

COMPANY NUMBER : 03462378

# Michelmersh Brick Holdings PLC

ANNUAL REPORT 2007

YEAR ENDED 31 DECEMBER 2007.

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# Highlights

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- **Turnover increased by 13.7% to £24.0 million (2006: £21.1 million).**
  - **Brick volumes increased by 17% compared to the previous year, despite slower demand as a result of poor weather conditions.**
  - **Profit before tax £254,000 (2006 loss: £61,000).**
  - **Sale of Baggeridge Brick Plc shareholding yielding a profit of £2.6 million before other costs.**
  - **£8.5 million property asset revaluation uplift from £35.2 million at 31 December 2005 to £43.7 million at 31 December 2007.**
  - **Supreme prize winner at 2007 Brick Awards.**
  - **Good progress with landfill business.**
  - **Planning permission obtained for clay extraction at Michelmersh.**
  - **Further strengthening of Operating Board.**
  - **Proposed dividend of 1.1p (2006: 1.1p).**
  - **Continuing growth in the first five months of the current year - sales volumes up 10% on the same period for 2007.**
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# Chairman's Statement

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I am pleased to report our results for 2007, a year in which the Group consolidated its position as the leading manufacturer of specialist bricks in the UK. We experienced strong demand for our products across all our works, a significant increase in landfill rates and good progress with our property assets. Despite the uncertainties in the UK construction sector, sales volumes across the Michelmersh Group in the first five months of the current year are 10% higher than in the same period for 2007.

Turnover increased by 13.7% to £24.0 million (2006 £21.1 million) and the number of bricks sold increased by 17% compared to the prior year despite reduced demand in the autumn and latter part of the year due to the adverse weather conditions.

During the year we announced our intention to make an offer for Baggeridge Brick Plc and, although we were ultimately not successful, we were able to sell our shareholding to Weinerberger Finance Service BV, which has yielded a profit of £2.6 million, before additional related costs of £1.1 million and interest of £0.6 million, and increased our available cash by £5.0 million, before these additional costs and interests.

We place great emphasis on maximising the value of our land and landfill operations and in addition to progressing with the preparation of our initial phase of land at Telford, for sale to Persimmon, we are actively pursuing landfill and development options for our sites at Dunton and Charnwood.

Our property assets were revalued by Gerald Eve at the year end in accordance with our stated accounting

policies, resulting in an uplift in value from £35.2 million at 31 December 2005 to £48.9 million at 31 December 2007 against which management have made certain adjustments and additional provisions for works which may be needed to maximise the long term value of our assets, reducing this valuation to £43.7 million.

Once again we achieved success as supreme winner at the Brick Awards with the Pallant House Gallery New Wing, Chichester. This project also won the best refurbishment and public buildings awards. This highlights again the strength of our product offering. We were also shortlisted in a further six categories.

We have had to delay publication of our financial statements following a disagreement with the professional audit firm that we appointed as auditors to the business following the work that they undertook for the Group in connection with our attempted acquisition of Baggeridge Brick Plc. This disagreement related to our accounting policies which have, in principle, remained unchanged since the Company's acquisition of Blockleys in 2000. These policies have been reviewed for compliance with International Financial Reporting Standards and are in accordance with the policies of our peer group. The Directors remain of the opinion that these policies remain appropriate as the adoption of International Financial Reporting Standards has not resulted in any significant changes in accounting policy, other than for deferred taxation on revalued assets.

## FINANCIAL HIGHLIGHTS

The financial statements for the year ended 31 December 2007 are prepared under International Financial Reporting Standards for the first time. The 2006 financial statements have also been restated. The main impact of the transition is evident on the consolidated balance sheet where the Group has recalculated its deferred tax liabilities at the transition date of 1 January 2006 to include an additional £8.0 million deferred taxation provision on the revaluation of the operational properties. This additional provision has risen to £9.3 million at 31 December 2007 following the revaluations of these properties.

Despite the increase in the deferred tax liability, the consolidated balance sheet remained strong. Net assets totalled £44.6 million (2006 £36.4 million) incorporating a revaluation of the Group's property assets as at 31 December 2007 resulting in a gain of £8.0 million being taken to the revaluation reserve before the additional deferred tax provision of £1.9 million.

The trading results for the year ended 31 December 2007 are in line with the Company's and market expectations. Group turnover for the year totalled

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*Pallant House Gallery New Wing, Chichester  
Best Landscape Project Winner, BDA Brick awards*

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£24.0 million (2006 £21.1 million) and profit before finance costs and taxation for the year increased by 119.3% to £2.1 million (2006 £0.9 million) including the £2.6 million profit on the sale of the Baggeridge Brick Plc shares and related administrative expenses of £1.1 million. Administrative expenses, including those legal and professional fees associated with the purchase and subsequent disposal of the Baggeridge Brick Plc shares, were £6.2 million (2006 £4.8 million).

Total recognised income and expense for the period totalled £5.9 million (2006 £0.6 million), incorporating the gain on revaluation of the Group's assets of £6.1 million (net of deferred tax).

#### **DIVIDEND**

We propose a final dividend of 1.1 pence per share, unchanged from last year. Subject to shareholder approval, the final dividend will be paid on 31 October 2008 to shareholders on the register at the close of business on 3 October 2008 and the shares will trade ex dividend from 1 October 2008.

#### **PEOPLE**

We continued to strengthen our management team and made an additional appointment to the Operating Board of a Northern Sales Director, Martin Jump, to complement the work of Mark Wall in a corresponding role in the South.

We have already announced the introduction of a Long Term Incentive Scheme and this will be introduced, subject to shareholder approval, after the Annual General Meeting.

We have recognised further long service at Charnwood where three employees have completed 25 years service. Each of these played a key role in the company's success with the St Pancras redevelopment, as did Geoff Mitchell who retired during the year.

*Geoff Mitchell*

David Roberts also retired from his position as Operations Director at Blockleys, but will continue to work as a Consultant to the Group. We are delighted that David will contribute to the Group in the future.

*David Roberts*

We have a highly committed team and I thank them for their continued hard work during the year.

*Blockleys Heather Red Heritage Facing Bricks*

#### **OUTLOOK**

Clearly these are unsettled times in the housing and financial markets. Energy costs are now rising as are other input costs but demand for bricks, after a stable year in 2007, is reducing, reflecting current demand in the housing market.

The landscape of the UK market has changed dramatically over the last year. Brick stocks are at a record high in relation to production and represent approximately five months supply at the year end.

Since the autumn of 2004, the volume of bricks manufactured in the UK has exceeded demand partly reflecting the use of other materials particularly in large apartment blocks and a higher percentage of flats built as against traditional family homes. This may have now reached saturation point and demand is likely to be relatively stronger for family houses in the future. National price increases this year have been subdued in contrast to other building materials.

Over 90% of UK brick production is, for the first time, in the hands of three international manufacturers. Michelmersh, with its specialist focus, is the next largest, followed by a relatively small number of single works mainly serving local markets. As a result, the Group's position in the market has been significantly strengthened during the year.

The present overcapacity, combined with increasing input costs and reducing demand, is clearly unsustainable, but it is not clear how it will be resolved. The Board believes that Michelmersh is the only potential consolidator but we must be cautious in the present market place.

Despite the uncertainties in the current market place, sales volumes in the first five months of the current financial year are 10% ahead of the same period last year and the Board believes that the Group, with its improved cash position, asset base and strongly rising landfill rates, is well placed.

**Eric Gadsden**  
Chairman  
30 June 2008

# Chief Executive's Review

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As noted in the Chairman's Statement we are focusing on the three key areas of our business which all interrelate. Brick making creates void space for increasingly valuable inert landfill and in turn, wherever possible, we are promoting the long term restored land for development.

## **CLAY PRODUCTS**

Over the past twelve months industry brick volumes have stabilised, although production has again remained above sales levels. To increase our sales against this background is a great achievement and in view of the further consolidation in the industry this has once again strengthened our unique position in the market place.

## **SALES AND PRODUCTS**

Our sales have strengthened over the period particularly in the Repair, Maintenance and Improvement Market. We have experienced strong demand for all our specialist products, many of which serve local marketplaces. Sales volumes increased by some 17% while production increased by 7% to maintain suitable stock levels.

Last year we obtained some high profile work for our Hydrosmart System of permeable paviers. As anticipated, helped by the wet weather conditions last summer and planning pressure for sustainable drainage solutions, this has now translated into a high level of interest and enquiries for the product which we are following up.

The new wire cut and imperial ranges of bricks from Blockleys in particular, achieved good sales during the year as they became established in the market.

We have now successfully commissioned the new gas kiln at Dunton, which will give better yields and higher fuel efficiency. Whilst this caused some disruption to production at this works last autumn the benefits are now apparent and will serve us well in the future. This improved efficiency is now a major benefit against the current cost of gas oil.

We will continue to focus on projects that provide efficiency savings, but future spending will be at or below depreciation as we place strong emphasis on cash management at the present time.

During the year we obtained planning permission and completed the purchase of the eight acres of land adjoining our Michelmersh plant, thus ensuring clay supplies for this works for the foreseeable future.

## **LANDFILL**

Our landfill operation, New Acres, performed strongly during the year with substantial increases in value per tonne. Turnover increased by 55.2% to £734,000 (2006 £473,000) and profit before tax by 179.4% to £352,000 (2006 £126,000) after adjusting for amortisation charges from the Parent Company.

In view of the significantly increasing landfill values and a long term shortage of void space we are reviewing

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*Michelmersh Handmade Bricks and Roofing Tiles*

options for the voids at our Charnwood and Dunton sites. Both these sites have substantial consented air space and we believe that, following an update of these licences, this will be an increasingly significant profit driver for the Group in the medium term. We are also actively looking at other opportunities to develop this area of the business.

**DEVELOPMENT LAND**

By the end of June 2008 we will have completed the physical restoration of 16 acres of land at Telford for residential development, which will be ready to be built on by the end of the year. We continue to work with Persimmon and the planning authority to finalise the detailed application for this phase, which is in the Local Development Framework, together with indicative proposals for the remaining 64 acres. Due to the need for further consultation we anticipate the application will now be made in mid July 2008.

The planning process continues to be challenging but we believe that land with appropriate consent is a substantial long term asset.

**ASSETS**

In accordance with our policy of biannual valuation our property assets were revalued by Gerald Eve at the year end and the gross value of the Group's properties increased from the 2005 valuation by some £13.7 million to £48.9 million. However the Board has decided to make adjustments to these values, which included clay reserves now included within stock at 31 December 2007, as there will be costs in maximising the full potential of these over time. This has reduced the valuation to £43.7 million. It is our intention to have these assets revalued annually from now on.

*New showroom at Michelmersh*

**OUTLOOK**

Our trading businesses continue to generate cash and we are confident we can make significant progress with our property assets. It is not yet clear how the recent industry consolidation and overcapacity issues will be resolved although there have now been a number of works closures and publicised shutdowns in the past few weeks.

Our market position, the past investments made, and management team, give us a strong defensive position in an uncertain world.

**Martin Warner**  
Chief Executive  
30 June 2008

# Finance Director's Report

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I am pleased to be able to report on another profitable period for Michelmersh Brick Holdings Plc, which was achieved despite adverse weather and market conditions as our integrated business model helped consolidate on the investments made in prior years

## Revenue and Operating Profit

During the year ended 31 December 2007 the Group achieved turnover of £24.0 million (2006 £21.1 million) which resulted in total operating profit before finance costs and taxation of £2.1 million (2006 £0.9 million)

The increased revenue in the second half year, together with improvements in operational efficiency and production capabilities and the gain on the disposal of the Baggeridge Brick Plc shareholding, contributed to an increase in the operating profit from the 7.0 per cent reported at the half year stage (2006 2.0 per cent) to 8.6 per cent (2006 4.5 per cent) for the year

Administrative expenditure during the year increased to £6.2 million (2006 £4.8 million) and include £1.1 million of legal and professional fees incurred as a result of the purchase and sale of the shareholding in Baggeridge Brick Plc

## Finance Costs

Interest expense increased during the period to £1.8 million (2006 £1.0 million) The increase in interest payable was as a direct result of interest rate rises, and a charge of £0.6 million due to the increased borrowings necessitated from the purchase of the Baggeridge Brick Plc shares during the financial year

## 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. However, due to increases in deferred tax liabilities the effective rate of tax for 2007 was 167 per cent (2006 25 per cent)

## Financing

Year end borrowings reduced to £15.5 million (2006 £17.8 million)

## Earnings per Share

The basic earnings per share for the year is a loss of 0.44 pence (2006 loss of 0.12 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 2007 the net assets of the Group totalled £44.6 million (2006 £36.4 million)

Although as previously reported, the main capital expenditure programme is now complete a new kiln was installed at Dunton Brothers which will provide

that business unit with improved efficiency, reduced wastage and the ability to use cheaper fuels

At £13.9 million the level of working capital was higher than the £11.9 million reported in 2006. During the year as part of the managed release of land to Persimmon Homes the Group extracted 1.5 million tonnes of clay at a cost of £1.3 million which was included within inventories at the year end together with a clay value of £1 million

Trade debtors and other receivables increased to £4.2 million (2006 £3.6 million) Debtor days totalled 61 days (2006 58 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

## 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 generated a total of £1.2 million from operations (2006 £1.6 million). This partially helped to fund interest payments and finance lease charges of £1.2 million (2006 £1.0 million)

Capital expenditure in 2007 amounted to £1.4 million (2006 £1.5 million) and was restricted to ad hoc projects with short periods of payback

Outflows of cash included the capital element of hire purchase and finance lease obligations and loan repayments of £21.3 million (2006 £6.2 million)

Overall, there was an increase in cash and cash equivalents of £1.8 million (2006 £6.4 million)

## Risk

There is an inherent and accepted risk in any business. The Board has identified the principal risks and maintain and develop a risk management system that is appropriate and commensurate 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

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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 recent fluctuations in gas prices underline the volatility of the profitability of the UK brick industry. The price of gas is monitored daily and a strategic 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 continues to operate as a niche player in a saturated high volume market. It is further felt that the consolidation that has been seen within the industry during the last 12 months will continue to negate this risk

The Group is subject to Health & 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 2007 in accordance with International Financial Reporting Standards (IFRS)

The most significant factor impacting on the Group's financial statements is the recognition of deferred tax on revalued properties

Although the adoption of IFRS has impacted the reported results and net assets, the underlying performance of the business has remained unaffected

#### **Going Concern**

After making appropriate enquiries, and on the basis of the financial position contained in the financial statements for the year ended 31 December 2007 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

#### **Key Performance Indicators**

A Key Performance Indicator 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 key performance indicators (KPI's) to measure the operational and strategic performance of the business

#### **Earnings 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 18 and 19. 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 set out on page 18 as a key performance indicator 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 2007 operating profit increased to £2.1 million (2006 £0.9 million), including the profit on disposal of the Baggeridge Brick Plc shares and related legal costs

#### **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 landfill void and current and anticipated future usage of these reserves to ensure the sustainability of each manufacturing business within the Group

At 31 December 2007, the Group's mineral reserves comprise 24 years (2006 25 years) of resource, based on current production levels. The current landfill void maintained represents 7 years operational capacity based on current landfill rates. As further mineral reserves are extracted, additional landfill capacity is realised

#### **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 31 December 2007, total undrawn bank facilities amounted to £1.6 million

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

#### **Dividend**

A final dividend of 1.1p pence per ordinary share has been proposed

If approved the final dividend will be paid on 31 October 2008 to shareholders on the register at the close of business on 3 October 2008

#### **Craig Robinson**

Finance Director  
30 June 2008

# Officers & Professional Advisers

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Directors	E J S Gadsden – Chairman * + M R Warner MSc FRICS – Chief Executive + C W Robinson FCCA – Financial Director * R W Carlton-Porter – Non-Executive Director * +
Company Secretary	C W Robinson FCCA
Registered Office	121 High Street Berkhamsted Hertfordshire HP4 2PJ
Nominated Adviser and Broker	Charles Stanley & Co Limited 25 Luke Street London EC2A 4AR
Auditors	Nexia Smith & Williamson LLP Chartered Accountants Registered Auditors Portwall Place Portwall Lane Bristol BS1 6NA
Solicitors	Burges Salmon LLP Narrow Quay House Narrow Quay Bristol BS1 4AH
Registrars	Equiniti PO Box 4630 Aspect House Spencer Road Lancing West Sussex BN99 6QQ
Financial Public Relations	Tavistock Communications Limited 131 Finsbury Pavement London EC2A 1NT
Principal Bankers	Barclays Bank plc 15 Colmore Row Birmingham B3 2WN

\* Members of Audit Committee

+ Members of Remuneration Committee

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# Directors' Biographies

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## **Eric Gadsden, aged 63, 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. He is also non-executive deputy chairman of Ennstone plc.

## **Martin Warner MSc, FR I C S., aged 55, 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.

## **Craig Robinson FCCA, aged 46, 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 63, 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.

# Directors' Report

Year ended 31 December 2007

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2007

## 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 the end of it. 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 Group to be well placed through increased efficiency as a result of past and ongoing investment, despite uncertainty 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 recommend a dividend payment of 1.1p per ordinary share (2006 – 1.1p), payable on 31 October 2008 to shareholders on the register at the close of business on 3 October 2008.

## 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 2007	31 December 2006
	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	6,916,964
C W Robinson	34,500	-
R W Carlton-Porter	-	-

As a result of the Executive Approved Share Option Scheme, C W Robinson has a beneficial interest in 42,253 share options granted on 30 September 2004 and in 14,448 options granted under the Michelmersh Brick Holdings PLC SAYE scheme on 26 April 2006 and a further 1,647 options granted under the Michelmersh Brick Holdings PLC SAYE scheme on 30 November 2007. These are exercisable at a price of 71p per option between 30 September 2007 and 30 September 2014 and at 78p per option between 30 June 2006 and 1 July 2011 and at 102p per option between 30 November 2007 and 1 December 2012 respectively. 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 20,000 ordinary shares held by another business in which he has a controlling interest.

## 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.

# Directors' Report

Year ended 31 December 2007

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## **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. Trade creditor days for the Group is 41 days (2006 - 45 days). The Group has continued to pay creditors on terms consistent with 2006.

## **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	1,435,000 ordinary shares (3.55%)
Giltspur Nominees Ltd	1,237,980 ordinary shares (3.06%)
Octopus Asset Management Nominees Ltd	2,054,835 ordinary shares (5.08%)

## **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.

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# Directors' Report

Year ended 31 December 2007

## 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 and the Group 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. The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year 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.

## DONATIONS

During the year the Group made the following contributions

	<i>Year ended 31 December 2007 £000</i>	<i>Year ended 31 December 2006 £000</i>
Charitable	<u>1</u>	<u>1</u>

## AUDITORS

PKF (UK) LLP resigned and BDO Stoy Hayward LLP were appointed as the Company's and Group's auditor on 25 February 2008. BDO Stoy Hayward LLP resigned on 16 April 2008. Nexia Smith & Williamson LLP were appointed as auditors with effect from 24 April 2008. A resolution to re-appoint Nexia Smith & Williamson LLP will be put to the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the Board



M R Warner  
Director

Approved by the Directors on 30 June 2008

# Independent Auditors' Report to the Shareholders

Year ended 31 December 2007

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We have audited the Group financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the General Information and Accounting Policies and the related notes 1 to 31. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2007.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the Companies Act 1985 are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and the Finance Directors' Report that is cross referred from the Business Review and Results and Dividends sections of the Directors' Report.

We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review and the Finance Director's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

## **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

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# Independent Auditors' Report to the Shareholders

Year ended 31 December 2007

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## **OPINION**

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union applied in accordance with the Companies Act 1985, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the Group financial statements

*Nexia Smith & Williamson LLP*

Nexia Smith & Williamson LLP  
Chartered Accountants  
& Registered Auditors  
Bristol

Date 30 June 2008

# Consolidated Income Statement

Year ended 31 December 2007

	Note	Year to 31 December 2007 £000	Year to 31 December 2006 (as restated) £000
<b>REVENUE</b>	2	24,008	21,097
Cost of sales		(18,401)	(15,662)
<b>GROSS PROFIT</b>		5,607	5,435
Administrative expenses	7	(6,180)	(4,804)
Other income	3	77	309
Profit on disposal of investments	7	2,557	-
<b>OPERATING PROFIT</b>		2,061	940
Finance costs	4	(1,807)	(1,001)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	5	254	(61)
Taxation	10	(425)	15
<b>LOSS FOR THE FINANCIAL YEAR</b>		(171)	(46)
Earnings per share	29	(0.44)p	(0.12)p
Diluted earnings per share	29	(0.44)p	(0.12)p

All of the activities of the Group are classed as continuing

# Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2007

	Note	Year to 31 December 2007 £000	Year to 31 December 2006 (as restated) £000
Gain on revaluation of property, plant and equipment	28	7,977	-
Deferred tax on revalued property, plant and equipment	22	(1,943)	639
Net income recognised directly in equity		6,034	639
Loss for the financial year		(171)	(46)
<b>TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR</b>		5,863	593

Total recognised income and expense is attributable to the equity holders of the Parent Company

The accounting policies and notes on pages 21 to 43 form part of these Financial Statements

# Consolidated Balance Sheet

Year ended 31 December 2007

	Note	Year to 31 December 2007 £000	Year to 31 December 2006 (as restated) £000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	13	100	69
Property, plant and equipment	14	62,660	54,100
<b>TOTAL NON-CURRENT ASSETS</b>		<b>62,760</b>	<b>54,169</b>
<b>CURRENT ASSETS</b>			
Inventories	16	9,398	8,171
Trade and other receivables	17	4,245	3,603
Cash and cash equivalents		328	195
<b>TOTAL CURRENT ASSETS</b>		<b>13,971</b>	<b>11,969</b>
<b>TOTAL ASSETS</b>		<b>76,731</b>	<b>66,138</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	4,872	2,629
Interest bearing borrowings	19	6,457	3,533
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,329</b>	<b>6,162</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	22	11,544	9,176
Interest bearing borrowings	19	9,286	14,416
		20,830	23,592
<b>TOTAL LIABILITIES</b>		<b>32,159</b>	<b>29,754</b>
<b>NET ASSETS</b>		<b>44,572</b>	<b>36,384</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Share capital	26	8,073	7,604
Share premium account	28	5,671	3,432
Reserves	28	26,103	20,240
Retained earnings	28	4,725	5,108
<b>TOTAL EQUITY</b>	<b>28</b>	<b>44,572</b>	<b>36,384</b>

These financial statements were approved by the Directors and authorised for issue on 30 June 2008 and are signed on their behalf by

C W Adams and  
E J S Gadsden  
Director



M R Warner  
Director



The accounting policies and notes on pages 21 to 43 form part of these Financial Statements

# Consolidated Cash Flow Statement

Year ended 31 December 2007

	Year to 31 December 2007 £000	Year to 31 December 2006 (as restated) £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(loss) before taxation	254	(61)
Share based payment	59	64
Finance costs	1,807	1,001
Depreciation	1,491	1,433
Amortisation	2	2
Profit on sale of property, plant and equipment	(8)	-
Profit on sale of investment shares	(2,557)	-
	<u>1,048</u>	<u>2,439</u>
<b>OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL</b>		
Increase in inventories	(205)	(801)
(Increase)/decrease in receivables	(642)	623
Increase/(decrease) in payables	1,017	(683)
	<u>1,218</u>	<u>1,578</u>
<b>NET CASH GENERATED BY OPERATIONS</b>		
Interest paid	(1,200)	(999)
	<u>18</u>	<u>579</u>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of intangible assets	(33)	(2)
Purchase of property, plant and equipment	(1,381)	(1,501)
Proceeds on disposal of property, plant and equipment	34	-
Purchase of investment shares	(20,546)	-
Proceeds on disposal of investment shares	25,581	-
Interest paid on borrowings for investment purposes	(599)	-
	<u>3,056</u>	<u>(1,503)</u>
<b>NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of share capital	230	-
Issue of new interest bearing borrowings	20,247	14,000
Repayment of interest bearing borrowings	(21,265)	(5,782)
Repayment of hire purchase and finance lease obligations	(29)	(430)
Dividends paid to shareholders	(442)	(418)
	<u>(1,259)</u>	<u>7,370</u>
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	(2,307)	(8,753)
	<u>(492)</u>	<u>(2,307)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		

The accounting policies and notes on pages 21 to 43 form part of these Financial Statements

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# General Information & Accounting Policies

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## GENERAL INFORMATION

### Introduction

Michelmersh Brick Holdings plc ("the company") is a public limited company incorporated in the United Kingdom under the Companies Act 1985

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 2007, with comparative figures for the year from 1 January to 31 December 2006

The principal companies within the Group during the financial year ended 31 December 2007 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 1985 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 2007 and 31 December 2006 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

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is published on pages 42 and 43. These financial statements include reconciliations of total equity and profit for the comparative period reported under UK GAAP to those reported under IFRS (see note 31)

The rules for first time adoption of IFRS are set out in IFRS 1 'First time adoption of International Financial Reporting Standards'. IFRS 1 requires the use of the same accounting policies in the IFRS transition Balance Sheet and for all periods presented thereafter. The accounting policies must comply with all IFRS effective at the reporting date for the first financial reporting under IFRS, which is 31 December 2007. The transition date is 1 January 2006

On transition to IFRS, an entity is required to apply IFRS retrospectively, except where an exemption is available under IFRS 1. The following is a summary of the key elections from IFRS 1 that were made by the Group

- The Group has adopted the exemption in IFRS 1 concerning IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognising and Measurement). These standards have been adopted from January 2006 where relevant. The adoption of IAS 32 has not led to any restatements in the financial statements
- The Group has adopted the exemption in IFRS 1 concerning IFRS 3 (Business Combinations) not to restate any business combinations that occurred before 1 January 2006

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## ACCOUNTING POLICIES (continued)

### New standards and interpretations

The following IFRS and IFRIC interpretations have been issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") and are likely to affect future financial statements, although none is expected to have a material impact on the results or financial position of the Group

<i>International Accounting Standards (IFRS/IAS)</i>		<i>Effective date</i>
IFRS 8	Operating Segments	1 January 2009
IAS 23 (revised)	Borrowing costs	1 January 2009
IAS 1 (revised)	Presentation of financial statements	1 January 2009
IFRS 3 (revised)	Business combinations	1 January 2009
IAS 27 (revised)	Consolidated and separate financial statements	1 January 2009
 <i>IFRIC Interpretations</i>		
IFRIC 11	IFRS 2 – Group and treasury share transactions	1 March 2007
IFRIC 13	Customer loyalty programme	1 July 2008

IFRS 8 extends additional disclosure requirements for financial reporting purposes based on internal management reporting, and the Directors are considering the impact on the Group financial statements

IFRS 3 amendments change the required treatment of transaction costs which from date of amendment require expense to the Income Statement in the period in which the combination occurs. This will impact the Group where any further business combinations are concerned

### 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.

### Revenue

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

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

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

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## ACCOUNTING POLICIES (continued)

### 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. The Group has chosen to take the first time adoption exemption available under IFRS1 to use the carrying value of unamortised purchased goodwill (£nil) as its deemed cost at the transition date. See note 12.

### Licences

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

### Property, plant and equipment

Plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Land and buildings are carried at appropriate valuation for the land and buildings concerned. Further details are disclosed in note 14 to the financial statements.

Freehold land and buildings have been valued every two years. The Directors now consider that annual revaluation is appropriate in current markets and have adopted this policy prospectively.

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

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

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.

Mineral reserves are included within freehold land and buildings and are either amortised on a usage basis or transferred to inventories.

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 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.

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 on the basis of direct cost plus attributable overheads based on a normal level of activity. No element of profit is included in work in progress.

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## **ACCOUNTING POLICIES (continued)**

### **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:

#### *Other borrowings*

Interest-bearing borrowings relating to finance lease obligations and bank loans and overdrafts 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 and carried at original invoiced amount, less 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.

### **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.

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**ACCOUNTING POLICIES (continued)****Taxation (continued)**

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**

Income generated from the sale of carbon emissions in excess of actual Group usage is recognised in the period to which the allowances related. 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.

**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.

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# Notes to Financial Statements

Year ended 31 December 2007

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## 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

- Freehold land and buildings are valued by the Directors based on valuations by Gerald Eve, Chartered Surveyors, 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

The Group's primary segment reporting is by business sector with geographical reporting being the secondary format

The Group is comprised of the following business segments

- Building materials manufacture and sale of bricks, tiles and paviers
- Landfill landfill of inert waste

### Revenue by business sector

	2007 £'000	2006 £'000
Building materials	23,274	20,624
Landfill	734	473
	<u>24,008</u>	<u>21,097</u>

### (Loss)/profit by business sector

	2007 £'000	2006 £'000 <i>(As restated)</i>
Building materials	(925)	505
Landfill	352	126
(Loss)/profit attributed to business sectors	<u>(573)</u>	<u>631</u>
Profit on disposal of investments	2,557	-
Other income	77	309
Financial expense	<u>(1,807)</u>	<u>(1,001)</u>
Profit/(loss) before taxation	254	(61)
Taxation	<u>(425)</u>	<u>15</u>
Loss after taxation for the financial year	<u>(171)</u>	<u>(46)</u>

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**2 SEGMENTAL REPORTING (continued)****Property, plant and equipment and other intangible assets by business sector**

	2007 £'000	2006 £'000 <i>(As restated)</i>
Additions		
Building materials	3,121	1,739
Landfill	1	5
<b>TOTAL ADDITIONS</b>	<u>3,122</u>	<u>1,744</u>
Depreciation		
Building materials	1,373	1,263
Landfill	118	170
<b>TOTAL DEPRECIATION</b>	<u>1,491</u>	<u>1,433</u>
Total assets by business sector		
Building materials	72,814	63,865
Landfill	3,917	2,273
<b>TOTAL ASSETS</b>	<u>76,731</u>	<u>66,138</u>
Total liabilities by business sector		
Building materials	31,597	29,219
Landfill	562	535
<b>TOTAL LIABILITIES</b>	<u>32,159</u>	<u>29,754</u>
Net assets by business sector		
Building materials	41,217	34,646
Landfill	3,355	1,738
<b>NET ASSETS</b>	<u>44,572</u>	<u>36,384</u>

**Turnover by geographical destination**

	2007 £'000	2006 £'000
United Kingdom	23,767	20,484
Europe	236	311
Rest of World	5	302
	<u>24,008</u>	<u>21,097</u>

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

**3 OTHER INCOME**

	2007 £'000	2006 £'000
Rent receivable	64	47
Sales of carbon emission allowances	-	262
Other	13	-
	<u>77</u>	<u>309</u>

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**4 FINANCE COSTS**

	2007 £'000	2006 £'000
Interest expense	(1,798)	(887)
Charges in respect of hire purchase agreement	(9)	(114)
	<u>(1,807)</u>	<u>(1,001)</u>

**5 PROFIT/(LOSS) BEFORE TAXATION**

Profit/ (loss) before taxation is stated after charging

	2007 £'000	2006 £'000 (As restated)
Amortisation – other (included in administrative expenses)	2	2
Depreciation – owned assets	1,475	1,425
– assets held under hire purchase agreements	16	8
Operating lease costs – plant and machinery	100	91
– motor vehicles	102	92
Share based payments	59	64
	<u>59</u>	<u>64</u>

**6 AUDITORS' REMUNERATION**

	2007 £'000	2006 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	45	6
Fees payable to the Group's auditor and its associates for other services – the audit of the Group's subsidiaries, pursuant to legislation	40	22
– tax services	15	7
– other services	–	5
	<u>–</u>	<u>5</u>

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

**7 PROFIT ON DISPOSAL OF INVESTMENTS**

During the year 10,356,869 ordinary shares were acquired in Baggeridge Brick Plc at an average price of 222p per share. These shares were sold after an offer for the ordinary share capital of Baggeridge Brick Plc by Weinerberger was declared unconditional on 26 June 2007 at a price of 247p per share. Total proceeds of £25,581,000 were received on 7 August 2007. This transaction yielded a profit of £2,557,000 before additional related administrative expenses of £1,085,000 and interest of £599,000.

## 8 PARTICULARS OF EMPLOYEES

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

	2007	2006
Manufacture and supply of bricks	282	268
Administration	58	58
	<u>340</u>	<u>326</u>

Employee benefit expense (including Directors' emoluments)

	2007 £'000	2006 £'000 (As restated)
Wages and salaries	8,373	7,533
Share based payments	59	64
Social security costs	822	760
Other pension costs	234	227
	<u>9,488</u>	<u>8,584</u>

## 9 DIRECTORS' EMOLUMENTS

The emoluments of the individual Directors were as follows

	Basic salary 2007 £'000	Pension 2007 £'000	Total emoluments 2007 £'000	Total emoluments 2006 £'000
E J S Gadsden	20	-	20	20
M R Warner	109	-	109	114
C W Robinson	92	7	99	98
R W Carlton-Porter	21	-	21	16
	<u>242</u>	<u>7</u>	<u>249</u>	<u>248</u>

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

	2007 £'000	2006 £'000
Short-term benefits	242	241
Post-employment benefits	7	7
Other long-term benefits	-	-
Share based payments	5	1
	<u>254</u>	<u>249</u>

An amount of £21,336 (2006 £15,940) 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 during the year are disclosed in note 27 to the financial statements

No Director (2006 none) is a member of the defined contribution pension scheme run by the Group

## 10. TAXATION

### (a) Recognised in the income statement

	2007 £'000	2006 £'000
Current tax expense		
Current year	-	-
Deferred tax (expense)/credit		
Origination and reversal of temporary differences	425	(15)
Total income tax expense in income statement	425	(15)

### (b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

	2007 £'000	2006 £'000 (As restated)
<b>FACTORS AFFECTING THE TAX CHARGE FOR THE CURRENT YEAR</b>		
<b>Reconciliation of effective tax rate</b>		
Profit/(loss) before taxation	254	(61)
Income tax using the domestic corporation tax rate	76	(18)
Effects of		
Expenses disallowed	(46)	13
Capital allowances in excess of depreciation	(62)	1
Other timing differences	32	14
Tax losses utilised	-	(10)
Origination and reversal of temporary differences	425	(15)
Total income tax expense	425	(15)

### (c) Factors affecting future tax charges

As at 31 December 2007, the Group had tax losses carried forward of approximately £580,000 (2006 £580,000), in respect of which a deferred tax asset has not been recognised, as the Directors do not consider their recovery to be sufficiently certain in the near future

## 11. DIVIDENDS ON EQUITY SHARES

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

	2007 £'000	2006 £'000
Final dividends for the year ended 31 December 2006 at 1 1p per share (2005 1 1p)	442	418
Proposed for approval at AGM (not recognised as a liability at 31 December 2007)		
Final dividend for 2007 at 1 1p per share (2006 1 1p)	444	442

## 12. GOODWILL

At the date of transition goodwill with original cost of £254,000 had been fully impaired Accordingly the deemed cost at transition under the exemption permitted under IFRS 1 has been adopted as the carrying value at this date, being £nil

### 13 OTHER INTANGIBLE ASSETS

	PPC Licence £'000	Carbon Emissions Quota £'000	Total £'000
<b>COST OR MARKET VALUE</b>			
As at 1 January 2006	70	–	70
Additions	2	–	2
At 31 December 2006	72	–	72
Additions	3	30	33
At 31 December 2007	75	30	105
<b>AMORTISATION</b>			
At 1 January 2006	1	–	1
Charge for the year	2	–	2
At 31 December 2006	3	–	3
Charge for the year	2	–	2
At 31 December 2007	5	–	5
<b>NET BOOK VALUE</b>			
At 31 December 2007	70	30	100
At 31 December 2006	69	–	69

The PPC Licence is amortised over the life of the landfill site to which it applies

### 14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings £'000	Site development £'000	Motor vehicles £'000	Plant & machinery £'000	Equipment £'000	Fixtures & fittings £'000	Total '000
<b>COST OR VALUATION</b>							
At 1 January 2006	35,150	80	115	31,346	751	206	67,648
Additions	53	155	18	1,372	110	36	1,744
Transfers to inventories	(101)	–	–	–	–	–	(101)
At 31 December 2006	35,102	235	133	32,718	861	242	69,291
Additions	1,722	–	7	1,343	34	16	3,122
Disposals	–	–	–	(183)	(2)	–	(185)
Transfers	354	(1)	31	(387)	3	–	–
Revaluation	7,563	–	–	–	–	–	7,563
Transfers to inventories	(1,022)	–	–	–	–	–	(1,022)
At 31 December 2007	43,719	234	171	33,491	896	258	78,769
<b>DEPRECIATION</b>							
At 1 January 2006 (as previously stated)	–	33	115	12,793	546	176	13,663
Prior period adjustment	95	–	–	–	–	–	95
At 1 January 2006 (as restated)	95	33	115	12,793	546	176	13,758
Charge for the year	152	3	4	1,209	57	8	1,433
At 31 December 2006 (as restated)	247	36	119	14,002	603	184	15,191
Charge for the year	167	3	9	1,246	52	14	1,491
Transfers	–	–	22	(22)	–	–	–
Disposals	–	–	–	(158)	(1)	–	(159)
Revaluation	(414)	–	–	–	–	–	(414)
At 31 December 2007	–	39	150	15,068	654	198	16,109
<b>NET BOOK VALUE</b>							
At 31 December 2007	43,719	195	21	18,423	242	60	62,660
At 31 December 2006 (as restated)	34,855	199	14	18,716	258	58	54,100

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

Included within the net book value of £62,660,000 is £246,000 (2006 £134,000) 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 £16,000 (2006 £8,000)

**Capital Commitments**

	2007 £'000	2006 £'000
Contracted but not provided for in the financial statements	-	430

**Revaluation of property, plant and equipment**

The Group's freehold land and buildings were revalued by the Directors on 31 December 2007, based on a valuation carried out by Gerald Eve, Chartered Surveyors, 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 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. The Directors have adjusted 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 £43,719,000, resulting in an increase in the revaluation reserve of £7,977,000. Deferred tax liabilities were increased by £1,943,000 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

	2007 £'000	2006 £'000
<b>HISTORICAL COST</b>		
At 1 January 2007	7,427	7,374
Additions	2,076	53
Transfer to inventories	(339)	-
Transfer from historical cost depreciation	(29)	-
At 31 December 2007	<u>9,135</u>	<u>7,427</u>
	2007 £'000	2006 £'000
<b>HISTORICAL COST DEPRECIATION</b>		
At 1 January 2007	43	-
Charge per year	9	43
Transfer to historical cost	(29)	-
At 31 December 2007	<u>23</u>	<u>43</u>

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

The prior period adjustment relates to reinstatement of depreciation of landfill void on a usage basis. 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

<i>Company</i>	<i>Country of incorporation</i>	<i>Class of shares held</i>	<i>%age holding</i>	<i>Nature of business</i>
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 trading entities have been excluded from the consolidated financial statements

## 16 INVENTORIES

	<i>2007</i> <i>£'000</i>	<i>2006</i> <i>£'000</i>
Raw materials	4,185	1,792
Work in progress	318	298
Finished goods	4,895	6,081
	<u>9,398</u>	<u>8,171</u>

The cost of inventories expensed during the year is the cost of sales of £18,401,000 (2006 £15,662,000)

## 17 TRADE AND OTHER RECEIVABLES

Amounts falling due within one year

	<i>2007</i> <i>£'000</i>	<i>2006</i> <i>£'000</i>
Trade receivables	4,009	3,346
Other receivables	64	63
Prepayments and accrued income	172	194
	<u>4,245</u>	<u>3,603</u>

There are no receivables due after one year. The above receivables represent the total loans and receivables category.

Included within trade receivables is £193,000 (2006 £161,000) of receivables past due but not impaired. The Directors do not feel there is any deterioration of credit quality of these receivables.

The fair values of the trade and other receivables are approximate to their carrying value.

The carrying amounts of the Group's trade and other receivables are denominated in sterling.

## 18 TRADE AND OTHER PAYABLES

Amounts falling due within one year

	<i>2007</i> <i>£'000</i>	<i>2006</i> <i>£'000</i>
Trade payables	2,221	1,752
Other taxation and social security	679	599
Other payables	40	-
Accruals and deferred income	1,932	278
	<u>4,872</u>	<u>2,629</u>

The fair values of trade and other payables are approximate to their carrying value.

The average credit period for trade purchases is 41 days (2006 45 days). Trade payables are not interest bearing and are generally settled within terms. Other payables and accruals are non interest bearing.

## 19. BORROWINGS

### Interest rate risk of financial assets and liabilities

The Group has floating rate borrowings of £15,539,000 (2006 £17,832,000) which consist of bank loans and overdrafts and bear interest linked to the bank base rate. It also has hire purchase liabilities of £204,000 (2006 £117,000) which have a set finance charge. The Group's financial assets at 31 December 2007 and 31 December 2006 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 2007 of £1,600,000 (2006 £nil). The facilities are subject to periodic review.

### Interest bearing borrowings

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

	<i>Minimum lease payment £'000</i>	<i>2007 interest £'000</i>	<i>Principal £'000</i>	<i>Minimum lease payment £'000</i>	<i>2006 interest £'000</i>	<i>Principal £'000</i>
Less than one year	64	11	53	34	8	26
Between one and two years	61	9	52	37	8	29
Between two and five years	115	16	99	74	12	62
	<u>240</u>	<u>36</u>	<u>204</u>	<u>145</u>	<u>28</u>	<u>117</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 held at the year end are due for repayment as follows:

	<i>2007 £'000</i>	<i>2006 £'000 (As restated)</i>
Bank overdraft (on demand)	820	2,502
In one year or less	5,584	2,330
Between one and two years	456	5,000
Between two and five years	8,679	8,000
	<u>15,539</u>	<u>17,832</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 1.25% above base rate per annum in addition to a based 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 hedges 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**

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

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 £4,009,000 (2006: £3,346,000).

## 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.

At 31 December 2007

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings including overdrafts	6,404	456	8,679
Hire purchase and finance lease obligations	64	61	115
Trade and other payables	4,872	-	-

At 31 December 2006

	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings including overdrafts	4,832	5,000	8,000
Hire purchase and finance lease obligations	34	37	74
Trade and other payables	2,629	-	-

The above comprises the category liabilities measured at amortised cost.

### 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 2007 and 2006 were as follows:

	2007 £'000	2006 £'000 (As restated)
Total borrowings excluding bank overdrafts	19,795	18,076
Add cash and cash equivalents including bank overdrafts	492	2,307
Net debt	20,287	20,383
Total equity	44,572	36,384
Total capital	64,859	56,767
Gearing ratio	31%	36%

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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 not deemed to have a material effect on equity.

	<i>2007</i> <i>Increase/ (decrease)</i> <i>in income</i> <i>£'000</i>	<i>2006</i> <i>Increase/ (decrease)</i> <i>in income</i> <i>£'000</i>
1% increase in sterling interest rates	<u>57</u>	<u>27</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 £234,000 (2006: £227,000). Amounts unpaid at the year end in respect of contributions amounted to £29,612 (2006: £23,380).

## 22. DEFERRED TAXATION

Deferred taxation at 31 December 2007 relates to the following -

	<i>Balance at 31 December 2007 £'000</i>	<i>Recognised in income £'000</i>	<i>Recognised in equity £'000</i>	<i>Balance at 31 December 2006 £'000</i>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	11,415	249	1,943	9,223
Other items	189	189	-	-
<b>Gross deferred tax liabilities</b>	<b>11,604</b>			<b>9,223</b>
<b>Deferred tax assets</b>				
Employee benefits	-	13	-	(13)
Other items	(60)	(26)	-	(34)
<b>Gross deferred tax assets</b>	<b>(60)</b>			<b>(47)</b>
<b>Deferred tax charge</b>		<b>425</b>	<b>1,943</b>	
<b>Net deferred tax liability</b>	<b>11,544</b>			<b>9,176</b>
	<i>Balance at 31 December 2006 £'000</i>	<i>Recognised in income £'000</i>	<i>Recognised in equity £'000</i>	<i>Balance at 31 December 2005 £'000</i>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	9,223	(40)	(639)	9,902
Other items	-	-	-	-
<b>Gross deferred tax liabilities</b>	<b>9,223</b>			<b>9,902</b>
<b>Deferred tax assets</b>				
Employee benefits	(13)	-	-	(13)
Other items	(34)	25	-	(59)
<b>Gross deferred tax assets</b>	<b>(47)</b>			<b>(72)</b>
<b>Deferred tax charge</b>		<b>(15)</b>	<b>(639)</b>	
<b>Net deferred tax liability</b>	<b>9,176</b>			<b>9,830</b>

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 £102,000 (2006 £162,000) in respect of unrelieved tax losses and £55,000 (2006 £28,000) in respect of employee benefits

## 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 £15,539,000 (2006 £17,832,000)

## 24. COMMITMENTS UNDER OPERATING LEASES

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

	<i>2007 £'000</i>	<i>2006 £'000</i>
Operating leases which expire		
Within one year	161	167
Within two to five years	123	210
	<b>284</b>	<b>377</b>

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 an amount of £16,655,000 was loaned to the Parent Company by W E Black Limited a company related by common control of E J S Gadsden Interest of £369,000 has been charged on this loan in the year Both capital and interest have been fully repaid at the year end

During the year the Group made sales of £92,756 (2006 £107,530) to W E Black Limited At 31 December 2007 £3,830 (2006 £1,657) was owed to the Group

Details of key management personnel remuneration are disclosed in note 9 to the financial statements

## 26 SHARE CAPITAL

Authorised share capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
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				
	2007 Number	2007 £'000	2006 Number	2006 £'000
Ordinary shares of 20p each	<u>40,363,301</u>	<u>8,073</u>	<u>38,017,865</u>	<u>7,604</u>

On 3 July 2007 1,998,230 Ordinary 20p shares were issued at a price of 124p in exchange for 808,000 Ordinary shares in Baggeridge Brick Plc at an average price of 308p per share £2,088,000 has been transferred to the Share Premium account in respect of this transaction

On 4 and 31 October 2007 the Company issued respectively 116,515 and 46,986 ordinary shares of 20p each upon the exercise of share options in the Michelmersh Brick Holdings PLC Group share option scheme The subscription price per share on these dates was 70p £82,000 has been transferred to the share premium account in respect of this transaction

The Company issued the following ordinary shares of 20p each as part of the Michelmersh Brick Holdings PLC SAYE Scheme

Date	Number of shares exercised	Subscription price per share
28 November 2007	152,591	57 25p
6 December 2007	8,606	57 25p
12 December 2007	13,240	57 25p
18 December 2007	<u>9,268</u>	<u>57 25p</u>

£69,000 has been transferred to the share premium account in respect of these transactions

## 27 SHARE BASED PAYMENTS

	Group 31 December 2007 £'000	Group 31 December 2006 £'000 (As restated)
Share option reserve	<u>195</u>	<u>136</u>

As a result of the Executive Approved Share Option Scheme, C W Robinson has a beneficial interest in 42,253 share options granted on 30 September 2004 and in 14,448 options granted under the Michelmersh Brick Holdings PLC SAYE scheme on 26 April 2006, and a further 1,647 options granted under the Michelmersh Brick Holdings PLC SAYE scheme on 30 November 2007 These are exercisable at a price of 71p per option between 30 September 2007 and 30 September 2014 and at 78p per option between 30 June 2006 and 1 July 2011 and at 102p per option between 30 November 2007 and 1 December 2012 respectively 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 to the financial statements

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

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

<i>Year of Grant</i>	<i>Subscription Price per Share</i>	<i>Period of Exercise</i>	<i>Number of Options as at 31 December 2006</i>	<i>Options granted in year</i>	<i>Options lapsed in year</i>	<i>Options exercised in year</i>	<i>Number of Options as at 31 December 2007</i>
2004	70p	Aug 2007 – Aug 2014	517,853	–	–	163,501	354,352
2004	71p	Sept 2007 – Sep 2014	42,253	–	–	–	42,253
2005	90 5p	May 2008 – May 2015	10,000	–	–	–	10,000
2005	95p	Nov 2008 – Nov 2015	12,500	–	–	–	12,500
2007	118p	April 2010 – April 2017	–	20,000	–	–	20,000

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

The exercise period is seven years from the vesting date.

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

<i>Year of Grant</i>	<i>Subscription Price per Share</i>	<i>Period of Exercise</i>	<i>Number of Options as at 31 December 2006</i>	<i>Options granted in year</i>	<i>Options lapsed in year</i>	<i>Options exercised in year</i>	<i>Number of Options as at 31 December 2007</i>
2004	57 25p	Nov 2004 – Dec 2007	260,828	–	58,587	183,705	18,536
2004	57 25p	Nov 2004 – Dec 2009	347,504	–	98,135	–	249,369
2006	78p	June 2006 – July 2009	73,813	–	11,982	–	61,831
2006	78p	June 2006 – Nov 2011	74,714	–	14,860	–	59,854
2007	102p	Nov 2007 – Dec 2010	–	183,481	–	–	183,481
2007	102p	Nov 2007 – Dec 2012	–	39,857	–	–	39,857

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

For those options granted during the year, a weighted average fair value of 22p per option has been calculated.

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 £59,000 (2006 £64,000 – as restated).

The following key inputs have been used in the valuation of share options using the Black Scholes Model:

Weighted average share price	£0 868
Expected volatility	30%
Expected dividend yield	1%
Risk-free rate	5%

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

	<i>2007</i>		<i>2006</i>	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding as at 1 January 2007	756,859	66 7p	741,578	65 4p
Granted	223,338	102p	142,762	78 08p
Lapsed	(183,564)	66 7p	(127,481)	70p
Exercised	(183,705)	57 25p	–	–
Outstanding as at 31 December 2007	612,928	77 67p	756,859	66 7p

The weighted average contractual life for share options outstanding 31 December 2007 is 2.3 years (2006 4.9 years).

## 28. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

	Share capital £'000	Share option reserve £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
As previously reported at 1 January 2006	7,604	26	3,432	19,770	5,408	36,240
Prior period adjustment	-	46	-	(73)	(68)	(95)
<b>At 1 January 2006 as restated</b>	<b>7,604</b>	<b>72</b>	<b>3,432</b>	<b>19,697</b>	<b>5,340</b>	<b>36,145</b>
Loss for the year as restated	-	-	-	-	(46)	(46)
Equity dividends paid	-	-	-	-	(418)	(418)
Transfer to retained earnings	-	-	-	(232)	232	-
Deferred tax on revaluation	-	-	-	639	-	639
Share based payment	-	64	-	-	-	64
<b>As at 31 December 2006 as restated</b>	<b>7,604</b>	<b>136</b>	<b>3,432</b>	<b>20,104</b>	<b>5,108</b>	<b>36,384</b>
Loss for the year	-	-	-	-	(171)	(171)
Equity dividends paid	-	-	-	-	(442)	(442)
Revaluation in the year	-	-	-	7,977	-	7,977
Deferred tax on revaluation	-	-	-	(1,943)	-	(1,943)
Transfer to retained earnings	-	-	-	(230)	230	-
Share based payment	-	59	-	-	-	59
Shares issued in the year	469	-	2,239	-	-	2,708
<b>As at 31 December 2007</b>	<b>8,073</b>	<b>195</b>	<b>5,671</b>	<b>25,908</b>	<b>4,725</b>	<b>44,572</b>

The prior period adjustment is further explained in note 30

### Share option reserve

The share option reserve relates to the Executive Approved Share Option Scheme. 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 £171,000 (2006 loss of £46,000) and 39,060,116 (2006 38,017,865) 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 2007 and 2006.

## 30. PRIOR PERIOD ADJUSTMENT

Adjustments have been reflected to the balances reported at 1 January 2006 in respect of the share option reserve, the revaluation reserve and retained earnings resulting in a reduction in total equity of £95,000 at 1 January 2006.

In addition, adjustments have also been made to these reserves in the year to 31 December 2006 resulting in a further reduction in total equity at 31 December 2006 of £70,000 making a total reduction of £165,000. This relates to a prior period adjustment in respect of depreciation of landfill void. All other adjustments relate to movements between reserves in respect of share option charges under IFRS 2 and revalued mineral reserve amortisation charges.

### 31. EXPLANATION OF TRANSITION TO IFRS

As stated in the accounting policies, these are the Group's first financial statements prepared in accordance with IFRS

The accounting policies have been applied in preparing the financial statements for the year ended 31 December 2007 and the restated comparative information presented in these financial statements for the year ended 31 December 2006

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with UK GAAP. An explanation of how the transition of previous UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables

		<i>As at 31 December 2006 £'000 (as restated)</i>	<i>As at 1 January 2006 £'000 (as restated)</i>
<b>Equity</b>			
<b>UK GAAP as previously reported</b>	Note	43,916	44,246
Adjustments (before taxation)			
Depreciation on mineral deposits	g	-	(95)
Amortisation on landfill	g	(165)	-
<b>UK GAAP as restated</b>		<u>43,751</u>	<u>44,151</u>
Adjustments (before taxation)			
Deferred tax on property revaluation	c	(7,367)	(8,006)
<b>IFRS re-stated</b>		<u><u>36,384</u></u>	<u><u>36,145</u></u>
		<i>2006 £'000 (as restated)</i>	<i>2005 £'000 (as restated)</i>
<b>Reconciliation of (loss)/profit for the financial year</b>			
<b>UK GAAP as previously reported</b>		73	367
Adjustment (before taxation)			
Depreciation of mineral deposits	g	95	(95)
Amortisation on landfill	g	(165)	-
Share based payment	g	(49)	(46)
<b>UK GAAP as restated</b>		<u>(46)</u>	<u>226</u>
<b>IFRS re-stated</b>		<u><u>(46)</u></u>	<u><u>226</u></u>

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### **31 EXPLANATION OF TRANSITION TO IFRS (continued)**

#### **Transitional arrangements**

On transition to IFRS, an entity is required to apply IFRS retrospectively except where an exemption is available under IFRS 1 (First-time Adoption International Financial Reporting Standards) or where IFRS 1 imposes restrictions or prohibitions on retrospective restatement. The following is a summary of the key elections from IFRS that were made by the Group at the date of transition 1 January 2006.

- (a) The Group has chosen to take the exemption available under IFRS1 to use the value of unamortised purchased goodwill as its deemed cost at the transition date. At the transition date the value of unamortised purchased goodwill was £nil.
  - (b) IAS12 (Income Taxes) requires a deferred tax provision to be recognised for all taxable temporary differences between the tax bases and the associated carrying amounts for assets and liabilities. Under UK GAAP there was no requirement to recognise deferred tax provisions on timing differences arising when non-monetary assets were re-valued unless revaluation gains were recorded through the income statement.
  - (c) Compliance with IAS12 has been achieved by making a deferred tax provision of £8,006,000 as at 1 January 2006 in relation to revaluation gains. Similarly, a deferred tax provision of £7,367,000 has been made as at 31 December 2006 resulting in a release of £639,000 during the year ended 31 December 2006. The movements during the respective periods have been recognised in the revaluation reserve.
  - (d) At 31 December 2006 and 31 December 2007 amounts of £67,000 and £73,000 respectively have been reclassified from a revaluation reserve under UK GAAP to retained earnings (as an undistributable component). These amounts represent the previous balance on the revaluation reserve in respect of assets that are measured on depreciated replacement cost (for specialised properties) and existing use basis (for mineral deposits) as permitted as deemed cost under IFRS.
  - (e) In accordance with IFRS, the PPC licence costs have been reclassified from intangible fixed assets to other intangible assets. The impact of the reclassification has had no effect on the Group's income statement for 2007.
  - (f) Under UK GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation, capital expenditure and financial investment, acquisitions and disposals, management of liquid resources and financing activities. IFRS, however, requires only three categories of cash flow activity to be reported: operating, investing and financing. There are no other material differences between the cash flow statement presented under IFRSs and the cash statement presented under UK GAAP.
  - (g) Prior period adjustments not relating to IFRS conversion are shown in reconciling to previously reported equity and results under UK GAAP. Details of these are set out in note 30.
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# Statement of Directors' Responsibilities

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## **DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report 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 Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Parent Company financial statements are required to give a true and fair view of the state of affairs of the Parent Company at the end of the financial year and of the profit or loss of the Parent Company 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 to enable them to ensure that the Parent Company financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company 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 Parent Company financial statements and other information included in the Annual Reports may differ from legislation in other jurisdictions.

# Independent Auditors' Report to the Shareholders

Year ended 31 December 2007

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We have audited the Parent Company financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2007 which comprise the Company Balance Sheet, the Accounting Policies and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Michelmersh Brick Holdings PLC for the year ended 31 December 2007.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Review and the Finance Director's Report that is cross referred from the Business Review and Results and Dividends sections of the Directors' Report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review and the Finance Director's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Parent Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

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# Independent Auditors' Report to the Shareholders

Year ended 31 December 2007

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## Opinion

In our opinion

- the Parent Company financial statements give a true and fair view, in accordance United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the Directors' Report is consistent with the Parent Company financial statements

*Nexia Smith & Williamson LLP*

Nexia Smith & Williamson LLP  
Chartered Accountants  
& Registered Auditors  
Bristol

Date 30 June 2008

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# Company Balance Sheet

As at 31 December 2007

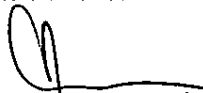
	Notes	As at 31 December 2007 £000	As at 31 December 2006 (as restated) £000
<b>FIXED ASSETS</b>			
Intangible assets	1	30	–
Tangible assets	2	29,313	26,210
Investments	3	551	551
<b>TOTAL FIXED ASSETS</b>		<b>29,894</b>	<b>26,761</b>
<b>CURRENT ASSETS</b>			
Debtors – due within one year	4	20,914	10,432
Debtors – due after one year	4	–	7,705
Total current assets		20,914	18,137
<b>CREDITORS</b> Amounts falling due within one year	5	(6,555)	(1,576)
<b>NET CURRENT ASSETS</b>		<b>14,359</b>	<b>16,561</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>44,253</b>	<b>43,322</b>
<b>CREDITORS</b> Amounts falling due after more than one year	6	(8,000)	(13,000)
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred taxation	8	(105)	(69)
<b>NET ASSETS</b>		<b>36,148</b>	<b>30,253</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	11	8,073	7,604
Share premium account	11	5,671	3,432
Revaluation reserve	11	21,821	20,182
Share option reserve	11	39	27
Profit and loss account	11	544	(992)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>36,148</b>	<b>30,253</b>

These financial statements were approved by the directors on 30 June 2008 and are signed on their behalf by

EJS Gadsden  
Director



MR Warner  
Director



The accounting policies and notes on pages 48 to 54 form part of these financial statements.

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# Accounting Policies

Year ended 31 December 2007

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## **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 230 of the Companies Act 1985. The profit after tax for the Company was £972,000 (2006 loss after tax of £445,000 as restated). There are no other recognised gains or losses other than the profit for 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 have previously been valued every two years. The directors now consider that annual revaluation is appropriate in current markets and have accordingly adopted this annual revaluation policy prospectively.

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
Equipment	–	3% - 25% straight line

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 either amortised on a usage basis or transferred to fellow subsidiaries as stocks of raw materials.

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.

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**Pension costs**

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

**Carbon emissions allowances**

Income generated from the sale of carbon emissions in excess of actual Company usage is recognised in the period to which the allowances related. Unused or 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 or loss account.

**Dividends**

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

# Notes to Company Financial Statements

Year ended 31 December 2007

## 1. INTANGIBLE ASSETS

	<i>Carbon Emissions Quota £'000</i>
<b>COST OR MARKET VALUE</b>	
At 1 January 2007	–
Additions	30
At 31 December 2007	<u>30</u>
<b>AMORTISATION</b>	
At 1 January 2007	–
Charge for the year	–
At 31 December 2007	<u>–</u>
<b>NET BOOK VALUE</b>	
At 31 December 2007	<u>30</u>
At 31 December 2006	<u>–</u>

The Directors consider that there is no material difference between cost and market value at the year end

## 2 TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings £'000</i>	<i>Equipment £'000</i>	<i>Site development £'000</i>	<i>Total £'000</i>
<b>COST OR VALUATION</b>				
At 1 January 2007 – as previously reported	26,100	273	155	26,528
Prior period adjustments (note 12)	(101)	–	–	(101)
At 1 January 2007 – as restated	<u>25,999</u>	<u>273</u>	<u>155</u>	<u>26,427</u>
Additions	1,415	22	–	–
Revaluation	2,203	–	–	–
Transfers to stock in subsidiary	(1,022)	–	–	(1,022)
Transfer from subsidiary	354	–	–	354
At 31 December 2007	<u>28,949</u>	<u>295</u>	<u>155</u>	<u>29,399</u>
<b>DEPRECIATION</b>				
At 1 January 2007 – as previously reported	101	52	–	153
Prior period adjustment (note 12)	64	–	–	64
At 1 January 2007 – as restated	<u>165</u>	<u>52</u>	<u>–</u>	<u>217</u>
Charge for the year	112	34	–	146
Revaluation	(277)	–	–	(277)
At 31 December 2007	<u>–</u>	<u>86</u>	<u>–</u>	<u>86</u>
<b>NET BOOK VALUE</b>				
At 31 December 2007	<u>28,949</u>	<u>209</u>	<u>155</u>	<u>29,313</u>
At 31 December 2006	<u>25,834</u>	<u>221</u>	<u>155</u>	<u>26,210</u>

## 2 TANGIBLE FIXED ASSETS (continued)

### Revaluation of fixed assets

The Company's freehold property was revalued by the Directors on 31 December 2007, based on a valuation carried out by Gerald Eve, Chartered Surveyors, 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 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. The directors have 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 £28,949,000 resulting in an increase in the revaluation reserve of £2,480,000. In respect of the freehold property stated at a valuation, the comparable historical cost and depreciation values are as follows:

	2007 £'000	2006 £'000
<b>HISTORICAL COST</b>		
At 1 January 2007	5,681	5,681
Additions	1,769	-
Transfer to stock	(293)	-
Transfer from historical cost depreciation	(29)	-
At 31 December 2007	<u>7,128</u>	<u>5,681</u>
	2007 £'000	2006 £'000
<b>HISTORICAL COST DEPRECIATION</b>		
At 1 January 2007	29	29
Charge per year	-	-
Transfer to historical cost	(29)	-
At 31 December 2007	<u>-</u>	<u>29</u>

## 3 INVESTMENTS - UNLISTED

	2007 £'000	2006 £'000
<b>COST</b>		
At 1 December 2007 and at 31 December 2007	<u>551</u>	<u>551</u>

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

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

<b>4 DEBTORS</b>		
<b>Amounts falling due within one year</b>		
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
Amounts owed by Group undertakings	20,813	10,236
Other debtors	64	153
Prepayments and accrued income	37	43
	<u>20,914</u>	<u>10,432</u>
<b>Amounts falling due after one year</b>		
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
Amounts owed by Group undertakings	<u>-</u>	<u>7,705</u>
<b>5 CREDITORS: Amounts falling due within one year</b>		
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
Bank loans and overdrafts	5,203	1,529
Trade creditors	76	19
Other creditors	39	-
Other taxation and social security	11	11
Accruals and deferred income	1,226	17
	<u>6,555</u>	<u>1,576</u>
<b>6. CREDITORS. Amounts falling due after more than one year</b>		
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
Bank loans	<u>8,000</u>	<u>13,000</u>
<b>7. CREDITORS – CAPITAL INSTRUMENTS</b>		
Creditors include finance capital which is due for repayment as follows		
	<i>2007</i>	<i>2006</i>
	<i>£'000</i>	<i>£'000</i>
Bank overdraft (on demand)	203	1,529
In one year or less	5,000	-
Between one and two years	-	5,000
Between two and five years	8,000	8,000
After five years	-	-
	<u>13,203</u>	<u>14,529</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 1.25% above the 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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## 8. PROVISIONS FOR LIABILITIES

The movement in the deferred taxation provision during the year was

	2007 £'000	2006 £'000
At 1 January 2007	69	33
Increase in provision	36	36
At 31 December 2007	<u>105</u>	<u>69</u>

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

	2007 £'000	2006 £'000
Excess of taxation allowances over depreciation on fixed assets	159	80
Tax losses available	(54)	-
Other timing differences	-	(11)
Provision carried forward	<u>105</u>	<u>69</u>

Amounts unprovided at the year end are as follows

	2007 £'000	2006 £'000
Tax losses available	-	(10)
Other timing differences	(11)	-
Revalued properties	<u>5,926</u>	<u>5,454</u>
	<u>5,915</u>	<u>5,444</u>

The balance of unprovided deferred tax of £5,926,000 (2006 £5,454,000) 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 2007 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 binding 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.

## 9. 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 £15,539,000 (2006 £16,002,000).

## 10 RELATED PARTY TRANSACTIONS

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

## 11 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £'000	Share option reserve £'000	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2006 as previously reported	7,604	5	3,432	20,419	(97)	31,363
Prior period adjustments (note 12)	-	9	-	(73)	(31)	(95)
At 1 January 2006 as restated	7,604	14	3,432	20,346	(128)	31,268
Loss for the year as restated	-	-	-	-	(445)	(445)
Dividends paid to shareholders	-	-	-	-	(418)	(418)
Share based payment	-	13	-	-	-	13
Transfer to profit and loss	-	-	-	(164)	164	-
At 31 December 2006 as restated	7,604	27	3,432	20,182	(827)	30,418
Profit for the year	-	-	-	-	972	972
Shares issued	469	-	2,239	-	-	2,708
Dividends paid to shareholders	-	-	-	-	(442)	(442)
Revaluation of freehold land and buildings	-	-	-	2,480	-	2,480
Share based payment	-	12	-	-	-	12
Transfer to profit and loss	-	-	-	(841)	841	-
At 31 December 2007	8,073	39	5,671	21,821	544	36,148

## 12. PRIOR PERIOD ADJUSTMENT

Adjustments have been reflected to the balances reported at 1 January 2006 in respect of the share option reserve, the revaluation reserve and retained earnings resulting in a reduction in total equity of £95,000 at 1 January 2006

A further adjustment has been made at 31 December 2006 in respect of fixed assets £101,000 previously recorded as depreciation in the year ended 31 December 2006 has been reclassified as a transfer to stock in a subsidiary This has had no impact on the reported loss for the year ended 31 December 2006