MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT **2021**

MICHELMERSH

Britain's Brick Specialists

Contents

Strategic Report

Chairman's Statement

Introduction:
I am pleased to report on a very successful year for the Group, with the delivery of strong revenue and profit surpassing our 2019 pre-Covid-19 record adjusted results performance.

Alongside these excellent results, it is hugely pleasing to see the ongoing dedication and resilience of our people who have worked diligently throughout the year to ensure that we maintained the delivery of our premium quality, for both product and service, to our customers and these results have been achieved despite the ongoing operational challenges caused by Covid-19. Importantly, our results have also been achieved whilst balancing the needs of our stakeholders and acting responsibly towards our people, customers, suppliers and shareholders.

These responsibilities are demonstrated through the publishing of our sustainability report and this highlights the importance the Group places on managing our operations to deliver excellent financial results without compromising our responsibility in managing our environmental impact.

Financial Highlights:

	31 Dec 2021	31 Dec 2020	31 Dec 2019	Growth – FY21 on FY20	Growth – FY21 on FY19
Statutory results					
Revenue	£59.5m	£52.0m	£53.5m	*14.4%*	*11.2%*
Gross margin	40.7%	41.3%	40.9%	*(0.6%)*	*(0.2%)*
Operating profit	£9.9m	£7.6m	£11.1m	*30.3%*	*(10.8%)*
Profit before tax	£9.7m	£6.9m	£10.4m	*40.6%*	*(6.7%)*
Basic earnings per share	6.50p	5.27p	9.41p	*23.3%*	*(30.9%)*
Cash from operations	£15.8m	£12.9m	£16.6m	*22.5%*	*(4.8%)*
Net cash/(debt)	£7.7m	£0.8m	(£6.3m)	*up £6.9m on 31 Dec 2020*	
Adjusted results*					
Adjusted EBITDA[1]	£14.7m	£12.3m	£13.6m	*19.5%*	*8.1%*
Adjusted operating profit	£11.1m	£8.8m	£10.3m	*26.1%*	*7.8%*
Adjusted profit before tax	£10.9m	£8.0m	£9.6m	*36.3%*	*13.5%*
Adjusted earnings per share	9.33p	6.28p	8.41p	*48.6%*	*10.9%*

* The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, which are costs associated with acquisitions and the amortisation of acquired intangibles. The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. Adjusted performance results are reconciled with statutory results in the table below on page 8.

1 EBITDA is defined as earnings before interest, tax, depreciation, and amortisation

Dividend
Following the disruption caused by Covid-19 and the resulting wider uncertain economic outlook, the Board took the decision to cancel the final dividend from 2019 and was pleased to announce the return to our progressive dividend policy with the proposal alongside our 2020 year-end results of a single dividend of 2.5 pence per ordinary share to shareholders in respect of 2020.

Reflecting the continued commitment to our progressive dividend policy and our confident outlook for the business, the Board is recommending a final dividend of 2.50 pence per share, which, together with the 1.15 pence per share interim dividend, gives a total dividend of 3.65 pence per share, up 46% on last year. The proposed dividend will be paid on 13 July 2022 to members on the register on 6 June 2022. After reviewing the take-up rate of the scrip alternative dividend option, the Company has decided to withdraw this option effective from the final 2021 dividend onwards.

Strategic Report
(continued)

Board and Employees
At the AGM on 3 June 2021, and announced in our 2020 annual report and accounts, Bob Carlton-Porter and Stephen Morgan, two long-standing and valued members of the Board, retired from the Company. Once again, we would like to thank them for their support and contribution over a combined 28 years' service to the Company.

Alongside the retirements of Bob and Stephen, Ryan Mahoney was appointed to the Board as Chief Financial Officer. We are delighted to welcome Ryan to the Group; his significant financial and operational experience and expertise will be highly valuable in helping the business continue on its growth path. Ryan joined us from Avon Protection, the FTSE 250 defence engineering and manufacturing group, where he had been Deputy Chief Financial Officer since April 2018. Prior to that, Ryan had been Group Financial Controller for Unite Students, the FTSE 250 property group, since November 2015, and before then held other senior finance roles within the business.

The Board has been through a period of significant transition with both Paula Hay-Plumb and Tony Morris joining the Board in 2020, and with Ryan's appointment in June of this financial year. We look forward to a period of stability in the Board membership as we look to continue to grow the business and deliver on the wider strategy.

Outlook
We are operating in a sector which is fundamental to the post Covid-19 recovery. We have entered 2022 with a strong and balanced order book and are continuing to see positive order intake momentum from our broad customer base with high demand across all our key markets. The ongoing Covid-19 pandemic, together with the elevated inflation risks in the UK economy, mean that we operate in a more challenging environment as we enter the new financial year. However, we remain focused on delivering a quality product and service to our customers and have worked collaboratively to deliver price increases across our premium portfolio to offset higher cost inflation.

The positive momentum and the benefits from the longer-term fundamentals in our sector provide a resilient foundation given the current uncertain macroeconomic conditions and the Board remains confident in the strategic outlook of the business.

Martin Warner
Chairman

29 March 2022

Strategic Report
(continued)

Joint Chief Executive Officers' Report
We are delighted to present a very strong set of results for our 2021 financial year and to report on further progress against our key strategic objectives. These results have been supported by the backdrop of a buoyant construction sector and strong fundamentals in our end markets, which importantly remain well backed by Government policy due to the sustained shortage and requirement for quality new housing.

Whilst we continued to experience elements of disruption to our operations over the period, we successfully adapted to this 'new normal' in our operating rhythm. At various stages during 2021 we adhered to the 'working from home' guidance for our support service teams as we looked to prioritise the safety of our operational teams who remained on site throughout the year. Once again, we would like to thank all our staff for their support and enduring dedication. It is due to their commitment that we have been able to maintain production and despatch operations to support our customers and deliver consistent results throughout the year.

The production capacity of the UK brick manufacturing industry remains constrained when set against the wider demand and with record low stocks these sector dynamics are very supportive of our medium-term strategy. The Group continues to focus on manufacturing and delivering the highest quality brick and paver premium centric products to our customers. This underpins our average selling prices consistently being at a premium to the wider market and ensures our ability to consistently sell all the product we make, underlining our strong and sustainable profit margins. The strength of our customer relationships was also a key factor in successfully introducing measured forecast price increases across our portfolio at the start of September 2021. Working closely with our customers throughout this process, we continue to see strong demand from across our customer base.

As we enter 2022, the ongoing higher inflation environment continues to impact supply chain and input costs and the Group is working hard to manage these costs. Given the high energy requirements for brick manufacturing, our energy price hedging policy remains incredibly important to ensure that we are well placed to manage the impact of gas price volatility over the medium term, with our requirements materially hedged for 2022 and with further contracts into 2024. We will remain watchful of higher input costs and will respond in collaboration with our customers, if necessary, to ensure that we are well placed to manage any further margin pressures.

The backdrop of the supportive trading environment, our financial performance and strong balance sheet have allowed us to deliver on our core business priorities and ensure that we can continue to invest in the Group and have highly efficient manufacturing facilities. We completed the work on the new road at Telford over the summer and this investment allows access to the remaining clay reserves which will support brick manufacturing at Blockleys for decades to come. In January 2021 the option agreement for mineral in land adjacent to the Michelmersh brickworks was exercised, securing minerals for at least 15 years of brickmaking on the site, whilst in the fourth quarter we started work to increase kiln drying capacity at Carlton which we completed at the start of 2022 to support further production efficiencies.

The business will continue to invest in projects that address our strategic objectives to expand the manufacturing capacity, support continuous improvements in production efficiency, de-risk processes and deliver long-term sustainability through enhanced reporting and a deliverable sustainability roadmap. Our new bank facility, which is available in both Sterling and Euro denomination, will provide us with further financial flexibility and means we are well positioned to respond quickly and pursue wider strategic initiatives, including value enhancing acquisitions.

The return to our progressive dividend policy with a record full year dividend of 3.65 pence per share underlines our confidence in the consistent cash generation capability and positive outlook for the business. All of this leaves us well positioned to deliver further strategic progress in 2022 and beyond.

Sustainability
The Group was proud to release our 2021 Sustainability Report. The Report offers an insightful and detailed account of our established practices and the plans for achieving Net Zero carbon emissions by 2050. We are determined to continue to be the sustainable face of clay brick manufacturing through a dedicated Sustainability Group and Net Zero Steering Group, we have already undertaken numerous projects to minimise environmental

impact and increase already efficient production methods with state-of-the-art technology, reporting systems and quality standards. Measured, positive incremental changes will be the core focus on achieving the Groups ambitions.

Building on the platform of the “Think Longer” campaign, the Group released a timeline of progressive goals dedicated to reducing the carbon emissions created by brick production. With solar farms and wind turbines already supplying electricity at our facilities, our efforts are redoubled with the use of rainwater harvesting methods, as well as leading the industry with our reduction of plastic packaging. The Group is also championing the use of circular solutions where possible in production, where clay waste and other recycled materials can be put back into the production process, whilst also being recyclable once the production building has reached the end of its life. This further reduces the Group’s impact on the environment by reusing waste and continuing to extend the life of our products. With brick’s low level of maintenance and operational carbon, coupled with efforts to de-carbonise the production and therefore the embodied carbon, the full life cycle assessment of the Group’s clay bricks will be significantly reduced and there will be no match that is as environmentally friendly in the construction market.

Award Winning
2021 was another successful year in terms of industry award recognition. We were delighted to be involved in the coveted Stirling Prize winning project this year with Kingston University by Grafton Architects, proudly showcasing our Freshfield Lane First Quality Multi products on its prominent facades.

In addition, London’s Spitalfield Fruit and Wool Exchange demonstrates how successful off-site modern methods of construction have evolved for highly dense urban sites. This 460,000 square feet, 6 storey high-quality office and retail space features our Charnwood handmade Thulston Winnington blend and Renovated Steel Grey bricks for the design by Bennet Associates and Sheppard Robson Architects into pre cast panels to provide superior quality.

Awarded BREEAM excellent rating for sustainability the University of Winchester uses our Freshfield Lane products in the design by Design Engine Architects which has been coined the “new iconic gateway building to the city”.

As Britain’s Brick Specialists, the Group aims to inspire beautiful, comfortable safe and sustainable architecture that will enhance our built environment for generations to come.

Charity
We have built a long track record of the importance we place in our commitment to charities and we continue to see this as one of the fundamental ongoing principles of our Corporate and Social Responsibility (CSR). As we highlighted last year, we introduced a new initiative at the beginning of the year where staff could nominate two principal charities for the year. The charities selected by our people were Mind, the England and Wales charity specialising in supporting anyone experiencing mental health problems; and The Trusell Trust a charity focusing on the nationwide food bank network to support people in food poverty. We were very pleased to support these two staff nominated charities both of whom received donations and promotion via our social media platform.

Alongside the two key charities discussed above we also supported twelve other charities during 2021 with contributions to national and local charities across the country donating funds, food products, children’s toys, resources and range of our own clay products to various charities and institutions across the UK.

Supporting Education
The Group was proud to announce its continued funding for educational institutions via its ‘Pledge 100’ initiative. Supporting industry education and training, including bricklayers and architectural design courses, remains one of our core commitments.

Strategic Report
(continued)

Having supported colleges for many years, the Group officially launched its initiative 'Pledge 100' in 2020 to support and encourage youth training in skill-based occupations and those embarking on careers in the construction industry. With the industry facing a shortage of skilled labour, with gaps in funded support across all sectors of construction, additional assistance is vital in order to encourage the next generation to apply for construction-focused employment.

Yet again 2021 proved a very testing year for education with many colleges having to re-evaluate how they teach students due to Covid-19. Throughout the period we continued to provide funding and continued professional development support wherever possible and despite the challenges presented in 2021 the Group reached its goal of supplying 100,000 products, distributed to training centres across the UK.

In addition to offering product for students to use in practical applications, we also supplied hundreds of copies of the 'Guide to Successful Brickwork', to vocational training courses.

The Group was also delighted to be supporting the National Skill Build brick laying competitions.

Outlook
We have built a strong record of consistently delivering against our strategic priorities of overseeing well-maintained and efficient operations that manufacture the highest quality premium brick products for our customers. Our positive medium-term outlook is underpinned by the quality of our product portfolio and the strength of our customer and distributor relationships and, as a result, we enter 2022 with a strong well-balanced forward order book, covering multiple channels from RMI, housing to commercial, social and specification projects.

We are very well placed at the premium end of the brick market in the UK and Benelux markets. The long-term fundamentals of these markets are positive, with brick continuing to be the façade material of choice due to its longevity, sustainable and energy efficiency qualities, low-cost base and broad aesthetic appeal. The inherent brick manufacturing shortfall in the UK market continues to support our premium centric product portfolio and the Government is consistently targeting construction targets that are set at historic highs.

Importantly, the strength of our balance sheet provides us with financial resilience and also gives us flexibility to pursue acquisition opportunities where they meet our commercial and financial criteria as we target attractive opportunities that complement the existing portfolio.

The Group's 2021 positive performance has continued into the early part of 2022, with the positive wider sentiment in our end markets from both new UK housing and the RMI market expected to continue. With the elevated inflation risks across our manufacturing cost base we will continue to monitor the appropriateness of our portfolio pricing to ensure that we are in a position to offset any further margin pressures. Hedging the costs of our future expected energy requirements remains an important strategy for the Group to mitigate the inflation risks and we have secured over 90% of the Group's energy requirements for 2022 with further energy contracts in place for a portion of our expected requirements in 2023 and 2024 in line with this risk based approach.

The Group continues to operate on the basis of maintaining a strong, well-balanced forward order book, loyal customer and distributor relationships supported by the ongoing demand from the specification, housing, RMI and commercial sectors. Given the current uncertain macroeconomic conditions these quality fundamentals in our business provide resilience and underpin our outlook and as a result we are well placed to continue our strategic progress in 2022 and beyond.

Frank Hanna, Peter Sharp
Joint Chief Executives

29 March 2022

Strategic Report
(continued)

Financial Review

We have delivered a strong performance during the year across all our key financial metrics compared to both the Covid-19 affected 2020 financial year and our more relatable 2019 results, which was a record year for the Group on an adjusted basis.

Income Statement

	Year ended 31 Dec 2021	Year ended 31 Dec 2020	Year ended 31 Dec 2019	Growth – FY21 on FY20	Growth – FY21 on FY19
Revenue	£59.5m	£52.0m	£53.5m	*14.4%*	*11.2%*
Gross margin	40.7%	41.3%	40.9%	*(0.6%)*	*(0.2%)*
Adjusted* EBITDA[1]	£14.7m	£12.3m	£13.6m	*19.5%*	*8.1%*
Adjusted* operating profit	£11.1m	£8.8m	£10.3m	*26.1%*	*7.8%*
Operating profit	£9.9m	£7.6m	£11.1m	*30.3%*	*(10.8%)*
Adjusted profit before tax	£10.9m	£8.0m	£9.6m	*36.3%*	*13.5%*
Profit before tax	£9.7m	£6.9m	£10.4m	*40.6%*	*(6.7%)*
Adjusted* basic earnings per share	9.33p	6.28p	8.41p	*48.6%*	*10.9%*
Basic earnings per share	6.50p	5.27p	9.41p	*23.3%*	*(30.9%)*

* The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, costs associated with acquisitions and the amortisation of acquired intangibles. The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. Adjusted performance results are reconciled with statutory results in the table below on page 8.

1 EBITDA is defined as earnings before interest, tax, depreciation, and amortisation

Revenue for the year increased by 14.4% to £59.5 million compared to 2020 (2020: £52.0 million), which, as a reminder, included the impact of the 4-week manufacturing shutdown due to Covid-19, and by 11.2% against the more comparable 2019 financial year (2019: £53.5 million).

This strong revenue growth supported enhanced operational leverage in combination with the focused management of our input costs in the year to deliver operating profit of £9.9 million, which was up 30.3% on 2020 (2020: £7.6 million), and profit before tax of £9.7 million was up 40.6% (2020: £6.9 million). The decrease in operating profit and profit before tax of 10.8% and 6.7% respectively when compared to 2019 was due to the inclusion of the one-off accounting adjustment to reflect the bargain purchase treatment of our Floren acquisition. These results underline the Company's core operating fundamentals of focusing on production efficiency and generating maximum returns from the existing business, as well as the benefit of reduced finance costs from the voluntary repayment of £10.0 million of borrowings at the end of the 2020 financial year and a further £10.0 million at the end of the third quarter of 2021.

On a reported basis, the results include the impact of the amortisation of acquired intangibles, and on an adjusted basis to remove the impact of these items, adjusted EBITDA of £14.7 million is ahead by 19.5% and 8.1% against 2020 and 2019 respectively (2020: £12.3 million, 2019: £13.6 million), supporting a strong adjusted EBITDA margin of 24.7%. The EBITDA margin is reflective of our medium-term target of maintaining our margins at or around 25.0% and particularly this year includes managing the significant inflation increases in our cost inputs as well as the benefits of our energy hedging policies.

After a tax charge of £3.6 million (2020: £1.9 million), the Group recorded a profit for the period after tax of £6.1m (2020: £4.9 million). The tax rate of 36.8% includes the impact from the adjustment of the Group's net deferred tax liabilities following the change announced in the UK Government's 2021 Budget that will increase the standard rate of UK corporation tax from 19% to 25% which is effective from 1 April 2023, offset by the super deduction on qualifying capital expenditure in the year. Excluding these timing differences the adjusted tax charge was £2.1m, representing an effective tax rate of 21.5% which is more indicative of the Group's expected annual tax rate.

Strategic Report
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As a result, basic earnings per share increased by 23.3% to 6.50p (2020: 5.27p) and on an adjusted basis the like-for-like comparison to 2019 was an increase of 10.9% to 9.33p (2019: 8.41p).

The table below (Adjusted Performance measures) provides a clear reconciliation of the adjusted performance to the reported numbers.

Adjusted performance measures:

	Year ended 31 Dec 2021 £000	Year ended 31 Dec 2020 £000	Year ended 31 Dec 2019 £000	Growth – FY21 on FY20	Growth – FY21 on FY19
Operating profit	9,920	7,584	11,065	30.3%	(10.8%)
Adjustments:					
Floren acquisition[a]	–	–	(1,907)		
Amortisation of acquired intangibles[b]	1,198	1,170	1,166		
Adjusted operating profit	11,118	8,754	10,324	26.1%	7.8%
Depreciation	3,583	3,544	3,313		
Adjusted EBITDA	14,701	12,298	13,637	19.5%	8.1%
Finance costs	(223)	(713)	(698)		
Depreciation	(3,583)	(3,544)	(3,313)		
Adjusted profit before taxation	10,895	8,041	9,626	36.3%	13.5%
Basic earnings per shares	6.50p	5.27 p	9.41 p	23.3%	(30.9%)
Adjusted basic earnings per share[b]	9.33p	6.28 p	8.41 p	48.6%	10.9%

a Includes adjustments to cost of sales and exclusion of Floren acquisition related costs and bargain purchase.
b Includes adjustments to exclude amortisation of acquired intangibles.

Net Cash and Working Capital

Cash generated from operations for the year was £15.8 million, compared to £12.9 million in 2020, benefiting from the consistent positive trading across the year and the resolute focus on maximising our working capital efficiency. Operating cash conversion from adjusted EBITDA was 107.5% compared to 104.8% and 122.1% in 2020 and 2019 respectively, reflecting the consistent quality of the fundamental cash generating ability of the business.

	Year ended 31 Dec 2021	Year ended 31 Dec 2020	Year ended 31 Dec 2019
Net cash generated from operations	£15.8m	£12.9m	£16.6m
Tax paid	(£2.3m)	(£2.5m)	(£2.1m)
Interest paid	(£0.2m)	(£0.7m)	(£0.7m)
Purchase of property, plant and equipment	(£4.2m)	(£1.2m)	(£2.4m)
Proceeds from debt drawdowns	–	£3.0m	£5.1m
Debt repaid	(£10.7m)	(£13.0m)	(£2.0m)
Proceeds from share issue	£0.4m	£0.1m	£4.7m
Acquisition of Floren (net of cash)	–	–	(£6.2m)
Lease payments	(£0.5m)	(£0.7m)	(£0.6m)
Dividend paid	(£1.9m)	(£0.8m)	(£2.5m)
Net (decrease)/increase in cash and cash equivalents	(£3.6m)	(£2.9m)	£9.9m
Net cash/(debt) before lease liabilities	£7.7m	£0.8m	(£6.3m)

At the year end the Group had net cash of £7.7 million being cash of £8.5 million less bank debt of £0.8 million (2020: £0.8 million; 2019: debt of £6.3 million). As we indicated during our half year results, the Group repaid the remaining UK borrowings with the early repayment of the remaining £10.0 million of debt at the end of our third quarter. The bank debt of £0.8 million represents the remaining borrowings in Floren which we will continue to amortise in line with our scheduled repayments given the current interest rate environment in Europe.

During the year we entered into a new Sterling and Euro denominated bank facility of £20.0 million (2020: £9.0 million), which is committed to 22 December 2024, with a further two 1-year extension options.

As we enter 2022, our consistent operating cash generation, net cash position and strong balance sheet provide us with the capacity to continue to invest in the business to support both capital initiatives and our commitment to maintaining our progressive dividend policy. Alongside the decision to withdraw the scrip dividend we will also be commencing a programme to fund the purchase of our own shares through an ‘Employee Benefit Trust’ (“EBT”) to meet the future obligations of the LTIP and SAYE schemes rather than these obligations being settled through new share issuances as they have been previously.

Our long-term policy is to maintain a strong financial position and keep the target ratio of net debt to adjusted EBITDA under one and a half times.

Property, plant and equipment

Capital expenditure in the year was principally focused on the completion of the new road at Telford. The works, which began at the end of 2020, were completed over summer and this construction activity and investment is fundamental to the Group as the road diversion will facilitate the release of the remaining mineral reserves on the site to support the long-term operations at the Blockleys plant, as well as releasing land for alternative use. Additionally, at the start of the year we exercised an option agreement for mineral land adjacent to the Michelmersh brickworks securing minerals for at least 15 years of brickmaking on the site and in the final quarter we commenced the project to add more kiln drying capacity at our site at Carlton which we completed in the first quarter of 2022.

Going Concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman’s Statement and the Chief Executives’ Review on pages 2 to 6. In addition, note 20 to the financial statements includes the Group’s objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to liquidity risk.

The Group meets its funding requirements through a combination of cash balances and a new and enlarged revolving credit facility.

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

Sustainability

MARKET-LEADING PREMIUM BRANDS

SUSTAINABILITY IS ONE OF MICHELMERSH'S FOUR COMPANY CORE VALUES

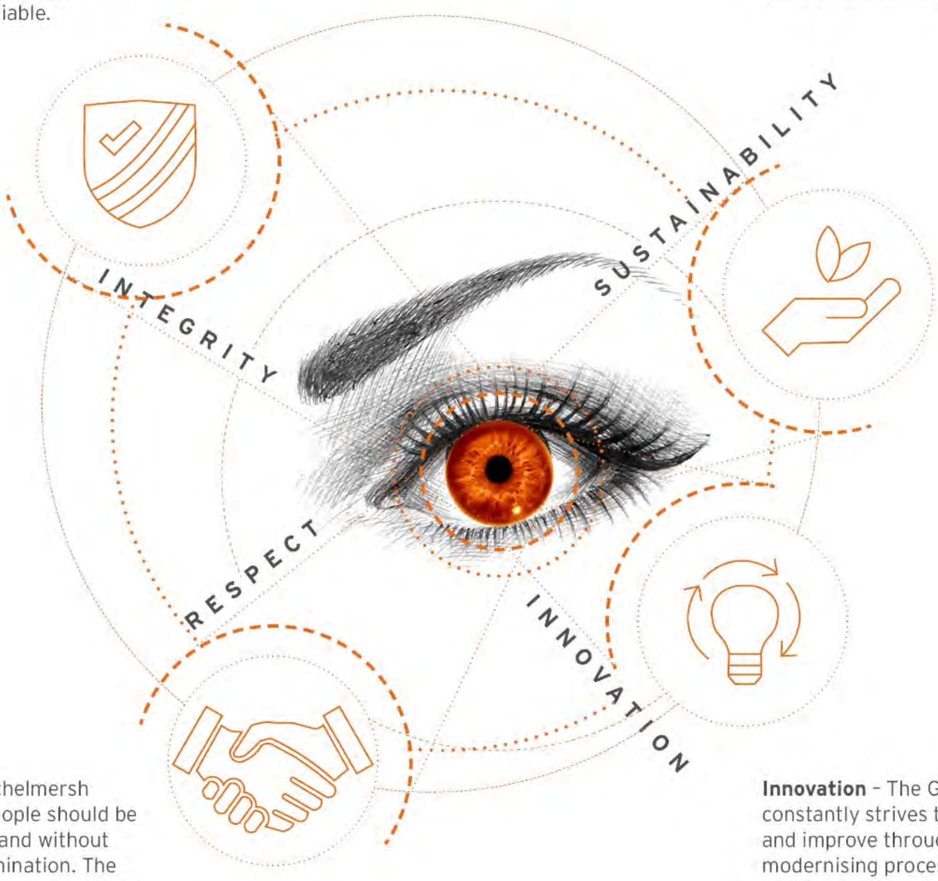
I - INTEGRITY
R - RESPECT
I - INNOVATION
S - SUSTAINABILITY

Michelmersh strives to be a well-invested, long-term, sustainable and environmentally responsible business, dedicated to delivering quality products. The Group aims to provide optimum training, security and career progression for all of its employees, whilst acting as a responsible corporate citizen and keeping stakeholder value at the forefront of every decision.

Michelmersh actively promotes and reinforces its four Core Company Values at the heart of its stakeholders.

Integrity – Retain strong moral principles, mirrored by Michelmersh's employees to act in an ethical manner in all areas of the business and uphold the qualities of being honest and reliable.

Sustainability – Awareness of Michelmersh's social and environmental responsibilities is key to our business, to protect the future for generations to come.



Respect – Michelmersh believes all people should be treated fairly and without fear of discrimination. The Group encourages a culture of consideration and value for each other through respect.

Innovation – The Group constantly strives to advance and improve through modernising processes, training staff, updating technology or equipment and always being forward thinking.

JOURNEY TO NET ZERO

THE MICHELMERSH GROUP, EMBRACES THE JOURNEY TO BECOME CARBON NEUTRAL

NET ZERO STEERING GROUP

In 2020, Michelmersh established a Net Zero Steering Group to evaluate long-term strategic and investment-based carbon reduction initiatives. Undertaking feasibility studies and collaborating on research to evolve and evaluate a wide variety of carbon reduction ideas including; on site renewables, biomass, heat distribution, hydrogen and many other options. Consisting of Production, Technical, Marketing and Finance Directors, the Group reviews the risks and opportunities for all stakeholders of the business.

TOWARDS A NET ZERO CARBON FUTURE

Michelmersh is actively engaged in the ceramic sector low carbon working group, formed as part of the British Ceramic Confederation (BCC) with technical representatives from across heavy clay and other ceramics sectors. It also sits on the Sustainability Working Party of the Brick Development Association (BDA). Both of the Groups' aims are to identify and investigate potential technological pathways to reducing and eliminating carbon emissions from the ceramic manufacturing process.

With the Group on its journey to becoming carbon neutral, Michelmersh is committed to supporting the Government's net zero targets by 2050 and is proactively seeking, researching and initiating projects that assist its sustainability goals.

Certified under BES 6001 Responsible Sourcing Standard, the Michelmersh Group has been upgraded to 'very good' rating.

The Group has invested over £7.7m since 2016 on efficiency and sustainability related improvements.

Solar Panel Installation, Floren, Belgium.

DE-CARBONISATION

Material Store, London

18.7%

Group reduction in CO_2 per tonne of production from 2016 baseline.

ENERGY AND CARBON REPORTING

	2021 DATA	2020 DATA
Group Energy Use:	**233,009,060 kWh**	**219,335,637 kWh**
Associated Greenhouse Gas emissions:	**61,106 tCO_2**	**57,172 tCO_2**
Group Intensity Ratio (fired product):	**221.0 $kgCO_2/t$**	**223.0 $kgCO_2/t$**

NARRATIVE

Michelmersh is primarily focused on a reduction of energy consumption and emissions throughout its operations, investing in lower emission and further efficient equipment and production processes.

Unlike 2020 which was affected by adjusting to the COVID pandemic the Michelmersh Group maintained production levels during 2021, this resulted in higher consumption levels however it improved efficiency as can be seen in the comparative intensity ratio figures.

CO2 affects the climate regardless of its emission point and we have chosen to include our Floren works in Belgium in all Michelmersh SECR reporting data. Reporting this separately would potentially reveal commercially sensitive figures and we believe that every works has collective responsibility in meeting the Group's energy and carbon performance targets.

METHODOLOGY

Figures are based on all Scope 1 & Scope 2 activities including transport. In line with recommended good practice Scope 3 transmission & distribution, losses have been included in electricity figures.

Activity data is determined using regulatory approved Emission Trading Scheme methodologies. Calorific values and emissions factors used are those published in relevant national inventories for the reporting year. Fired product tonnage counts only saleable masonry product and does not include any fired production waste, which is sold as an aggregate substitute.

The intensity ratio is based on tonnes of saleable fired product and has been chosen to reflect our principal environmental impact and aligns with the Group's wider sustainability performance indicators.

UN's SUSTAINABLE DEVELOPMENT GOALS

TOGETHER WE CAN RESHAPE THE FUTURE

NATIONS UNITED
The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. These 17 goals are solutions to the world's most significant sustainability issues.
On the 75th anniversary of the United Nations and the 5th anniversary of the adoption of the Sustainable Development Goals – in the midst of a pandemic radically transforming our economies and societies, Michelmersh realises the importance of these goals and has set progressive targets against 13 relative aims for positive change to reshape our future.

GOOD HEALTH AND WELLBEING

QUALITY EDUCATION

GENDER EQUALITY

CLEAN WATER AND SANITATION

AFFORDABLE AND CLEAN ENERGY

DECENT WORK AND ECONOMIC GROWTH

INDUSTRY, INNOVATION, AND INFRASTRUCTURE

REDUCED INEQUALITIES

SUSTAINABLE CITIES AND COMMUNITIES

RESPONSIBLE CONSUMPTION AND PRODUCTION

CLIMATE ACTION

LIFE ON LAND

PEACE, JUSTICE AND STRONG INSTITUTIONS

A BLUEPRINT TO ACHIEVE A BETTER AND MORE SUSTAINABLE FUTURE FOR ALL

ACHIEVING NET ZERO BY 2050

SUSTAINABILITY IS A COMPANY CORE VALUE

INVESTING IN PROCESS AND SUSTAINABILITY, IS INVESTING FOR THE FUTURE.

Michelmersh is committed to playing its part in the move to a lower carbon economy and helping the Government to achieve its carbon targets by 2050.

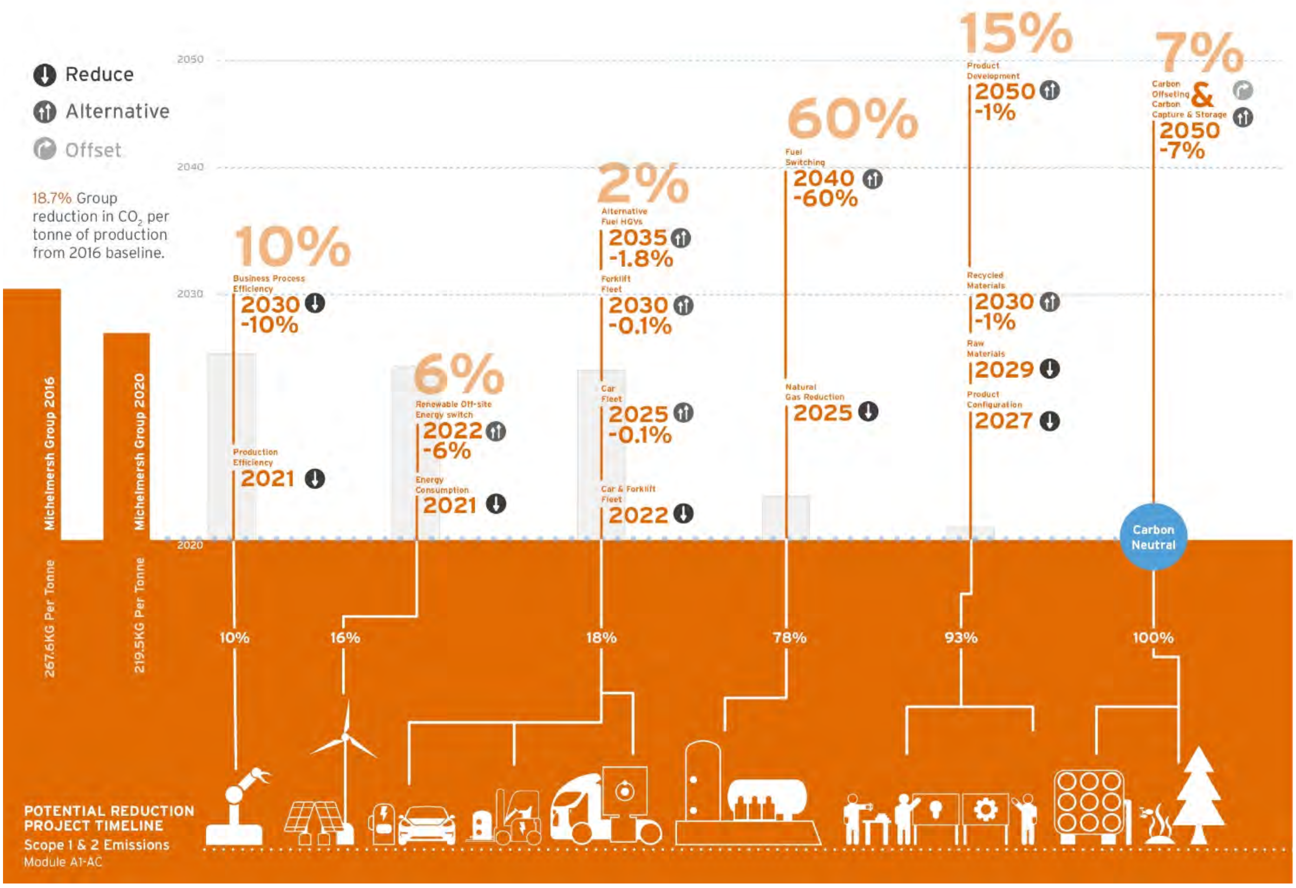
Creating a positive environmental, social, and economic legacy for future generations is core to creating quality products that will enhance built environment, making beautiful, durable and safe architecture for many generations to benefit from.

As the Group strives to reduce its carbon emissions and environmental impact, we seek to create biodiversity net gain, improve employee wellbeing and embrace technology innovation across the business, creating value to all of its stakeholders.

There are a wide variety of potential projects we propose to embrace, highlighted on the road map below to achieving negative emissions. These will include a wider roll-out of more energy- and resource-efficient production, alternative new technologies or fuels such as but not limited to hydrogen or biomass, more electrification through renewables, and carbon capture, usage and storage. From the first approach of reduction, to pursuing alternatives, we will only look to offset any emissions at the end of this analysis, focusing diligently on transforming the trajectory of our 'in control' emissions first and foremost.

As a Company, Michelmersh is always looking to promote and encourage a healthy, positive and sustainable culture both collectively and as individuals.

Integral to transition for the industry will be collaboration with Government and other stakeholders, as well as the availability of financial support for development and implementation of these technologies. Energy decarbonisation is therefore a key consideration in the long-term business investment decision-making for Michelmersh.



Strategic Report
(continued)

Business Model

Objectives and strategies

The Group's principal activity is as a manufacturer and distributor of clay bricks used in the construction industry. It has previously operated a landfill site which generated income and fulfils obligations of restitution of the land following clay extraction used in the manufacturing process. Landfill operations have been paused in order to protect mineral resources and hence maximise the long-term life of the brickworks. Ultimately, remediated land has alternative use potentially as a development site and the Group seeks to maximise long-term shareholder returns by ensuring appropriate remediation. The Board seeks to manage the three lifetime sources of revenue while recognising that each has a different cycle and is affected by different economic forces.

Clay products are produced at six manufacturing plants and are locally distinctive. The products are largely sold to merchants and brick factors who distribute to the construction industry. The Group has a largely fixed capacity of manufacture from existing plant at each of its current brickworks. The Company seeks to maximise the return for products by ensuring high quality output to meet specified demand and investment to improve yields and reduce input costs.

Sector risk is continuously analysed and balanced by ensuring broad cross market coverage of customers, products and order intake. The principal markets are defined as Repair Maintenance and Improvement (RMI), Housing & Commercial sectors.

A robust structure of targets, key performance indicators ("KPIs") and internal measurement is set by the Board. This ensures delivery of a clearly defined and agreed set of sales, market & business objectives. The Board and a sub-board of senior managers continually monitor these objectives to ensure they are met by the collective teams within the Group.

We take a long-term approach to establishing value in a highly capital-intensive industry and ensure that all plants are well maintained, productive capacity is optimised, capital applied to improve efficiency and to reduce risks of interruption hence maximising shareholder value. It is paramount for investment to be supported by an extended return and as such that there is adequate long-term clay supply.

The key resources and relationships that the Group relies on are:

- the availability of adequate clay reserves;
- continued strong relationship with key customers and markets;
- skilled workforce;
- energy costs within steady and recoverable price structures; and
- financial resources through the banking and investment community.

The Board considers that its priority is to maintain and nurture the key resources and relationships identified above.

Trends and Future Developments

The Group has a strategy of maintaining a well-balanced forward order book. The product profiles available and the size of our plants helps us to ensure that as a business we always balance sector risk. Whilst like others we naturally benefit from the robust demand arising from a structural shortage of housing in the UK, we always seek to be well represented in the RMI and commercial sectors, and in this way are never overly reliant on one particular sector.

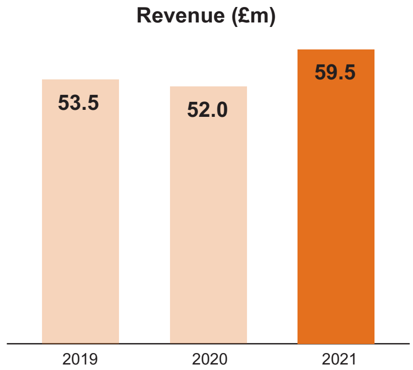
Economic conditions remain fragile with the world in the early stages of a post Covid-19 recovery and now further impacted by events in Ukraine. In the UK the government remains committed to construction as one of the key pillars in their determination to drive economic recovery. As a result the construction industry remains buoyant with positive trading across the house builders and distributors. The government remains committed to supporting residential development and on promoting housebuilding and is expected to continue to provide incentives for housebuilders and for homeowners through the help to buy scheme.

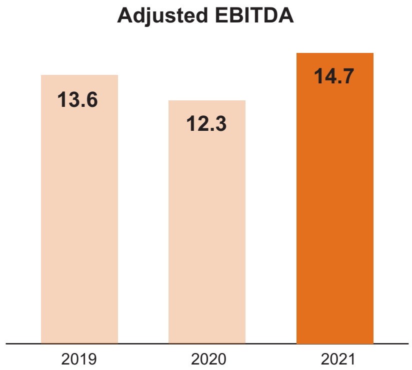
Strategic Report
(continued)

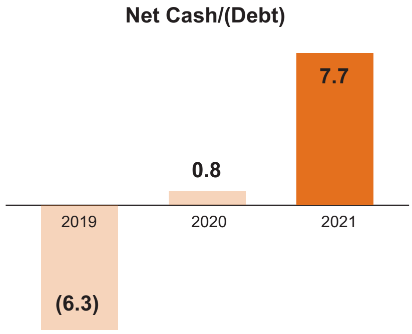
The annual shortfall in housing completions remains and as a result is contributing to demand in the wider property market remaining strong. As a consequence, we expect brick manufacturing businesses should see continued healthy activity. All of this is despite the significant input costs pressures that the Group has managed through the second half of 2021. Energy costs in particular have been volatile and the benefits of the Group's hedging arrangements have ensured that our results have been largely insulated from the increases in utilities. With inflation expected to peak in the high single digits we expect the challenging cost environment to continue. We are in regular dialogue with our customers and we will work with them to ensure that our manufacturing margins are protected with appropriate price increases to offset any further input price increases.

Financial and non-financial indicators

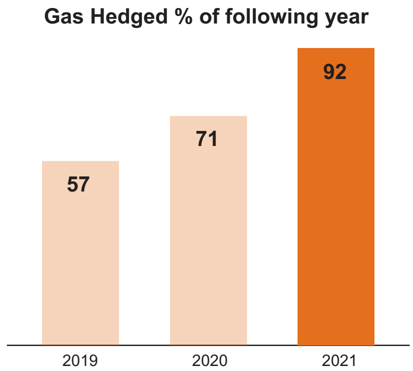
The Directors monitor the business predominantly through review of financial results, including revenue, EBITDA and cash flow, as well as through quality control indicators such as health and safety reporting, employee welfare and efficiency reviews. The Directors are satisfied that these indicators adequately address the principal business risks faced by the Group which are outlined below.

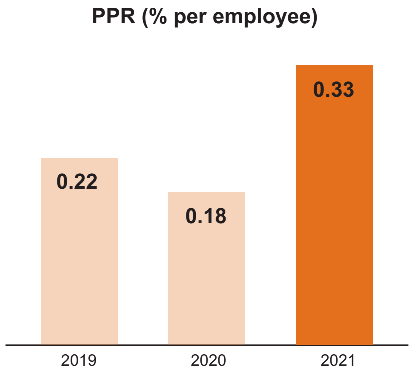


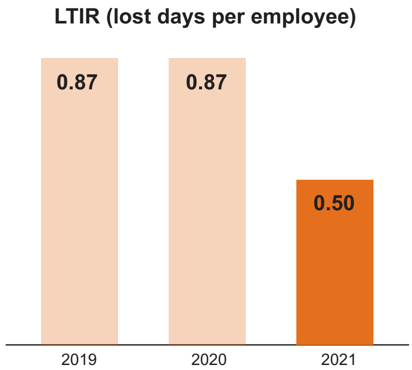




Non-financial







The Directors scrutinise closely the average selling price of the range of products sold, the average cost of production and despatch and manufacturing outputs for short term performance. Other production indicators include absenteeism, yield, energy usage and health and safety statistics. The Board also reviews prospects through energy indicators and construction trends together with the mineral reserves available at each site.

Section 172(1) Statement

Under Section 172(1) of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

– the likely consequences of any decision in the long-term;
– the interests of the company's employees;
– the need to foster the company's business relationships with suppliers, customers and others;
– the impact of the company's operations on the community and the environment;
– the desirability of the company maintaining a reputation for high standards of business conduct; and
– the need to act fairly as between members of the company.

Strategic Report
(continued)

In this regard, the Directors identify:

1. Key Issues and stakeholders: Key issues include investment in key projects and acquisitions that affect the prospects and risk profile of all stakeholders. In all evaluations, health and safety and environmental impact are weighted heavily. The key stakeholders include shareholders, employees, customers, suppliers and local communities in which our businesses reside.

2. Methods of engagement: the company uses a range of methods of engagement with stakeholders ranging from formal structures to informal, personal engagement. The Group has a flat management structure which allows personal interaction at all levels that facilitates communication both within the organisation and externally with suppliers and customers. Structures include staff Personal Development Programmes, whistleblower facilities, and formal scheduled meetings at appropriate intervals with all stakeholders.

3. Effect on decisions and strategies: Assessment of investment in plant is heavily skewed towards increasing energy efficiency and/or employee safety and wellbeing. At a routine planning level, consideration is made to manage specific product output to timely delivery to ensure customers can operate efficiently.

Examples of stakeholder considerations in certain key Board decisions during the year
In discharging its duties, the Board considers the views of its stakeholders alongside information pertaining to key areas such as strategy, risk and legal and regulatory compliance. The Board considers the following to be the key decisions and considerations it has made during the year to 31 December 2021:

Board Decision	Considerations
Continuing to operate our production operations with the ongoing Covid-19 pandemic.	The health, safety and wellbeing of employees and ensuring a Covid-19 safe working environment, as well as the need to maximise revenue generating opportunities to protect the financial position of the Group.
The decision to appoint a joint broker to support the growth ambitions of the business.	The Board considered the need to enhance our corporate broker support through the addition of a joint broker arrangement (announced in March 2022) with the intention to add research coverage and widen the reach of our investor interactions.
The Board's commitment to the progressive dividend policy and the decision to remove the offer a scrip alternative.	The Board considered the need to balance duties owed to shareholders in short-term, and to protect cash within the Company during a period of uncertainty and acknowledging the need to foster the long-term success of the business.
The Board considered and agreed the appointment of a new Chief Financial Officer as well as the subsequent successful onboarding post the AGM.	The need to successfully onboard the new CFO and to ensure a successful transition post the AGM to ensure a seamless transition for all the requirements of shareholders and the market. The need to also consider long-term succession planning in terms of future Board development.
The decision to fully repay all UK bank borrowings and to put in place a new larger revolving credit facility.	The Board considered that the trading performance and financial stability achieved in 2021 meant that it was appropriate to repay all UK bank borrowings and to use the opportunity to put in place a new credit facility that is more appropriate for the size of the Group.

Strategic Report
(continued)

Risks and uncertainties
The Board has developed a risk register for review at each Board meeting. The key risks to the business have been identified and categorised according to likelihood and impact, alongside controls and steps to mitigate.

This register is used as a key strategic tool and framework to consider the Group's strategic objectives, mitigate risk balanced against reward to shareholders, and ensure compliance with all statutory obligations including health and safety, financial compliance, staff wellbeing and environmental obligations.

The register is reviewed and updated regularly with key personnel across the business.

The Group's management structure is open with a flat profile that ensures free communication of risk as well as business ethics throughout the organisation. In addition, anonymous whistleblower and suggestion-box schemes are in place.

Principal Risks and Uncertainties:
General Economy and fiscal environment: The majority of the Group's products will be used in residential new housing schemes or RMI projects which will be affected by general economic conditions and government incentives and tax policies, and as such the demand for our output will be dependent on these factors. The Board monitors events that may impact on the business.

Business Interruption: The production process is most efficient when in continuous operation at full capacity and any disruption impacts on output and efficiency. The Group attempts to mitigate the risk by assiduous maintenance programs and back-up facilities. Business interruption planning and appropriate insurance are in place to anticipate and mitigate any potential interruption.

Carbon profile and environmental challenges: Growing external pressure regarding the roadmap to net zero and environmental reporting and performance will stimulate energy efficiency and continuous improvement in the environmental performance of our manufacturing facilities with the associated quantum for cost implications uncertain given the current lack of proven technical energy alternatives.

Input prices: Utilities and labour are the most significant input costs. Supply agreements with hedging of costs is undertaken to ensure that short and medium term effects of global energy costs have less impact on the business. Staff are highly valued and remunerated in a reward structure that promotes efficiency and retention.

Quality: Maintaining high quality in the manufacturing processes is critical and as a result product specification and quality are keenly monitored to ensure that the quality of the manufactured production output meets the market expectations.

Mineral Resources: The manufacturing process relies on the availability of mineral resources and the appraisal and considerations of the investment in plant and processes will always consider the lifespan of available minerals.

F. Hanna	**P. Sharp**
Director	**Director**

Approved by the Directors on 29 March 2022

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Corporate Governance

Directors' Biographies

Board of Directors

Martin Warner, MSc FRICS Chairman
Martin Warner formed Michelmersh with the former Chairman Eric Gadsden in 1997 and has served as Chief Executive and subsequently non-executive Chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors and is Chairman of the Brick Development Association. He is a non-executive director of Aberforth Smaller Companies Trust plc.

Paula Hay-Plumb, Non-Executive Director
Paula has extensive directorship experience and has sat on the Board of a number of prominent organisations in the property sector. Paula is a Commissioner and Non-Executive Board member of The Crown Estate, the £14.4 billion UK real estate business. In addition, Paula is a Non-Executive Director at Oxford University Hospitals NHS Foundation Trust and is a trustee of the Mineworkers' Pension Scheme, as well as being a Trustee of Calthorpe Estates. In her executive career, Paula was Corporate Finance and Group Reporting Director at Marks & Spencer Plc, between 2003 and 2005, and an Executive Board member of English Partnerships, the UK government backed regeneration agency, from 1994 to 2002, Chief Executive from 1999. Paula is a Chartered Accountant (ACA) and is a Fellow of the Association of Corporate Treasurers.

Tony Morris, Non-Executive Director
Tony is the Co-Founder and a Director of Tessera Investment Management, a strategic advisory firm offering specialist transaction support to organisations undertaking corporate development activity. Prior to Tessera, Tony spent four years in the investment team at Marwyn Capital, an investment firm, having previously started his career within Leveraged Finance at Barclays Bank. Tony has significant experience as principal and advisor in M&A, equity capital markets and implementing controls and financial practices within organisations, all skills which the Directors believe will assist the Company as it continues to grow organically and through acquisition in the future. Tony was also formerly a non-executive director of Summerway Capital Plc.

Frank Hanna, Joint Chief Executive
Frank Hanna has over 32 years of brick industry experience. Frank joined Freshfield Lane Brickworks Limited ("FLB") in 1991 having formerly worked for Lesser D&B and Hanson Brick Ltd. Frank was appointed to the Board of FLB in 1996 as sales and technical director before becoming a shareholder in 2000. He was appointed as a Director of the Company on 30 March 2010 and became Joint Chief Executive on 1 January 2016. Frank has chaired both the Brick Federation and PWP within the Brick Development Association and is currently a main board Director of the Brick Development Association.

Peter Sharp, BA(Hons) Cert IoD MIoD Joint Chief Executive
Peter Sharp has been in the industry for over 35 years including 15 years with Michelmersh and 14 years with Ibstock Brick holding various senior positions. He is a Fellow of the Institute of Materials Minerals and Mining and a Member of the Institute of Directors. Peter is also on the Board of the British Ceramic Confederation and serves as a trustee for the Institute of Clay Workers Benevolent Fund and the Institute of Clay Technology Education and Training Trust. He joined the Board in May 2011 and became Joint Chief Executive on 1 January 2016.

Ryan Mahoney, BSc, FCA, Chief Financial Officer
Ryan was appointed as Chief Financial Officer on 3 June 2021. Prior to joining the Company, he was previously Deputy Chief Financial Officer of Avon Protection, the FTSE 250 defence engineering and manufacturing group, from April 2018. Prior to that Ryan had been Group Financial Controller for Unite Students, the FTSE 250 property group, from November 2015 having previously held other senior finance roles within the business. Ryan is a qualified Chartered Accountant and prior to joining Unite, Ryan worked for KPMG in both audit and advisory roles.

Corporate Governance
(continued)

Chairman's Introduction
I am pleased to present Michelmersh Brick Holdings Plc's ("Michelmersh" or the "Company") Corporate Governance statement. The Board is committed to our undertaking at all times "to act as a responsible corporate citizen", and to demonstrating that commitment at Board level by supporting the application of high standards of corporate governance. This section of the Annual Report describes our governance framework, and our approach to ensuring good corporate governance throughout the Group.

The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"), and the board of the Company (the "Board"), continues to believe that this is the most appropriate corporate governance code for us as an AIM listed company. The Company supports all 10 principles of the QCA Code and applies these principles in its operations through the Board, and the following report is set out under headings showing how the company has applied those 10 broad principles of the Code. The report should be read in conjunction our section 172 statement on page 16, which describes how the Board has considered the factors set out in section 172 of the Companies Act (including stakeholder interests and long-term consequences) in its decision making.

Despite the continuing challenges of the Covid-19 pandemic, Board and Committee meetings continued unaffected with a mixture of virtual and in-person meetings. We have been able to continue to review and strengthen the Group's corporate governance framework, including through increased focus on internal controls and risk management systems by the Audit Committee (see the Audit Committee report on page 27), a formal Board performance evaluation process, and a review of Executive Remuneration arrangements by the Remuneration Committee (see the Remuneration Committee report on page 31).

The Board is kept up to date on all relevant regulatory and governance developments, and amongst other key policies our Modern Slavery Statement and Anti-Slavery Policy were reviewed, updated and approved during the year. As Covid-19 related restrictions were eased, our Board site visits were re-instated, enabling the Non-Executive Directors to increase their knowledge and understanding of our operations, and, crucially, to interact directly with our site based staff.

Through our employees, the Group acts fairly, openly, professionally and politely towards all stakeholders in all areas of activity. We always seek to provide the highest quality products and services, to protect the environment and to act ethically in all aspects of the business. In this way, business risk should be minimised, stakeholders can trust the Company and its employees are protected. It is expected that this approach will generate reciprocal attitudes from customers, suppliers, investors and employees.

Martin Warner
Chairman

29 March 2022

Corporate Governance
(continued)

Strategy and business model
Principle 1 of the Code requires that companies establish a strategy and business model which promote long-term value for shareholders. Our strategy and business model, including the key challenges in their execution, are set out in the Strategic Report on pages 15 to 16.

The Board regularly discusses the Group's long-term goals, with maximising shareholder value at the core of those goals, and ensures that a business plan aligned to the delivery of the strategy is in place, and is effectively executed by the Executive Directors. A robust structure of targets, key performance indicators and internal measurement is set by the Board. This ensures delivery of a clearly defined and agreed set of sales, market & business objectives. The Board and a sub-board of senior managers continually monitor these objectives to ensure they are met by the collective teams within the Group.

The Board meets at least quarterly to review each quarter's performance and revised forecasts and to discuss strategy and to ensure the business is on track to achieve its stated goals.

Shareholder relations
Principle 2 of the Code provides that the Board should seek to understand and meet the needs and expectations of shareholders. The Board recognises the importance of creating a clear flow of communication with all shareholders and the investment community. The key opportunity for engagement with shareholders, potential shareholders and analysts is on the announcement of the full-year and interim results. The Executives make presentations of those results, and feedback from the recipients of the presentations is shared with the Board ensuring that the Non-Executives are appraised of the views of major shareholders.

There is regular dialogue between the Executive Directors and the Company's brokers, including in respect of shareholder views, and an "Investor" email address is provided on our website through which shareholders can make contact with the Board. The Chairman is available to shareholders if they have concerns that contact through the normal channels of the Executives have failed to resolve or for which such channels of communication are inappropriate.

The AGM is an opportunity for shareholders to meet and put questions to the Board and Chairs of the Board Committees. Subject to any social distancing measures due to the Covid-19 pandemic, we look forward to inviting shareholders to attend the AGM this year. We will welcome questions submitted by shareholders on the day on the business of the AGM, and endeavour to publish responses to such questions on the Company's website. Full details of our AGM arrangements are contained in the Notice of AGM.

Our stakeholders
Under principle 3 of the Code, the Company should take into account wider stakeholder and social responsibilities and their implications for long-term success. The Board recognises the fundamental importance of stakeholders other than investors and their contribution to the success of the business and therefore to ensuring their needs are met. Feedback from stakeholders allows the board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business.

We consider our key stakeholders, other than our shareholders, to be our customers, staff, suppliers, the communities we operate in, and the environment. Further details of our stakeholders, methods of engagement with them as well as examples of stakeholder considerations in certain key Board decisions during the year can be found as part of the Section 172 Statement within the Strategic Report on page 16.

Our customers
The Group aims to deal ethically and honestly with customers, building long term relationships by delivering high quality, value and excellent customer service. Ongoing positive engagement with customers, distribution and stakeholders is at the forefront of the Board's retail strategy. The strategy is constantly monitored. The Group distribution aims are clearly set out within the Approved Distributors Trading Policy and Terms of Business.

Quarterly and annual objectives are set in consultation with our key accounts and relevant buying groups. Objectives, performance and targets are regularly reviewed with call reports monitored by the Sales Directors. This is complemented by strong analytical data.

Corporate Governance
(continued)

The volume of orders, quality of service and products made are monitored and recorded as a matter of course on a daily basis. Value and strong process is at the forefront of the Group offering. A culture of open dialogue combined with strong customer relationships help assess where the Group can make ongoing improvements in key areas for our customers and end users.

Key account review meetings are held throughout the year (attended when appropriate by a Board Director) where issues and performance are monitored, feedback received and follow up action can be taken if required.

Our employees
The Board is dedicated to positive employee engagement; safety, well-being, training, security, and progression are at the forefront of the business ethos. The well-being of employees is addressed through training and health and safety management as a preventative process, and regular updates are provided to the Board. The Human Resources department oversees schemes to support employees through a range of medical and supportive facilities, including stress management, legal and social well-being helplines, along with a robust pension and life insurance cover package that provides financial support for the long term.

The Group seeks to align the interests of employees with the success of the Company through a range of share incentive schemes, including all employee sharesave schemes and, for senior staff, nil-cost option awards under the Group’s Long-Term Incentive Plan (“LTIP”).

During the year the Non-Executives have visited sites, and engaged directly with staff. The Covid-19 pandemic had previously curtailed these opportunities, however, as soon as restrictions were lifted site visits were reinstated as soon as practicable.

The Company ensures that it complies with the requirements of the Immigration Act, anti-bribery and equality legislation and takes appropriate steps to ensure all senior staff are aware of their responsibilities and is committed to maintaining the highest standards for all business activities and ensuring these standards are set out in written policies.

Our suppliers
The Group holds a diverse database of more than 2,500 suppliers, typically 30% of these will be engaged with annually. We strive to honour our payment term obligations and make a mid-month payment run as well as the monthly payments to ensure supplier terms are met. Our payment practices and reporting are in accordance with the recently implemented regulations and are published on the Government’s website. By adopting responsible sourcing and sustainable resource and energy planning, we minimise waste and ensure the efficient use of energy, resources, water and raw materials. Energy performance is a key factor in the design, purchase and operation of equipment, vehicles and services.

Our community
The Company is committed to supporting the communities in which we operate, including providing financial support to registered local and national charities and youth sport. The main charitable budget is allocated at the Group under the direction of the Group’s Charity Committee and approved by the Board. This comprises of both small donations to local charities, across the Group’s areas of operation, as well as larger donations to national charities that the Group may choose to support each year. The Board is particularly keen to support charities with which our employees are personally involved, and the aim is to support causes which can make a real difference to local communities across the country.

Michelmersh is also committed to helping meet the future needs of the construction industry. Education has become a key part of the Group’s culture and Board focus. The Group supports education in a number of ways, including student sponsorship, material donations, technical resources, and (where appropriate) providing funds through the Charity Committee.

Corporate Governance
(continued)

The environment
The Board is fully committed to the protection of the environment, biodiversity, ecosystems and minimisation of pollution. We ensure compliance with all legal, regulatory and other obligations, have established procedures to ensure any breaches are reported transparently, and monitor, control and report our relevant greenhouse gas emissions in line with our regulated targets.

More information on the actions we take to mitigate our environmental impact and to ensure the sustainability of our business are set out in the Sustainability section of the annual report on pages 10 to 14.

Risk management
Principle 4 of the Code requires that the Board ensures that effective risk management, including the consideration of both opportunities and threats, is embedded throughout the Group. The Board has an established risk register which is reviewed at each quarterly Board meeting. Key risks to the business, as well as controls and mitigating factors, have been identified, and the risk are categorised according to likelihood and impact. This allows the Board to assess the effectiveness of controls, and monitor emerging and changing risks on an ongoing basis.

The risk register is reviewed and updated regularly with key personnel across the business, and the Group's open management structure ensures free communication of risk throughout the organisation.

Further information on the key risks faced by the business is set out on page 18 of the Strategic Report.

The Board
Principle 5 of the code requires that the Board is maintained as a well-functioning, balanced team led by the Chair.

Our Chairman, Martin Warner, is responsible for leading the Board which also currently comprises three Executive Directors (Frank Hanna and Peter Sharp, the Joint Chief Executives, and Ryan Mahoney, the Chief Financial Officer) and two independent Non-Executive Directors (Paula Hay-Plumb and Tony Morris).

During the year, Stephen Morgan and Bob Carlton-Porter stood down as Directors at the Company's 2021 AGM.

The Non-Executives are committed to devoting adequate time to the business to discharge their responsibilities effectively. As set out in their appointment letters they are required to attend scheduled Board and Committee meetings, and to become more involved for periodic special activity if required. Before accepting any additional commitments that might affect the time that they devote to their roles as Non-Executive Directors of the Company they must obtain agreement from the Board first.

There were five formally scheduled Board meetings during the year, with additional ad-hoc meetings convened when required, including to consider routine matters such as the issue of shares under company share schemes. During 2021 additional Board meetings were convened to appoint Paula Hay-Plumb as Senior Independent Non-Executive Director with effect from 1 August 2021 following the retirement of Bob Carlton-Porter and to approve the allotment of shares relating to the Scrip Dividend Offer.

There are three Board Committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Remuneration and Audit Committees each meet as required but at least twice a year; and the Nominations Committee meets at least once a year. More information on the activities of the Audit Committee and Remuneration Committee is set out in their respective reports below. Each of the Committees has formal terms of reference, in line with corporate guidelines, and reports back to the Board and to shareholders through the annual report as a matter of course.

Corporate Governance
(continued)

Attendance at the formally scheduled Board and Committee meetings during the year was as follows:

Director	Board Meetings (6 Meetings)	Audit Committee (3 Meetings)	Remuneration Committee (5 Meetings)	Nominations Committee (1 Meeting)
M Warner	6	N/A	5	1
F Hanna	6	N/A	N/A	N/A
P Sharp	6	N/A	N/A	N/A
P Hay-Plumb	6	3	5	1
T Morris	6	3	5	1
R Mahoney*	4	N/A	N/A	N/A

* Ryan Mahoney was appointed to the Board on 3 June 2021 and has attended all Board meetings since his appointment.

Outside the formal meetings, the Chairman meets regularly with each of the Executives individually, promotes an open and constructive environment in the boardroom and actively invites the Non-Executives to express their views. The Non-Executives provide objective, rigorous and constructive challenge to management and hold meetings at which the Executive Directors are not present.

At each quarterly Board meeting, the Executives report on financial and operational performance along with upcoming expectations and strategic opportunities. The Non-Executives review the executives' reports with a balanced view against the company's business and risk model. The Board periodically invites the Company's Broker and legal adviser to address Board meetings to provide comment on current market issues and specific developments. The Company Secretary and the Senior Independent Director co-ordinate internal procedures that relate to corporate governance issues and provide independent guidance to individual board members.

Directors' experience, skills and capabilities
Principle 6 of the Code provides that between them the Directors should have the necessary up to date experience, skills and capabilities.

Our Chairman and Executive Directors have extensive experience in the brick industry, and our Non-Executives have broad experience in relevant sectors (including property, governance, finance and M&A), and Board level experience in the listed company environment, as highlighted in their biographies on page 19. The Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge.

Each Director maintains and updates their skillset by attending technical briefings from industry forums, and attends seminars and training offered by accounting, legal and financial organisations. These are augmented by interaction with the Company's professional advisers including legal, audit and tax, Nominated Adviser and Registrar. The Executives regularly attend meetings with the brick and ceramic trade body, government departments, the unions and industry regulators, covering a wide range of operational and business subjects.

Board performance evaluations and succession planning
Principle 7 of the Code requires that the Board and Committees evaluate their own performance and seek continuous improvement.

As part of the process for monitoring Board performance there is a biannual meeting of the Non-Executives to assess the performance of the Executives, and an annual meeting of the independent Non-Executives to appraise the performance of the Chairman. The performance of the independent Non-Executive Directors is considered by the Board prior to the proposal for their re-election at the AGM to ensure that they remain effective in their role and that they retain their independence.

Corporate Governance
(continued)

During the year the Board also formalised the evaluation process for Board and Committee performance. A questionnaire was circulated to all Directors to complete, and the results were collated by the Company Secretary with a summary report tabled to the Board for discussion at its meeting in February 2022. Responses recognised that relationships are continuing to develop, given the significant changes to the composition of the Board over the last 18 months, but were overwhelmingly positive and supportive of the view that the Board is operating effectively.

Nomination Committee
The Nomination Committee reviews the structure and constitution of the Board and plans for succession issues. The balance of the Board is kept under regular review and, following the significant change to Board composition over the last 18 months, the Nomination Committee has agreed that the current composition of the Board and its Committees is appropriate. The Committee is mindful that the Board does not currently comply with developing guidance on diversity, and will ensure that diversity considerations are included as part of future Board appointment processes.

During the year, the Nomination committee oversaw the recruitment of Ryan Mahoney, who joined the Company as CFO following the departure of Stephen Morgan at the AGM in 2021.

The Nomination committee also ensures that newly appointed Non-Executive directors undergo an induction programme which includes visits to Group plants, the introduction to the business's productions and manufacturing operations and meeting key members of the team. The induction programme also includes meetings with each of the other Board members as well as the Company's Nominated Adviser and Broker.

Corporate culture
Principle 8 of the Code requires that the Company promotes a corporate culture that is based on ethical values and behaviours.

The Group undertakes to at all times act as a responsible corporate citizen. Through our employees, we aim to act fairly, openly, professionally and politely with all stakeholders in all areas of activity. We seek to provide the highest quality products and services, to protect the environment and to act ethically in all aspects of the business. In this way, business risk should be minimised, stakeholders can trust the Company and its employees are protected.

The Company ensures that it complies with all relevant legislation (including the Immigration Act, Bribery Act and equality legislation) and takes appropriate steps to ensure staff are aware of their responsibilities. We are committed to maintaining the highest standards for all business activities and ensuring that these standards are set out in written policies.

Feedback from stakeholders (in particular employees, customers and suppliers) allows the Board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business, and the Non-Executive Directors further test the extent to which this culture is embedded across the organisation in their interactions with employees during site visits.

Governance structure
Principle 9 of the Code requires that the Company maintains governance structures and processes that are fit for purpose and support good decision-making by the Board.

The Chairman is responsible for effectively leading the Board and ensuring that the Group's corporate governance framework is appropriate and effective. The Board has adopted the Code as a guide by which to measure its corporate governance procedures, and regularly reviews all aspects of its corporate governance policies and procedures. As noted in last year's Annual Report, our Company Secretary, Prism Cosec, conducted a full review of the Company's governance structures and processes which was presented to the Board in early 2021. All of the minor improvements recommended in that review have been addressed during the year, including formalising the Schedule of Matters Reserved to the Board and reviewing and updating the Committees' terms of reference.

Corporate Governance
(continued)

The schedule of matters reserved for the Board includes:

- Approval of the Group's long-term objectives and commercial strategy
- Budget and forecast adoption
- Approval of annual and interim accounts
- Acquisitions and disposals
- Capital projects
- Dividend policy
- Share issues
- Appointment and removal of professional advisers.

Details of the roles and responsibilities of the Chair, Joint Chief Executive Officers, Chief Financial Officer and Non-Executive Directors are described on the Company's website, along with the terms of reference of the Committees. The Company's Corporate Governance Statement, setting out how it has applied the principles of the Code is also available on the website: (www.mbhplc.co.uk/corporate-governance).

Corporate Governance
(continued)

Audit Committee Report
On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 December 2021.

Main Responsibilities of the Audit Committee
The Audit Committee has delegated authority from the Board set out in its written terms of reference, which are available at **www.mbhplc.co.uk/corporate-governance**.

The key responsibilities of the Audit Committee are:

- to provide effective governance over the integrity of the Group's financial reporting and review the significant financial reporting judgements.
- to monitor the effectiveness of the Group's internal controls and risk management systems.
- to oversee the relationship with the external auditor, monitor the external auditor's objectivity and independence and make recommendations to the Board in relation to the re-appointment of the external auditor.
- to review the adequacy of the Company's whistleblowing arrangements and ensure they allow appropriate investigation of any matters raised.
- to advise the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The members of the Committee are Paula Hay-Plumb (Chair) and Tony Morris who are both independent Non-Executive Directors. The Board considers that the members of the Committee, individually and as a whole, have sufficient recent and relevant financial and commercial experience to discharge its function.

Activities during the year
The Audit Committee met on three occasions during 2021, and once following the year end to consider the annual financial statements. Attendance at the meetings held during the year is set out in the Corporate Governance statement on page 24.

During the year the Audit Committee discharged its responsibilities by:

- ***Annual and interim financial statements:*** Reviewing the full year and interim financial statements, including consideration of significant audit risks identified by the external auditor, and the key accounting judgements and estimates (see below). The Committee also reviewed the principal risks and uncertainties disclosures.
- ***External auditor:*** approving the external auditor's plan for the audit of the Group's annual financial statements, including the key audit matters and key risks, and confirming the auditor's independence and terms of engagement (including fees) and recommending the external auditor's reappointment.
- ***Accounting policies:*** considering the appropriateness of accounting policies and practices, in particular the presentation of adjusted performance measures and the accounting treatment of operating segments under IFRS 8, and agreeing that it was appropriate to report Group performance as one operating segment.
- ***Dividends:*** reviewing management's proposals relating to the interim and final dividends, including confirming that the proposed amounts were supported by the Company's distributable reserves.
- ***Risk management and internal control systems:*** reviewing the Group's internal control and risk management framework, and challenging management on the effectiveness of those controls (see further details below).
- ***Committee governance:*** reviewing its terms of reference, and reviewing its own performance by way of a formal questionnaire completed by all regular attendees, the outcome of which is set out in more detail below.
- ***Whistleblowing:*** continuing the oversight of the Group's whistleblowing policies and procedures. During 2021 an independent third-party whistleblowing channel was introduced together with a refreshed communications strategy launched to raise awareness of the whistleblowing mechanisms available.

Alongside these improvements new Board reporting was established to monitor employee responses. The Committee was able to recommend to the Board that the whistleblowing procedures and policies are appropriate and being well embedded in the business.

The Committee also gave due consideration as to whether the Annual Report and Accounts present a true and fair view of the Group's position and performance and reviewed the scenario analysis and assumptions underlying the going concern assessment.

Significant issues considered in relation to the Financial Statements
The Committee reviewed the financial statements, with particular attention to accounting policies and areas of judgement. The key matters considered by the Committee in respect of the year ended 31 December 2021 are set out below:

Significant issues and judgements	How the issues were addressed
Property valuations; the Group's principal assets are tangible assets including a significant element of land and buildings. The valuation of the tangible assets involves significant judgement and changes in the underlying valuation assumptions could have a significant impact on the carrying value of the assets.	The Committee reviewed a report detailing the key issues outlining the valuation process and the assumptions and methodology and was satisfied that this had resulted in an effective valuation and that disclosures were appropriate and concurred with management that carrying values were appropriate. There were no inconsistencies or misstatements that were material in the context of the financial statements as a whole.
Intangible asset impairment - the valuation of intangible assets involves significant judgement and changes in the underlying assumptions could have a significant impact on the carrying value of these assets. The Group's intangible assets are the result of acquisitions and are classified under 2 categories: goodwill and acquired intangibles	The Group assesses whether goodwill and intangible assets are impaired on an annual basis and this requires an estimation of the value in use of the operating segment to which the intangible assets are allocated. This involves estimation of future cash flows, estimating a growth rate for extrapolation purposes and choosing a suitable discount rate leveraging from the weighted average cost of capital and useful lives. The Committee reviewed a report detailing the key issues outlining the valuation process and the assumptions and discussed management's assessment of the applicable life of the intangible assets and any changes in circumstances that might impact their value and was satisfied that this had resulted in an effective valuation and that disclosures were appropriate. The were no inconsistencies or misstatements that were material in the context of the financial statements as a whole.
Going concern	The Committee reviewed the forecast cash flows of the Group, together with existing and potential funding facilities, and examined underlying risks and sensitivities. The Committee was satisfied that the financial statements should be prepared on a going concern basis. There were no reported inconsistencies or misstatements that were material in the context of preparing the financial statements on a going concern basis.

Corporate Governance
(continued)

External auditors
The Audit Committee oversees the relationship with the external auditor, Nexia Smith & Williamson (NSW), to ensure that auditor independence and objectivity are maintained, and this includes monitoring the nature and extent of any non-audit services that the external auditor is engaged to provide. The breakdown of fees for audit and non-audit work paid to NSW during 2021 is set out in Note 10 to the financial statements on page 61.

At the outset of the audit process, the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key audit matters and their intended areas of focus. The Committee also reviews the effectiveness of the external process on an annual basis, with the review including considering the views of both the external audit team, and the CFO and finance team, as well as assessing the Committee's own interactions with the external auditor. The Committee reviewed the effectiveness of the 2020 year-end audit process during the year, and concluded that it was effective. It will review the 2021 year-end audit process during the course of 2022.

The Committee has recommended to the Board that NSW be reappointed as the external auditors, and a resolution for their reappointment will be proposed at the 2022 Annual General Meeting.

Risk management and internal control
The Board has overall responsibility for maintaining sound internal control and risk management systems and has delegated to the Committee responsibility for monitoring their effectiveness. The Group risk register is regularly reviewed by the Board and together with mitigating actions which aim to provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the internal control systems in place are:

- a Group organisational structure with clear lines of responsibility;
- detailed business planning procedures, including the annual preparation of detailed budgets for the year ahead and projections for future years;
- weekly review meetings between the Executive Directors focused on KPIs and significant business matters;
- comprehensive daily, weekly and monthly financial reporting systems, highlighting operational performance against agreed budgets and setting out regularly updated forecasts;
- monthly Group management accounts packs prepared by the Executive Directors, and circulated to the Board;
- monthly balance sheet reviews by the Finance Director;
- monthly reviews by the Finance Director and CFO of the journal report; and
- regular review of the detailed risk register and ongoing assessment of risk levels and the effectiveness of mitigating actions or controls.

The Committee has discussed and challenged the internal controls framework during the year, and received detailed updates from the CFO on developments to continually strengthen and improve the framework. Activity during the year has included:

- a full review of the Delegated Authority Matrix (which was reviewed by the Audit Committee and approved by the Board). In support of the review of the matrix, management conducted a review of underlying processes, including customer approval and credit control, purchase ledger control and payment approval process, stock control and valuation and bank controls.
- monitoring the continued integration of the Floren operations with the wider group, including moving all current account banking onto the Group banking platform.
- supporting the strengthening of the wider finance team, including the appointment of a new Financial Controller with a particular focus on further aligning group financial controls processes.
- challenging management to continue to develop the internal controls framework, ensuring that all relevant controls are appropriately documented and that a detailed Risk & Controls Matrix is developed.

Corporate Governance
(continued)

Whistleblowing
The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.

Anti-Bribery & Corruption Policy
The Committee also reviewed the Group's Anti-Bribery & Corruption Policy during the year, and agreed that no changes to the policy (which states the company's commitment to open and transparent conduct of business, and zero-tolerance approach towards bribery) were required.

Paula Hay-Plumb
Audit Committee Chair

29 March 2022

Corporate Governance
(continued)

Remuneration Committee Report
On behalf of the Board, I am pleased to present our Remuneration Committee report for the financial year ended 31 December 2021, my first as Chair of the Committee following the retirement of Bob-Carlton Porter during the year. I would like to take the opportunity to thank Bob for his enormous contribution to the Company and most notably for the support he provided to me prior to my appointment as Chair of the Remuneration Committee.

The report summarises our approach to Executive Director remuneration, the remuneration paid to the Directors with respect to the year under review, and indicates how remuneration will operate in 2022.

Members of the Remuneration Committee (the "Committee")
The members of the Committee are Paula Hay-Plumb, Martin Warner, and me (as Chair). Both Paula Hay-Plumb and I are considered independent Directors by the Board.

The QCA Corporate Governance Code notes that members of the remuneration committee should be independent. Although Martin Warner is not considered independent by the Board (due to his previous executive roles with the business and significant shareholding), the Committee believes it is both appropriate and beneficial to the Company and Shareholders that he remains a member of the Committee. This view reflects both Martin's significant knowledge and experience in our business and the brick making industry, and a desire to retain knowledge of historic remuneration arrangements within the Committee following Bob Carlton-Porter's retirement.

Duties and responsibilities
The responsibilities of the Remuneration Committee are set out in its terms of reference which are available at www.mbhplc.co.uk/corporate-governance and are reviewed annually. The Committee's core responsibilities include:

- determining the policy for the remuneration of the Executive Directors, the Chairman of the Board and other key members of senior management;
- recommending the total remuneration packages (including bonus payments, long-term incentive awards, and outturns) for the Executive Directors;
- ensuring that no Director or senior manager is involved in any decisions as to their own remuneration (the Chairman recuses himself from meetings of the Committee at which his remuneration is discussed, and Non-Executive Director remuneration is determined by the Board); and
- ensuring that remuneration policies and practices support the long-term strategy of the Company.

The Committee meets at least twice annually, and met formally on five occasions during 2021. All Committee members attended each meeting, and attendance is set out in the table in the Corporate Governance Statement on page 24.

Remuneration Policy
There have been no formal changes to group remuneration policy during the year. The objective of the remuneration policy remains to attract, motivate and retain high quality individuals, and to ensure that group employees (including the Executive Directors) are fairly remunerated and motivated to perform in the best interests of the business. Remuneration packages include a range of emoluments to achieve the aims of the policy, including performance related bonus opportunities, discretionary share option schemes (under the Long-Term Incentive Plan ("LTIP")), an HMRC approved all-employee Save-As-You-Earn (SAYE) scheme, and other benefits. Non-Executive Directors are not eligible to participate in any incentive or share options schemes. A table summarising key elements of the remuneration policy is set out at the end of this report.

Key activity during the year
Key matters and decisions considered by the Committee during 2021 included:

- approving the FY2020 bonus outturn for Executive Directors;
- agreeing the remuneration package (including awards under the LTIP) for Ryan Mahoney on his appointment as Chief Financial Officer of the Company;

- confirming the treatment of the retiring Chief Financial Officer (Stephen Morgan) as a 'good leaver' for the purposes of the LTIP, and agreeing his entitlement to a pro-rated FY2021 bonus (based on time served in office during 2021);
- approving the award of options under the LTIP to key members of senior management;
- considering Executive Director remuneration (and the application of remuneration policy) in FY2022; and
- reviewing the outcome of the Committee's evaluation of its own performance during the year.

LTIP Review

During the year and in 2022, the Committee reviewed the Company's existing LTIP arrangements which have been in place since 2017. Following this review, the Committee resolved to implement a new LTIP, which will be put into place during the financial year ending 31 December 2022. As a result, it is anticipated that there will be no further option grants under the Company's existing LTIP arrangements.

The key terms of the Company's new LTIP will be communicated to Shareholders in due course. The purpose of a new LTIP is to create a new LTIP structure which has closer alignment to industry standard practices with regards to frequency of Executive Director awards, performance measurement, retention and Executive Director incentivisation linked to the delivery of corporate strategy.

2021 performance

The Group delivered another excellent set of results for the financial year ended 31 December 2021. Substantial progress was made over 2020, with the results for 2021 surpassing 2019 on all key adjusted financial metrics, including EBITDA, operating profit, profit before tax and earnings per share.

As a result, the Company has been able to announce a full year dividend of 3.65 pence per share, up 46% on 2020, demonstrating the Company's commitment to its progressive dividend policy and positive outlook for the current financial year.

Directors' Remuneration

The total remuneration paid to each of the Directors who served during the year is set out in the table below:

	Basic Salary 2021 £000	Annual Bonus 2021 £000	Other Benefits 2021 £000	Pension 2021 £000	Total Emoluments 2021 £000	Total Emoluments 2020 £000
MR Warner	100	–	1	–	101	101
R Carlton–Porter**	10	–	30[1]	–	40	50
P Hay–Plumb	40	–	–	–	40	22
A Morris	36	–	–	–	36	3
FJ Hanna	250	250	25	21	546	385
PN Sharp	250	250	21	21	542	405
SHP Morgan**	81	81	1,155[2]	–	1,317	358
RM Mahoney*	114	114	249[3]	3	480	–
	881	695	1,481	45	3,102	1,324

* Ryan Mahoney was appointed Chief Financial Officer with effect from 3 June 2021.

** Stephen Morgan and Bob Carlton-Porter retired from the Board on 3 June 2021.

1 Other benefits includes £30,000 paid to Robert Carlton-Porter for consultancy services provided to the Company between June 1 2021 and December 31, 2021

2 Other benefits includes £1,148,000 paid to Stephen Morgan under the 2017 LTIP scheme

3 Other benefits includes £248,000 paid to Ryan Mahoney to compensate for the equity awards he forfeited on cessation of employment with his former employer

Total emoluments including Employer's NI amounted to £3,506,000 (2020: £1,452,000).

Salary, fees and other benefits

As disclosed in the 2020 Annual Report, the Committee approved increases of 22% to the salaries of the joint Chief Executives, and of 5% to the salary of the then Chief Financial Officer (Stephen Morgan), with effect from 1 January 2021.

There were no changes to the fees payable to the Chairman or Non-Executive Directors in the year.

Other benefits include motor expenses, medical cover and sundry benefits.

Pension

Peter Sharp is a member of the Michelmersh Group Pension Scheme and the Company contributes 5% of his salary and bonus.

Frank Hanna has opted out of the Michelmersh Group Pension Scheme and instead the Company pays Frank a cash amount equivalent to 5% of his salary and bonus, which is processed monthly through PAYE.

Ryan Mahoney has also opted out of the Michelmersh Group Pension Scheme and instead the Company pays Ryan a cash amount equivalent to 3% of his base salary, which is processed monthly through PAYE.

Perpetual bonus scheme ("PBS")

The Committee established the PBS in 2017. This scheme is based on the Board approved budget in each year. The bonus is triggered by achieving the budgeted profit before tax, and the achievement of over performance based on agreed parameters. For 2021, the Group delivered a profit before tax of £9.7 million, which was up 40.6% on 2020. As a result, the Executive Directors achieved the maximum payout under the PBS equivalent to 100% of base salary.

The bonuses payable to Stephen Morgan and Ryan Mahoney for 2021 under the PBS have been pro-rated based on the time served in post by each of them during the year.

Long-term incentive plan

The following options awarded under the LTIP have met the targets for the relevant period.

	2017 LTIP No	2019 LTIP No	Total Options 2021 No	Total Options 2020 No
Frank Hanna	800,000	200,000	**1,000,000**	600,000
Stephen Morgan	–	–	**–**	600,000
Peter Sharp	800,000	200,000	**1,000,000**	600,000
Ryan Mahoney	–	116,712	**116,712**	–
	1,600,000	516,712	**2,116,712**	1,800,000

Summary

The options disclosed in the table above reflect the options that have accrued based on EPS performance in each year from 2018 to 2021 and remain outstanding at the period end.

2017 LTIP

In December 2017, 1,250,000 options were granted to each of Frank Hanna, Peter Sharp and Stephen Morgan, exercisable at 20 pence each and which accrue in incremental annual tranches over 5 years commencing with 2018 provided EPS targets are achieved and the relevant Executive Director remains in office through the five years ("2017 LTIP"). In December 2019, these options were amended by reducing the number of options to 1,000,000 for each Executive and reducing the exercise price to nil.

Corporate Governance
(continued)

The EPS target for the 2017 LTIP for the financial year ended 31 December 2021 was met and therefore a total of 1,600,000 2017 LTIP options have been accrued for each of Frank Hanna and Peter Sharp as at the period end.

Stephen Morgan retired as a Director of the Company on 3 June 2021, and was therefore treated as a ‘good leaver’ for the purposes of 2017 LTIP options which had accrued to him under the 2017 LTIP. Stephen Morgan exercised a total of 800,000 LTIP options in August 2021 and no options remained outstanding for Stephen Morgan at the period end.

Follow Stephen Morgan’s retirement and the appointment of Ryan Mahoney as Chief Financial Officer of the Company, in September 2021 the Committee approved the grant of 200,000 LTIP options to Ryan Mahoney reallocated under the 2017 LTIP to compensate Ryan Mahoney for lapsed options forfeited on leaving his previous employer. These 200,000 2017 LTIP options vested on 1 December 2021 and the Company elected to cash settle these options by way of a one time payment to Ryan Mahoney, which was paid through PAYE. As a result, there were no options outstanding for Ryan Mahoney under the 2017 LTIP at the period end.

2019 LTIP
In December 2019, a further LTIP was granted of 1,000,000 options each to Frank Hanna and Peter Sharp, and in September 2021 the Committee approved the grant of 916,712 LTIP options to Ryan Mahoney (together, the “2019 LTIP”). All of these options are exercisable at nil cost, and accrue in incremental annual tranches over 5 years commencing in 2022 provided EPS targets (for the financial years ending 2021, 2022, 2023, 2024 and 2025) are achieved and the relevant Executive Director remains in office through the five years.

The EPS target for the 2019 LTIP for the financial year ended 31 December 2021 was met and therefore a total of 516,712 options were accrued for each of Frank Hanna, Peter Sharp and Ryan Mahoney in relation to 2019 LTIP at the period end.

Aggregated LTIP
At the period end, across both the 2017 LTIP and 2019 LTIP, a total of 2,116,712 options have been accrued in aggregate for Frank Hanna, Peter Sharp and Ryan Mahoney.

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 relating to Executive Directors amounted to £882,000 (2020: £971,000)

2022 Remuneration
Salary & fees
The Committee has agreed that the Executive Directors’ salaries will not be increased in 2022, and their base salaries will therefore be as set out below:

Director	**2022 Salary £’000**
Frank Hanna	250
Peter Sharp	250
Ryan Mahoney	195

No changes have been made to Chairman's fee level but Tony Morris and Paula Hay-Plumb have both had salary uplifts of £4,000:

Director	2022 Fees £'000
Martin Warner	100
Paula Hay-Plumb	44
Tony Morris	40

PBS

The maximum bonus opportunity under the PBS for each director in 2022 will remain at 100% of base salary, and the outturn will be determined based on performance against a profit before tax target. The Committee has determined that the specific target is commercially sensitive and is therefore not disclosed in this report.

LTIP

Once in place, it is the intention of the Committee to approve inaugural awards under the Company's new LTIP for Executive Directors during 2022.

Remuneration Policy Table

The table below summarises the key elements of the remuneration policy for Executive Directors:

Purpose & link to strategy	Operation	Maximum potential value	Performance conditions & assessment
Base salary The provision of competitive fixed salary supports the recruitment and retention of Executive Directors, reflecting their role, skills and experience.	To be reviewed on an annual basis having regard to competitors, industry and needs as well as pay levels elsewhere within the Group, its size and complexity.	Total salaries paid during 2021 are set out in the table on page 32. Changes in roles/ responsibilities may require an adjustment to salary levels.	Not applicable, although individual performance is considered when determining base salary increases.
Benefits To provide market benefits on a cost-effective basis.	Benefits offered include car allowance, private medical insurance and life assurance. Other benefits may be offered in line with market practice if it is considered appropriate to do so.	The maximum potential value is the cost to the Company in providing these benefits.	Not applicable.
Pension To assist Executive Directors in providing for retirement where this is considered an aid in attracting and retaining the individual.	The Company's policy is to provide a contribution (or cash allowance in lieu) to a personal pension plan as a capped proportion of basic salary if it is appropriate to do so.	Peter Sharp receives a contribution of 5% of base salary and bonus to the Group pension scheme. Frank Hanna and Ryan Mahoney have opted out of the Group pension scheme and instead receive a cash payment equivalent to 5% of base salary and bonus and 3% of base salary, respectively, paid through PAYE.	Not applicable.

Corporate Governance
(continued)

Purpose & link to strategy	Operation	Maximum potential value	Performance conditions & assessment
Perpetual Bonus Scheme To recognise an Executive Director's achievement of annual objectives that support the Group's strategy and financial performance.	Financial performance measures are set annually to incentivise on-target performance and outperformance, with bonus outcomes determined against those targets. Awards are made in cash.	100% of base salary.	Performance conditions are set and reviewed by the Remuneration Committee. The Committee retains discretion to adjust pay-out in cases where it believes that the bonus outcomes are not a fair and accurate reflection of business performance. The Remuneration Committee considers that the detailed performance targets used for the annual bonus awards are commercially sensitive and that disclosing precise targets for the annual bonus plan in advance would not be in shareholder interests.
Long-Term Incentive Plan (existing) To encourage value creation and executive retention, by way of share price growth through the delivery of shares. The purpose of the LTIP is to provide meaningful awards based upon criteria that provide a significant incentive to participants, and align their interests with those of our shareholders.	Awards granted at the discretion of the Committee in the form of nil-cost or par value options. Awards vest annually in equal tranches over a five year period based on financial performance in each year and subject to continued employment. Vested awards become exercisable at the end of the five year period. Awards are subject to discretionary good leaver/bad leaver provisions.	No maximum potential value but the volume of shares awarded is limited to achieving full vesting of the initial full grant award.	LTIP awards are subject to performance conditions measured over a five year period and divided equally between EPS performance and continued employment.

By order of the Board

Tony Morris
Remuneration Committee Chairman
29 March 2022

Directors' Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2021. The Corporate Governance Statement on pages 19 to 41 also forms part of this Directors' Report.

Financial Results and Dividends
The Group's profit before taxation for the year was £9,697,000 (2020: £6,871,000). More information about the Group's financial performance can be found in the financial review on pages 7 to 8 and in the financial statements on pages 42 to 73.

The Board has recommended a final dividend for the year of 2.5 pence per share, to be paid on July 13 2022 to shareholders whose names appear of the register of members at the close of business on June 6 2022. More information about dividends can be found in the Chairman's Statement on page 2.

Review of Business and Future Developments
The Chairman's Statement on page 2, the CEO's Report on pages 4 to 6 and the Strategic Report on pages 2 to 18 provides a review of the business, the Group's trading for the year ended 31 December 2021, key performance indicators and an indication of future developments and risks, and form part of this Directors' Report.

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 2021 Ordinary Shares of 20p each	31 December 2020 Ordinary Shares of 20p each
M R Warner	4,179,732*	4,179,732
R W Carlton-Porter (retired from the Board on 3 June 2021)	n/a	20,000
R Mahoney	–	–
P Hay-Plumb	17,300	–
A Morris	22,658	22,658
F Hanna	591,000	591,000
S H P Morgan (retired from the Board on 3 June 2021)	n/a	41,000
P N Sharp	104,157	104,157

* On 19 January 2022, Mr Warner made a charitable donation by way of a gift of 50,000 ordinary shares. Therefore his beneficial interest in the shares of the Company as at 29 March 2022 (being the latest practicable date prior to the publication of this annual report) is 4,129,732.

Analysis of Directors' emoluments for the year and their interest in options in shares in the Company is shown in the Remuneration Committee Report on page 32.

Directors' Indemnity Provisions
As permitted by the Articles of Association, the Directors may have the benefit of an indemnity, which would be a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006.

The Company has purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors.

Share Capital
As at 31 December 2021, the Company's issued share capital was £19,126,564 (2020: £18,788,676) divided into 95,632,818 ordinary shares of 20p each. The holders of ordinary shares are entitled to one vote per share at the Company's general meetings.

Directors' Report
(continued)

Significant Shareholdings

	Number of Ordinary Shares of 20p each	% of Total Voting Rights
Mr Eric John Spencer Gadsden	22,658,274	23.7%
Hosking and Co	16,190,697	16.9%
Telworth Investments	6,782,495	7.1%
Canaccord Genuity Group Inc	5,000,000	5.2%
Interactive Investor	4,930,620	5.1%
Hargreaves Lansdown	3,739,043	3.9%

Internal Control
The Directors acknowledge their responsibilities for the Group's system of internal control. The Audit Committee undertakes regular reviews of the Group's system of internal controls and provides updates to the Board where appropriate. More information on the Audit Committee's review of internal controls during the year can be found in the Audit Committee report on page 29. Additionally, 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 continue to be appropriate for the business.

Related Party Transactions
There are no related party transactions required to be disclosed under the AIM rules.

Financial Instruments
The Group's policy is to finance working capital through cash balances, appropriate bank facilities 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.

Health and Safety
The Group has established a documented health and safety management system with arrangements and procedures based around the Health and Safety Executive guidance HSG65. Workplace health and safety audits and inspections are carried out both internally and externally by external consultants at various levels of the business ranging from our quarries to product delivery. The results of health and safety inspections are reviewed by our management teams and any corrective actions taken accordingly.

We consult regularly with our employees on health and safety matters holding quarterly health and safety meetings at each of our locations as well as additional meetings and briefings covering specific health and safety matters. All of our employees are part of an ongoing health and safety training programme that starts with an initial induction programme and expands to include all the relevant training needs required for them to carry out their work safely. We encourage the CPD of our employees on a range of health and safety subjects across the business from the annual quarry managers CPD awards to our HGV drivers' development programme.

All accidents and near misses are fully investigated and discussed at our health and safety meetings. Where appropriate changes are made to our processes in order to minimise the chances of any recurrence.

Health and safety updates were regularly presented to the Directors at Board meetings throughout 2021. This provided them with a chance to understand matters affecting employees, such as Covid-19, and discuss any incidents or investigations that arose during the course of the year.

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.

At 31 December 2021, the Group employed 340 male and 31 female members of staff. The Board comprised 1 female and 5 male Directors as at 31 December 2021. 4 of the Group’s 15 senior managers were female.

It is the policy of the Group to give full and fair consideration to the employment of disabled persons in jobs suited to their individual circumstances and, as appropriate, to consider them for recruitment opportunities, career development and training. Where possible, arrangements are made for continuing employment of employees who have become disabled whilst in the Group’s employment. Michelmersh values diversity and seeks to provide all employees with the opportunity for employment, career and personal development on the basis of ability, qualifications and suitability for the work as well as their potential to be developed into the job.

The Group also believes that all employees should be treated with respect, dignity and fairness at work. We are committed to creating an environment where all our employees can feel comfortable and able to fulfil their potential.

Modern Slavery Act
The Group is committed to ensuring best practice to combat slavery and human trafficking. In June the Board approved the Company’s Modern Slavery Act Statement and Anti-Slavery Policy. Our Anti-Slavery Policy demonstrates our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains. Both documents can be found on the Company’s website (www.mbhplc.co.uk/corporate-responsibility).

Charitable Donations
Supporting industry education and training remains a core policy and the Group continued its supply of free product, resources and seminars to various colleges around the UK. We are building a special relationship with Brooklands Ashford Campus bricklaying department and continue to support the CITB Skillbuild program.

The Group has continued to support community based charities local to our operations. Total donations during the year amounted to £15,000.

Annual General Meeting
The Annual General Meeting will be held on May 12 2022 at the offices of Burges Salmon LLP in London.

Further information relating to the AGM is set out in the AGM Notice which will be sent to shareholders separately and is available on the Company’s website (www.mbhplc.co.uk/investor-relations). Where appropriate, if any changes are required to be made to the AGM arrangements, these will be communicated by an announcement via a Regulatory Information Service.

Going Concern
After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Provision of Information to Auditors
So far as each of the Directors who held office at the date of this Director’s Report is aware:

- There is no relevant audit information of which the Company‘s auditors are unaware; and
- Each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

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

Directors' Report
(continued)

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK-adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair review of the state of affairs of the Company and of the Group for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions. The directors are also responsible for ensuring that they meet their responsibilities under the AIM Rules.

Signed by order of the Board

M. Warner
Chairman

Approved by the Directors on 29 March 2022

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Report
(continued)

Directors and Professional Advisors

Directors	M R Warner – Chairman F J Hanna – Joint Chief Executive P N Sharp – Joint Chief Executive R Mahoney – Chief Financial Officer P Hay-Plumb – Senior Independent Non-Executive Director A Morris – Non-Executive Director
Company Secretary	Prism Cosec Highdown House Yeoman Way Worthing West Sussex BN99 3HH
Registered Office	Freshfield Lane Danehill Haywards Heath West Sussex RH17 7HH
Nominated Adviser and Joint Broker	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Joint Broker	Berenberg 60 Threadneedle Street London EC2R 8HP
Auditors	Nexia Smith and Williamson Audit Limited Chartered Accountants and Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA
Solicitors	Burges Salmon LLP One Glass Wharf Bristol BS2 0ZX
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA
Financial Public Relations	Yellow Jersey PR Limited Top Floor 70-71 Wells Street London W1T 3QE
Principal Bankers	HSBC Bank plc 1st Floor First Point Buckingham Gate London Gatwick Airport RH6 0NT

Independent Auditor’s Report
to the Members of Michelmersh Brick Holdings Plc

Opinion

We have audited the group financial statements of Michelmersh Brick Holdings plc (the ‘group’) for the year ended 31 December 2021 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and the notes to the group financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group’s affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the group financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our approach to the audit

Of the Group’s 11 reporting components, we subjected 3 to audits for Group reporting purposes. 1 component was based in Belgium and that audit was carried out by a component auditor in Belgium. The remaining components were non-trading.

The components within the scope of audit work covered: 100% of group revenue, 100% of group profit before tax and 100% of group net assets.

The group audit team held a video conference meeting with the component auditors in Belgium. At this meeting, the Group audit team discussed the component auditors’ risk assessments and planned audit approach. Once the audit work was completed, the findings reported to the group audit team were challenged in more detail. In addition to this meeting and communications, the group audit team sent detailed instructions to the component audit team and reviewed some of their working papers.

Key audit matters

We identified the key audit matters described below as those which were of most significance in the audit of the financial statements of the current period. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Description of risk	How the matter was addressed in the audit
Valuation of land and buildings	Land and buildings are measured at fair value based upon their highest and best use. Fair value measurement is inherently judgemental as is the highest and best use of each site.	In order to address this key audit matter, the audit team have performed the following procedures: ● Reviewed third party valuation obtained by the directors in the year, considering the independence and competence of the expert engaged by management to prepare the valuation; ● Considered the appropriateness of the valuation approach with reference to past experience and the broader nature of the business; ● Reviewed and challenged the assumptions used; and ● Where there was no third party valuation performed on a site we have used the insight gained from the sites which did have a third party valuation to assess if the movements presented are reasonable.
Valuation of finished goods	Finished goods inventory is measured based on production costs and attributable overheads incurred during the period and attributed across the number of bricks produced at each site, as adjusted for any non-standard products which are typically more labour intensive. As a result, the valuation of finished goods inventory incorporates a degree of judgement over the allocation of costs.	In order to address this key audit matter, the audit team has performed the following procedures: ● Substantive testing of production and overhead costs incurred in the year; ● Substantive testing of a sample of sales invoices to ensure finished goods are held at the lower of cost and net realisable value; ● Analytical procedures considering the appropriateness and consistency of cost allocations with reference to prior years, brick production in the period and movements in opening and closing inventory levels; ● Consideration of slow-moving inventory and reasonableness of provision recognised.
Intangible asset valuation	Intangible assets include Goodwill, Customer Lists and Brand Names. The directors obtained external valuations following the purchase of Carlton in FY17, to which most of the intangible assets relate. The carrying value of these assets is considered for impairment on an annual basis by directors which requires significant judgment, in particular regarding future cash flows, growth rates, discount rates and assumptions.	In order to address this key audit matter, the audit team has performed the following procedures: ● Considered trading performance of the underlying acquisitions ● Our internal experts assessed the appropriateness of the assumptions concerning growth rates and the discount rate; and ● Performed sensitivity analysis on the future free cash flow calculations.

Independent Auditor's Report
(continued)

Our application of materiality
The materiality for the group financial statements as a whole ("group FS materiality") was set at £4,300,000.

This has been determined with reference to the benchmark of the groups net assets, which we consider to be most appropriate given the significance of the assets held. Materiality represents 5% of net assets as presented on the face of the consolidated balance sheet.

The consolidated income statement is underpinned by the activity of the trading subsidiary, Michelmersh Brick UK Limited. The principal consideration for this company is the trading performance and accordingly, materiality has been calculated at 2% of turnover of the trading subsidiaries, being £1,190,000. This has been treated as an element materiality for profit and loss affecting items in the audit of the Group. Thus, a lower level of trading materiality has been factored into our overall conclusions on the consolidated income statement.

Performance materiality for the group financial statements was set at £3,440,000, being 80% of group FS materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds FS materiality. We judged this level to be appropriate based on our understanding of the group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. It was set at 80% to reflect the fact that few misstatements were expected in the current period and that there are few judgements with limited areas of estimation. Element performance materiality was set at £952,000 being 80% of group element materiality.

Conclusions relating to going concern
In auditing the group financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's ability to continue to adopt the going concern basis of accounting included:

- Challenging key assumptions used in the detailed budgets prepared by management to March 2023;
- Considering historical accuracy of budgeting;
- Comparing the actual results to budget for 2021 and post year end results to 2022 budget; and
- Considering the sensitivity of the key assumptions and re-assessing headroom after sensitivity analysis performed.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this Report.

Other information
The other information comprises the information included in the Annual Report 2021, other than the group financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report 2021. Our opinion on the group financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the group financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's Report
(continued)

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the group financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We obtained a general understanding of the group's legal and regulatory framework through enquiry of management in respect of their understanding of the relevant laws and regulations. We also drew on our existing understanding of the group's industry and regulation.

We understand that the group complies with requirements of the framework through:

- Engaging with independent advisors to perform regular reviews of procedures in place at sites operated by the group.
- Making note of relevant updates from external experts and updating internal procedures and controls as necessary as legal and regulatory requirements change.
- Given the management structure and reporting lines, any litigation or claims would come to the Directors attention and are considered at Board meetings.

Independent Auditor's Report
(continued)

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the group's ability to conduct its business, and/or where there is a risk that failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the group:

- The Companies Act 2006 and IFRS in respect of the preparation and presentation of the financial statements;
- AIM rules and the Market Abuse Regulations; and
- Health and safety, Environmental and Pollution regulations, due to the nature of the Group's operations.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations identified above:

- Reviewed the procedures management has implemented over compliance with the regulations.
- Inspected internal health and safety records and external site audit reports.
- Reviewed response from component auditor.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the group's financial statements to material misstatement, including how fraud might occur.

The key areas identified as part of the discussion were:

- Manipulation of the financial statements, especially revenue, through manual journal entries.
- Valuation of stock, land and buildings and intangible assets where estimates are made by management.

These areas were communicated to the other members of the engagement team who were not present at the discussion.

The procedures we carried out to gain evidence in the above areas included;

- Testing of a sample of revenue transactions to underlying documentation;
- Testing of a sample of journal entries, selected through applying specific risk assessments based on the processes and controls surrounding journal entries;
- Challenging management regarding the assumptions used in the estimates identified above, and comparison to post-year-end data and third-party correspondence as appropriate. Refer to the Key Audit Matters noted above for further detail of work around this area.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matter
We have reported separately on the parent company's financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2021.

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

Kelly Jones
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

29 March 2022

Portwall Place
Portwall Lane
Bristol
BS1 6NA

Consolidated Income Statement
for the year ended 31 December 2021

	notes	12 months ended 31-Dec 2021 £'000	12 months ended 31-Dec 2020 £'000
Revenue	5	59,524	52,044
Cost of sales		(35,369)	(30,525)
Gross profit		24,155	21,519
Administrative expenses		(13,398)	(12,840)
Amortisation of intangibles		(1,198)	(1,170)
		(14,596)	(14,010)
Other income	6	361	75
Operating profit	8	9,920	7,584
Finance expense	7	(223)	(713)
Profit before taxation		9,697	6,871
Taxation	12	(3,568)	(1,938)
Profit for the financial year		6,129	4,933
Basic earnings per share attributable to the equity holders of the company	27	6.50p	5.27p
Diluted earnings per share attributable to the equity holders of the company	27	6.27p	4.95p

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

The accounting policies and notes on pages 52 to 73 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2021

	notes	12 months ended 31-Dec 2021 £'000	12 months ended 31-Dec 2020 £'000
Profit for the financial year		6,129	4,933
Other comprehensive income/(expense)			
Items which may subsequently be reclassified to profit or loss			
Currency movements		(216)	66
Items which will not subsequently be reclassified to profit or loss			
Revaluation deficit of property, plant and equipment	14	(2,855)	(3,710)
Revaluation surplus of property, plant and equipment	14	4,125	1,571
Tax credit on exercise of options		274	–
Deferred tax on revaulation movement	22	(1,404)	280
		(76)	(1,793)
Total comprehensive income for the year		6,053	3,140

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

The accounting policies and notes on pages 52 to 73 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2021

	notes	As at 31-Dec 2021 £'000	As at 31-Dec 2020 £'000
Assets			
Non-current assets			
Intangible assets	13	20,222	21,420
Property, plant and equipment	14	63,205	60,948
		83,427	82,368
Current assets			
Inventories	16	10,060	10,046
Trade and other receivables	17	10,551	11,189
Corporation tax receivable		190	–
Cash and cash equivalents		8,467	12,243
Total current assets		29,268	33,478
Total assets		112,695	115,846
Liabilities			
Current liabilities			
Trade and other payables	18	11,636	12,049
Lease liabilities	19	491	530
Interest bearing borrowings	19	143	986
Corporation tax payable		–	240
Total current liabilities		12,270	13,805
Non-current liabilities			
Interest bearing borrowings	19	642	10,487
Lease liabilities	19	117	240
Deferred tax liabilities	22	14,542	11,663
		15,301	22,390
Total liabilities		27,571	36,195
Net assets		85,124	79,651
Equity attributable to equity holders			
Share capital	23	19,127	18,789
Share premium account	25	16,536	15,827
Reserves	25	21,763	21,581
Retained earnings	25	27,698	23,454
Total equity		85,124	79,651

These financial statements were approved by the Directors and authorised for issue on 29 March 2022 and are signed on their behalf by:

F. Hanna
Director

P. Sharp
Director

The accounting policies and notes on pages 52 to 73 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital £'000	Other reserves £'000	Share premium £'000	Retained earnings £'000	Total £'000
As at 1 January 2020	18,498	23,192	15,545	18,868	76,103
Profit for the period	–	–	–	4,933	4,933
Revaluation deficit	–	(3,710)	–	–	(3,710)
Revaluation surplus	–	1,571	–	–	1,571
Deferred tax on revaluation	–	280	–	–	280
Currency difference	–	66	–	–	66
Total comprehensive income	–	(1,793)	–	4,933	3,140
Transfer between reserves	–	66	–	(66)	–
Share based payment	–	1,099	–	–	1,099
Released on maturity of options	200	(983)	–	783	–
Shares issued during the year	44	–	86	–	129
Dividend paid	47	–	196	(1,064)	(821)
As at 31 December 2020	**18,789**	**21,581**	**15,827**	**23,454**	**79,651**
Profit for the period	–	–	–	6,129	6,129
Revaluation deficit	–	(2,855)	–	–	(2,855)
Revaluation surplus	–	4,125	–	–	4,125
Tax credit on exercise of options		274	–	–	274
Deferred tax on revaluation	–	(1,404)	–	–	(1,404)
Currency difference	–	(216)	–	–	(216)
Total comprehensive income	–	(76)	–	6,129	6,053
Share based payment	–	882	–	–	882
Released on maturity of options	160	(624)	–	464	–
Shares issued during the year	114	–	307	–	421
Dividend paid	64	–	402	(2,349)	(1,883)
As at 31 December 2021	**19,127**	**21,763**	**16,536**	**27,698**	**85,124**

The accounting policies and notes on pages 52 to 73 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2021

	notes	12 months ended 31-Dec 2021 £'000	12 months ended 31-Dec 2020 £'000
Cash flows from operating activities			
Profit before taxation		9,697	6,871
Loss on sale of fixed assets		–	119
Finance expense		223	713
Depreciation	14	3,583	3,544
Amortisation	13	1,198	1,170
Share based payment charge	24	882	899
Cash flows from operations before changes in working capital		15,583	13,316
Decrease/(increase) in inventories		12	(234)
Decrease/(increase) in receivables		638	(2,422)
(Decrease)/increase in payables		(412)	2,223
Net cash generated by operations		15,821	12,883
Taxation paid		(2,250)	(2,501)
Net cash generated by operating activities		13,571	10,382
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(4,228)	(1,241)
Net cash used in investing activities		(4,228)	(1,241)
Cash flows from financing activities			
Proceeds of loan drawdown		–	3,000
Lease payments		(530)	(656)
Repayment of interest-bearing liabilities		(10,688)	(12,977)
Interest paid		(223)	(713)
Proceeds of share issue		421	129
Dividend paid		(1,883)	(821)
Net cash used in financing activities		(12,903)	(12,038)
Net increase in cash and cash equivalents		(3,560)	(2,897)
Cash and cash equivalents at the beginning of the year		12,243	15,140
Foreign exchange differences		(216)	–
Cash and cash equivalents at the end of the year		8,467	12,243
Cash and cash equivalents comprise:			
Cash at bank and in hand		8,467	12,243
Bank overdraft		–	–
		8,467	12,243

The accounting policies and notes on pages 52 to 73 form part of these financial statements.

General Information and Accounting Policies

1. General Information

Introduction
Michelmersh Brick Holdings Plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006 and is listed on AIM.

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The main activity of the two main trading subsidiary companies was the manufacture of bricks. All other subsidiary companies were non-trading.

These financial statements cover the financial year from 1 January to 31 December 2021, with comparative figures for the year 1 January to 31 December 2020.

The companies within the Group during the financial year ended 31 December 2021 are disclosed in note 15.

2. Accounting Policies

Basis of Preparation
The financial statements have been prepared in accordance with UK-adopted international accounting standards and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the UK. The consolidated financial statements for the financial years ended 31 December 2021 and 31 December 2020 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 are prepared under FRS 102 and its subsidiary undertakings are prepared under FRS 101, all to the same reporting date. Adjustments are made to remove any differences that may exist between UK GAAP and IFRS for consolidation purposes.

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

New Standards and interpretations
(a) New and amended Standards and Interpretations not yet endorsed by the UK

- Amendments have been made to IAS 37 Provisions, contingent liabilities and contingent assets which specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. The amendments include examples of costs which do and do not relate directly to a contract and specific transition requirements for entities already reporting using IFRS Standards. The amendments do not make new disclosure requirements or transition requirements for entities IFRS Standards for the first time. The standard has not been endorsed in the UK as yet so early adoption is not permitted.

- Amendments have been made to IAS 16 Property, Plant and Equipment which prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the entity would recognise those sales proceeds and related costs in profit or loss. The standard has not been endorsed in the UK as yet so early adoption is not permitted.

2. Accounting Policies (continued)

(b) Annual improvement amendments to current IFRS standards

The following new and amended Standards and Interpretations are not currently relevant to the Group or Company; however, they may have a significant impact in future years:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the '10 per cent' test on substantial modification of financial liabilities.
- IFRS 16 Leases – clarification of disclosures to remove the potential for confusion over the treatment of lease incentives.

Basis of consolidation

The financial statements comprise a consolidation of the financial statements of Michelmersh Brick Holdings Plc and all its subsidiaries. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group has the power to control. When control of a subsidiary is lost, a disposal occurs and the subsidiary is no longer consolidated from that date.

On consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Going Concern

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

The Group meets its day-to-day working capital requirements principally through bank facilities and cash balances. Bank facilities in place include facilities are in place including an undrawn new and enlarged revolving credit facility provided by HSBC Bank Plc.

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

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

Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and provision of services (principally haulage) 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.

Revenue is recognised in accordance with the transfer of promised goods or services to customers (i.e. when the customer gains control of the goods/service on delivery) and is measured as the consideration which the Group expects to be entitled to in exchange for the goods and services. Consideration is typically fixed on the agreement of a contract. Payment terms are agreed on a contract-by-contract basis.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. Identifiable assets acquired or liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date.

Purchased goodwill, representing the difference between the fair values of the consideration and the underlying assets and liabilities acquired, is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. See note 13 for further details.

Where the consideration transferred for the acquisition of a subsidiary exceeds the fair value of the assets acquired and liabilities assumed, the excess is displayed as a ‘Bargain ‘Purchase’ in the income statement below operating profit.

Licences

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

Foreign currency

Transactions in foreign currency are recorded at the rates of exchange prevailing on the dates of the transactions. Where consideration is received in advance of revenue being recognised the date of the transaction reflects the date the consideration is received. At each year end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the year-end date. Exchange gains and losses on short-term foreign currency borrowings and deposits are included within net interest payable. Exchange differences on all other transactions are taken to operating profit.

The assets and liabilities of foreign operations are translated to the Group’s presentational currency, Sterling, at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated within other reserves.

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 buildings are revalued annually.

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

Freehold buildings	–	life of brickworks site
Plant, equipment and machinery	–	3% - 25%
Motor vehicles	–	25%

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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

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

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amount of its assets other than inventories to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The review period is based on the expected life of the brickworks and this is linked with available clay reserves.

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

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

Inventories

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

General Information and Accounting Policies
(continued)

2. 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:

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair values less attributable transaction costs which are amortised over the life of the facility. Subsequent to initial recognition, borrowings costs are measured at amortised cost, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Trade and other receivables
Trade receivables do not carry interest and are initially measured at their fair value, and subsequently at their amortised cost, as reduced by appropriate allowances for estimated irrecoverable amounts. Trade receivables are impaired when credit losses are expected on an asset. Any loss allowance relating to trade receivables has been calculated with reference to historical experience in the recoverability of such receivables, taking into consideration current conditions and forecasts of future economic conditions.

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

Energy contracts
The Group fixes prices on unit energy costs for future periods but uses the ‘own-use’ exemption and consequently, accounts for derivatives at fair value through profit and loss without using hedge accounting.

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.

Share based payment transactions

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

Leases

A right of use asset and a lease liability has been recognized for all leases except leases of low value assets. These are further explained in note 19. The right-of-use asset has been measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date. The Group will depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Where impairment indicators exist, the right of use asset will be assessed for impairment. The lease liabilities are measured at the present value of the lease payments due to the lessor over the lease term, discounted using the interest rate implicit in the lease if that rate is readily available or the Group’s incremental borrowing rate. After initial measurement, any payments made will reduce the liability and the interest accrued will increase it. Any reassessment or modification will lead to a remeasurement of the liability. In such case, the corresponding adjustment will be reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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 substantively 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 Consolidated 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 nor deductible.

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

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

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

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

Pension costs
The Group operates defined contribution pension schemes for employees. The assets of the schemes are held separately from those of the companies. Contributions are charged to the income statement in the year in which they are incurred.

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

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

Notes to the Consolidated Financial Statements
Year ended 31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS

Under IAS 1 paragraph 122, the Company is required to disclose judgements, other than those involving estimation, that have been made in the process of applying our accounting policies where that judgement has had a significant effect on the amounts recognised in the financial statements.

The Board have reviewed areas where judgement has been applied, including deferred tax, provisions and impairment but do not consider that the judgement may have a significant impact on the amounts recognised in the financial statements for the years ended 31 December 2020 and 2021.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty employed in the preparation of these financial statements are as follows:

Area of estimation	Effect on Financial Statement	Period of impact	Change noted from previous financial statements
Intangible asset impairment	Within the Intangibles calculation we undertake an exercise to estimate future cashflows from the businesses associated with intangible assets. We have key assumptions on the growth rates of revenue and gross margin which impacts the profit assumed and hence cashflow generation at each relevant site. These assumptions are key to calculation of the net present value of cashflows. The further key assumptions are the perpetuity growth rate and discount rate. Details of the impairment calculation, including key assumptions, are set out in note 13.	Whilst trading patterns remain robust at the relevant businesses, there is a low likelihood of a reduction in the cash flows relating to intangible assets over a longer period.	No changes
Land and buildings valuation including mineral and landfill assets	The Board value land assets and buildings with guidance from external valuers on an annual basis. Changes in circumstances both internal to the business and externally can impact the values ascribed in the accounts. Details of the revaluation are set out in note 14.	It is possible that factors can arise in the short term that impact the values included in the accounts.	No changes
Useful lives of plant and machinery	Depreciation is charged on plant to reflect its useful life. The Group makes significant effort to maintain the plant in good working order, but factors may change that could impact on the charges made in the financial statements including market and technology changes. Details of the depreciation charged within each asset category are set out in note 14.	The impact may be sudden if circumstances change.	No changes

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Area of estimation	Effect on Financial Statement	Period of impact	Change noted from previous financial statements
Provisions and contingent liabilities	The Board assess annually whether any provision or contingent liability is required to be recognised or disclosed in the accounts in relation to its future obligations under restoration conditions attached to its land and building sites by the local council authorities as a result of the board assessment no provisions or contingent liabilities have been recognised in the year.	It is possible that factors can arise in the medium term that impact the disclosures required in the accounts.	No changes

5. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure during the year. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 52 to 57.

The chief operating decision-maker has been identified as the Board of Directors (the "Board"). The Board reviews the Group's internal reporting in order to assess performance and allocate resources, which is done based on the consolidated information presented. Management have determined the operating segment based on these reports and on the internal report's structure.

The Group has one clearly defined reportable segment and operates out of the UK and Europe and as a result has restated the prior year comparatives. The Group's internal reporting was previously presented under six separate operating segments, in line with its brick manufacturing facilities, and this was changed during the year to report as a single reportable segment based on consolidated information for the Group as a whole. This change is considered appropriate for internal reporting due to the very close alignment of customers, markets manufacturing processes, distribution methods and regulatory environment across the underlying manufacturing facilities.

	notes	12 months 2021 £'000	12 months 2020 £'000
Revenue	5	59,524	52,044
Cost of sales		(35,369)	(30,525)
Gross profit		24,155	21,519
Administrative expenses		(13,398)	(12,840)
Amortisation of intangibles		(1,198)	(1,170)
		(14,596)	(14,010)
Other income	6	361	75
Operating profit	8	9,920	7,584
Finance expense	7	(223)	(713)
Profit before taxation		9,697	6,871
Taxation	12	(3,568)	(1,938)
Profit for the financial year		6,129	4,933
Segment assets		112,695	115,846
Segment liabilities		(27,571)	(36,195)

5. SEGMENTAL REPORTING (continued)

Revenue by geography

	2021 £'000	2020 £'000
Revenue by geographical destination		
United Kingdom	54,573	48,243
Europe	4,791	3,801
Rest of the World	160	–
	59,524	52,044
Revenue by geographical origination		
United Kingdom	53,756	46,924
Belgium	5,768	5,120
	59,524	52,044

Total assets including property, plant and equipment and intangible assets are all held in the UK except £17.6 million (2020: £14.8 million) of assets relating to Floren in Belgium.

Sales of £6,209,000 (2020: £5,027,000) were made to a single customer of the Group.

Total Group revenue made to the top five customers amounted to £22,279,000 (2020: £18,386,000). No other customers were individually material in revenue value.

6. OTHER INCOME

	2021 £'000	2020 £'000
Rents receivable	4	10
Profit on sale of fixed assets	–	5
Other	357	60
	361	75

7. FINANCE (EXPENSE)/INCOME

		2021 £'000	2020 £'000
Interest expense	Bank loans	(170)	(523)
	Amortisation of bank fees	–	(149)
	Fair value adjustment to deferred consideration	–	21
	In respect of lease liabilities	(57)	(84)
less		(227)	(735)
Interest earned		4	22
		(223)	(713)

8. PROFIT BEFORE TAXATION

	2021 £'000	2020 £'000
Profit before taxation is stated after charging:		
Amortisation	1,198	1,170
Depreciation	3,583	3,544

9. DIVIDEND

On 14 July 2021, a final dividend was paid of 2.50 pence per share, amounting in total to £2,349,000 in respect of 2020. Elections by shareholders for scrip dividends in lieu of cash payments resulted in the issue of 319,238 ordinary shares. The Company proposed an interim dividend of 1.15 pence per share payable on 13 January 2022 to shareholders on the register on 3 December 2021 in respect of 2021 and also recommends a final dividend of 2.50 pence per share. The proposed dividend will be paid on 13 July 2022 to members on the register on 6 June 2022. The Company has decided to withdraw the offer to shareholders of taking a scrip alternative to a cash dividend.

10. AUDITOR'S REMUNERATION

	2021 £'000	2020 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	57	50
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	70	61
– tax compliance services	–	16

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.

11. PARTICULARS OF EMPLOYEES

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

	2021	2020
Manufacture and supply of bricks	325	330
Administration	46	52
	371	382

	2021 £'000	2020 £'000
Wages and salaries	15,220	13,742
Social security costs	1,851	1,661
Other pension costs	636	571
	17,707	15,974

Details of Directors' emoluments are shown in the Remuneration Committee Report on page 32.

12. TAXATION

a) Recognised in the income statement

	2021 £'000	2020 £'000
Current tax expense		
Current year	2,171	1,545
Prior year	(78)	(10)
	2,093	1,535
Overseas tax	–	203
Deferred tax		
Origination and reversal of temporary differences:	1,475	200
Total income tax charge in the income statement	3,568	1,938

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2020 higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below.

	2021 £'000	2020 £'000
Reconciliation of effective tax rate		
Profit before taxation	9,697	6,871
Income tax using the domestic corporation tax rate	1,842	1,305
Effects of:		
Expenses disallowed	227	64
Share option expense not taxable	–	(93)
Rate changes	1,472	454
Fixed asset differences	(65)	(6)
Change to prior year estimate	4	(55)
Disallowed depreciation	–	220
Difference in overseas tax	88	49
Amortisation of intangible assets	–	44
Other timing differences	–	(44)
	3,568	1,938

c) Factors affecting future tax charges

The tax rate of 37% includes the impact from the adjustment of the Group's net deferred tax liabilities following the change announced in the UK Government's 2021 Budget that will increase the standard rate of UK corporation tax from 19% to 25% which is effective from 1 April 2023, offset by the super deduction on qualifying capital expenditure in the year.

As at 31 December 2021, the Group had £785,000 further tax losses carried forward (2020: £784,000).

A deferred tax asset has not been recognised in respect of £127,000 (2020: £96,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

13. INTANGIBLE ASSETS

	Goodwill £'000	Customer lists, order book and brand £'000	PPC license £'000	Total £'000
Cost or valuation				
As at 1 January 2020	6,891	18,994	75	25,960
As at 31 December 2020	6,891	18,994	75	25,960
As at 31 December 2021	6,891	18,994	75	25,960
Amortisation				
As at 1 January 2020	–	3,336	34	3,370
Charge for the year	–	1,168	2	1,170
As at 31 December 2020	–	4,504	36	4,540
Charge for the year	–	1,159	39	1,198
As at 31 December 2021	–	5,663	75	5,738
Net book value				
As at 31 December 2021	6,891	13,331	–	20,222
As at 31 December 2020	6,891	14,490	39	21,420

GOODWILL

The goodwill brought forward relates to the acquisition of Freshfield Lane Brickworks Limited in 2010 and of Carlton Brick in 2017. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2021, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections of the brickworks discounted at the Group's weighted average cost of capital. Customer lists, order book and brand values originated in the fair value exercises associated with the acquisitions of Carlton and, in 2019, Floren and are amortised over their expected useful lives.

The key assumptions used in the value in use calculations are those regarding discount rates of 10% post tax (2020: 12%) and revenue and cost growth rates of 3% (2020: 3%). The Group prepares cash flow forecasts as part of the budget process, and these are extrapolated forward for the expected life of the business.

Other than goodwill which arose as a result of a fair value exercise, the values ascribed to the various intangible assets was determined by a third party expert based on the business attributes of the acquired company. The directors have assessed the assumptions made at the time of acquisition and consider that they are still appropriate and that the life of those assets is similar to that anticipated at acquisition such that current amortisation rates are unchanged.

There were no impairment losses recognised on goodwill or other intangible assets during the year (2020: £nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site develop-ment £'000	Motor vehicles £'000	Right-of-use assets £'000	Plant and machinery £'000	Office equipment £'000	Total
Cost or valuation							
As at 1 January 2020	57,801	47	289	1,837	38,470	–	98,444
Additions	366	–	–	212	874	–	1,452
Transfers to inventories	(48)	–	–	–	–	–	(48)
Disposals	–	(47)	(23)	–	(264)	–	(334)
Revaluation deficit	(3,710)	–	–	–	–	–	(3,710)
Revaluation surplus	1,571	–	–	–	–	–	1,571
As at 31 December 2020	55,980	–	266	2,049	39,080	–	97,375
Additions	2,647	–	12	466	1,206	520	4,851
Transfers to inventories	(26)	–	–	–	–	–	(26)
Disposals	–	–	–	(133)		–	(133)
Revaluation deficit	(2,855)	–	–	–	–	–	(2,855)
Revaluation surplus	4,125	–	–	–	–	–	4,125
Currency fluctuation	–	–	–	–	(255)	–	(255)
As at 31 December 2021	59,871	–	278	2,382	40,031	520	103,082
Depreciation							
As at 1 January 2020	8,618	46	235	670	23,527	–	33,096
Charge for the year	1,203	–	28	660	1,653	–	3,544
Disposals	–	(46)	(23)	–	(144)	–	(213)
As at 31 December 2020	9,821	–	240	1,330	25,036	–	36,427
Charge for the year	1,175	–	27	614	1,760	7	3,583
Disposals	–	–	–	(133)	–	–	(133)
As at 31 December 2021	10,996	–	267	1,811	26,796	7	39,877
Net book value							
As at 31 December 2021	48,875	–	11	571	13,235	513	63,205
As at 31 December 2020	46,159	–	27	718	14,044	–	60,948

The Group's freehold land and buildings were valued by the Directors at £48,875,000 at 31 December 2021 (2020: £46,159,000), resulting in a net increase in the revaluation reserve of £1,270,000 (2020: decrease £2,139,000). Deferred tax liabilities were increased by £1,444,000 (2020: decrease £280,000) and have been debited to the revaluation reserve.

The Directors' valuation was guided by review of depreciated replacement cost and a change in review of timescales of potential release of land within the Group's assets.

IFRS 13

Under IFRS 13 companies must disclose greater detail about the assets held at fair value and the valuation methodology. Michelmersh 'fair values' its land and buildings on a range of bases described below depending on the nature of the asset. Fair value is defined as the price that would be received on sale of the asset in an orderly transaction between market participants at the measurement date.

The assets have been valued individually consistent with the principles of IFRS 13. Valuations have been made on the basis of highest and best use which involves consideration of a potential alternative use given current market conditions.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Methodology

IFRS 13 requires the fair values to be categorised in a three level 'fair value hierarchy' based on the inputs used in the valuation.

Level 1 – Quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2 – Use of a model with inputs (other than quoted prices as in Level 1) that are directly or indirectly observable market data.

Level 3 – Use of a model with inputs that are not based on observable market data.

The fair value of Land and Buildings above of £48,875,000 are all derived using Level 3 inputs and there have been no transfers between Levels during the period.

Valuation techniques

Brickwork properties have been fair valued using a cost approach, by assessing the rebuild cost provided by external professional valuers between 2020 and 2021, ascribing a construction industry price inflation factor and applying a remaining life period over the total life of each asset of between 18 and 50 years. These values were confirmed by a third-party valuation in 2021 of Blockleys, Carlton, Freshfield Lane, Floren and Charnwood properties. Mineral reserves were assessed during 2021 and the volumes of 6.1 million tonnes and market rate less extraction costs have been reviewed and subjected to net present value assessments to arrive at current fair value. Similarly, the fair value of landfill assets has been assessed by revisiting external third-party valuations from 2016 based on available landfill voids of 1.9 million tonnes.

The Directors have reviewed the third-party professional valuations conducted in 2021 updating them where they consider conditions have changed in the year.

Sensitivity

The fair value of brickworks land and buildings will be sensitive to changes in construction costs and expected life of the buildings. The net present value of the landfill and mineral deposits uses inputs relating to the market value of landfill and clay and usage levels available that would determine market participants evaluation.

The open market value of the other properties is sensitive to general economic conditions but changes in value will be most highly affected by change in planning status and the period of time estimated to ultimately developed alternative use.

15. SUBSIDIARIES

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

Company	Country of Incorporation	Class of Shares held	% age of holding	Nature of business
Michelmersh Brick UK Limited	England	Ordinary	100	Manufacture Bricks
Floren & Cie NV	Belgium	Ordinary	100	Manufacture Bricks
Carlton Main Brickworks Limited	England	Ordinary	100	Non trading
Dunton Brothers Limited	England	Ordinary	100	Non trading
Charnwood Forest Brick Limited	England	Ordinary	100	Non trading
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non trading
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non trading
New Acres Limited	England	Ordinary	100	Non trading landfill operations
Blockleys Brick Limited	England	Ordinary	100	Non trading
Corswarem BVBA	Belgium	Ordinary	100	Non trading intermediate holding company

There have been no changes in holdings in the year.

16. INVENTORIES

	2021 £'000	2020 £'000
Raw materials	2,846	2,926
Work in progress	2,175	1,747
Finished goods	5,039	5,373
	10,060	10,046

The cost of inventories expensed during the year is £32,079,000 (2020: £27,780,000). The inventory cost disclosed above is used for security of previous borrowings as disclosed in note 19.

17. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2021 £'000	2020 £'000
Trade receivables	9,229	9,841
Prepayments and accrued income	1,322	1,348
	10,551	11,189

The fair value of the trade and other receivables are approximate to their carrying value. The trade receivables disclosed above are used for security of previous borrowings as disclosed in note 19.

Included within trade receivables is £449,000 (2020: £131,000) of receivables past due but not impaired. The Directors do not feel that there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows.

	2021 £'000	2020 £'000
1 – 30 days overdue	324	72
31 – 60 days overdue	99	32
61+ days overdue	26	35
	449	139

The carrying amount of the Group's trade and other receivables are predominantly denominated in sterling. The total cash and receivables category comprises trade and other receivables above together with cash of £8,467,000 (2020: £12,243,000) as shown in the balance sheet, totalling £17,696,000 (2020: £22,084,000).

During the year no provisions were made against any debtors (2020: nil).

18. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2021 £'000	2020 £'000
Trade payables	2,609	2,690
Other taxation and social security	1,585	3,590
Other payables	154	634
Accruals	7,118	5,044
Pension	170	91
	11,636	12,049

18. TRADE AND OTHER RECEIVABLES (continued)

The fair values of trade and other payables are approximate to their carrying value. The total financial liabilities at amortised cost category comprises the above payables excluding other taxation and social security totalling £1,585,000 (2020: £3,590,000).

Trade payables are not interest bearing and are generally settled within terms. Other payables are non-interest bearing.

19. BORROWINGS

Interest rate risk of financial assets and liabilities

Following a voluntary and full prepayment of Term Loan in September 2021 to the sum of £10,688,000 (2020: £10,000,000), the Group did not have any floating rate borrowings (2020: £10,479,000).

The Group's financial assets at 31 December 2021 and 31 December 2020 included cash at bank and in hand for which minimal interest is earned.

Euro denominated indebtedness in Floren is at a rate fixed at inception of the borrowing and amounts to €935,000 at 31 December 2021 (2020: €1,105,000).

The lease liabilities are derived from a fixed rate established on inception of each new lease agreement.

Subsequent to drawing down on the HSBC loan facilities in 2017, the Group entered into an interest rate SWAP agreement with HSBC to fix the LIBOR rate on half of the scheduled Term Loan balance for the life of the Term Loan. The SWAP was cancelled alongside the final repayment of the Group borrowings in September 2021.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2021 of £20,000,000 (2020: £603,000). The facilities are committed until 2024.

The Group currently operates with positive cash reserves. The Group has a £20 million committed Revolving Credit Facility with HSBC which was enlarged and extended in December 2021. If utilised, interest is payable on the borrowing facilities at a margin above SONIA per annum and the Group is subject to a non-utilisation fee. The facilities are secured by a floating charge over all property and assets of the Group both present and future, in favour of HSBC BANK Plc.

Bank loans

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

	2021 £'000	2020 £'000
In one year or less	143	986
Between one and two years	143	986
Between two and five years	428	9,272
Over 5 years	71	228
	785	11,473

19. BORROWINGS (continued)

Lease liabilities

Under IFRS16, contract lease agreements for motor cars, lorries and fork-trucks used by the business are presented as assets and a corresponding liability. The balance outstanding at 31 December 2021 in respect of the right-of-use assets is as follows:

	2021 £'000	2020 £'000
In one year or less	491	530
Between one and two years	86	193
Between two and five years	31	47
	608	770

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.

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

Market risk

Cash flow and fair value interest rate risk

Given that the Group has no current borrowings, and expects that potential utilisation of facilities will be limited in amount and time periods, the Group's interest rate risk is restricted.

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.

Capital management

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

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

Fair value estimation

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

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 £636,000 (2020: £571,000). Amounts unpaid at the year end in respect of contributions amounted to £170,000 (2020: £54,000).

22. DEFERRED TAXATION

Deferred tax at 31 December 2021 relates to the following:

	Losses £'000	Roll-over gain £'000	Intangibles £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost						
As at 1 January 2020	(49)	903	2,773	8,673	(434)	**11,866**
Recognised in income	(5)	(97)	30	199	(50)	**77**
Recognised in other comprehensive income	–	–	–	(280)	–	**(280)**
As at 31 December 2020	(54)	806	2,803	8,592	(484)	**11,663**
Recognised in income	(16)	28	535	909	19	**1,475**
Recognised in other comprehensive income	–	(37)	(13)	1,444	–	**1,394**
Credited to equity	–	–	–	–	10	**10**
As at 31 December 2021	(70)	797	3,325	10,945	(455)	**14,542**

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 £127,000 (2020: £96,000) in respect of unrelieved tax losses.

23. SHARE CAPITAL

	2021 Number	2021 £'000	2020 Number	2020 £'000
Authorised share capital				
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

	2021 Number	2021 £'000	2020 Number	2020 £'000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	95,632,818	19,127	93,943,381	18,789

During the year, the Company issued 1,689,437 new shares (2020: 1,454,380). A total of 319,382 (2020: 228,382) shares were issued in lieu of dividend under the Scrip Dividend scheme, with the remainder issued under Group share option schemes.

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

24. SHARE BASED PAYMENTS

	£'000
Share option reserve	
As at 1 January 2021	1,942
Current taxation credit	274
Charge for the year	882
Released on maturity of options	(624)
As at 31 December 2021	2,474

a) Michelmersh Brick Holdings Plc Group share option schemes

Year of Grant	Exercise price per share	Period of exercise	No. of options as at 31 December 2020	Options exercised in the year	Options granted	Options forfeited/ lapsed in the year	No. of options as at 31 December 2021
2017	nil	December 2020 – December 2021	12,642	(12,642)	–	–	–
2017	nil	December 2022 – December 2023	3,000,000	(800,000)	–	(200,000)	2,000,000
2019	nil	March 2022 – March 2023	86,537	–	–	(7,500)	79,037
2019	nil	March 2026 – March 2027	3,000,000	–	916,712	(1,000,000)	2,916,712
2020	nil	March 2023 – March 2024	95,776	–	–	–	95,776
2021	nil	March 2024 – March 2025	–	–	107,274	–	107,274

The options granted in the year were made under the "Long Term Incentive Plan" and are subject to performance conditions. The conditions relate to EPS targets in respect of the first grant (see Directors Remuneration Committee Report on page 33).

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Period of exercise	No. of options as at 31 December 2020	Options exercised in the year	Options granted	Options forfeited/ lapsed in the year	No. of options as at 31 December 2021
2018	75.1p	August 2018 – August 2021	612,920	(557,557)	–	(6,710)	48,653
2018	75.1p	August 2018 – August 2023	134,217	–	–	–	134,217
2021	112p	March 2023 – March 2024	–	–	752,397	(13,499)	738,898
2021	112p	March 2025 – March 2026	–	–	192,312	(26,785)	165,527

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period.

24. SHARE BASED PAYMENTS (continued)

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

	2021	2018
Weighted average share price	£1.480	£0.82
Expected volatility	27%	30%
Expected dividend yield	3.0%	1.80%
Risk free rate	1.045%	5.00%

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

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

	2021		2020	
	No	**Weighted average exercise price**	**No**	**Weighted average exercise price**
Outstanding as at 1 January	6,942,093	8.1p	8,085,529	13.5p
Exercised	(1,370,199)	30.6p	(1,225,998)	7.3p
Lapsed and forfeited	(1,254,494)	4.0p	(13,215)	66.2p
Granted	1,968,695	53.7p	95,776	–
Outstanding as at 31 December	6,286,095	18.3p	6,942,093	8.1p

The weighted average contractual life for the share options outstanding at 31 December 2021 is 3 years (2020: 3 years).

25. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

Share premium account
The share premium account relates to the excess of issue price over nominal value of shares issued.

Other reserve
Other reserve is made up of the 3 items below:

Share option reserve
The share option reserve relates to the Group Share Option and SAYE Share Option Schemes. Additional details are disclosed in notes 24 and 26 to the financial statements.

Revaluation reserve
The revaluation reserve relates to revaluation of property as disclosed in notes 14 and 26.

Currency reserve
The currency reserve relates to the impact of changes in currency rates used in the translation of opening balances of assets and liabilities of the Belgian subsidiary whose accounts are denominated in Euros. Additional details are disclosed in note 26 to the financial statements.

26. OTHER RESERVES

	Revaluation reserve £'000	Share option reserve £'000	Foreign exchange reserve £'000	Total £'000
As at 1 January 2021	19,506	1,942	133	21,581
Revaluation deficit	(2,855)	–	–	(2,855)
Revaluation surplus	4,125	–	–	4,125
Current taxation credit	–	274	–	274
Deferred taxation on revaluation	(1,404)	–	–	(1,404)
Currency difference	–	–	(216)	(216)
Total comprehensive income	(134)	274	(216)	(76)
Share based payments charge for the year	–	882	–	882
Released on maturity of options	–	(624)	–	(624)
As at 31 December 2021	19,372	2,474	(83)	21,763

27. EARNINGS PER SHARE

	2021 £'000	2020 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders	6,129	4,933
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	94,305,964	93,680,537
Number of dilutive shares under option	3,378,137	5,687,687
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	97,684,101	99,368,224

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is performed to determine the number of share options that are potentially dilutive based on the number of shares that could have been acquired at fair value, considering the monetary value of the subscription rights attached to outstanding share options.

28. RECOGNITION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 31 December 2019 £'000	Currency adjustment £'000	Drawn during the year £'000	Repaid during the year £'000	As at 31 December 2020 £'000
Term Loans	16,350	60	–	(13,334)	3,076
Revolving credit facility drawn during the year	5,100	297	3,000	–	8,397
Lease liabilities	1,215	–	211	(656)	770
	22,665	357	3,211	(13,990)	12,243

28. RECOGNITION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

	As at 31 December 2020 £'000	Currency adjustment £'000	Drawn during the year £'000	Repaid during the year £'000	As at 31 December 2021 £'000
Term Loans	3,076	(62)	–	(2,229)	785
Revolving credit facility drawn during the year	8,397	(240)	–	(8,157)	–
Lease liabilities	770	–	368	(530)	608
	12,243	(302)	368	(10,916)	1,393

29. CONTINGENCIES

There are specific performance guarantees granted by HSBC amounting to £1,683,000 (2020: £1,669,000).

Michelmersh Brick Holdings Plc

Parent Company Financial Statements

Year ended 31 December 2021

Independent Auditor's Report
to the Members of Michelmersh Brick Holdings Plc

Opinion
We have audited the financial statements of Michelmersh Brick Holdings plc (the 'parent company') for the year ended 31 December 2021 which comprise the balance sheet, the statement of changes in equity and the parent company notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2021
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the parent company financial statements section of our report. We are independent of the parent company in accordance with the ethical requirements that are relevant to our audit of the parent company financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
We identified the key audit matters described below as that which are most significant in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement, including those risks that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team.

In addressing this matter, we have performed the procedures below which were designed to address the matter in the context of the financial statements as a whole and in forming our opinion thereon. Consequently, we do not provide a separate opinion on these individual matters.

Key audit matter	Description of risk	How the matter was addressed in the audit
Investment Properties	Investment properties are measured at fair value at each reporting date. Fair value measurement is inherently judgemental.	In order to address this key audit matter, the audit team have performed the following procedures: ● Reviewed third party valuation obtained by the directors in the year, considering the independence and competence of the expert engaged by management to prepare the valuation; ● Considered the appropriateness of the valuation approach with reference to past experience and the broader nature of the business; ● Reviewed and challenged the assumptions used; and ● Where there was no third party valuation performed on a site we have used the insight gained from the sites which did have a third party valuation to assess if the movements presented are reasonable.

Key audit matter	Description of risk	How the matter was addressed in the audit
Investment value	Investment value in the accounts is significant and relates to the purchase of subsidiary companies. The carrying value of these investments is considered for impairment on an annual basis by the directors which requires significant judgment, in particular regarding cash flows, growth rates, discount rates and sensitivity analysis.	In order to address this key audit matter, the audit team has performed the following procedures: ● considered trading performance of the underlying companies; ● our internal experts assessed the appropriateness of the model and the assumptions concerning growth rates and the discount rate; and ● performed sensitivity analysis to stress the future free cash flow calculations.

Our application of materiality

The materiality for the parent company financial statements as a whole ("parent FS materiality") was set at £3,440,000. This has been determined with reference to the benchmark of the parent company's net assets, which we consider to be one of the principal considerations for members of the company in assessing the company's performance. Parent FS materiality represents 5% of the parent company's net assets as presented on the face of the parent company balance sheet. This materiality level was capped at performance materiality for the group.

Performance materiality for the parent company financial statements was set at £2,752,000, being 80% of parent FS materiality. It was set at 80% to reflect the fact that few misstatements were expected in the current period and that there are few judgements with limited areas of estimation.

Conclusions relating to going concern

In auditing the parent company financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the parent company financial statements is appropriate.

Our evaluation of the directors' assessment of the parent company's ability to continue to adopt the going concern basis of accounting included:

- Challenging key assumptions used in the detailed budgets prepared by management to March 2023;
- Considering historical accuracy of budgeting;
- Comparing the actual results to budget for 2021 and post year end results to 2022 budget;
- Considering the sensitivity of the key assumptions and re-assessing headroom after sensitivity analysis performed.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report 2021, other than the group and parent company financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report 2021. Our opinion on the parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the parent company financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 40, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the parent company financial statements
Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We obtained a general understanding of the company's legal and regulatory framework through enquiry of management in respect of their understanding of the relevant laws and regulations. We also drew on our existing understanding of the company's industry and regulation.

We understand that the company complies with requirements of the framework through:

- Engaging with independent advisors to perform regular reviews of procedures in place at sites operated by the group.
- Making note of relevant updates from external experts and updating internal procedures and controls as necessary as legal and regulatory requirements change.
- Given the management structure and reporting lines, any litigation or claims would come to the Directors attention and are considered at Board meetings.

In the context of the audit, we considered those laws and regulations which determine the form and content of the financial statements, which are central to the company's ability to conduct its business, and/or where there is a risk that failure to comply could result in material penalties. We have identified the following laws and regulations as being of significance in the context of the company:

- The Companies Act 2006 and FRS 102 in respect of the preparation and presentation of the financial statements.
- AIM rules and the Market Abuse Regulations; and
- Health and safety, Environmental and Pollution regulations, due to the nature of the Group's operations.

We performed the following specific procedures to gain evidence about compliance with the significant laws and regulations identified above:

- Reviewed the procedures management has implemented over compliance with the regulations.
- Inspected internal health and safety records and external site audit reports.

The senior statutory auditor led a discussion with senior members of the engagement team regarding the susceptibility of the parent company's financial statements to material misstatement, including how fraud might occur. The key areas identified as part of the discussion were:

- Manipulation of the financial statements through manual journal entries.
- Valuation of the investment properties and investments where estimates are made by management.

These areas were communicated to the other members of the engagement team who were not present at the discussion.

The procedures we carried out to gain evidence in the above areas included;

- Testing of a sample of journal entries, selected through applying specific risk assessments based on the parent company's processes and controls surrounding journal entries.
- Challenging management regarding the key assumptions used in the estimates identified above, and comparison to post-year-end data and third-party correspondence as appropriate. Refer to the work performed over our Key Audit Matters above for procedures performed.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matter
We have reported separately on the group financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2021.

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

Kelly Jones
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

Portwall Place
Portwall Lane
Bristol
BS1 6NA

29 March 2022

Company Balance Sheet
as at 31 December 2021

	notes	2021 £'000	2020 £'000
Fixed assets			
Property, plant and equipment	1	513	–
Investment properties	2	37,556	36,453
Investments in subsidiaries	3	58,314	57,990
Total fixed assets		96,383	94,443
Current assets			
Cash and cash equivalents		2,991	3,664
Debtors – amounts falling due within one year	4	433	1,063
Total current assets		3,424	4,727
Creditors: Amounts falling due within one year	5	2,434	2,318
Interest bearing liabilities	6	–	833
		2,434	3,151
Net Current assets		990	1,576
Creditors: Amounts falling due after more than one year			
Interest bearing liabilities	6	–	9,646
Provisions for liabilities			
Deferred taxation	7	5,716	4,524
		5,716	14,170
Net assets		91,657	81,849
Capital and Reserves			
Share capital	11	19,127	18,789
Share premium account	12	16,387	15,678
Other reserves	12	25,850	27,757
Profit and loss account	12	30,293	19,625
Equity shareholders' funds		91,657	81,849

The profit for the parent company was £11,027,000 in 2021 a loss of (£6,081,000) in 2020.

These financial statements were approved by the Directors and authorised for issue on 29 March 2022 and are signed on their behalf by

F. Hanna
Director

P. Sharp
Director

The accounting policies and notes on pages 82 to 88 form part of these financial statements

Statement of Changes in Equity
for the year ended 31 December 2021

	Share capital £'000	Other reserves £'000	Share premium £'000	Profit and loss account £'000	Total shareholders funds £'000
As at 1 January 2020	18,498	31,024	15,397	22,197	87,116
Loss for the year	–	(3,383)	–	(2,291)	(5,674)
Shares issued during the year	44	–	85	–	129
Share based payment	–	1,099	–	–	1,099
Released on maturity of options	200	(983)	–	783	–
Dividend paid	47	–	196	(1,064)	(821)
As at 31 December 2020	**18,789**	**27,757**	**15,678**	**19,625**	**81,849**
Profit for the year	–	(2,380)	–	12,545	10,165
Other comprehensive income	–	215	–	–	215
Shares issued during the year	114	–	307	–	421
Share based payment	–	882	–	–	882
Released on maturity of options	160	(624)	–	464	–
Dividend paid	64	–	402	(2,349)	(1,883)
Transfer from revaluation reserve	–	–	–	8	8
As at 31 December 2021	**19,127**	**25,850**	**16,387**	**30,293**	**91,657**

Notes to Company Financial Statements

For the year ended 31 December 2021

Accounting Policies – year ended 31 December 2021

Basis of preparation

Michelmersh Brick Holdings plc is a public limited company incorporated in the United Kingdom. The registered office is Freshfield Lane, Danehill, Haywards Heath, West Sussex, RH17 7HH.

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets in accordance with the company's accounting policies.

Advantage has been taken of the s408 Companies Act 2006 exemption from publishing the parent company's individual statement of profit or loss and other comprehensive income.

Property, plant and equipment

Plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

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

Office equipment	–	10% - 33%

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property, is recognised in the profit and loss account in the period of de-recognition.

Investments in subsidiaries

Investments are stated at cost less any provision for impairment in value.

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 substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that their recovery is considered more likely than not.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2021

Financial instruments
Financial assets and financial liabilities are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less.

Financial liabilities and equity instruments issued by the company are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Interest bearing bank loans, overdrafts and other loans which meet the criteria to be classified as basic financial instruments are initially recorded at the present value of cash payable to the bank, which is ordinarily equal to the proceeds received net of direct issue costs. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

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

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

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

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

Notes to Company Financial Statements (continued)
For the year ended 31 December 2021

1. PROPERTY, PLANT AND EQUIPMENT

	Office equipment £'000
Cost	
As at 1 January 2021	–
Additions	520
As at 31 December 2021	520
Depreciation	
As at 1 January 2021	–
Charge for the year	7
As at 31 December 2021	7
Net book value	
As at 31 December 2021	513
As at 31 December 2020	–

2. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2020	39,925
Additions	366
Revaluation deficit	(5,361)
Revaluation surplus	1,571
Transfer	(48)
As at 31 December 2020	36,453
Additions	2,647
Revaluation deficit	(3,224)
Revaluation surplus	1,706
Transfer	(26)
As at 31 December 2021	37,556

Revaluation of fixed assets

A number of the investment properties were valued by Gerald Eve LLP, RICS regulated independent partnership. The remaining investment properties were valued by the Directors.

The properties have been valued on a range of bases including depreciated replacement cost and market value consistent with the methodologies utilised by external valuers in 2020 and during 2021. The calculation assumed that the mineral reserves would last between 18 and 50 year.

3. INVESTMENTS IN SUBSIDIARIES

	2021 £'000	2020 £'000
Cost		
As at 1 January	57,990	58,291
Additions	324	106
Written off	–	(407)
As at 31 December	58,314	57,990

Notes to Company Financial Statements (continued)

For the year ended 31 December 2021

3. INVESTMENTS IN SUBSIDIARIES (continued)

The addition in the year relates to the payment of deferred consideration relating to the acquisition of Floren & Cie in 2019.

The amount written off relates to the investment in a dormant subsidiary, Dunton Brothers Limited where, after a dividend payment to the Company, its net assets fell below the carrying value of the investment.

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

Company	Country of incorporation	Class of shares held	Percentage holding	Nature of business
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non-trading
Michelmersh Brick UK Limited	England	Ordinary	100	Brick manufacturer
New Acres Limited	England	Ordinary	100	Non-Trading Landfill operator
Charnwood Forest Brick Limited	England	Ordinary	100	Non-trading
Dunton Brothers Limited	England	Ordinary	100	Non-trading
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non-trading
Carlton Main Brickworks Limited	England	Ordinary	100	Non-trading
Blockleys Brick Limited	England	Ordinary	100	Non-trading
Floren & Cie NV	Belgium	Ordinary	100	Brick manufacturer
Corswarem BVBA	Belgium	Ordinary	100	Non trading intermediate holding company

The registered office of the UK subsidiaries is at Freshfield Lane, Danehill, Haywards Heath RH17 7HH Floren's registered office is at Vaartkant Rechts 4, B 2960 Brecht, Belgium.

4. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Prepayments	433	1,063
	433	1,063

5. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Amounts owed by Group undertakings	966	799
Accruals and deferred income	1,468	1,519
	2,434	2,318

6. BORROWINGS

Bank loans are due for repayment as follows:

	2021 £'000	2020 £'000
In one year or less	–	833
Between one and two years	–	986
Between two and five years	–	8,660
	–	10,479

7. PROVISIONS FOR LIABILITIES

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

	2021 £'000	2020 £'000
At 1 January	4,524	4,453
Prior year adjustment	(5)	(56)
Revaluation	862	(406)
Increase in deferred taxation	335	533
At 31 December	5,716	4,524

The provision for deferred taxation consists of the tax effect of temporary differences in respect of excess of taxation allowances over depreciation on fixed assets and revaluation surpluses, as well as the impact of the changes in UK tax rates.

8. DIVIDEND

On 14 July 2021, a final dividend was paid of 2.50 pence per share, amounting in total to £2,349,000 in respect of 2020. Elections by shareholders for scrip dividends in lieu of cash payments resulted in the issue of 319,238 ordinary shares. The Company proposed an interim dividend of 1.15 pence per share payable on 13 January 2022 to shareholders on the register on 3 December 2021 in respect of 2021 and also recommends a final dividend of 2.50 pence per share. The proposed dividend will be paid on 13 July 2022 to members on the register on 6 June 2022. The Company has decided to withdraw the offer to shareholders of taking a scrip alternative to a cash dividend.

9. PARTICULARS OF EMPLOYEES

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

	2021 No.	2020 No.
Management and Administration	23	25

	£'000	£'000
Wages and salaries	3,035	2,208
Social security costs	362	277
Other pension costs	81	61
	3,478	2,546

Details of Directors' emoluments are shown in the Remuneration Committee Report on page 35.

10. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated December 2021. At the end of the year total Group bank borrowings were £nil (2020: £10,479,000).

Notes to Company Financial Statements (continued)
For the year ended 31 December 2021

11. SHARE CAPITAL
Group disclosures on page 69 of the Group accounts are appropriate to the Company.

Authorised share capital	2021 Number	2021 £'000	2020 Number	2020 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2021 Number	2021 £'000	2020 Number	2020 £'000
Ordinary shares of 20p each	95,632,818	19,127	93,943,381	18,789

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

12. RESERVES
Share premium account
The share premium account relates to the excess of issue price over nominal value of shares issued.

Other reserve
Other reserve is made up of the following 3 items:

Share option reserve
The share option reserve relates to the Group Share Option and SAYE Share Option Schemes. Additional details are disclosed in notes 13 and 14 of the company financial statements.

Merger reserve
The merger reserve relates to the premium of fair value of ordinary shares issued on acquisition of a subsidiary over the par value of the shares. Additional details are disclosed in note 13 and 14 of the company financial statements.

Revaluation reserve
The revaluation reserve relates to revaluation of property as disclosed in notes 2 and 13 to the company financial statements.

13. OTHER RESERVES

	Revaluation reserve £'000	Share option reserve £'000	Merger reserve £'000	Total £'000
As at 1 January 2021	**22,244**	**1,942**	**3,571**	**27,757**
Current taxation credit	–	215	–	215
Total comprehensive income	–	215	–	215
Revaluation deficit	(3,224)	–	–	(3,224)
Revaluation surplus	1,706	–	–	1,706
Deferred taxation on revaluation	(862)	–	–	(862)
Share based payments charge for the year	–	882	–	882
Released on maturity of options	–	(624)	–	(624)
As at 31 December 2021	**19,864**	**2,415**	**3,571**	**25,850**

Notes to Company Financial Statements (continued)
For the year ended 31 December 2021

14. SHARE BASED PAYMENTS

Share option reserve	**£'000**
As at 1 January 2021	1,942
Current taxation credit	215
Charge for the year	882
Released on maturity of options	(624)
As at 31 December 2021	2,415

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