MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT 2019

MICHELMERSH
Britain's Brick Specialists

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Strategic Report

Chairman's Statement

Introduction:

Michelmersh has continued to deliver growth and development during 2019 and produced a very satisfying financial performance. Turnover, earnings and cashflow are all positive indicators that have been generated in part by the acquisition of a Belgian business, Floren et Cie nv ("Floren"), but also from the existing business at our five UK based brickworks. The Group ends the year with a broader base of products and geography and with a strong balance sheet, comfortable debt profile and a mature profitable business.

Financial Highlights

The detailed reports that follow expand on the detail behind the financial outcomes, but the table below demonstrates the advances made in 2019 in all key financial metrics.

	2019	2018	Increase
Turnover (£000)	53,523	46,324	15.5%
Gross margin	40.9%	38.9%	2.0%
Operating profit (£000)	10,296	9,122	12.8%
Profit before tax (£000)	9,715	8,505	14.2%
EBITDA (£000)	12,939	10,964	18.0%
Basic EPS (pence)	8.87	6.76	31.3%
Net cash generated by operations (£000)	16,622	11,669	42.4%

all of the above metrics are 'underlying' as defined on page 12

Cash and Net Debt

The Group ended the year with net debt of £7.5 million which is equivalent to 0.60 times underlying EBITDA – (2018 £11.8 million - 1.07 times underlying EBITDA). Net cash generated by operations of £16.6 million, was 42% greater than in 2018 (£ 11.7 million), and was particularly pleasing as the Group continued to operate at high intensity through the year. Cash at the year-end amounted to £15.1 million (2018: £5.2 million).

It is important to note that whilst there are opportunities to invest in process the Group has no committed capital projects at this time.

Through the Floren acquisition, we now have a Euro denominated earnings source that provides a natural hedge for our Euro denominated cash outflows mainly related to engineering components and consultants.

Acquisition

The Floren business was acquired for a gross consideration of £8.7 million including some deferred payments, which represented under six-times historic earnings. Deferred consideration is dependent on performance, but at the first trigger point relating to 2019, the target was easily surpassed. The Group undertook a wide-ranging fair value exercise which has revealed a significant excess of the value of assets less liabilities over the consideration – in accounting parlance a 'Bargain purchase' of £2.4 million that is disclosed separately in the income statement.

The acquisition consideration was funded from existing cash and facilities, but immediately post acquisition the funding base was replenished by increasing the revolving credit facility with our principal banker HSBC, and through a share placing that netted £4.7 million.

Dividend

On 30 June 2019, the Group paid a final dividend in respect of 2018 of 2.14 pence per ordinary share bringing the total dividend for 2018 to 3.2 pence. In January 2020, the Group paid an interim dividend of 1.15 pence per ordinary share in respect of 2019. Despite a significant cash balance and undrawn facilities, the Board has decided to suspend dividends pending the resolution of the economic backdrop created by the coronavirus. We have reviewed a number of measures aimed at preserving cash resources until the present uncertainty is over and we hope to return to normal dividends in due course.

The Board has decided to delay this year's AGM until June given that travel and gathering together may still be difficult in mid-May when we traditionally hold AGMs.

Board and Employees

The success of the Group over recent years has arisen through the diligence and intelligence of its employees, and on behalf of the Board, I extend thanks and congratulations.

Since April 2019, the Board has had only two non-executive directors as we have sought another individual who can bring their expertise to the benefit of the Group. We have identified a well-qualified candidate who will join the board at an appropriate time when economic conditions are more settled.

Outlook

At the time of writing, there are severe macro-economic uncertainties surrounding world trade, Covid-19 and the continued discussions about post arrangements with the EU. Whilst Michelmersh operates in a sector that has long-term political and social support from all quarters and the new chancellor's first budget confirmed this government's support of local authority housing development alongside the private sector there are clearly significant short-term challenges for all UK businesses. Along with other businesses in our sector, we have taken steps to suspend operations at our brick plants in the interests of our workforce.

As noted above, the Group's finances are strong with substantial cash balances and undrawn facilities with a supportive banking partner in HSBC. We have stress tested our forecasts with severe scenarios including loss of sales, reduced output and additional overheads all relating to the impact of coronavirus. We have also examined actions we may take to preserve cash resources and have discussed covenant headroom with HSBC. At this stage the Board remain confident that the Group can overcome the challenges posed by Covid-19.

The UK brick manufacturing sector is mature, logical and has been well-funded and I am confident that Michelmersh will continue to thrive although there will undoubtedly be headwinds this year caused by Covid-19 which will affect our workforce and customers in ways that cannot be accurately predicted as we publish these results. Michelmersh has always emerged stronger through difficulties and I see no reason why this should not be the case now with our committed and able workforce, positive financial position and unique position in the market place.

Martin Warner
Chairman

31 March 2020

Chief Executives' Report

Clay products

Turnover growth of 15% was achieved through 5% like-for-like growth in our established UK business plus turnover from the acquired Belgian business that we describe in detail below.

Management continue to seek higher margins through operational improvements and investment and has increased gross margin by 2% in 2019 over 2018. Again, this improvement came from existing businesses allied to strong margins generated by the Belgian subsidiary.

Michelmersh stays very close to customers and suppliers and in that way, seeks to respond quickly to changes in markets and technology.

Since restructuring operations in 2018, the performance of the Michelmersh plant in Romsey that was struggling in 2017, has exceeded our expectations. The restructured operation has settled down into an efficient plant and has increased output of machine-made bricks through 2019 and has quadrupled contribution on 5% more turnover. This performance is a credit to the local workforce and management.

Performance

As noted in previous years, IT was again at the forefront of our commercial approach. During Q3 the Group embarked on developing and implementing a new CRM system. The objective was to deliver a new system through 2020. This new software will give the Group a greater understanding and management of our customer requests and orders. The new system which is currently being stress tested by the team will also lead to improved levels of customer service with enhanced planning and visibility.

In addition to new IT projects the Group continued to improve our innovative Building Information Modelling (BIM) product files through **bimbricks.com**, our one-stop website for designers, contractors and BIM managers to visit, explore and interact with files and product information for free.

bimbricks.com is an important strategic offering for the Group, remaining at the forefront of industry modernisation by continuing to lead the way in offering intuitive, informative and supportive product data files.

Strong, efficient distributor support and key supply chain relationships played a significant part in delivering the successes of 2019. The Group remains committed to supporting the role of our merchants and distributors. During the coming year the Group will continue to develop this network of suppliers, ensuring excellent customer service and closer business to business interaction.

In line with our Board strategy, 2019 saw the Group continue its "balanced market" approach by delivering to sites throughout the UK and Europe. This approach meant the Group covered a broad cross section of sectors ranging from RMI, housing, commercial & regeneration projects.

Stunning facades, inspired architecture and enhancing the built environment was again at the forefront of 2019. Notable projects included award winning homes in St. John's Gardens, Sandbach Heath, a superb urban regeneration scheme at Belle Vue, Hampstead Green Place and a new educational facility for the Royal College of Pathologists in E1. The Caxton in Buckingham Green highlighted inspired design with beautiful facades, but more importantly showcased our products being used in complex off site prefabrication scenarios.

The Group continues to forge a crucial role in the renaissance of brick as it begins a new decade with brands that have evolved to create some of the most popular products and prestigious projects used in today's built environment.

Strong, focused support of students was an important part of 2019. During 2019 the Group supported British bricklaying candidate, Lewis Greenwood, on his journey to representing the UK at the 45th WorldSkills competition held in Kazan earlier this year. As Britain's Brick Specialists, the Group is committed to lead the way by donating products, giving Continuing Professional Development (CPD) presentations, offering factory tours and generally supporting students, colleges and vocational courses across the country. Our goal is to aid in the process of training and educating our next generation of promising young bricklayers since they are the future of the construction sector.

Strategic Report
(continued)

In 2020 the Group launched its educational support programme ‘Pledge 100’. As a business we pledge to donate 100,000 bricks to bricklaying colleges up and down the country in support of NVQ training. Commitments such as the Pledge 100 initiative demonstrate the Group's commitment to educating the brick layers of tomorrow.

Floren
On 15 February 2019 the Group completed the acquisition of Floren et Cie nv (“Floren”) after an accelerated due diligence process. With acquisition opportunities limited in the UK, the Board looked further afield and targeted the northern European market. Floren was a family owned manufacturer of a wide range of high-quality bricks with a very efficient manufacturing process, a strong customer base and a loyal workforce with a culture consistent with that of Michelmersh. The wide product range was consistent with the UK business and 25% of output makes its way to the UK via a UK based brick factor. On a like for like basis, the business performed better in 2019 than in 2018 and prospects for future high performance are strong. The Board welcomes the Belgian team to the Group and thanks them for their contribution.

Capital expenditure on a staff welfare block were completed post acquisition and we are assessing plant repair and improvement programmes alongside local management.

Management systems
The group further strengthened its sustainability profile and management systems in 2019 with ISO 9001 at Carlton and the award of the prestigious RoSPA Diamond Level for health and safety performance covering all UK sites. All of our factories and products are now accredited to a fleet of national and international ISO standards.

Staff development
2019 was another exciting year for staff development, with the launch of our new fully integrated HR & Payroll system to all staff. This has provided all our staff greater visibility and functionality as well as providing managers with more facilities to manage and develop their teams.

Although there is a legal requirement for us to engage with staff, we have tried to move beyond simply focusing on regulatory compliance, by promoting and embedding responsible practice and behaviours across the Group to all staff. One of the ways we have looked to achieve this, is by establishing and launching our Core Company Values – Integrity, Respect, Innovation and Sustainability – IRIS. As a company we have strong moral and ethical principles and so by actively promoting and encouraging staff to follow and adhere to these values, helps create a more supportive, trusting and healthier environment for all our staff to work and flourish in.

Following the introduction in 2018 of Personal Development Programmes (PDP’s) we have redesigned the format for 2019 to make the PDP’s more streamlined and more person-centric to give staff the opportunities to grow and develop. We believe employee engagement consists of two-way commitment and communication between us and our staff and so looking ahead we are reviewing further ways we can listen, consider and respond to all our staff at all levels.

Land Assets
The long-term prospects of the Group’s business depend on obtaining and securing mineral reserves. This process is technically demanding and time-consuming and continues in the background to current brick manufacturing.

The strong recovery of the Michelmersh plant detailed above has confirmed the likelihood that the option to extract mineral from land adjacent to the brickworks at Romsey will be exercised, providing mineral reserves that preserve the brickmaking at the site for 20 years.

Preparatory work and satisfaction of planning conditions are now largely in place to allow the commencement of the construction of a new road at Telford. This will release the remainder of the in-ground mineral for the Blockleys brickworks and ultimately leading to the restitution of the site and unlock land development opportunities.

The land adjacent to the current operational quarry at Carlton holds mineral resources that provide additional longevity to the brickworks. Planning procedures and dialogue with interested parties have commenced to secure the mineral which is important in the context of the future investment in the plant.

At Floren, regulatory consent for future mineral extraction from land within our ownership has further cemented the working life of the plant.

Opportunities for development or disposal of ancillary land continue to be pursued at all sites alongside our mineral extraction and restitution responsibilities.

Plant and machinery
Capital expenditure on plant in 2019 was lower than in previous years as previous investment projects are bedded in and upcoming investments are evaluated and scheduled. Evaluation of these longer-term projects run alongside the continual ongoing repair, replacement and improvement to existing plant always with a view to increase efficiency around the Group's two largest input costs – energy and labour – but also to improve the safety and well-being of our employees.

At Carlton, the installation and commissioning of the new robotic kiln unloading and packaging equipment was completed in 2019. This futureproofing has significantly improved the efficiency of the plant and has increased unloading capacity by 25%, allowing opportunity for future expansion, while reducing the use of plastic packaging by more than 40%. With Phase I investment complete, we turn attention to other operations and evaluation of returns and technical specification of further investment are well advanced.

A long-running evaluation of automation at Freshfield Lane is showing positive progress that investment may yield expansion and operational efficiency gains.

Charity
The Group believes it has a corporate responsibility to contribute to charities across the country, donating funds, food products, children's toys, resources and a wealth of clay products to deserving institutions and organisations that require aid and support.

The Group has continued to support over 40 different community-based charities during 2019 including many local to its operations. These charities include the Salvation Army, British Heart Foundation, Save the Children, Cancer Research, Variety, Barnardos, Guide Dogs for the Blind, Hospice and many more.

Outlook
We approach 2020 with concern and determination. There are challenges around the potential disruption arising from coronavirus. The first quarter of 2020 was in line with forecast until we decided to suspend operations, despite appalling weather conditions and the looming threat of disruption from the virus. Recent events have challenged our long-standing contingency plans and we have developed specific tactics to deal with the disruption caused by Covid-19, which have included the temporary suspension of operations. We have stress tested our budget and whilst we are satisfied that we have adequate resources to ride out a difficult trading period, we have also identified mitigating actions to preserve cash resources. We are monitoring the situation and the welfare of our staff closely.

Michelmersh has a strong profile and established market presence, is well structured and has become broader based through acquisitions in recent years. Our significant resources include its skilled, committed and experienced workforce, efficient and well invested plant and significant mineral reserves and our strong balance sheet and financial base. We are also heavily embedded in the repair, maintenance and improvement sector. The Board look forward to continued progress in the coming years.

Frank Hanna, Peter Sharp
Joint Chief Executives

31 March 2020

Strategic Report
(continued)

Sustainability

Sustainable products = **sustainable** architecture = **sustainable future**

Using **modernised production methods** that emphasise **sustainable building solutions** and adhere to the most **stringent production requirements**, Michelmersh guarantees **high quality** product standards with a **low ecological footprint**.

1152 solar panels installed producing **25%** of electricty for Floren

All group sites operate independently verified management systems.

Our local products travel on average **60 miles** from factory to site

Clay products have a life span of atleast 200 years and can be **re-used** and **re-cycled**

500+ acres encouraging the re-introduction of **habitats** and **wildlife** to allow nature reserves to flourish

Overview & Corporate Goals

Sustainability is key for Michelmersh as it strongly upholds its responsibilities to nurture our land and the environment around us. Through rolling investment programs its modernised plants are streamlined and automated, maximising efficiency and product output.

- Our pledge to education includes donating 100,000 bricks each year to bricklaying courses across the Country to support education.
- All works managers are trained to NEBOSH: General Certificate.
- All Department Managers are trained to IOSH: Managing Safely.
- 5.5% of our UK workforce currently engaged in apprenticeships covering all areas of the business from Business Administration to Operational Performance to Engineering.
- 89% of our apprenticeship training is at Level 3 or above.
- Continue to provide local products to local communities.
- Achieve zero workplace accidents.
- Continue to lead the industry in reduction of plastic packaging.
- Increase the amount of recovered water through rain water harvesting measures.
- Reduce waste in every sector of the production process.
- Improve energy efficiency by investing in new equipment and process control.
- Continue to invest in alternative, renewable sources of energy production.

Strategic Report
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The Group's substantial programme of continuous improvements saw an **investment** of almost **£3m** over the last 24 months of which **67%** directly resulted in **improvements in energy efficiency**.

Investment in new de-hacker and packaging line machinery in 2019 has **reduced** the amount **plastic packaging** on Carlton brick products by **42%**.

More than **60%** of the Group's products are made in factories using **re-cycled** and/or surface **rain water**.

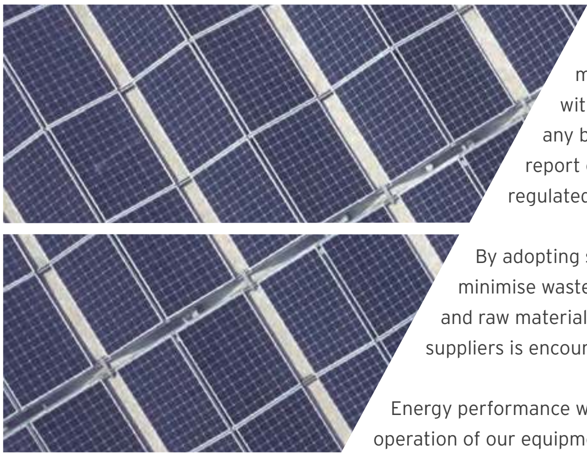
Over **80%** of the Group's raw materials are sourced from **less than 2.5km** of our manufacturing plants.

The Group runs a fleet of 9 **FORS certified** delivery lorries which are regularly renewed to ensure they meet all the **latest efficiency** and emissions requirements.

100% of Michelmersh, Freshfield Lane and Carlton delivery pallets are sourced **second-hand** and intended for **multiple re-use**.

100% of UK products are supplied from factories certified under the **BES 6001** Responsible Sourcing standard, **ISO 14001** Environmental, **ISO 50001** Energy and **ISO 9001** Management Systems. **100%** of Floren products are independently certified to national standards.

WATCH OUR SUSTAINABILITY VIDEO & LEARN MORE ABOUT MICHELMERSH'S PRODUCTS



The company is committed to the protection of the environment, biodiversity, ecosystems, and minimisation of pollution. We will ensure compliance with all legal, regulatory and other obligations; report any breaches transparently; and will monitor, control and report our relevant greenhouse gas emissions in line with our regulated targets.

By adopting sustainable resource and energy planning, we aim to minimise waste and ensure efficient use of energy, resources, water and raw materials. Where practical, the use of local materials and suppliers is encouraged.

Energy performance will be a key factor in the design, purchase and operation of our equipment, vehicles and services.

Our Environment, Energy and Responsible Sourcing policies operate in conjunction with other company policies and procedures, including Health and Safety, Quality, Code of Ethics, Corporate Governance, Bribery, Sponsorship and Charitable Donations.

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 also operated a landfill site which generates income and fulfils obligations of restitution of the land following clay extraction used in the manufacturing process although landfill operations have now ceased 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 return 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 ("**KPI's**") 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 KPI's include revenue, average selling price costs of production and a range of other items that are discussed in the Chief Executive's Statement on pages 4-6.

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 challenge 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, specification and commercial sectors, and in this way are never overly reliant on one particular sector.

Besides the threats related to coronavirus, there are sector specific concerns, with ongoing uncertainty over the outcome of the Brexit process and its aftermath. All political parties are in support of residential development and the current government seems intent on promoting housebuilding and is expected to continue to provide incentives for housebuilders. In general, commentators suggest housebuilding will continue at the higher levels reported recently and as a consequence, brick manufacturing businesses should see continued healthy activity. Energy cost stability assists in the attempts to keep inflation on input cost at low levels. Brick imports have for many years been a characteristic of the UK industry and are considered to be a permanent feature in the UK market despite currency issues and Brexit concerns. Brick imports that make up 20% of UK bricks used, may suffer from tariffs and trade restriction that are likely to result from our changing international trading relationship.

The Directors consider the prospects for the Group to be encouraging through increased efficiency as a result of past and ongoing investment.

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

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.

Section 172(1) Statement
Each individual director must act in the way he considers, in good faith, would be the 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

- long term consequences of any decisions
- 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.

In this regard, the Directors identify

1. <u>Key Issues and stakeholders;</u> 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. The acquisition of Floren allowed the Group to continue its growth by diversifying into a new geographical region but within the expertise of the existing management team.

2. <u>Methods of engagement:</u> 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. <u>Effect on decisions and strategies:</u> 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.

The most significant event during 2019 was the acquisition of the Belgian brick plant, Floren. The Board took the decision mindful of the interests of the shareholders and employees who would benefit from continued growth of the business with a mitigated risk of funding. Whist more debt accompanied the acquisition, an immediate post acquisition fund raise balanced out the risk at a time of historically low interest rates and a minimal discount on the share issue price. Senior managers have welcomed the opportunity to expand their responsibilities and are mindful that the Group has a broader base and more opportunity as a result.

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.

Key Risks:
Covid-19: At this present time, the key risk to the business is economic disruption caused by Covid-19. As described in the Chairman's and Chief Executive's Statement, we have taken steps to protect the business and with significant cash resources and a supportive banking partner, expect to resume normal trade in due course.

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 on environmental reporting and performance will stimulate energy efficiency and continuous Improvement in environmental performance.

Input prices: Energy 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: Product specification and quality are keenly monitored to ensure that output meets the market demand.

Financial Review
The financial performance of the Group are displayed on pages 29 to 59 of the financial statements. The Board have produced the following analysis to exclude certain items that are exceptional or non-recurring that they consider do not reflect the underlying performance of the business, along with explanatory notes.

Strategic Report
(continued)

Financial Review
Alternative performance measure reconciliation

	notes	Year ended 31-Dec-19 £000	Year ended 31-Dec-18 £000	2019/ 2018
Turnover		53,523	46,324	15.5%
Reported Gross Profit		21,905	18,019	21.6%
Cost of sales adjustment re Floren brick stocks	1	1,085	–	
	1	(1,033)	–	
IFRS16 impact	2	(42)	–	
Underlying Gross Profit		21,915	18,019	21.6%
		40.9%	38.9%	2.0%
Reported Operating profit		11,065	7,054	30.5%
Add back – exceptional costs of plant restructure in 2018		–	930	
– exceptional costs relating to the acquisition of Floren	3	(1,856)	–	
Treat Planbaten as Exceptional	4	(103)	–	
To adjust Floren Depreciation and stock adjustments	1	52	–	
Amortisation of intangibles	5	1,166	1,138	
IFRS16 impact	2	(28)	–	
'Underlying' operating profit		10,296	9,122	12.8%
Finance costs – reported		(698)	(617)	
– exclude IFRS16 charge	2	117	–	
'Underlying' profit before taxation		9,715	8,505	14.2%
'Underlying' operating profit (as above)		10,296	9,122	12.8%
IFRS16 impact	2	(670)	–	
Depreciation		3,313	1,842	
'Underlying' EBITDA		12,939	10,964	18.0%
Reported Basic EPS		9.41p	5.78p	62.8%
'Underlying' Basic EPS		**8.87p**	**6.76p**	**31.2%**
Net cash Generated by operations		16,622	11,669	42.4%

Notes:

1 Cost of sales adjustment re Floren brick stocks: Under statutory account treatment, brick stocks are acquired at 'fair value' – ie their resale value. To reflect the underlying trading profit, an adjustment of £1,085,000 has been made to replicate the gross profit as if the brick stocks were sold under normal trading conditions.

In addition there is an almost equal value adjustment to match Floren stock valuation policy with that of the existing Group accounting policy to increase brick stock value by £1,033,000 Michelmersh value finished goods (brick stocks) at cost of production plus absorption of overheads associated with the brick plant. Floren accounting policies apply a lower element of overhead absorption and so an adjustment is made on consolidation to reflect the Group basis of valuation and entailed an uplift as at 31 December 2019 in the statutory accounts. This uplift is excluded from the 'underlying' Gross profit above.

2 IFRS16 has been adopted in the financial statements for the year ended 31 December 2019 which entails a different accounting treatment for operating leases. This adjustment is to allow fair comparison with the comparative metric.

3 The bargain purchase and costs of acquisition relating to Floren are excluded from this analysis as they are non-recurring.

4 Floren received an exceptional credit as a result in change of regulatory treatment of land taxes which is non-recurring.

5 Amortisation of intangible assets is excluded for this purpose as it is widely accepted by investment analysts that earnings measurements excludes amortisation of intangibles.

Strategic Report
(continued)

Cash and net Debt

The Board has consistently adopted a prudent cash/debt strategy for some time. A strong balance sheet and balanced/positive net debt position offers the ability to take advantage of opportunities as they arise. Both the Floren and Carlton acquisitions were achieved swiftly and effectively through cash reserves and low debt ratios. We strive to work down debt and have been particularly successful in that during 2019 whilst making the Floren acquisition. Net debt at 31 December 2019 was well below our targeted one-times EBITDA and this now affords opportunities to invest in the business, and be in a position to take advantage of opportunities as they arise and gives protection against economic uncertainty around Brexit, coronavirus and threats surrounding world trade.

Viability and going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Chief Executives' Review on pages 2 to 6. In addition, note 19 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk. The company meets its funding requirements through a combination of cash balances, a term loan and a revolving credit facility.

Covid-19 is affecting our business, but our financial foundations and actions taken to preserve cash resources, along with support from our bank suggest that we have sufficient reserves to ride-out the current circumstances. As such, 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.

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

Approved by the Directors on 31 March 2020

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Corporate Governance

Chairman's Statement
Michelmersh Brick Holdings Plc's ("Michelmersh" or the "Company") shares are quoted on the AIM market and as from 28th September 2018 all AIM companies were required to adopt a recognised corporate governance code. The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"), and the board of the Company (the "Board") has taken the opportunity to review its guiding principles of delivering growth, maintaining a dynamic management framework and building trust.

The Company supports all 10 principles of the QCA Code and applies these principles in its operations through the Board.

The Group undertakes to at all times act as a responsible corporate citizen. Through its employees, the Group will act fairly, openly, professionally and politely towards all stakeholders in all areas of activity. We will 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.

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.

Feedback from stakeholders allows the board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business.

Engagement with stakeholders
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. 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.

The Group holds a diverse database of more than 2,500 suppliers, typically 30% of these will be engaged 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.

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. 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.

Corporate Governance
(continued)

Board of Directors

Martin Warner MSc FRICS Chairman
Martin founded Michelmersh with the former Chairman Eric Gadsden in 1997 and served as Chief Executive from that date until 31 December 2015 when he became Deputy Chairman and subsequently Chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors. He is a member of the Remuneration Committee and chairs the Nomination Committee. He is Chairman of the Brick Development Association and a non-executive director of Aberforth Smaller Companies Trust plc.

Bob Carlton-Porter Non-Executive Director
An Associate of the Chartered Institute of Bankers, a Fellow of the Association of Corporate Treasurers, and a Fellow of the Chartered Institute of Marketing, Bob is an international industrialist with over 40 years' experience as a financial and commercial director. Following positions in banking, the food and commodity industry he joined Hoechst AG in finance and treasury, leaving to join English China Clays PLC as Group Finance Director. Over the past years he has chaired listed companies in the property sector latterly Newport Holdings PLC, ARAM Resources PLC and ROK Plc. Bob is chairman of the Audit and Remuneration Committees and sits on the Nominations Committee.

Frank Hanna Joint Chief Executive
Frank has over 30 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 and British Ceramic Confederation Frank is also a member of the Institute of Directors.

Peter Sharp BA(Hons) FIMMM MIoD Joint Chief Executive
Peter Sharp has been in the industry for 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.

Stephen Morgan BA ACA Finance Director
Stephen is a Chartered Accountant having trained with KPMG. He was previously Finance Director and Company Secretary at an AIM listed property company where he experienced a range of corporate acquisitions and disposals. He joined Michelmersh in August 2010 as Interim Finance Director and Company Secretary and was appointed as Finance Director and Company Secretary in November 2010.

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.

Corporate Governance
(continued)

Effectiveness
The Board holds a balance of skill, experience and independence with assigned roles that brings corporate teamwork within a framework to maximise the company's long-term performance.

The Chairman is responsible for leading the Board's strategic thinking and evaluation of the business model in the context to the Group's risk model. The business model is developed with contributions from the executives for presentation and challenge by the non-executives in the context of a full Board environment.

Along with most companies, there are a range of key matters that are reserved for the Board as a whole:

- Approval of the Group's long-term objectives and commercial strategy
- Budget and Forecast adoption
- Senior and Board appointment and succession planning
- Approval of annual and interim accounts
- Acquisitions and disposals
- Capital Projects
- Financial partners
- Dividend policy
- Share issue
- Appointment and removal of professional advisers

The Executives report on financial and operational performance at quarterly Board meetings 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.

Interaction with shareholders is conducted by the Executives through results announcement-based presentations to investors, potential investors and investment analysts.

The Board seeks a balance of its three executive directors and its non-executive directors. The chairman co-ordinates the balance of the Board under the guidance of the Non-Executives. Since May 2019, there have been two non-executive directors but as noted above, the need for a third was identified. We have identified a suitable candidate who will be appointed at the appropriate time taking into account the current economic uncertainty. Bob Carlton-Porter is the Senior Independent Director. The non-executives are deemed to be independent in their roles. Martin Warner has been involved in the business since he formed the company 20 years ago but has distanced himself from day-to-day operations and maintains a strong presence in the UK brick manufacturing industry. Bob Carlton-Porter brings a wealth of business experience from international posts over many years and although he has been a non-executive at the Company since 2004, he has maintained a strong and steady role as the Board structure has evolved around him.

The non-executives are committed to devoting adequate time to involvement in the business as required and to attend scheduled Board and Committee Meetings and have the capacity to become more involved for periodic special activity if required.

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; 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. 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. Each of the Committees is comprised solely of non-executive directors, although executives may also be required to attend Committee meetings as required.

Corporate Governance
(continued)

Since the publication of the 2018 Annual Report in March 2019 to date, all Board and Committees Meetings were attended by all their members.

Director	Board Meetings (4 Meetings)	Audit Committee (3 Meetings)	Remuneration Committee (2 Meetings)	Nominations Committee (1 Meeting)
M Warner	4	3	2	1
R Carlton-Porter	4	3	2	1
F Hanna	4	–	–	–
P Sharp	4	–	–	–
S Morgan	4	3	–	–

Each Director maintains and updates his 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.

The Chairman meets regularly with each of the Executives individually and 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.

Nomination Committee
The Nominations Committee reviews the structure and constitution of the Board and plans for succession issues. The balance of the Board is kept under regular review by the Chairman and has undergone considerable change and development over the last 36 months. During 2019, the Committee defined the requirements for an additional Non-executive director and identified Paula Hay-Plumb as the best candidate to join the Board and contribute to the Audit, Nomination, and Remuneration committees.

Audit Committee
The responsibilities of the Audit committee are set out in the terms of reference which are available at www.mbhplc.co.uk/corporate-governance.

The Audit Committee is responsible for the integrity of the Group's financial statements and external reporting of performance. It also has the responsibility for assessing the effectiveness of internal controls.

The Audit Committee meets at least twice a year with Group's Finance Director and the External Auditors to review the interim and annual financial statements, the accounting policies of the Group, in internal financial control procedures and compliance with accounting standards.

The Board considers that the members of the Committee have individually and as a whole have sufficient recent and relevant financial experience to discharge its function. The members of the Committee during 2019 were Bob Carlton-Porter (Chairman) and Martin Warner.

The Audit Committee assists the board in the discharge of its duties concerning the announcement of results, the Annual Report and Accounts and the maintenance of proper internal controls. It reviews the scope and planning, as well as the audit and the auditors' findings and considers Group accounting policies and compliance of those policies with applicable legal and accounting standards.

The Audit Committee also considers the independence of the external auditors.

Corporate Governance
(continued)

Remuneration Committee
The responsibilities of the Remuneration Committee are set out in the terms of reference which are available at **www.mbhplc.co.uk/corporate-governance**.

The Remuneration Committee meets at least twice a year.

The Remuneration Committee determines and approves the policy and remuneration of the Company's Executive Directors. The Committee does not consider the remuneration of the Chairman and Non-Executive Directors of the Board, which are considered by the Executive members and recommended.

The members of the Committee are Bob Carlton-Porter (Chairman) and Martin Warner.

The Committee has established an LTIP scheme of which details are included below.

The Committee granted the Executive Directors an increase in basic salaries of 2.5% February 2019, slightly below the % awarded to all other employees. In February 2020, the Executive Directors waived increases to their basic salaries.

The Committee established a Perpetual Bonus Scheme 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.

Group Remuneration Policy
The employees of the Group should be fairly remunerated and be motivated to perform in the best interests of the business. Consideration is given to industry best practice and how best to reward and retain employees. A range of emoluments are in place to achieve these aims including performance related payments, share option schemes, sharesave schemes and other benefits. The non-executive Directors do not participate in any incentive schemes or share options.

Directors' Emoluments
The emoluments of the individual Directors were as follows:

	Basic Salary 2019 £000	Annual Bonus 2019 £000	Other Benefits 2019 £000	Pension 2019 £000	Total Emol-uments 2019 £000	Total Emol-uments 2018 £000
MR Warner	100	–	2	–	**102**	**101**
R Carlton-Porter	50	–	–	–	**50**	**50**
S Bellamy	23	–	–	–	**23**	**37**
FJ Hanna	205	255	22	–	**482**	**348**
SHP Morgan	185	235	15	–	**435**	**310**
PN Sharp	205	255	19	23	**502**	**359**
	768	745	58	23	**1,594**	**1,205**

Total emoluments including Employer's NI amounted to £1,788,000 (2018: £1,361,000)

The annual bonus is payable dependent on the financial performance of the Group. Other benefits include company cars and fuel, medical cover and sundry benefits.

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

Directors Share options

The following options have met the targets for the relevant period.

	CSOP No	LTIP 2015 No	LTIP 2017 No	Total Options 2019 No	Total Options 2018 No
MR Warner	41,000	–	–	**41,000**	**41,000**
FJ Hanna	41,000	350,000	500,000	**891,000**	**524,334**
SHP Morgan	41,000	300,000	500,000	**841,000**	**491,000**
PN Sharp	–	350,000	500,000	**850,000**	**483,334**
	123,000	1,000,000	1,500,000	**2,623,000**	**1,539,668**

Notes

CSOP: under the Michelmersh Brick Holdings plc 2014 Schedule 4 Company Share Option Plan the options may be exercised at 72.75 pence between July 2017 and July 2024. There are no performance targets associated with the options.

LTIP 2015: nil cost options have been granted under the Michelmersh Brick Holdings Plc Long Term Incentive Plan in 2015 which accrue in incremental annual tranches over 5 years provided EPS targets are achieved. The options disclosed relate to the vested options arising in respect of the years ended 31 December 2019 where targets have been met. The options were exercised in January 2020.

LTIP 2017: In December 2017 a further LTIP was granted of 1,250,000 options to each of the three Executives exercisable at 20 pence each which accrue in incremental annual tranches over 5 years commencing with 2018 provided EPS targets are achieved and the executive remains in office through the five years. 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.

LTIP 2019: In December 2019 a further LTIP was granted of 1,000,000 options to each of the three Executives exercisable at nil which accrue in incremental annual tranches over 5 years commencing in 2022 provided EPS targets are achieved and the executive remains in office through the five years.

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 Directors amounted to £765,000 (2018: £625,000)

Corporate Governance
(continued)

Directors' Report
The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2019.

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 2019 Ordinary Shares of 20p each	31 December 2018 Ordinary Shares of 20p each
M R Warner	4,138,732	4,638,732
R W Carlton-Porter	20,000	20,000
S Bellamy*	–	–
F Hanna	550,000	1,050,000
S H P Morgan	–	–
P N Sharp	104,157	104,157

Analysis of Directors' emoluments for the year and their interest in options in share in the Company is shown in the Remuneration Report on page 18.

* S Bellamy left the board on 25 April 2019.

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

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 18 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 both internally and external and 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 actioned 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 continual professional development (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.

Corporate Governance
(continued)

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

At 31 December 2019, the Group employed 315 male and 30 female members of staff. None of the females were Directors of the Company and 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.

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 £14,000.

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

- There is no relevant audit information of which the Company's auditors are unaware: and
- Each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

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

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

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

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.

Signed by order of the Board

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

Approved by the Directors on 31 March 2020

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Report
(continued)

Directors and Professional Advisers

Directors	M R Warner – Chairman F J Hanna – Joint Chief Executive P N Sharp – Joint Chief Executive S H P Morgan– Finance Director R W Carlton-Porter
Company Secretary	S H P Morgan
Registered Office	Freshfield Lane Danehill Haywards Heath West Sussex RH17 7HH
Nominated Adviser and Broker	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
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 Auditors' 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 2019 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, the general information and the notes to the group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 SME 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.

Material uncertainty related to going concern
We draw attention to the accounting policy in the financial statements concerning the group's ability to continue as a going concern. On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation.

The impact of the COVID-19 pandemic on the business remains unquantifiable at this stage, particularly in relation to implications for the construction industry and wider economy.

These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters
In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

We identified the key audit matters described below as those which were 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 these matters, we have performed the procedures below which were designed to address the matters 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.

Business combinations – assessment of the acquisition accounting in respect of Floren et Cie resulting in a gain on a bargain purchase; and revisions made to the fair value assigned to acquired assets and liabilities.

Key audit matter description
Fair value calculations are inherently judgemental and IFRS 3 requires that consideration is given to the existence and measurement of separable, identified intangibles assets that have been acquired. For the acquisition of Floren et Cie, significant value has been attributed to brand and adjustments made to recognise

the fair value of property, plant and equipment acquired. The valuation of these assets is dependent on a number of factors, including revenue and cash flow forecasts and the application of an appropriate discount rate. Each of these factors is subjective and management engaged independent experts to assist with the valuation.

The acquisition of Floren et Cie resulted in a gain on a bargain purchase. IFRS 3 requires the acquirer to go through a specific process to reassess whether it has correctly valued all of the assets acquired and all of the liabilities assumed.

Response to key audit matter
In order to address this key audit matter, we engaged our valuations specialists who performed the following procedures:

- Evaluated the approach to valuation with reference to the method/model utilized;
- Critically reviewed the assumptions incorporated in the valuation including discount, attrition and royalty rates; and
- Considered the overall valuation of intangible assets identified relative to similar companies in the industry.in addition to the procedures noted above, the audit team has carried out the following testing:
- Considered the expertise and independence of the experts engaged by management;
- Reviewed the intangible asset identified and adjustments to reflect fair value of other assets relative to the requirements of IFRS 3, with consideration to similar transactions observed on other audit assignments;
- Reviewed the trading projections incorporated in the valuation relative to recent trading patterns;
- Considered the implications of reasonable fluctuations in the trading assumptions in addition to the overall basis for residual goodwill; and
- Reviewed management's reassessment of assets acquired and liabilities assumed in relation to the gain on bargain purchase relative to the requirements of IFRS3.

Valuation of land and buildings

Key audit matter description
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.

Response to key audit matter
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
- Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year.

Valuation of inventory

Key audit matter description – raw materials
A significant proportion of the raw materials inventory balance comprises clay stock which is valued based on amounts won net of estimated usage in production over time and as adjusted for periodic third party quantification. No third party review was obtained in the current year.

Response to key audit matter
In order to address this key audit matter, the audit team has performed the following procedures:

– Physical verification of the clay mound for quality purposes;
– Substantive analytical procedures considering brick production volumes relative to year end inventory and dispatches in the year as well as clay utilisation per brick over time; and
– Sensitivity analysis considering the quantitative impact of reasonable fluctuations in the estimates applied.

Key audit matter description – work in progress and finished goods
Finished goods inventory is costed 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. Work in progress is valued as a fixed percentage of finished goods inventories. As a result, the valuation of work in progress and finished good inventory incorporates a degree of judgement.

Response to key audit matter
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 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;
– Analytical review of the appropriateness of stage of completion assumptions with reference to the timespan of the process and work required at each stage;
– Sensitivity analysis considering utilisation in the year, slow moving inventory and reasonable variance in stage of completion.

Key audit matter description – Intangible fixed asset valuation
Intangible assets include Goodwill, Customer Lists and Brand Name. The directors obtained external valuations following the purchase of Carlton, 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 cash flows, growth rates, discount rates and sensitivity assumptions.

Response to key audit matter
In order to address this key audit matter, the audit team has performed the following procedures:

– considered trading performance of the underlying companies;
– assessed the appropriateness of the assumptions concerning growth rates and inputs to the discount rate against historic performance;
– performed sensitivity analysis on the future free cash flow calculations.

Materiality
The materiality for the group financial statements as a whole was set at £3,750,000. This has been determined with reference to the benchmark of the group's net assets, which we consider to be an appropriate measure for a group of companies with significant value in land and buildings which are fundamental to the future trading of the group. 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 key risks in this company are considered to centre on the trading performance and accordingly, materiality has been calculated at 2% of turnover, being £974,000. This has been treated as an element materiality for profit and loss affecting items in the audit of the parent company and group. Thus, a lower level of trading materiality has been factored into our overall conclusions on the consolidated income statement.

Independent Auditors' Report
(continued)

An overview of the scope of our audit
Of the Group's 9 reporting components, we subjected 4 to audits for Group reporting purposes and 1 to specific audit procedures where the extent of the audit work was based on our assessment of the risk of material misstatement and of the materiality of that component. The latter was not individually significant enough to require an audit for Group reporting purposes but was still material to the Group. 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 telephone conference meetings with the component auditors in Belgium. At these meetings, the Group audit team discussed the component auditors' risk assessments and planned audit approach, and, once the audit work was completed, the findings reported to the Group audit team were discussed in more detail by email. In addition to these planned meetings and communications, the Group audit team sent detailed instructions to the component audit teams.

Other information
The other information comprises the information included in the annual report 2019, other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. 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.

In connection with our audit of the group financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the group financial statements or a material misstatement of the other information. 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.

Opinion 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 where 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 22, 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.

Independent Auditors' Report
(continued)

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 group 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 group financial statements.

A further description of our responsibilities for the audit of the group financial statements is located 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 2019.

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.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

31 March 2020

Consolidated Income Statement
for the year ended 31 December 2019

	notes	12 Months 2019 £'000	12 Months 2018 £'000
Revenue	3	53,523	46,324
Cost of sales		(31,618)	(28,305)
Gross profit		21,905	18,019
Administrative expenses		(11,754)	(8,994)
Exceptional restructuring costs		–	(930)
Amortisation of intangibles		(1,166)	(1,138)
		(12,920)	(11,062)
Other income	4	224	97
Exceptional Item – Bargain purchase	14	2,422	–
– Acquisition costs		(566)	–
Operating profit		11,065	7,054
Finance expense	5	(698)	(617)
Profit before taxation	6	10,367	6,437
Taxation	10	(1,763)	(1,452)
Profit for the financial period		8,604	4,985
Basic earnings per share attributable to the equity holders of the company	25	9.41p	5.78p
Diluted earnings per share attributable to the equity holders of the company	25	9.19p	5.57p

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

The accounting policies and notes on pages 34 to 59 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	notes	12 months ended 31-Dec 2019 £'000	12 months ended 31-Dec 2018 £'000
Profit for the financial year		8,604	4,985
Other comprehensive income/(expense)			
Items which will not subsequently be reclassified to profit or loss			
Currency movements		67	–
Revaluation deficit of property, plant and equipment	12	(10)	(42)
Revaluation surplus of property, plant and equipment	12	801	565
Deferred tax on revaluation movement	21	(134)	(115)
		724	408
Total comprehensive income for the year		9,328	5,393

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 34 to 59 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2019

	notes	As at 31-Dec 2019 £'000	As at 31-Dec 2018 £'000
Assets			
Non-current assets			
Intangible assets	11	22,590	22,948
Property, plant and equipment	12	65,348	52,416
		87,938	75,364
Current assets			
Inventories	15	9,761	8,309
Trade and other receivables	16	8,567	8,245
Cash and cash equivalents		15,140	5,255
Total current assets		33,468	21,809
Total assets		121,406	97,173
Liabilities			
Current liabilities			
Trade and other payables	17	9,889	7,065
Lease liabilities		542	–
Interest bearing borrowings	18	3,414	1,770
Corporation tax payable		882	564
Total current liabilities		14,727	9,399
Non-current liabilities			
Interest bearing borrowings	18	18,036	15,310
Lease liabilities		673	–
Deferred tax liabilities	21	11,866	8,670
		30,575	23,980
Total liabilities		45,303	33,379
Net assets		76,103	63,794
Equity attributable to equity holders			
Share capital	22	18,498	17,297
Share premium account	24	15,545	11,643
Reserves	24	23,192	21,788
Retained earnings	24	18,868	13,066
Total equity		76,103	63,794

The accounting policies and notes on pages 34 to 59 form part of these financial statements.

These financial statements were approved by the Directors and authorised for issue on 31 March 2020 and are signed on their behalf by;

F Hanna P Sharp

Consolidated Statement of Changes in Equity

	Share capital £'000	Other reserves £'000	Share premium £'000	Retained earnings £'000	Total £'000
As at 1 January 2018	17,234	20,816	11,495	9,838	59,383
Profit for the period	–	–	–	4,985	4,985
Revaluation deficit	–	(42)	–	–	(42)
Revaluation surplus	–	565	–	–	565
Deferred tax on revaluation	–	(115)	–	–	(115)
Total comprehensive income	–	408	–	4,985	5,393
Share based payment	–	660	–	–	660
Transfer to retained earnings	–	(96)	–	96	–
Shares issued during the year	63	–	148	–	211
Dividend paid	–	–	–	(1,853)	(1,853)
As at 31 December 2018	**17,297**	**21,788**	**11,643**	**13,066**	**63,794**
	17,297	21,788	11,643	13,066	63,794
Profit for the period	–	–	–	8,604	8,604
Revaluation deficit	–	(10)	–	–	(10)
Revaluation surplus	–	801	–	–	801
Deferred tax on revaluation		(134)	–	–	(134)
Currency difference	–	–	–	67	67
Total comprehensive income	–	657	–	8,671	9,328
On acquisition	–	–	–	–	–
Share based payment	–	765	–	–	765
Transfer to retained earnings		(18)		18	–
Shares issued during the year	1,201	–	3,902	–	5,103
Dividend paid	–	–	–	(2,887)	(2,887)
	18,498	**23,192**	**15,545**	**18,868**	**76,103**

The accounting policies and notes on pages 34 to 59 form part of these financial statements

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

	notes	12 months ended 31-Dec 2019 £'000	12 months ended 31-Dec 2018 £'000
Cash flows from operating activities			
Profit before taxation		10,367	6,437
Loss/ (profit) on disposal of fixed assets		247	(15)
Finance expense		698	617
Depreciation		3,313	1,842
Amortisation		1,166	1,138
Bargain purchase		(2,422)	–
Exceptional write down of assets		–	540
Share based payment charge	23	765	660
Cash flows from operations before changes in working capital		14,134	11,219
Decrease in inventories		822	1,159
Decrease/(increase) in receivables		37	(1,311)
Increase in payables		1,629	602
Net cash generated by operations		16,622	11,669
Taxation paid		(2,105)	(1,823)
Net cash generated by operating activities		14,517	9,846
Cash flows from investing activities			
Purchase of subsidiary undertaking	14	(6,202)	–
Purchase of property, plant and equipment		(2,412)	(1,985)
Proceeds of disposal of property, plant and equipment		–	45
Net cash used in investing activities		(8,614)	(1,940)
Cash flows from financing activities			
Proceeds of loan drawdown		5,100	–
Lease payments		(646)	–
Repayment of interest bearing liabilities		(1,990)	(4,520)
Interest paid		(698)	(617)
Proceeds of share issue		4,704	211
Dividend paid		(2,488)	(1,853)
Net cash generated by/(used in) financing activities		3,982	(6,779)
Net increase in cash and cash equivalents		9,885	1,127
Cash and cash equivalents at the beginning of the year		5,255	4,128
Cash and cash equivalents at the end of the year		15,140	5,255
Cash and cash equivalents comprise:			
Cash at bank and in hand		15,140	5,255
Bank overdraft		–	–
		15,140	5,255

The accounting policies and notes on pages 34 to 59 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.

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 2019, with comparative figures for the year 1 January to 31 December 2018.

The companies within the Group during the financial year ended 31 December 2019 are disclosed in note 13.

2. Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the financial years ended 31 December 2019 and 31 December 2018 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 FRS101, 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 adopted by the Company

Amendments to IFRS which apply for the first time in the period
The Group has adopted "IFRS 16 "Leases" for the first time this period. This new standard required additional disclosures which have been provided in note 27.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2019, but are not currently relevant to the Group

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:

- IFRIC 23 “Uncertainty over Income Tax Treatments”
- Amendment to IFRS 9: “Prepayment Features with Negative Compensation”
- Amendment to IAS 28: “Investments in Associates and Joint Ventures”
- Amendment to IAS 19: “Employee Benefits”
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 in “Annual Improvements 2015-2017 cycle”

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2019

Amendments have been made to IAS 1 Presentation of Financial

Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to the definition of material. The new definition will apply for the first time in the next financial year. The amendments clarify the definition of what is material to the financial statements and how to apply the definition.

The amendments will have an impact on the presentation and disclosure in the financial statements. After applying the new definition, the financial statements may have less disclosures as it will enable clearer decisions on materiality to be taken. The additional guidance on the effect, of obscuring information will improve the overall presentation of the accounts.

Basis of consolidation

The financial statements comprise a consolidation of the financial statements of Michelmersh Brick Holdings Plc and all its subsidiaries. Subsidiaries include all entities over which the Group has power over; has rights to variable returns; and has the ability to use its power over the subsidiary to affect the amount of the parent’s returns. 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 loans and cash balances. Additional facilities are in place including a revolving credit facility provided by HSBC Bank Plc.

The Group’s forecasts and projections, taking account of a range of possible impacts of the coronavirus on trading performance, show that the Group should be able to operate within its facilities and have assessed a number of mitigating actions that could be taken in the event of worsening of the impact.

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.

Notwithstanding the above, the Directors recognise that it is very difficult to quantify the full impact of the Covid 19 Pandemic upon the wider economy and the construction industry, and that there therefore exists a material uncertainty that may cast significant doubt upon the Group’s ability to continue as a going concern.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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 (ie 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.

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, represents the difference between the fair values of the consideration and the underlying assets and liabilities acquired. It is initially recognised as an asset and is re-measured taking account of accumulated impairment losses. See note 12 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 within 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.

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

Freehold buildings are revalued annually.

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

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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.

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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.

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

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

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 Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are neither taxable or deductible.

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

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

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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.

Exceptional items
Exceptional line items are presented separately in the income statement where they are considered material to the user of the financial statements.

Notes to the Consolidated Financial Statements
Year ended 31 December 2019

1. 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, exceptional items, 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 2018 and 2019.

2. 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 Carlton. We have key assumptions on the growth rates of revenue and gross margin which impacts the profit assumed and hence cashflow generation at Carlton. 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.	Whilst trading patterns remains the same at Carlton, there is no likelihood of a reduction in the cash flows relating to intangible assets although over a longer period, that may not be true.	No changes
Land and buildings valuation including mineral and landfill assets	The Board value land assets and buildings with guidance from external valuers on a rolling basis. Changes in circumstance both internal to the business and externally can impact the values ascribed in the accounts.	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.	The impact may be sudden if circumstances change.	No changes

2. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Area of estimation	Effect on Financial Statement	Period of impact	Change noted from previous financial statements
Revaluation of plant and machinery on acquisition	The bargain purchase represents the excess of the fair value of assets less liabilities acquired over the consideration. The fair value of plant and machinery acquired with the Floren business was ascribed by a detailed internal evaluation based upon experience, current equivalent replacement cost and judgement, and resulted in an increase in value of €1,000,000 and hence, after allowing for deferred taxation, contributed £850,000 to the profit for the year.	The impact of any variation to the valuation of plant and machinery would impact the income statement in 2019 and future periods through an adjustment to depreciation.	n/a

3. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 31 December 2019. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 34 to 39.

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

The Board assesses the performance of the operating segments based on measures of revenue and profit before tax. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, such as centrally managed costs relating to individual segments and costs relating to land used in more than one individual segment.

The Group comprises the following segments:

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

- Blockleys – based in Telford, Shropshire
- Carlton – based in Barnsley, South Yorkshire
- Charnwood – based in Shepshed, Leicestershire
- Freshfield Lane – based in Danehill, West Sussex
- Michelmersh – based in Romsey, Hampshire
- Floren – based in Brecht, Belgium

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

3. SEGMENTAL REPORTING (continued)

Continuing Activities	2019 Segmental Revenue £'000	2019 PBT £'000	2018 Segmental Revenue £'000	2018 PBT £'000
Building materials				
Blockleys	9,662	3,452	9,770	3,146
Carlton	15,306	7,338	14,692	7,283
Charnwood	3,912	464	3,397	502
Michelmersh	4,838	1,020	4,623	250
Freshfield Lane	16,054	5,810	14,745	5,097
Floren	4,790	547	–	–
Less rebates	(1,039)	(1,039)	(903)	(903)
	53,523	17,592	46,324	15,375
Landfill				
New Acres	–	(16)	–	(18)
	53,523	17,576	46,324	15,357
Inter-segmental revenue and unallocated costs*	–	(9,064)	–	(7,990)
Exceptional costs and Bargain purchase		1,856		(930)
	53,523	10,368	46,324	6,437

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

Other segmental disclosure

	2019 Property, plant and equipment Additions £'000	2019 Property, plant and equipment Depreciation £'000	2019 Intangible fixed assets Amortisation £'000	2018 Property, plant and equipment Additions £'000	2018 Property, plant and equipment Depreciation £'000	2018 Intangible fixed assets Amortisation £'000
Building materials						
Blockleys	533	408	–	274	247	–
Carlton	603	616	1,136	1,436	532	1,136
Charnwood	373	183	–	90	180	–
Michelmersh	1	502	–	20	469	–
Freshfield Lane	340	397	–	165	414	–
Floren	771	607	28	–	–	–
Motor vehicles (Right of use assets) Value in use assets	260	600				
Landfill						
New Acres	–	–	2	–	–	2
	2,881	3,313	1,166	1,985	1,842	1,138

3. SEGMENTAL REPORTING (continued)

Revenue by geographical destination

	2019 £'000	2018 £'000
United Kingdom	50,177	46,288
Europe	3,337	26
Rest of the World	9	10
	53,523	46,324

Revenue by geographical origination		
United Kingdom	48,733	46,324
Europe	4,790	–
	53,523	46,324

Total assets including property, plant and equipment and intangible assets are all held in the UK except £12.1 million of assets relating to Floren in Belgium.

Sales of £5,085,000 (2018: £6,211,000) were made to a single customer of the Group.

Total Group revenue made to the top five customers amounted to £18,800,000 (2018: £19,400,000). No other customers were individually material in revenue value.

4. OTHER INCOME

	2019 £'000	2018 £'000
Rents receivable	23	13
Profit on sale of fixed assets	–	15
Currency gain	164	–
Insurance proceeds	–	31
Other	37	38
	224	97

5. FINANCE EXPENSE

		2019 £'000	2018 £'000
Interest expense	Bank loans	(558)	(627)
	Fair value adjustment to deferred consideration	(67)	–
	Re value-in use assets	(117)	–
		(742)	(627)
less			
Interest earned		44	10
		(698)	(617)

6. PROFIT BEFORE TAXATION

		2019 £'000	2018 £'000
Profit before taxation is stated after charging:			
Amortisation	– other	1,166	1,138
Depreciation	– owned assets	3,313	1,842

7. DIVIDEND

On 10 January 2020, an interim dividend was paid of 1.15 pence per share, amounting in total to £1,064,000 in respect of 2019. Elections by shareholders for scrip dividends in lieu of cash payments resulted in the issue of 228,382 ordinary shares.

8. AUDITORS REMUNERATION

	2019 £'000	2018 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	49	29
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	51	36
– tax compliance services	25	22

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.

9. PARTICULARS OF EMPLOYEES

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

	2019	2018
Manufacture and supply of bricks	319	307
Administration	50	44
	369	351

	2019 £'000	2018 £'000
Wages and salaries	13,177	12,345
Social security costs	1,615	1,282
Other pension costs	531	463
	15,323	14,090

Details of Directors' emoluments are shown in the Remuneration Report on page 42.

10. TAXATION

a) Recognised in the income statement

	2019 £'000	2018 £'000
Current tax expense		
Current year	1,958	1,735
Prior year	(15)	(248)
	1,943	1,487
Overseas tax	212	–
Deferred tax		
Origination and reversal of temporary differences:	(392)	(35)
Total income tax charge in the income statement	1,763	1,452

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2018 higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below.

	2019 £'000	2018 £'000
Reconciliation of effective tax rate		
Profit before taxation	10,368	6,437
Income tax using the domestic corporation tax rate	1,970	1,223
Effects of :		
Expenses disallowed	66	28
Share option expense not taxable	(192)	8
Losses utilised	–	(2)
Depreciation in excess of capital allowances	163	134
Change to prior year estimate	(8)	30
Profit on sale	–	(3)
Difference in overseas tax	23	–
Amortisation of intangible assets		–
Other timing differences	(259)	34
	1,763	1,452

c) Factors affecting future tax charges

The Chancellor has announced that the main UK corporation tax rate will be reduced from the current rate of 19%, which has applied from 1 April 2017 to 17%. The reduction in the corporation tax rate to 19% from 1 April 2017 and 17% from 1 April 2020 was enacted on 15 September 2016. As this rate was enacted at the balance sheet date, and reduces the tax rate expected to apply when temporary differences reverse, it has the effect of reducing the UK deferred tax balance.

As at 31 December 2019, the Group had no further tax losses carried forward (2018: £nil).

A deferred tax asset has not been recognised in respect of £503,000 (2018: £503,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

11. INTANGIBLE ASSETS

	Goodwill £'000	Customer Lists, Order Book and Brand £'000	PPC license £'000	Total £'000
Cost or valuation				
As at 1 January 2018	6,891	18,186	75	25,152
As at 31 December 2018	6,891	18,186	75	25,152
On acquisition	–	808	–	808
As at 31 December 2019	6,891	18,994	75	25,960
Amortisation				
As at 1 January 2018	–	1,036	30	1,066
Charge for the year	–	1,136	2	1,138
As at 31 December 2018	–	2,172	32	2,204
Charge for the year	–	1,164	2	1,166
As at 31 December 2019	–	3,336	34	3,370
Net book value				
As at 31 December 2019	6,891	15,658	41	22,590
As at 31 December 2018	6,891	16,014	43	22,948

GOODWILL

The goodwill brought forward relates exclusively to the acquisition of Freshfield Lane Brickworks Limited in 2010. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2019, 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.

The key assumptions used in the value in use calculations are those regarding discount rates of 10% (2018: 10%) and revenue and cost growth rates of 3% (2018: 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.

There were no impairment losses recognised on goodwill during the year (2018: £nil).

During 2018, the Group acquired 100% of the issued share capital of Floren et Cie.

The intangible assets of Floren were identified and valued by RSM Corporate Finance LLP as brand value at £808,000.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site development £'000	Motor vehicles £'000	Right of use assets £'000	Plant and machinery £'000	Total £'000
Cost or valuation						
As at 1 January 2018	44,414	202	148	–	38,838	83,602
Additions	195	–	–	–	1,790	1,985
Write off of fully depreciated assets	–	–	–	–	(6,537)	(6,537)
Transfers to inventories	(306)	–	–	–	–	(306)
Disposals	–	–	(66)	–	(1,278)	(1,344)
Revaluation deficit	(42)	–	–	–	–	(42)
Revaluation surplus	720	(155)	–	–	–	565
As at 31 December 2018	44,981	47	82	–	32,813	77,923
On adoption of IFRS16	–	–	–	1,370	–	1,370
Additions	1,360	–	10	467	1,044	2,881
Transfers to inventories	(27)	–	–	–	–	(27)
On acquisition	10,640	–	310	–	5,115	16,065
Currency adj	56	–	–	–	8	64
Disposals	–	–	(113)	–	(510)	(623)
Revaluation deficit	(10)	–	–	–	–	(10)
Revaluation surplus	801	–	–	–	–	801
As at 31 December 2019	57,801	47	289	1,837	38,470	98,444
Depreciation						
As at 1 January 2018	5,932	46	98	–	24,900	30,976
Charge for the year	641	–	29	–	1,172	1,842
Disposals	–	–	(65)	–	(709)	(774)
Write off of fully depreciated assets	–	–	–	–	(6,537)	(6,537)
As at 31 December 2018	6,573	46	62	–	18,826	25,507
Charge for the year	866	–	38	670	1,739	3,313
Disposals	–	–	(106)	–	(270)	(376)
On acquisition	1,179	–	241	–	3,232	4,652
As at 31 December 2019	8,618	46	235	670	23,527	33,096
Net book value						
As at 31 December 2019	49,183	1	54	1,167	14,943	65,348
As at 31 December 2018	38,408	1	20	–	13,987	52,416

The Group's freehold land and buildings were valued by the Directors at £49,183,000 at 31 December 2019 (2018: £38,408,000), resulting in a net increase in the revaluation reserve of £791,000 (2018: £678,000). Deferred tax liabilities increased by £134,000 (2018: increase £115,000) and have been credited to the revaluation reserve.

The revaluation surplus in the year ended 31 December 2019 relates to an increase in value of the land and buildings at Freshfield Lane following a Valuation by Gerald Eve LLP on a depreciated replacement cost basis. Gerald Eve valuations also lead to an increase in the investment value of land at Freshfield Lane due to changes in planning status and expectations.

The revaluation deficit in the year ended 31 December 2019 relates to the depreciated replacement cost value of the Telford site.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Included in the net carrying amount of property, plant and equipment are right-of-use assets as follows:

	£'000
Motor vehicles and mobile plant	1,029
Office equipment	138
Total right of use assets	1,167

The Group has lease contracts for office equipment, motor vehicles and mobile plant which have lease terms varying between 3 and 6 years. The group also has certain leases with lease terms of 12 months or less and leases of office equipment with low value. As explained in note 27, the group has applied the recognition exemptions for these leases. The accounting of all Group leases is explained in note 27.

Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 6%.

IFRS13
Under IFRS13 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 IFRS13. Valuations have been made on the basis of highest and best use which involves consideration of a potential alternative use given current market conditions.

Methodology
IFRS13 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 £49,183,000 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 2017 and 2019, ascribing a construction industry price inflation factor and applying a remaining life period over the total life of each asset of between 20 and 50 years. These values were confirmed by a third party valuation in 2015 of Freshfield Lane and Telford properties. Mineral reserves were assessed during 2016 and the volumes of 4.7 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 have been assessed by updating external third party valuations from 2016 based on available landfill voids of 1.9 million tonnes.

Other property comprises land assets that may be treated as Investment properties at some point in the future. The Directors have reviewed the third party professional valuations conducted between 2017 and 2019 and updated them where they consider conditions have changed in the interim period.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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.

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

Company	Country of Incorporation	Class of Shares held	% age of holding	Nature of business
Michelmersh Brick UK Limited	England	Ordinary	100	Manufacture Bricks
Floren et Cie bv	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

No entities have been excluded from the consolidated financial statements.

14. ACQUISITION OF SUBSIDIARY
On 15 February 2019, the Group acquired 100% of the issued share capital of Floren et Cie ("Floren"). Floren is a clay brick manufacturer based in Becht in Belgium. The acquisition has both increased the Group's manufacturing capacity and provided access to a new geographical market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in table below:

	£'000
Inventory*	2,312
Debtors and prepayments*	360
Property, plant and equipment	11,413
Identifiable intangible assets	808
Cash in hand	2,054
Financial liabilities*	(2,012)
Deferred taxation	(3,722)
Total identifiable net assets	11,213
Negative goodwill or Bargain Purchase	(2,422)
Total Consideration:	8,791

14. ACQUISITION OF SUBSIDIARY (continued)

	£'000
Satisfied by:	
Cash	8,256
Deferred consideration	535
	8,791

Net cash outflow arising on acquisition:	
Cash consideration	8,256
Less cash and cash equivalent balances acquired	(2,054)
	6,202

* The fair value of the inventory, debtors and prepayments and financial liabilities equates to their gross cash value.

The property, plant and equipment comprises the freehold land on which the factory stands and the plant and equipment and vehicles operated within the business. The land and mineral reserves were independently valued as at the date of acquisition by Gerald Eve LLP at the values stated, with an uplift to historic cost values of £7.7 million credited to revaluation reserves. Plant and equipment was valued by Group personnel based on market value which resulted in an uplift of £1 million that was also credited to revaluation reserves.

RSM LLP independently valued the company's Brand value as at the date of acquisition and identified its useful life which governs the amortisation profile.

Deferred taxation provisions arise in respect of the valuations of tangible and intangible fixed assets along with those relating to the excess of capital allowances over depreciation.

The deferred consideration comprised enhanced salaries, the issue of new ordinary shares in Michelmersh Brick Holdings Plc or payment of cash subject to the performance of the business for the years 2019 and 2020 up to a maximum payment of €500,000. The first payment of €125,000 in respect of 2019 was paid in February 2020.

Acquisition related costs of £566,000 are disclosed as an exceptional item in the Income Statement on page 28.

The acquisition constituted a 'bargain purchase' in that the fair value of assets and liabilities acquired exceeded the consideration. The consideration was agreed between Michelmersh and the vendors based upon a multiple of earnings and expectation of continued trading outcome for two years. The net assets acquired included land and buildings and plant and machinery that external valuation proved significantly in excess of book values. The valuation of brick stocks at resale value rather than normal accounting policies also contributed to the restatement of net assets acquired.

Floren contributed £4.8 million to the Group turnover and £0.8 million net profit in the period between acquisition and 31 December 2019. If the acquisition of Floren had been completed on the first day of the financial year, Group revenues for the period would have included £5.1 million and the reported Group profit would have been increased by £0.8 million for the period.

15. INVENTORIES

	2019 £'000	2018 £'000
Raw materials	3,970	3,476
Work in progress	1,679	1,558
Finished goods	4,112	3,275
	9,761	8,309

The cost of inventories expensed during the year is £23,969,000 (2018: £25,315,000). The inventory cost disclosed above is used for security of borrowings as disclosed in note 18.

16. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2019 £'000	2018 £'000
Trade receivables	7,238	7,241
Prepayments and accrued income	1,329	1,004
	8,567	8,245

The fair values of the trade and other receivables are approximate to their carrying value. The trade receivables disclosed above are used for security of the overdraft as disclosed in note 17.

Included within trade receivables is £139,000 (2018: £631,000) of receivables past due but not impaired. The Directors do not feel there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows.

	2019 £'000	2018 £'000
30 days overdue	113	353
30 – 60 days overdue	23	186
60 – 90 days overdue	3	92
	139	631

The carrying amount of the Group's trade and other receivables are denominated predominantly in sterling. The total cash and receivables category comprises trade and other receivables above together with cash of £15,140,000 as shown in the balance sheet, totalling £22,378.

During the year no provisions were made against any debtors (2018: nil).

Trade receivables do not carry any 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 the 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.

17. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2019 £'000	2018 £'000
Trade payables	3,248	2,685
Other taxation and social security	1,462	1,272
Other payables	622	144
Accruals	4,465	2,894
Pension	92	70
	9,889	7,065

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 £3,993,000.

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

18. BORROWINGS

Interest rate risk of financial assets and liabilities
The Group has floating rate borrowings of £21,665,000 (2018: £17,080,000), which consist of a bank Term Loan and a Revolving Credit Facility which bear interest linked to LIBOR and deferred consideration linked to bank base rate. The Group's financial assets at 31 December 2019 and 31 December 2018 include cash at bank and in hand for which minimal interest is earned.

The right-of-use indebtedness is at a fixed rate established on inception of each agreement.

At the time of drawing down on the HSBC loan facilities, the Group entered into an interest rate SWAP agreement with HSBC to fix the LIBOR rate on half of the Term Loan balance for the life of the Term Loan.

Borrowing facilities
The Group has undrawn committed borrowing facilities at 31 December 2019 of £3,900,000 (2018: £5,000,000). The facilities are committed until 2023.

The Group currently operates with positive cash reserves. The Group has a £9 million committed Revolving Credit Facility with HSBC. If utilised, interest is payable on the borrowing facilities at a margin above LIBOR 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 UK Bank Plc.

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

	2019 £'000	2018 £'000
In one year or less	3,414	1,770
Between one and two years	4,914	3,270
Between two and five years	12,759	12,040
Over 5 years	363	–
	21,450	17,080

In June 2017, the Group entered into new bank facilities with HSBC which comprised a six year £20 million Term Loan and a 6 year £6 million Revolving Credit Facility ("RCF"). During 2019, in connection with the acquisition of Floren, the RCF was increased to £9 million, and E6 million was drawn down and remains outstanding at 31 December 2019.

18. BORROWINGS (continued)

Borrowings on right-use assets

On adoption of IFRS16, contract lease agreements for motor cars, lorries and fork-trucks used by the business were restated as assets and a corresponding liability. The balance outstanding at 31 December 2019 in respect of right-of-use assets are as follows:

	2019 £'000	2018 £'000
In one year or less	542	–
Between one and two years	434	–
Between two and five years	239	–
	1,215	–

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial instruments

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

Financial risk factors

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

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

20. PENSIONS

Defined contribution Scheme

The Group operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the Group in trustee administered funds. The pension charge for contributions made by the Group to the defined contribution scheme amounted to £531,000 (2018: £464,000). Amounts unpaid at the year end in respect of contributions amounted to £41,000 (2018: £42,000).

21. DEFERRED TAXATION

Deferred tax at 31 December 2019 relates to the following:

	Losses £'000	Roll-over gain £'000	Intangibles £'000	Property plant and equipment £'000	Other items £'000	Total £'000
As at 1 January 2018	–	–	2,920	5,657	13	8,590
Recognised in income	(50)	228	(193)	91	(111)	(35)
Recognised in other comprehensive income	–	–	–	115	–	115
As at 31 December 2018	(50)	228	2,727	5,863	(98)	8,670
Recognised in income	1	(76)	(193)	121	(336)	(483)
Recognised in other comprehensive income	–	(177)	–	134	–	(43)
On acquisition	–	928	239	2,555	–	3,722
As at 31 December 2019	(49)	903	2,773	8,673	(434)	11,866

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 £85,000 (2018 £85,000) in respect of unrelieved tax losses.

22. SHARE CAPITAL

Authorised share capital	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of 20p each	92,489,001	18,498	86,486,113	17,297

During the year, the Company issued 6,002,888 new shares. Of these, 5,555,556 new shares were issued shortly after the acquisition of Floren to rebalance the company's funding after meeting the acquisition costs from existing cash and facilities. A further 415,64 shares were issue in lieu of dividend under the newly introduced Scrip Dividend scheme, with the remainder issued under a Group sharesave scheme and LTIP.

After 31 December 2019 the Company issued 1,000,000 new shares under the Group LTIP scheme and 228,382 new shares were issued under the Scrip Dividend scheme in respect of the 2019 interim dividend.

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

23. SHARE BASED PAYMENTS

Share option reserve	£'000
As at 1 January 2018	1,079
Charge for the year	765
Transferred to revenue reserves on maturity of options	(18)
As at 31 December 2019	1,826

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 2018	Options exercised in the year	Options granted	Options forfeited/ lapsed in the year	No. of options as at 31 December 2019
2014	72.75p	July 2017 - July 2024	123,000	–	–	–	123,000
2015	nil	May 2020 - June 2025	1,000,000	–	–	–	1,000,000
2015	nil	December 2018 - December 2025	36,524	(30,604)	–	(5,920)	–
2017	nil	December 2020 - December 2021	83,213	–	–	(4,481)	78,732
2017	20p / nil	December 2020 - December 2023	3,750,000	–	–	(750,000)	3,000,000
2019	nil	March 2022 - March 2023	–	–	86,537	–	86,537
2019	nil	March 2026 - March 2027			3,000,000		3,000,000

Vesting conditions under the schemes include a three or five year vesting period. Employees may exercise options after they leave employment if exercised within six months of ceasing to be an employee. The exercise period is seven or five years from the vesting date.

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 and the second grant to senior management relate to profitability of the brick business.

The terms of the 2017 LTIP were changed by reducing the exercise price from 20p to nil and by reducing the number of share options from 3.750,000 to 3,000,000.

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No. of options as at 31 December 2018	Options exercised in the year	Options lapsed/ forfeited in the year	No. of options as at 31 December 2019
2015	66.2 p	August 2015 - August 2018	1,087	(1,087)	–	–
2015	66.2 p	August 2015 - August 2020	35,345	–	–	35,345
2018	75.1 p	August 2018 - August 2021	750,250	–	(43,618)	706,632
2018	75.1 p	August 2018 - August 2023	68,065	–	(12,782)	55,283

23. SHARE BASED PAYMENTS (continued)

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £765,000 (2018: £660,000).

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

Weighted average share price	£1.20
Expected volatility	30%
Expected dividend yield	3.2%
Risk free rate	0.43%

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:

	2019		2018	
	No	**Weighted average exercise price**	**No**	**Weighted average exercise price**
Outstanding as at 1 January	5,847,484	25.3 p	5,441,533	21.0 p
Exercised	(31,691)	0.23 p	(314,449)	66.7 p
Lapsed and forfeited	(816,801)	0.23 p	(97,915)	70.0 p
Granted	3,086,537	–	818,315	75.1 p
Outstanding as at 31 December	8,085,529	13.5 p	5,847,484	25.3 p

The weighted average contractual life for the share options outstanding at 31 December 2019 is 4 years (2018: 7 years).

24. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

Share option reserve

The share option reserve relates to the Group Share Option and SAYE Share Option Schemes. Additional details are disclosed in note 22 to the financial statements.

Share premium account

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

Merger reserve

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

Revaluation reserve

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

25. EARNINGS PER SHARE

Earnings	2019 £'000	2018 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders from continuing operations	8,604	4,985
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	91,463,549	86,312,463
Number of dilutive shares under option	2,169,290	2,342,595
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	93,632,839	88,655,058

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.

26. RECOGNITION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 31 December 2018 £000	On acquisition £'000	Drawn during the year £'000	Repaid during the year £000	As at 31 December 2019 £000
Term Loans	17,080	–	–	(1,814)	15,266
On acquisition (see note 14)	–	1,260	–	(176)	1,084
Revolving credit facility drawn during the year	–	–	5,100	–	5,100
On adoption of IFRS16	–	–	1,861	(646)	1,215
	17,080	1,260	6,961	(2,636)	22,665

27. ADOPTION OF IFRS 16

IFRS 16 eliminates the classification for lessees of leases as operating leases or finance leases and treats all in a similar way to finance leases. It replaced IAS 17 Leases and related interpretations.

i. Explanation of changes in accounting policies

The details of the new accounting policies and the nature of the changes to previous accounting policies in relation to the Group's goods and services are set out below:

Type of lease	New accounting policy	Nature of change in accounting policy
Long term property and vehicle leases	Liabilities for such leases are recognised and measured at the present value of the remaining lease payments. For new leases these are discounted using the rate implicit in the lease when readily determinable, for other leases, including those at transition, these are discounted using the incremental borrowing rate ("IBR") relevant for the lease. The weighted average IBR applied to leases at 1 January 2019 was 6%.	Under IAS 17, such lease payments were recognised on a straight line basis over the lease term and the leases were effectively 'off balance sheet'.

ii. Effect of adopting IFRS 16

The Group has adopted IFRS 16 using the modified retrospective method (including appropriate practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2019). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The impact of transition to IFRS 16 on retained earnings at 1 January 2019 wholly relates to the change in policy for the recognition of long term property and vehicle leases as explained above.

This amounts to a decrease in retained earnings as at 1 January 2019, net of tax, of £48,000.

iii. Measurement of lease liability

	£'000
Operating lease commitments disclosed at 31 December 2018	1,246
Leases not previously recognised	295
Restated lease commitments at 31 December 2018	1,541
Discounted using the incremental borrowing rate at 1 January 2019	(171)
Lease liability recognised at 1 January 2019	1,370

28. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Covid-19

Following the announcement made by the UK Government and its measures to restrict the movement of people, as of Monday 30th March, deliveries at all of the Group's plants were suspended during the government three-week review period. The situation will remain under constant review. To protect the Group's employees, stakeholders and assets, the Group has immediately commenced a safe and orderly suspension of its operations. The Group's plants are highly efficient and will be able to quickly return to normal levels of production once restrictions are lifted.

Since the start of 2020 and up until 24th March, the Group has been trading in line with Board expectations. Whilst there is much uncertainty, the Group is in a strong financial position with substantial cash and good covenant headroom. As such, the Board believes the Group is very well protected to see out a period stretching beyond what the UK Government is currently indicating for the pandemic.

The onset of the COVID 19 virus has been treated as a non-adjusting event after the reporting period.

Michelmersh Brick Holdings Plc

Parent Company Financial Statements

Year ended 31 December 2019

Independent Auditors’ 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 2019 which comprise the balance sheet, the statement of changes in equity, the parent company general information and the parent company notes to the financial statements, including a summary of 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 2019
- 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 SME 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.

Material uncertainty related to going concern
We draw attention to the accounting policy on going concern. On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation.

The impact of the COVID-19 pandemic on the business remains unquantifiable at this stage, particularly in relation to implications for the construction industry and wider economy.

These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters
In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 this individual matter.

Valuation of land and buildings

Key audit matter description
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.

Response to key audit matter
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
- Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year.

Key audit matter description – 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 assumptions.

Response to key audit matter
In order to address this key audit matter, the audit team has performed the following procedures:

- considered trading performance of the underlying companies;
- assessed the appropriateness of the assumptions concerning growth rates and inputs to the discount rate against historic performance;
- performed sensitivity analysis to stress the future free cash flow calculations.

Materiality
The materiality for the financial statements as a whole was set at £3,188,000. This has been determined with reference to the benchmark of the company's net assets, which we consider to be an appropriate measure for a holding company with significant value in its asset base. Materiality represents 5% of net assets as presented on the face of the balance sheet.

Other information
The other information comprises the information included in the annual report 2019 other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. 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.

In connection with our audit of the parent company financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the parent company financial statements or a material misstatement of the other information. 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.

Opinion 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.

Independent Auditors' Report (continued)
to the Members of Michelmersh Brick Holdings Plc

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 where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 22 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.

A further description of our responsibilities for the audit of the parent company financial statements is located 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 2019.

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.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

31 March 2020

Company Balance Sheet
as at 31 December 2019

	notes	2019 £'000	2018 £'000
Fixed assets			
Investment properties	1	39,925	33,162
Investments	2	58,291	49,470
Total fixed assets		98,216	82,632
Current assets			
Cash at bank and in hand		9,761	3,674
Debtors – amounts falling due within one year	3	5,138	2,646
Total current assets		14,899	6,320
Creditors: Amounts falling due within one year	4	1,180	762
Interest bearing liabilities	5	3,270	1,770
		4,450	2,532
Net Current assets		10,449	3,788
Creditors: Amounts falling due after more than one year			
Interest bearing liabilities	5	17,096	15,310
Provisions for liabilities			
Deferred taxation	6	4,453	3,602
		21,549	18,912
Net assets		87,116	67,508
Capital and Reserves			
Share capital	11	18,498	17,297
Share premium account	12	15,397	11,495
Merger reserve	12	3,571	3,571
Revaluation reserve	12	25,627	24,970
Share option reserve	12	1,826	1,079
Profit and loss account	12	22,197	9,096
Equity shareholders' funds		87,116	67,508

These financial statements were approved by the Directors and authorised for issue on 31 March 2020 and are signed on their behalf by

Director

The accounting policies and notes on pages 65 to 70 form part of these financial statements

Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £'000	Share option reserve £'000	Share premium £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total shareholders funds £'000
As at 1 January 2018	17,234	515	11,495	3,423	24,562	4,389	61,618
Loss for the year	–	–	–	–	–	6,464	6,464
Shares issued during the year	63	–	–	148	–	–	211
Revaluation surplus	–	–	–	–	565	–	565
Revaluation deficit	–	–	–	–	(42)	–	(42)
Deferred taxation on revaluation	–	–	–	–	(115)	–	(115)
Share based payment	–	660	–	–	–	–	660
Transfer to profit and loss account	–	(96)	–	–		96	–
Dividend paid	–	–	–	–	–	(1,853)	(1,853)
As at 31 December 2018	**17,297**	**1,079**	**11,495**	**3,571**	**24,970**	**9,096**	**67,508**
Profit for the year	–	–	–	–	–	15,970	15,970
Revaluation deficit	–	–	–	–	(10)	–	(10)
Revaluation surplus	–	–	–	–	801	–	801
Shares issued during the year	1,201	–	3,902	–	–	–	5,103
Deferred tax on revaluations	–	–		–	(134)	–	(134)
Share based payment	–	765	–	–	–	–	765
Dividend paid	–	–	–	–	–	(2,887)	(2,887)
Transfer to retained earnings	–	(18)	–	–	–	18	–
As at 31 December 2019	**18,498**	**1,826**	**15,397**	**3,571**	**25,627**	**22,197**	**87,116**

Notes to Company Financial Statements
For the year ended 31 December 2019

Accounting Policies

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 under the historical cost convention as modified by the revaluation of certain assets in accordance with the company's accounting policies.

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 loans and cash balances. Additional facilities are in place including a revolving credit facility provided by HSBC Bank Plc.

The Group's forecasts and projections, taking account of a range of possible impacts of the coronavirus on trading performance, show that the Group should be able to operate within its facilities and have assessed a number of mitigating actions that could be taken in the event of worsening of the impact.

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.

Notwithstanding the above, the Directors recognise that it is very difficult to quantify the full impact of the Covid 19 Pandemic upon the wider economy and the construction industry, and that there therefore exists a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

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
Investments held as fixed assets 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.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2019

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.

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.

Trade and other debtors and creditors are classified as basic financial instruments and measured at initial recognition at transaction price. Debtors and creditors are subsequently measured at amortised cost using the effective interest rate method. A provision is established when there is objective evidence that the company will not be able to collect all amounts due.

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 and bank overdrafts which are an integral part of the company's cash management.

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
For the year ended 31 December 2019

1. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2018	32,739
Additions	195
Revaluation surplus	565
Revaluation deficit	(42)
Transfer	(295)
As at 31 December 2018	33,162
Additions	702
Revaluation deficit	(10)
Revaluation surplus	52
Transfer	6,029
At 31 December 2019	39,925

Revaluation of fixed assets
The Company's investment property was valued by the directors on 31 December 2017 at fair value.

The directors have valued the properties on a range of bases including depreciated replacement cost and market value bases consistent with the methodologies utilised by external valuers in 2015 and during 2017.

The Company's freehold land and buildings were valued at £31,051,000 at 31 December 2018.

2. INVESTMENTS – UNLISTED

	2019 £'000	2018 £'000
Cost		
As at 1 January	49,470	49,470
Additions	8,821	–
As at 31 December	58,291	49,470

The addition in the year relates to the acquisition of Floren et Cie (see note 13 in the Consolidated Financial Statements)

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	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
Floren et Cie nv	Belgium	Ordinary	100	Brick manufacturer

Notes to Company Financial Statements (continued)
For the year ended 31 December 2019

3. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Amounts owed by Group undertakings	4,237	1,868
Other debtors	–	–
Prepayments	901	778
	5,138	2,646

4. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Accruals and deferred income	1,180	762
	1,180	762

5. BORROWINGS
Bank loans and deferred consideration sheet are due for repayment as follows:

	2019 £'000	2018 £'000
In one year or less	3,270	1,770
Between one and two years	4,770	3,270
Between two and five years	12,326	12,040
Over 5 years	–	–
	20,366	17,080

6. PROVISIONS FOR LIABILITIES
The movement in the deferred taxation provision during the year was:

	2019 £'000	2018 £'000
At 1 January	3,602	3,569
Relating to transfer of land and buildings from Group Companies	998	115
Prior year adjustment	7	–
Revaluation	134	–
Decrease in provision	(288)	(82)
At 31 December	4,453	3,602

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.

7. DIVIDEND
On 10 January 2020, an interim dividend was paid of 1.15 pence per share, amounting in total to £1,064,000 in respect of 2019. Elections by shareholders for scrip dividends in lieu of cash payments resulted in the issue of 228,382 ordinary shares.

8. PARTICULARS OF EMPLOYEES

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

	2019	2018
Management and Administration	24	23

	£'000	£'000
Wages and salaries	1,648	1,522
Social security costs	246	212
Other pension costs	58	44
	1,952	1,778

9. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated June 2017. At the end of the year total Group bank borrowings were £21,600,000 (2016: £nil).

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group disclosures on page 52 of the Group accounts are appropriate to the Company.

11. SHARE CAPITAL

Authorised share capital	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2019 Number	2019 £'000	2018 Number	2018 £'000
Ordinary shares of 20p each	92,489,001	18,498	86,486,113	17,297

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

12. RESERVES

Share option reserve

The share option reserve relates to the Group Share Option and SAYE Share Option Schemes. Additional details are disclosed in note 22 to the group financial statements.

Share premium account

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

Merger reserve

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

Revaluation reserve

The revaluation reserve relates to revaluation of property as disclosed in note 12 to the group financial statements.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2019

13. SHARE BASED PAYMENTS

Share option reserve	**£'000**
As at 1 January 2018	1,079
Charge for the year	765
Transferred to revenue reserves on maturity of options	(18)
As at 31 December 2019	1,826

Details of the share options of the Company are in respect of the whole Group and are disclosed in note 23 of the Group Financial Statements on page 55.

14. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Covid-19

Following the announcement made by the UK Government and its measures to restrict the movement of people, as of Monday 30th March, deliveries at all of the Group's plants were suspended during the government three-week review period. The situation will remain under constant review. To protect the Group's employees, stakeholders and assets, the Group has immediately commenced a safe and orderly suspension of its operations. The Group's plants are highly efficient and will be able to quickly return to normal levels of production once restrictions are lifted.

Since the start of 2020 and up until 24th March, the Group has been trading in line with Board expectations. Whilst there is much uncertainty, the Group is in a strong financial position with substantial cash and good covenant headroom. As such, the Board believes the Group is very well protected to see out a period stretching beyond what the UK Government is currently indicating for the pandemic.

The onset of the COVID 19 virus has been treated as a non-adjusting event after the reporting period.

MICHELMERSH
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