)
Revaluation in the year	-	-	-	(14,202)	-	(14,202)
Deferred tax on revaluation	-	-	-	3,666	-	3,666
Total comprehensive income	-	-	-	(10,536)	(2,584)	(13,120)
Transfer to retained earnings	-	-	-	(351)	351	-
Equity dividends paid	-	-	-	-	(444)	(444)
Shares issued in the year	10	(12)	32	-	-	30
<b>As at 31 December 2008</b>	8,083	183	5,703	15,021	2,048	31,038
Loss for the year	-	-	-	-	(794)	(794)
Revaluation in the year	-	-	-	182	-	182
Deferred tax on revaluation	-	-	-	(51)	-	(51)
Total comprehensive income	-	-	-	131	(794)	(663)
Transfer to retained earnings	-	-	-	(197)	197	-
<b>As at 31 December 2009</b>	8,083	183	5,703	14,955	1,451	30,375

The accounting policies and notes on pages 20 to 43 form part of these financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Consolidated Statement of Cash Flows**

<b>Consolidated Cash Flow Statement for the year ended 31 December 2009</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
<b>Cash flows from operating activities</b>		
Loss before taxation	(996)	(2,870)
Finance costs	622	1,053
Depreciation	1,625	1,677
Amortisation	2	3
Usage of carbon emissions quota	382	629
Grant of carbon emissions quota	(458)	(695)
Loss on sale of intangible assets	-	18
Loss on sale of property, plant and equipment	2	4
	<u>1,179</u>	<u>(181)</u>
<b>Cash flows from operations before changes in working capital</b>	<b>1,179</b>	<b>(181)</b>
(Increase)/decrease in inventories	(1,225)	1,207
Decrease in receivables	251	868
Decrease in payables	(434)	(1,293)
	<u>(229)</u>	<u>601</u>
<b>Net cash (used in)/generated by operations</b>	<b>(229)</b>	<b>601</b>
Interest paid	(622)	(1,056)
	<u>(851)</u>	<u>(455)</u>
<b>Net cash used in operating activities</b>	<b>(851)</b>	<b>(455)</b>
<b>Cash flows from investing activities</b>		
Proceeds on disposal of intangible assets	-	520
Purchase of property, plant and equipment	(387)	(1,388)
	<u>(387)</u>	<u>(868)</u>
<b>Net cash used in investing activities</b>	<b>(387)</b>	<b>(868)</b>
<b>Cash flows from financing activities</b>		
Issue of share capital	-	30
Repayment of interest bearing borrowings	(377)	(597)
Repayment of hire purchase and finance lease obligations	(69)	(41)
Dividends paid to shareholders	-	(135)
	<u>(446)</u>	<u>(743)</u>
<b>Net cash used in financing activities</b>	<b>(446)</b>	<b>(743)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,684)</b>	<b>(2,066)</b>
Cash and cash equivalents at beginning of year	(2,558)	(492)
	<u>(4,242)</u>	<u>(2,558)</u>
<b>Cash and cash equivalents at end of year</b>	<b>(4,242)</b>	<b>(2,558)</b>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	505	225
Bank overdraft	(4,747)	(2,783)
	<u>(4,242)</u>	<u>(2,558)</u>

The accounting policies and notes on pages 20 to 43 form part of these financial statements.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**General Information & Accounting Policies**

## **General Information**

### **Introduction**

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

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

These financial statements cover the financial year from 1 January to 31 December 2009, with comparative figures for the year from 1 January to 31 December 2008.

The principal companies within the Group during the financial year ended 31 December 2009 are disclosed in note 15.

## **Accounting Policies**

### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and International Financial Reporting Interpretations Committee (“IFRIC”) 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 2009 and 31 December 2008 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.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Accounting Policies**

**Accounting policies - year ended 31 December 2009 (continued)**

**New standards and interpretations**

The following revised standards relevant to the Group's operations became mandatory in this financial year:

• **IAS 1, Presentation of Financial Statements (revised)**

This has changed the presentation of the primary financial statements to the format included on pages 15 to 19.

• **IFRS 8, Operating segments**

This has changed the presentation of segmental information included in note 2.

• **Amendment to IFRS 7, Financial Instruments: Disclosures**

This amendment became mandatory during the current period but has not had any impact on disclosures.

The following new standards, amendments and interpretations have been issued but are not yet effective and have not been adopted early by the Group:

• **IFRS 3, Business Combinations (revised)**

This is mandatory for periods beginning on or after 1 July 2009. This has revised several significant areas in accounting for acquisitions. The Group is presently reviewing the impact of this on the presentation of the financial statements.

• **IAS 27, Consolidation and Separate Financial Statements (amended)**

This is mandatory for periods beginning on or after 1 July 2009. This has revised the accounting for changes in the parent's ownership interest in a subsidiary following the revision to IFRS 3 (see above).

The Group does not consider that any other Standards or Interpretations in issue, but not yet applicable, will have a significant impact on its 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 in the Chairman's Review, the Chief Executive's Review and the Finance Directors Report.

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 put in place for 3 years from May 2009, and has been renegotiated following the acquisition of Freshfield Lane Brickworks Limited in March 2010 to include an additional facility of £1.8m and to extend a further 5 years from this date. The long term borrowing with Barclays has also been renegotiated in the year, and is now due for renewal in June 2011.

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 the level of this increased facility.

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 the annual financial statements.

**Revenue**

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

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Accounting Policies**

**Accounting policies - year ended 31 December 2009 (continued)**

**Revenue (continued)**

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.

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 when receivable 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 lease term.

**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, on a straight-line basis, of the licence over the operational life of the landfill site to which it relates through cost of sales.

**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 14 to the financial statements.

Freehold land and 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 straight line
Plant and machinery	-	3% - 25% straight line
Motor vehicles	-	25% straight line
Fixtures and fittings	-	20% - 25% 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. 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.

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Accounting Policies**

**Accounting policies - year ended 31 December 2009 (continued)**

**Property, plant and equipment (continued)**

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

**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 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 value less attributable transactions costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis, matching the expense to the value of borrowings in issue.

*Trade and other receivables*

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

*Trade and other payables*

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

**Cash and cash equivalents**

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

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Accounting Policies**

**Accounting policies - year ended 31 December 2009 (continued)**

**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 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 risks of ownership remain with the lessor are charged against profits on a straight line basis over the period 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 asset 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.

**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.

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 income statement.

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

**Dividends**

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

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Notes to Financial Statements**

**Notes to Financial Statements for the year ended 31 December 2009**

**1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ACCOUNTING UNCERTAINTY**

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

- Future taxation payments and receipts, which have been estimated on the basis of the best information available (see note 22).
- 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 27.

**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 2009. Segmental reporting has been amended to be in accordance with IFRS 8, and comparative figures restated. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 20 to 25.

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 & Tile Company Limited - based in Romsey, Hampshire
- Blockleys Brick Limited - based in Telford, Shropshire

**Landfill**

Engagement in landfill operations:

- New Acres Limited - based in Telford, Shropshire

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

**Michelmersh Brick Holdings PLC**  
**IFRS Financial Statements**  
**Notes to Financial Statements**

**Notes to Financial Statements for the year ended 31 December 2009 (continued)**

**2. SEGMENTAL REPORTING (continued)**

**Segmental operating performance**

	<b>2009</b>		<b>2008</b>	
	Segmental revenue £'000	PBT £'000	Segmental revenue £'000	PBT £'000
<b>Building materials</b>				
Dunton Brothers	1,519	(174)	1,896	(395)
Charnwood Forest	2,304	(42)	2,753	102
Michelmersh Brick	4,519	417	5,768	(257)
Blockleys Brick	9,152	(169)	13,241	(851)
	<u>17,494</u>	<u>32</u>	<u>23,658</u>	<u>(1,401)</u>
<b>Landfill</b>				
New Acres	410	158	652	216
	<u>17,904</u>	<u>190</u>	<u>24,310</u>	<u>(1,185)</u>
Inter-segmental revenue and unallocated costs	<u>(54)</u>	<u>(1,186)</u>	<u>(65)</u>	<u>(1,685)</u>
	<u>17,850</u>	<u>(996)</u>	<u>24,245</u>	<u>(2,870)</u>

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

**Business segments assets and liabilities**

	<b>2009</b>		<b>2008</b>	
	Segment assets £'000	Segment liabilities £'000	Segment assets £'000	Segment liabilities £'000
<b>Building materials</b>				
Dunton Brothers	5,847	868	5,508	1,063
Charnwood Forest	6,052	952	6,052	408
Michelmersh Brick	13,059	2,079	13,138	746
Blockleys Brick	31,654	4,653	31,964	5,154
	<u>56,612</u>	<u>8,552</u>	<u>56,212</u>	<u>7,371</u>
<b>Landfill</b>				
New Acres	2,979	26	2,939	15
	<u>59,591</u>	<u>8,578</u>	<u>59,151</u>	<u>7,386</u>
Unallocated assets and liabilities	<u>728</u>	<u>21,366</u>	<u>874</u>	<u>21,601</u>
	<u>60,319</u>	<u>29,944</u>	<u>60,025</u>	<u>28,987</u>

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.

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**2. SEGMENTAL REPORTING (continued)**

**Other segmental disclosure**

	<b>2009</b>		
	Acquisition of property, plant & equipment £'000	Depreciation of property, plant & equipment £'000	Amortisation of intangible assets £'000
<b>Building materials</b>			
Dunton Brothers	12	129	-
Charnwood Forest	11	80	-
Michelmersh Brick	98	360	-
Blockleys Brick	59	949	-
	180	1,518	-
<b>Landfill</b>			
New Acres	207	107	2
	387	1,625	2
	<b>2008</b>		
	Acquisition of property, plant & equipment £'000	Depreciation of property, plant & equipment £'000	Amortisation of intangible assets £'000
<b>Building materials</b>			
Dunton Brothers	37	170	-
Charnwood Forest	76	75	-
Michelmersh Brick	261	340	-
Blockleys Brick	1,014	924	-
	1,388	1,520	-
<b>Landfill</b>			
New Acres	-	168	3
	1,388	1,677	3

**Revenue by geographical destination**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	17,627	23,966
Rest of the World	223	279
	17,850	24,245

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

Total group revenue to one customer amounted to £2,395,482. No other customers were individually material in revenue value.

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**3. OTHER INCOME**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Rent receivable	41	78
Excess of carbon emission allowances over usage	94	79
Other	29	19
	<u>164</u>	<u>176</u>

**4. FINANCE COSTS**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Interest expense	615	1,047
Charges in respect of hire purchase agreements	7	6
	<u>622</u>	<u>1,053</u>

**5. LOSS BEFORE TAXATION**

Loss before taxation is stated after charging:

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Amortisation - other	2	3
Depreciation - owned assets	1,588	1,640
- assets held under hire purchase agreements	37	37
Operating lease costs:		
- plant and machinery	97	99
- motor vehicles	76	82
	<u>2,370</u>	<u>2,461</u>

**6. AUDITORS' REMUNERATION**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	33	35
Fees payable to the Group's auditor and its associates for other services		
- the audit of the Group's subsidiaries, pursuant to legislation	33	37
- tax compliance services	16	12
- corporate finance services	30	-
	<u>102</u>	<u>84</u>

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

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**7. PARTICULARS OF EMPLOYEES**

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

	<b>2009</b>	<b>2008</b>
Manufacture and supply of bricks	217	271
Administration	55	62
	272	333
Employee benefit expense (including Directors' emoluments)		
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	6,474	8,091
Social security costs	628	818
Other pension costs	213	233
	7,315	9,142

**8. DIRECTORS' EMOLUMENTS**

The emoluments of the individual Directors were as follows:

	<b>Basic salary 2009 £'000</b>	<b>Pension 2009 £'000</b>	<b>Total emoluments 2009 £'000</b>	<b>Total emoluments 2008 £'000</b>
E J S Gadsden	20	-	20	20
M R Warner	109	-	109	110
C W Robinson	86	-	86	106
R W Carlton-Porter	27	-	27	27
	242	-	242	263

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

	<b>2009 £'000</b>	<b>2008 £'000</b>
Short-term benefits	253	280
Post-employment benefits	-	10
	253	290

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**9. TRANSACTIONS WITH DIRECTORS**

An amount of £27,000 (2008: £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. Details of share options granted to Directors and held during the year are disclosed in note 27 to the financial statements.

No Director (2008: none) is a member of the defined contribution pension scheme run by the Group. One Director (2008: one) received contributions to his personal money purchase pension scheme.

**10. TAXATION**

a) Recognised in the income statement

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax expense</b>		
Current year	-	-
<b>Deferred tax credit</b>		
Origination and reversal of temporary differences	(202)	(286)
Total income tax expense in income statement	<u>(202)</u>	<u>(286)</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2008: higher) than the standard rate of corporation tax in the UK of 28% (2008: 28%). The differences are explained below.

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Factors affecting the tax charge for the current year</b>		
<b>Reconciliation of effective tax rate</b>		
Loss before taxation	(996)	(2,870)
Income tax using the domestic corporation tax rate	(279)	(804)
Effects of :		
Expenses disallowed	8	12
Depreciation in excess of capital allowances	(86)	406
Other timing differences	155	100
Total income tax charge	<u>(202)</u>	<u>(286)</u>

c) Factors affecting future tax charges

As at 31 December 2009, the Group had tax losses carried forward of approximately £1,846,000 (2008: £1,846,000).

A deferred tax asset has not been recognised in respect of £1,268,000 (2008: £734,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

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**11. DIVIDENDS ON EQUITY SHARES**

The following dividends have been paid and proposed in respect of the year.

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Final dividends for the year ended 31 December 2009 at nil per share (2008: 1.1p)	<u>-</u>	<u>444</u>

**12. GOODWILL**

Goodwill with original cost of £254,000 has been fully impaired in previous periods. Accordingly the deemed cost at transition to IFRS under the exemption permitted under IFRS 1 was adopted as the carrying value at that date, being £nil.

**13. OTHER INTANGIBLE ASSETS**

	<b>PPC licence</b>	<b>Carbon emissions quota</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
As at 1 January 2008	75	30	105
Allowances received for the year	-	695	695
Offset against liability	-	(725)	(725)
At 31 December 2008	<u>75</u>	<u>-</u>	<u>75</u>
Allowances received for the year	-	458	458
Offset against liability	-	(458)	(458)
At 31 December 2009	<u>75</u>	<u>-</u>	<u>75</u>
<b>Amortisation</b>			
At 1 January 2008	5	-	5
Charge for the year	3	-	3
At 31 December 2008	<u>8</u>	<u>-</u>	<u>8</u>
Charge for the year	2	-	2
At 31 December 2009	<u>10</u>	<u>-</u>	<u>10</u>
<b>Net book value</b>			
At 31 December 2009	<u>65</u>	<u>-</u>	<u>65</u>
At 31 December 2008	<u>67</u>	<u>-</u>	<u>67</u>

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**14. PROPERTY, PLANT AND EQUIPMENT**

	Freehold land and buildings £'000	Site develop- ment £'000	Motor vehicles £'000	Plant and machin- ery £'000	Equip- ment £'000	Fixtures and fittings £'000	Total £'000
<b>Cost or valuation</b>							
At 1 January 2008	43,719	234	171	33,491	896	258	78,769
Additions	916	-	-	452	20	-	1,388
Disposals	-	-	-	(4)	-	-	(4)
Transfers to inventories	(44)	-	-	-	-	-	(44)
Revaluation in the year	(14,202)	-	-	-	-	-	(14,202)
At 31 December 2008	30,389	234	171	33,939	916	258	65,907
Additions	223	-	-	157	7	-	387
Disposals	-	-	-	(40)	(6)	-	(46)
Transfers to inventories	(141)	-	-	-	-	-	(141)
At 31 December 2009	30,471	234	171	34,056	917	258	66,107
<b>Depreciation</b>							
At 1 January 2008	-	39	150	15,068	654	198	16,109
Charge for the year	287	3	7	1,335	32	13	1,677
At 31 December 2008	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)
	302	45	162	17,739	713	224	19,185
<b>Net book value</b>							
At 31 December 2009	30,169	189	9	16,317	204	34	46,922
At 31 December 2008	30,102	192	14	17,536	230	47	48,121

Included within the net book value of £46,922,000 is £126,000 (2008: £163,000) 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 assets amounted to £37,000 (2008: £37,000).

**Capital Commitments**

	2009 £'000	2008 £'000
Contracted but not provided for in the financial statements	-	-

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**14. PROPERTY, PLANT AND EQUIPMENT (continued)**

**Revaluation of property, plant and equipment**

The Group's freehold land and buildings were revalued by the Directors on 31 December 2009, 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 landfill facilities. The Directors updated these valuations in respect of the land used for mineral extraction and waste disposal where appropriate to do so. The Group's freehold land and buildings were valued at £30,169,000 at 31 December 2009 (2008 - £30,102,000), resulting in an increase in the revaluation reserve of £182,000 (2008 - £14,202,000 decrease) at that date. Deferred tax liabilities were increased by £51,000 (2008 - £3,666,000 decrease) and have been debited to the revaluation reserve.

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Historical cost</b>		
At 1 January 2009	10,051	9,135
Additions	223	916
Transfer to inventories	(27)	-
	<u>10,247</u>	<u>10,051</u>
At 31 December 2009	<u>10,247</u>	<u>10,051</u>
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Historical cost depreciation</b>		
At 1 January 2009	32	23
Charge for the year	9	9
	<u>41</u>	<u>32</u>
At 31 December 2009	<u>41</u>	<u>32</u>

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

The freehold land and property disclosed above is used for security for the overdraft and loans as disclosed in note 19.

**15. SUBSIDIARIES**

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

Company	Country of Incorporation	Class of Shares held	% age holding	Nature of business
Dunton Brothers Limited	England	Ordinary	100	Manufacture bricks
Michelmersh Brick & Tile Company Limited	England	Ordinary	100	Manufacture bricks
Blockleys Brick Limited	England	Ordinary	100	Manufacture bricks
New Acres Limited	England	Ordinary	100	Landfill operations
Charnwood Forest Brick Limited	England	Ordinary	100	Manufacture bricks

No entities have been excluded from the consolidated financial statements.

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**16. INVENTORIES**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials	4,393	4,246
Work in progress	245	359
Finished goods	<u>4,963</u>	<u>3,630</u>
	<u>9,601</u>	<u>8,235</u>

The cost of inventories expensed during the year is the cost of sales of £13,232,000 (2008: £20,329,000). The inventory cost disclosed above is used for security of the overdraft as disclosed in note 19.

**17. TRADE AND OTHER RECEIVABLES**

Amounts falling due within one year

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables	2,998	3,099
Other receivables	1	127
Prepayments and accrued income	<u>227</u>	<u>151</u>
	<u>3,226</u>	<u>3,377</u>

There are no receivables due after one year, and the fair values of the trade and other receivables are approximate to their carrying value. The trade receivables disclosed above are used for security of the overdraft as disclosed in note 19.

Included within trade receivables is £244,000 (2008: £193,000) of receivables past due but not impaired. The Directors do not feel there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows:

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
30 days overdue	209	164
30-60 days overdue	22	41
60-90 days overdue	<u>13</u>	<u>(12)</u>
	<u>244</u>	<u>193</u>

The carrying amounts 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 £505,000 as shown in the balance sheet, totalling £3,504,000.

**18. TRADE AND OTHER PAYABLES**

Amounts falling due within one year

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	1,067	2,118
Other taxation and social security	1,434	800
Other payables	441	481
Accruals and deferred income	696	619
Directors' current accounts	<u>309</u>	<u>309</u>
	<u>3,947</u>	<u>4,327</u>

The fair values of trade and other payables are approximate to their carrying value. The total financial liabilities at amortised cost category comprises the above payables excluding other taxation and social security and including borrowings of £18,461,000 as shown in note 19, totalling £20,278,000.

The average credit period for trade purchases is 29 days (2008: 38 days). Trade payables are not interest bearing and are generally settled within terms. Other payables are non-interest bearing.

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**19. BORROWINGS**

**Interest rate risk of financial assets and liabilities**

The Group has floating rate borrowings of £18,461,000 (2008: £16,905,000), which consist of bank loans and overdrafts and bear interest linked to the bank base rate. It also has hire purchase liabilities of £94,000 (2008: £163,000), which have a set finance charge. The Group's financial assets at 31 December 2009 and 31 December 2008 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 2009 of £1,005,000 (2008: £146,000). The facilities are subject to periodic review.

**Interest bearing borrowings**

**Obligations under hire purchase and finance lease agreements**

	<b>Minimum lease payment £'000</b>	<b>2009 interest £'000</b>	<b>Principal £'000</b>	<b>Minimum lease payment £'000</b>	<b>2008 interest £'000</b>	<b>Principal £'000</b>
Less than one year	52	9	43	61	10	51
Between one and two years	42	9	33	53	10	43
Between two and five years	23	4	19	81	12	69
	<u>117</u>	<u>22</u>	<u>95</u>	<u>195</u>	<u>32</u>	<u>163</u>

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

Obligations under agreements are secured on the relevant assets.

The Group's policies and objectives in respect of financial risk relating to the adequacy of funding, interest rate fluctuations and currency exposure are explained in note 20.

**Bank loans and overdrafts**

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

	<b>2009 £'000</b>	<b>2008 £'000</b>
Bank overdraft (on demand)	4,747	2,783
In one year or less	401	13,456
Between one and two years	13,313	401
Between two and five years	-	265
	<u>18,461</u>	<u>16,905</u>

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

Interest is charged on the 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.

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

**Market risk**

**Cash flow and fair value interest rate risk**

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

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

**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 credit exposure of the Group at the balance sheet date is £3,504,000 (2008: £3,451,000).

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**20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)**

**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 contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<b>At 31 December 2009</b>	<b>Less than 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 5 years £'000</b>
Borrowings including overdrafts	5,156	13,962	-
Hire Purchase and finance lease obligations	52	42	23
Trade and other payables	3,947	-	-
<hr/>			
<b>At 31 December 2008</b>	<b>Less than 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 5 years £'000</b>
Borrowings including overdrafts	16,239	401	265
Hire Purchase and finance lease obligations	61	53	81
Trade and other payables	4,327	-	-

**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 benefits for 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. This 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 2009 and 2008 were as follows:

	<b>2009 £'000</b>	<b>2008 £'000</b>
Total borrowings excluding bank overdrafts	17,756	18,612
Add: cash and cash equivalents including bank overdrafts	4,242	2,558
Net debt	<u>21,998</u>	<u>21,170</u>
Total equity	30,375	31,038
Total capital	<u>52,373</u>	<u>52,208</u>
Gearing ratio	42%	41%

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**20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)**

**Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. 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 financial 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 rates is deemed to have an equal effect on equity.

	<b>2009</b>	<b>2008</b>
	<b>Increase/ (decrease) in expense £'000</b>	<b>Increase/ (decrease) in expense £'000</b>
1% increase in sterling interest rates	<u>184</u>	<u>162</u>

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

**21. 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 £213,000 (2008: £233,000). Amounts unpaid at the year end in respect of contributions amounted to £1,000 (2008: £31,000).

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**22. DEFERRED TAXATION**

Deferred tax at 31 December 2009 relates to the following:-

	<b>Balance at 31 December 2009 £'000</b>	<b>Recognised in income £'000</b>	<b>Recognised in equity £'000</b>	<b>Balance at 31 December 2008 £'000</b>
Deferred tax liabilities				
Property, plant and equipment	7,421	(351)	51	7,721
Other items	182	-	-	182
	<u>7,603</u>			<u>7,903</u>
Gross deferred tax liabilities				
Deferred tax assets				
Tax losses	(162)	149	-	(311)
Gross deferred tax assets	(162)	<u>          </u>	<u>          </u>	(311)
Deferred tax charge		<u>(202)</u>	<u>51</u>	
Net deferred tax liability	<u>7,441</u>			<u>7,592</u>
	<b>Balance at 31 December 2008 £'000</b>	<b>Recognised in income £'000</b>	<b>Recognised in equity £'000</b>	<b>Balance at 31 December 2007 £'000</b>
Deferred tax liabilities				
Property, plant and equipment	7,721	(28)	(3,666)	11,415
Other items	182	(7)	-	189
Gross deferred tax liabilities	7,903			11,604
Deferred tax assets				
Tax losses	(311)	(251)	-	(60)
Gross deferred tax assets	(311)	<u>          </u>	<u>          </u>	(60)
Deferred tax charge		<u>(286)</u>	<u>(3,666)</u>	
Net deferred tax liability	<u>7,592</u>			<u>11,544</u>

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

In addition to the above, the Group has un-provided deferred tax assets of £355,000 (2008: £205,000) in respect of unrelieved tax losses.

**23. 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 £18,461,000 (2008: £16,905,000).

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**Notes to Financial Statements for the year ended 31 December 2009 (continued)**

**24. COMMITMENTS UNDER OPERATING LEASES**

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Operating leases which expire		
Within one year	47	147
Within two to five years	<u>125</u>	<u>160</u>
	<u>172</u>	<u>307</u>

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

**25. RELATED PARTY TRANSACTIONS**

The ultimate controlling party is E J S Gadsden who is a Director and the majority shareholder.

During the year the Group made sales of £47,000 (2008 - £1,327,000) to W E Black Limited. At 31 December 2009 the Group was owed £2,000 (2008 - £nil) by W E Black Limited.

Dividends in respect of the year ended 31 December 2007 due to E J S Gadsden and M R Warner are outstanding at 31 December 2009 totalling £309,000 (2008 - £309,000).

Details of key management personnel remuneration are disclosed in note 8 to the financial statements.

**26. SHARE CAPITAL**

Authorised share capital:

	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
Ordinary shares of 20p each	<u>60,000,000</u>	<u>12,000</u>	<u>60,000,000</u>	<u>12,000</u>

Allotted, called up and fully paid:

	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>Number</b>	<b>£'000</b>	<b>Number</b>	<b>£'000</b>
Ordinary shares of 20p each	<u>40,409,846</u>	<u>8,083</u>	<u>40,409,712</u>	<u>8,083</u>

134 Ordinary shares of 20p each were issued at 70p per share in the year. The excess above par value has been credited to the Share Premium Reserve.

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

**Michelmersh Brick Holdings PLC**  
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**Notes to Financial Statements for the year ended 31 December 2009 (continued)**

**27. SHARE BASED PAYMENTS**

	<b>Group 31 December 2009 £'000</b>	<b>Group 31 December 2008 £'000</b>
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.

As a result of the Michelmersh Brick Holdings PLC SAYE scheme, C W Robinson has a beneficial interest in 1,647 share options granted on 30 November 2007. These are exercisable at a price of 102p per option between 30 November 2007 and 1 December 2012.

**a) Michelmersh Brick Holdings PLC Group share option scheme**

Year of Grant	Subscription Price per Share	Period of Exercise	Number of Options as at 31 December 2008	Options granted in year	Options forfeited in year	Options exercised in year	Number of Options as at 31 December 2009
2004	70p	Aug 2007 - Aug 2014	296,057		33,938	134	261,985
2004	71p	Sept 2007 - Sep 2014	42,253	-	-	-	42,253
2005	95p	Nov 2008 - Nov 2015	12,500	-	-	-	12,500
2007	118p	April 2010 - April 2017	20,000	-	10,000	-	10,000
2008	93p	Jan 2011 - Jan 2018	10,000	-	-	-	10,000
2008	96p	Feb 2011 - Feb 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.

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**Notes to Financial Statements for the year ended 31 December 2009 (continued)**

**27. SHARE BASED PAYMENTS (continued)**

**b) Michelmersh Brick Holdings PLC SAYE Scheme**

<b>Year of Grant</b>	<b>Subscription Price per Share</b>	<b>Period of Exercise</b>	<b>Number of Options as at 31 December 2008</b>	<b>Options granted in year</b>	<b>Options forfeited in year</b>	<b>Options exercised in year</b>	<b>Number of Options as at 31 December 2009</b>
2004	57.25p	Nov 2004 – Dec 2009	205,499	-	25,977	-	179,522
2006	78p	June 2006 – July 2009	28,757	-	2,397	-	26,360
2006	78p	June 2006 – Nov 2011	37,976	-	3,302	-	34,674
2007	102p	Nov 2007 - Dec 2010	83,928	-	17,689	-	66,239
2007	102p	Nov 2007 - Dec 2012	13,505	-	-	-	13,505

Vesting conditions 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 (2008: £nil)

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

	<b>2009</b>		<b>2008</b>	
	<b>Number</b>	<b>Weighted average exercise price</b>	<b>Number</b>	<b>Weighted average exercise price</b>
Outstanding as at 1 January 2009	762,975	73.80p	1,052,033	75.92p
Granted	-	-	22,500	94.67p
Forfeited	(93,303)	78.15p	(265,147)	77.20p
Exercised	(134)	70.00p	(46,411)	64.44p
Outstanding as at 31 December 2009	669,538	73.20p	762,975	73.80p

The weighted average contractual life for share options outstanding 31 December 2009 is 0.5 years (2008: 1.5 years).

The weighted average share price at date of exercise of the above options, which were exercised during the year, is 70.00p (2008: 88.93p).

**Michelmersh Brick Holdings PLC**  
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**28. 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 27 to the financial statements.

**Share premium account**

The movement on the share premium account in the year relates to shares issued as disclosed in note 26 to the financial statements.

**Revaluation reserve**

The revaluation reserve relates to the revaluation of freehold property as detailed in note 14.

**29. EARNINGS PER SHARE**

**Basic**

The calculation of earnings per share is based on the loss for the year of £794,000 (2008: loss of £2,584,000) and 40,409,779 (2008: 40,397,377) 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 2009 and 2008. At 31 December 2009 there were a total of 669,538 share options held by employees, as disclosed in note 27, which are not considered dilutive.

**30. POST BALANCE SHEET EVENT**

[Following approval at the General Meeting] On 24 March 2010 the Group acquired 100% of the share capital of Freshfield Lane Brickworks Limited for a total consideration of £10.0 million. This consideration was made up of cash consideration of £5.0 million plus £3.0 million through the issue of approximately 7.69 million Consideration Shares issued at an agreed price of 39 pence per Ordinary Share and £2.0 million in Loan Notes maturing in 2012.

At the date the financial statements are finalised it is not considered practical to disclose the acquisition balance sheet and resulting Goodwill or the final costs directly attributable to the combination since this information is not readily available.

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

**Year ended 31 December 2009**

**Michelmersh Brick Holdings PLC**  
**Independent Auditors' Report to the Shareholders**

We have audited the financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2009 which comprise the Balance Sheet, the Accounting Policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

**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 2009;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Other matter**

We have reported separately on the IFRS financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2009.

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

Portwall Place  
 Portwall Lane  
 Bristol  
 BS1 6NA

22 April 2010

**Michelmersh Brick Holdings PLC**  
**Company Balance Sheet**

<b>Company Balance Sheet as at 31 December 2009</b>	<b>Notes</b>	<b>2009 £'000</b>	<b>2008 £'000 (restated)</b>
<b>Fixed assets</b>			
Tangible assets	1	18,273	18,253
Investments	2	707	551
<b>Total fixed assets</b>		<u>18,980</u>	<u>18,804</u>
<b>Current assets</b>			
Cash at bank and in hand		337	10
Debtors - due within one year	3	16,077	19,703
<b>Total current assets</b>		<u>16,414</u>	<u>19,808</u>
<b>Creditors: Amounts falling due within one year</b>	4	(895)	(16,133)
<b>Net current assets</b>		<u>15,519</u>	<u>3,675</u>
<b>Total assets less current liabilities</b>		34,499	22,479
<b>Creditors: Amounts falling due after more than one year</b>	5	(13,030)	-
<b>Provisions for liabilities and charges</b>			
Deferred taxation	7	-	(28)
<b>Net assets</b>		<u>21,469</u>	<u>22,451</u>
<b>Capital and reserves</b>			
Share capital	10	8,083	8,083
Share premium account	10	5,703	5,703
Revaluation reserve	10	9,859	9,998
Share option reserve	10	183	27
Profit and loss account	10	(2,359)	(1,360)
<b>Equity shareholders' funds</b>		<u>21,469</u>	<u>22,451</u>

These financial statements were approved by the Directors on ..... and are signed on their behalf by:

.....  
**E J S Gadsen**  
**Director**

.....  
**M R Warner**  
**Director**

**Michelmersh Brick Holdings PLC**  
**Accounting Policies**

**Accounting Policies - year ended 31 December 2009**

**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 £1,150,000 (2008: £1,608,000). The company also incurred an unrealised impairment loss, recognised directly in equity, of £nil (2008: impairment loss of £11,675,000) 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 depreciated charge on certain revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

**Share based payment transactions**

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

**Operating lease agreements**

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

**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.

**Michelmersh Brick Holdings PLC**  
**Accounting Policies**

**Accounting Policies - year ended 31 December 2009 (continued)**

**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.

**Michelmersh Brick Holdings PLC**  
**Notes to Company Financial Statements**

**Notes to Company Financial Statements for the year ended 31 December 2009**

**1. TANGIBLE FIXED ASSETS**

	Freehold land and buildings £'000	Equipment £'000	Site development £'000	Total £'000
<b>Cost or valuation</b>				
At 1 January 2009	18,054	295	155	18,504
Additions	205	-	-	205
Disposals	(95)	-	-	(95)
At 31 December 2009	<u>18,164</u>	<u>295</u>	<u>155</u>	<u>18,614</u>
<b>Depreciation</b>				
At 1 January 2009	148	103	-	251
Charge for the year	83	19	-	102
Revaluation in year	(12)	-	-	(12)
At 31 December 2009	<u>219</u>	<u>122</u>	<u>-</u>	<u>341</u>
<b>Net book value</b>				
At 31 December 2009	<u>17,945</u>	<u>173</u>	<u>155</u>	<u>18,273</u>
At 31 December 2008	<u>17,906</u>	<u>192</u>	<u>155</u>	<u>18,253</u>

**Revaluation of fixed assets**

The Company's freehold property was revalued by the directors on 31 December 2009, 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 £17,945,000 at 31 December 2009 resulting in an increase in the revaluation reserve of £12,000 at that date. In respect of the freehold property stated at a valuation, the comparable historical cost and depreciation values are as follows:

	2009 £'000	2008 £'000
<b>Historical cost</b>		
At 1 January 2009	7,908	7,128
Additions	205	780
Transfer to inventories	(27)	-
At 31 December 2009	<u>8,086</u>	<u>7,908</u>
<b>Historical cost depreciation</b>		
At 1 January 2009	-	-
Charge for the year	-	-
At 31 December 2009	<u>-</u>	<u>-</u>

**Michelmersh Brick Holdings PLC**  
**Notes to Company Financial Statements**

**Notes to Company Financial Statements for the year ended 31 December 2009 (continued)**

**2. INVESTMENTS – UNLISTED**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>		
At 1 January 2009	551	551
Additions	<u>156</u>	<u>-</u>
At 31 December 2009	<u><u>707</u></u>	<u><u>551</u></u>

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

<b>Company</b>	<b>Country of incorporation</b>	<b>Class of shares held</b>	<b>%age holding</b>	<b>Nature of business</b>
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

The addition in the year represents an adjustment made for share options issued to employees in subsidiary undertakings in respect of shares in the Parent Company. In accordance with revised guidance provided in the amendment to FRS 20, the subsidiary entities have recognised costs incurred to date of £156,000 as a capital contribution and this has been capitalised within the cost of the investment in the Parent Company. This has also increased the Parent Company's share option reserve accordingly.

**Michelmersh Brick Holdings PLC**  
**Notes to Company Financial Statements**

**Notes to Company Financial Statements for the year ended 31 December 2009 (continued)**

**3. DEBTORS**

**Amounts falling due within one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by Group undertakings	15,852	19,576
Other debtors	173	127
Prepayments and accrued income	42	-
Deferred tax asset	10	-
	<u>16,077</u>	<u>19,703</u>

**Amounts falling due after one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Amounts owed by Group undertakings	<u>-</u>	<u>-</u>

**4. CREDITORS: Amounts falling due within one year**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	-	13,000
Trade creditors	96	184
Other creditors	750	481
Other taxation and social security	43	11
Accruals and deferred income	6	24
Directors' current account	-	309
Amounts owed to Group undertakings	-	2,124
	<u>895</u>	<u>16,133</u>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans	<u>13,030</u>	<u>-</u>

**6. CREDITORS - CAPITAL INSTRUMENTS**

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Bank overdraft (on demand)	-	-
In one year or less, or on demand	-	13,000
Between one and two years	13,030	-
Between two and five years	-	-
After five years	-	-
	<u>13,030</u>	<u>13,000</u>

**Michelmersh Brick Holdings PLC**  
**Notes to Company Financial Statements**

**Notes to Company Financial Statements for the year ended 31 December 2009 (continued)**

**6. CREDITORS - CAPITAL INSTRUMENTS (continued)**

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**

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January 2009	28	105
Decrease in provision	<u>(38)</u>	<u>(77)</u>
At 31 December 2009	<u><u>(10)</u></u>	<u><u>28</u></u>

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Excess of taxation allowances over depreciation on fixed assets	(10)	120
Tax losses available	<u>-</u>	<u>(92)</u>
<sup>A</sup> Provision carried forward	<u><u>(10)</u></u>	<u><u>28</u></u>

The deferred tax asset amount of £10,000 as at 31 December 2009 is shown in debtors (note 3) at the year end.

Amounts unprovided at the year end are as follows:

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Revalued properties	<u>3,029</u>	<u>2,995</u>
Provision carried forward	<u><u>3,029</u></u>	<u><u>2,995</u></u>

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 2009 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.

**Michelmersh Brick Holdings PLC**  
**Notes to Company Financial Statements**

**Notes to Company Financial Statements for the year ended 31 December 2009 (continued)**

**8. 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 £18,461,000 (2008: £16,905,000).

**9. RELATED PARTY TRANSACTIONS**

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

Dividends in respect of the year ended 31 December 2007 due to E J S Gadsden and M R Warner are outstanding at 31 December 2009 totalling £309,000 (2008 - £309,000).

**10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	Share capital	Share option reserve	Share premium	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2008 (as previously stated)</b>	8,073	39	5,671	20,799	1,566	36,148
Prior period adjustment (see note 11)	-	-	-	1,022	(1,022)	-
<b>Balance at 1 January 2008 (as restated)</b>	8,073	39	5,671	21,821	544	36,148
Loss for the year	-	-	-	-	(1,608)	(1,608)
Shares issued	10	(12)	32	-	-	30
Dividends paid to shareholders	-	-	-	-	(444)	(444)
Impairment of freehold land and buildings	-	-	-	(11,675)	-	(11,675)
Transfer to profit and loss	-	-	-	(148)	148	-
<b>Balance at 31 December 2008 (as restated)</b>	8,083	27	5,703	9,998	(1,360)	22,451
Loss for the year	-	-	-	-	(1,150)	(1,150)
Share options adjustment (see note 2)	-	156	-	-	-	156
Revaluation of freehold land and buildings	-	-	-	12	-	12
Transfer to profit and loss	-	-	-	(151)	151	-
<b>Balance at 31 December 2009</b>	8,083	183	5,703	9,859	(2,359)	21,469

**11. PRIOR PERIOD ADJUSTMENT**

In the prior year an adjustment was made to transfer £1,022,000 from the revaluation reserve into the profit and loss reserve in respect of clay extraction carried out in 2007. This adjustment incorrectly double counted the transfer of reserves and accordingly has been reversed above. This adjustment has had no impact on the loss for the year or on shareholders' funds in either year.

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

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**Michelmersh Brick Holdings plc**

(incorporated and registered in England and Wales under number 03462378)

**NOTICE OF ANNUAL GENERAL MEETING**

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Notice of the Annual General Meeting of the Company to be held at 11.30 a.m. on 20 May 2010 at 131 Finsbury Pavement, London EC2A 1NT is set out at page 2.

Whether or not you propose to attend the Annual General Meeting, please complete and submit a proxy form in accordance with the instructions printed on the enclosed form. The proxy form must be received no later than 48 hours before the time appointed for holding the meeting.

**PART I**

**Michelmersh Brick Holdings plc**

(incorporated and registered in England and Wales under number 03462378)

**Registered Office:**

121 High Street  
Berkhamsted  
Hertfordshire  
HP4 2PJ

26 April 2010

**Notice of Annual General Meeting**

Dear Shareholder

I am pleased to be writing to you with details of our Annual General Meeting ("**AGM**") which we are holding at 11.30 a.m. on 20 May 2010 at 131 Finsbury Pavement, London EC2A 1NT. The formal notice of Annual General Meeting is set out on pages 2 to 3 of this document.

If you would like to vote on the resolutions but cannot come to the AGM, please fill in the proxy form sent to you with this notice and return it to our registrars as soon as possible. They must receive it by 11.30 a.m. on 18 May 2010.

Explanatory notes on the business to be considered at this year's AGM appear on page 5 of this document.

The Board considers that all the resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

Yours sincerely

Craig Robinson

Company Secretary

## PART II

# Michelmersh Brick Holdings plc

## NOTICE OF ANNUAL GENERAL MEETING

This year's annual general meeting will be held at 11.30 a.m. on 20 May 2010 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 2009.
- 2 To reappoint Martin Warner who retires by rotation and who, being eligible, offers himself for reappointment as a director.
- 3 To reappoint Alan Hardy 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 Frank Hanna 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 reappoint Nexia Smith & Williamson LLP 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.

26 April 2010

By order of the Board

Craig Robinson  
Company Secretary

Registered Office:

121 High Street  
Berkhamsted  
Hertfordshire  
HP4 2PJ

## 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 by 6.00 p.m. on 18 May 2010. 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.

## PART III

### EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

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

Resolutions 1 to 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.

**FORM OF PROXY**

**MICHELMERSH BRICK HOLDINGS PLC (the “Company”)**

I/We ..... of ..... being (a) member(s) of the Company hereby appoint the chairman of the meeting/or .....in respect of all of my/.....Ordinary Shares of 20 pence each in the capital of the Company (see note 3) as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 131 Finsbury Pavement, London EC2A 1NT at 11.30 a.m. on 20 May 2010 and at every adjournment thereof. I/We request such proxy to vote on the following resolution as indicated below (see note 2):

Resolution	For	Against	Withheld
<b>ORDINARY RESOLUTIONS</b>			
1 To consider the Company's accounts for the year ended 31 December 2009.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To reappoint Martin Warner as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To reappoint Alan Hardy as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To reappoint Frank Hanna as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To reappoint Nexia Smith & Williamson LLP as auditors of the Company and authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL RESOLUTIONS</b>			
6 To empower the directors to allot equity securities, subject to certain limitations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 To disapply statutory pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To authorise the Company to make market purchases, subject to various conditions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Names of joint holders (if any) .....

Dated.....2010

Signature .....

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made

**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 by 6.00 p.m. on 18 May 2010. 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 Please indicate with an 'X' in the appropriate boxes how you wish the proxy to vote. The proxy will exercise his discretion as to whether, and if so how, he will vote (i) on the resolution referred to above if no instruction is given in respect of that resolution; and (ii) on any business or resolution considered at the meeting other than the resolution referred to above. The 'Withheld' option is provided to enable you to abstain on the resolution. However, a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
- 3 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.
- 4 To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy form is one of multiple instructions being given. All forms should be signed and returned in the same envelope.
- 5 The appointment of a proxy will not preclude a member from attending and voting at the meeting in person should he subsequently decide to do so.
- 6 To be effective, the relevant Form of Proxy must be completed and lodged with the Company's Registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL no later than 11.30 a.m. on 18 May 2010.
- 7 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.
- 8 In the case of joint holders only one need sign this form, but the names of the other joint holders should be shown in the space provided. The vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. Seniority will be determined by the order in which the names of the holders appear in the register of members in respect of the joint holding.
- 9 Deposit of a form of proxy does not preclude you from attending and voting in person at the meeting or at any adjournment thereof.

Business Reply  
Licence Number  
SEA10846



SECOND FOLD

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6ZL

FIRST FOLD

THIRD FOLD AND TUCK IN