MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT **2020**

MICHELMERSH
Britain's Brick Specialists

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Chairman's Statement

Introduction:

It is extremely gratifying to be able to report that your Company has successfully navigated a very challenging year, delivered a very commendable result and retained a strong financial position. After Covid-19 led to our manufacturing operations being suspended for most of April 2020, the Group worked tirelessly to get the business back up to speed in a safe manner. Whilst construction site activity also slowed in early spring due to Covid-19, by the beginning of May activity had picked up, which we experienced with customer orders and sales returning quickly.

Throughout the pre- and post-Covid-19 interruption, the Board has striven to uphold the Group's 'good corporate citizen' principles and sought to balance the Group's responsibilities to all stakeholders. The Group's financial resilience has allowed us to support and reward our staff, maintain responsibilities to customers and suppliers, return furlough monies drawn to HMRC and re-instate the dividend stream to shareholders.

Financial Highlights

	2020	**2019**	**yoy**
Turnover (£m)	52.0	53.5	*-2.8%*
Gross margin	41.3%	40.9%	*+0.4%*
Operating profit (£m) – underlying[1]	8.8	10.3	*-15.2%*
Profit before tax (£m) underlying[1]	8.0	9.6	*-16.5%*
EBITDA (£m) underlying[1]	12.3	13.6	*-9.8%*
Basic EPS (pence) underlying[1]	6.28	8.41	*-25.3%*
Dividend per share (pence)	2.50	1.15	*+117.4%*
Net cash/(debt) (£m)	0.7	(6.3)	
Net cash generated by operations (£m)	*12.9*	*16.6*	*-22.5%*

1 Underlying excludes items regarded as exceptional and amortisation of intangibles.

The Group has for some time operated on the basis that production output should be maximised and all product will be sold to a customer. Covid-19 regulations caused operations to cease in late March and production output was lost and despite a strong performance once this recommenced, the directors consider that output was negatively impacted by 6.5 million bricks. Despite the Group being able to return to production swiftly, the customer markets reopening lagged production output and this impacted deliveries. This led to a small reduction in turnover during the year.

Given the challenges, the directors believe the overall financial results of the Group are impressive with turnover and volumes only 3% lower than the Group's strongest ever performance in 2019. Increased costs eroded earnings as Covid-19 related cleaning costs, continued IT development costs and unfavourable currency rates had an impact. This led to earnings metrics being below that achieved in 2019. However, the return to full capacity and operational performance in the second half of the year gives me confidence that the worst is over and the business is in a strong and stable position moving forward.

Cash and Net Debt

The Group ended 2020 in a modest net cash position after opening the year with net debt of £6.3 million. Cash preservation measures were taken in the early part of the year in the face of Covid-19 but strong trading put the Group on a solid financial footing by the end of the year.

In the early stages of Covid-19, the financial backdrop held uncertainties and the Board took certain measures to protect the business – drawing down £3 million from existing bank facilities, accepting government support through furlough payments and deferring VAT payments, holding back capital projects, cancelling the final dividend in respect of 2019 and stress testing the business prospects. As trading recovered from early summer onwards, uncertainties receded and cash reserves recovered, which enabled the Group to reverse the measures taken by repaying furlough payments, schedule the repayment of deferred VAT payment and reinstate dividends. Moreover, the Group has made a voluntary prepayment of £10 million of bank debt as well as £3.3 million of scheduled repayments. The Group entered 2021 in a net cash position including substantial cash balances which, along with undrawn bank facilities, afford headroom against risk, the opportunity to invest and to pay a progressive dividend.

Strategic Report
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Dividend
As mentioned above, the Board reluctantly withdrew the final dividend in respect of 2019, but the business has now achieved the stability and cash resources to recommence dividend payments. The Board proposes a single dividend in respect of 2020 of 2.5 pence per ordinary share to shareholders on the register on 4 June 2021 which will be paid on 14 July 2021. The Company will again offer shareholders a scrip alternative to a cash dividend with a scrip election date of 23 June.

The dividend exceeds previous levels as a proportion of earnings in recognition of the withdrawal of the 2019 dividend.

Board and Employees
This year has seen an impressive response from the Group's staff to significant challenges both as individuals and in demonstrating significant and outstanding teamwork. Operational and financial outcomes owe much to their skill and commitment and on behalf of the shareholders and the Board, I would like to pass on my sincere thanks.

The Board is also undergoing a period of change with the addition of two new non-executive directors within the year. Paula Hay-Plumb joined at the 2020 AGM and is already ensconced as Chair of the Audit Committee and contributing to the effectiveness of the Board. In November, Tony Morris was appointed bringing energy and experience that will help the Group explore and develop commercial opportunities. I welcome them to the business.

The role of Company Secretary has been transferred to a professional third-party corporate entity, Prism Cosec, adding front-line expertise and guidance to the Board.

We will however be losing two long established members of the Board in 2021 as Bob Carlton-Porter and Stephen Morgan step away from the Company at the forthcoming AGM, having served 17 and 11 years respectively. On a personal note, and on behalf of shareholders, can I extend my thanks to them for their contribution and support which have helped to make Michelmersh the Company it is today through a period of remarkable growth. They will be hugely missed and I wish them well.

The CFO role has been filled following a rigorous and wide-ranging recruitment process. The new appointee, Ryan Mahoney, will join us following our 2021 AGM in early June, bringing significant financial and operational experience. His expertise will help the business secure continued growth and we look forward to working with him.

Ryan joins from Avon Rubber, the FTSE 250 defence engineering and manufacturing group where he has been Deputy Chief Financial Officer since April 2018. Prior to that, Ryan had been Group Financial Controller for Unite Students, the FTSE 250 property group, since November 2015, and before then held other senior finance roles within the business. Prior to joining Unite, Ryan worked for KPMG for 9 years in both audit and advisory roles. Ryan is both a qualified accountant and a member of the ICAEW.

Outlook
Michelmersh is operating in a sector that is currently buoyant and supported by government incentives. As such, it is well placed to capitalise on the UK and Benelux markets with its strong brands, well-invested operational structure and sound financial footing. We are still conscious that Covid-19 continues to cause a level of uncertainty, whilst the UK and Europe are both getting used to post-Brexit conditions. However, the Group has had a good start to 2021 and I remain confident that the Company can look forward to continued growth and prosperity with the longer-term market fundamentals in our favour.

Martin Warner
Chairman

30 March 2021

Strategic Report
(continued)

Chief Executives' Report

The first quarter of 2020 showed a promising start to the year up until the Group's manufacturing activities were suspended due to Covid-19. All factories undertook the process of a safe, phased shut-down of kilns and manufacturing operations ceased as home working continued where possible for administrative staff. During a four-week shutdown, skeleton staff ensured on-site safety and conducted critical maintenance duties, and health and safety teams liaised with operational staff to develop Covid secure safe operating procedures ("SOPs") in preparation for the return to work. The intention from operational teams was to return to a safe workplace as soon as possible in order to protect the business and the workforce's livelihood.

Return to work commenced towards the end of April on a phased basis as new SOPs were implemented. At this stage, some operations were expected to be scaled back with two sites not scheduled to achieve full capacity until all restrictions were lifted. It was not long however before development of systems and structures allowed full capacity to be achieved at all plants.

The closure of operations meant that the Group lost output of 9.5 million units. Strenuous efforts were made to recover lost units and by the end of December 2020, the Group's UK output was only 6.5 million units behind the level of output achieved in the whole of 2019. Following the return to operations in April 2020, the business experienced minimal Covid-19 related absence for the remainder of the period thanks in no small part to the commitment of employees in following the SOPs. There was, however, a spike in Covid-19 infections and isolations at the beginning of 2021 following the Christmas break, affecting a small number of employees relatively severely. The absences have reduced significantly in recent weeks and overall have not had a dramatic effect on operations. The business continues to operate under the established SOPs and deep-cleaning routines.

The impact of Covid-19 on deliveries to customers was greater than on manufacturing output as elements of the market were slower to re-open operations. At the low point, UK despatch volumes were down by 14 million units, however there was pent-up demand in a buoyant construction sector that was released through the second half of the year. By the close of the year, units despatched were only 7.4 million units less than in 2019, in itself a very successful year.

The Group met the objectives set at the half year by converting the strong order book into sales throughout H2, managing down our debt and returning to a progressive dividend stream.

Energy costs in 2020 were relatively benign as world energy markets were depressed. This compensated for some additional health and safety and cleaning costs related to Covid-19. Despite lower volumes in what is a business with heavy fixed costs, gross margins were slightly ahead of the levels seen in 2019. The UK results also benefitted from a strong rebound in performance from Carlton Brick after disruptions in 2019 brought on by integration of new investment in plant.

During the course of 2020, the Group completed the supply to several inspiring schemes which achieved BREEAM "excellent" sustainability ratings. Other notable projects included Hobb House Court in London, Victoria House in Leeds, Clockworks in Manchester and University College London Hospital to name but a few. The Group strategy of ensuring a well-balanced forward order book continues from previous years into 2021 and Q1 order intake remains robust.

Despite the disruption from Covid-19 and with many staff homeworking, the Group was able to build momentum through H2 on a number of key initiatives. The Group's newly formed Sustainability Steering Committee successfully implemented a Net Zero road map and the IT department went live with the implementation of the new Salesforce software. We are the first brick manufacturer to partner the industry's Supply Chain Sustainability School. We also met our Pledge 100 target of donating 100k bricks to key NVQ colleges around the UK to help train our future bricklayers.

As we look around at the UK vernacular we see many examples of brick applications, proudly standing after hundreds of years. We know that our products are natural, thermally efficient, durable and can be recycled, boasting huge longevity with a minimal environmental footprint. In this context it is clear that the overall carbon emissions spread through every year of the brick's service life is extremely low. With a lifecycle at least two and

Strategic Report
(continued)

brick is by far the most sustainable, long term choice. As Britain's Brick Specialists, we will continue to inspire beautiful, comfortable, safe and sustainable architecture that will enhance our built environment for generations to come.

Floren

Belgium has suffered the impact of Covid-19 more than most and their recovery is likely to lag the UK. Despite this, Floren has performed very well with output in the year similar to 2019. Despite a slight reduction in turnover as markets were affected, net contribution to the Group improved for the year after only contributing 10 months post acquisition in 2019. The business has undergone an extended winter shutdown in which new investment has been made to improve efficiency and reduce risk of breakdown.

The vendors of Floren remained in place as general managers post acquisition by Michelmersh in February 2019 and helped deliver two years of above expected contribution. They have now moved on to new ventures and we thank them for their contribution and wish them well. After notifying us that they intended to leave the business, a new general manager was recruited and has been in place since the autumn and a new management team has been developed. We look forward to continued progress from our Belgian business.

Staff development

During the year, the role of the intermediate management board of Associate Directors was broadened with new members and a wider remit. As the Group develops, this forum extends responsibilities, rewards key individuals and strengthens the management structure of the Group. This board includes expertise from a range of disciplines that controls and directs day-to-day operations.

2020 was a year that saw companies across the world face challenges that could never have been imagined or foreseen a year before. The impact, not just on businesses, but on individuals and their wellbeing, cannot be underestimated. As a company we felt it was of paramount importance that our staff continued to feel safe and supported throughout the pandemic. Following the reopening of all our sites, and adhering to all government guidelines, we engaged an external company to provide deep cleaning of all our offices and public areas every week and have continued this throughout the lockdown.

We organised a mental health and wellbeing awareness week for all staff raising the importance of having recognised breaks and stepping away from our work stations and taking time for ourselves. During this week, regular emails and bulletins were sent out with tips and advice on how to help improve our wellbeing and mental health. All staff also had the option of completing an online survey enabling them to provide feedback on how they felt the Group could improve wellbeing within the workplace.

Our commitment to ensure our core values are upheld and adhered to remains unwavering and we will continue to model this at all levels to ensure all our staff are treated with integrity and respect. Despite the unprecedented challenges faced as a Group last year we believe we have shown that we live out our values and not only support our staff practically but also recognise and appreciate them and reward where possible. It was pleasing to note that eight members of staff celebrated between 25-50 years' service with the business during 2020.

We would also like to take this opportunity to thank both Stephen Morgan and Bob Carlton-Porter for their commitment and hard work over the years. Their input and dedication has been hugely appreciated. We look forward to welcoming our new CFO Ryan Mahoney to the Board and with Stephen's assistance we will ensure a smooth transition as we progress with our strategic aims for H2 and beyond 2021.

Land Assets

During the year, preparations were completed that enabled the Group to commence construction of the road that bisects the quarry at Telford. Contractors broke ground late in 2020 and are expected to complete the project in summer 2021. The existing public road prevents access to the remaining clay mineral on the site that supports brick manufacturing for decades to come. A long-term, detailed extraction and land remediation plan is in place that delivers mineral to the brick manufacturing business and releases land for alternative use.

In January 2021, the option agreement for mineral in land adjacent to the Michelmersh brickworks at Romsey was exercised securing minerals for at least 15 years brickmaking on the site.

Strategic Report
(continued)

Plant and machinery
As with other aspects of the business, Covid-19 impacted our approach in the year. Investment in plant was deferred initially in order to preserve cash resources, and once operations recommenced after the shutdown, concentration was directed towards recovery of output and health and safety measures.

The business will now turn its attention to projects that address our goals of expansion of capacity, reduction in labour and energy input costs and de-risking processes. The recent budget provides an incentive to invest surplus cash if the project returns are attractive.

Charity
Our commitment to our Corporate and Social Responsibility (CSR) is never seen as just a ‘tick’ box exercise. It is an area of our business that we believe in strongly, as mirrored in our Company core values. During 2020 we once again contributed to charities across the country donating funds, food products, children’s toys, resources and a wealth of clay products to various charities and institutions across the UK.

Due to the huge impact the pandemic has had on so many people some of the charities we consistently donated money to were MIND’s emergency COVID crisis fund, NHS Sussex to help support the amazing work of our NHS and The Trussell Trust which runs local foodbanks across the UK.

At the end of 2020 introduced a new initiative to be launched in 2021 where staff can nominate two charities that will be Michelmersh’s key charities for the year and we will not only donate funds but also look to raise the profile of the chosen charities through our social media platforms.

Outlook
We remain well placed in a market that is both performing well and has positive, longer-term fundamentals. Challenges over imports and reduced UK manufacturing capacity suggest that demand for our products will remain strong and the first quarter of 2021 has been encouraging with a strong order intake and KPI’s ahead of expectations despite some poor weather.

A new range of challenges presents itself in 2021 alongside some traditional ones. The manner in which the staff responded positively in the face of Covid-19 gives us confidence that all challenges will be met with the same ingenuity and commitment. We remain resolute and excited about the prospects for the Group for the remainder of 2021 and beyond.

Frank Hanna, Peter Sharp
Joint Chief Executives

30 March 2021

Strategic Report
(continued)

Financial Review

The financial performance of the Group is displayed on pages 38 to 65 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.

Income Statement

	notes	Year ended 31-Dec-20 £000	Year ended 31-Dec-19 £000	2020/2019
Turnover		52,044	53,523	-2.8%
Reported Gross Profit		21,519	21,905	-1.8%
Reported Gross Margin		41.3%	40.9%	
Cost of sales adjustment re Floren brick stocks	1	–	52	
Underlying Gross Profit		21,519	21,957	-2.0%
		41.3%	41.0%	+0.3%
Reported Operating profit		7,584	11,065	-31.5%
Exclusion of exceptional treatment of Floren acquisition	2	–	(1,856)	
Treat Planbaten as Exceptional	3	–	(103)	
Cost of sales adjustment re Floren brick stocks	1	–	52	
Amortisation of intangibles	4	1,170	1,166	
'Underlying' operating profit	2	8,755	10,324	-15.2%
Finance costs – reported		(713)	(698)	
'Underlying' profit before taxation	2	8,041	9,626	-16.5%
'Underlying' operating profit (as above)		8,755	10,324	-15.2%
Depreciation		3,544	3,313	
'Underlying' EBITDA		12,298	13,637	-9.8%
Reported underlying Basic EPS		5.27p	9.41p	
'Underlying' Basic EPS		6.28p	8.41p	-25.3%
Net cash generated by operations		12,885	16,622	-22.5%

Notes:

1 Cost of sales adjustment re Floren brick stocks were made under acquisition treatment and to reflect Group accounting policy adjustments in the year of acquisition.

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

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

4 Amortisation of intangible assets is commonly excluded to display Operating profit as a financial metric.

'Underlying' denotes where an alternative measure has been applied to reflect the performance of the business.

Cash and net Debt
The Group started 2020 with net debt of £6.3 million representing gearing of 8% and below one times EBITDA. Uncertainty over the impact of Covid-19 in March prompted the Board to suspend the final dividend, defer capital projects and draw a further £3 million from existing facilities to ensure that any disruption to operations could be accommodated. The trading performance post return to operations resulted in strong cash performance that meant cash balances increased and net debt fell steadily such that at 31 December 2020 the Group was in a net cash position even after repayment of furlough monies.

The positive cash position presented an opportunity to address the Group's borrowings and a £10 million early prepayment of the Term Loan was made just prior to the year end. The term facilities run until June 2023 on a much reduced quarterly repayment stream as a result of the prepayment. The remaining borrowing under RCF facilities also run until June 2023, are only payable on maturity, and are outweighed by cash balances.

The positive cash performance has enabled a return to normal capital investment and a dividend stream and provides the Group with the ability to make further strategic investment should the opportunity arise.

Viability and going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Chief Executives' Review on pages 2 to 6. In addition, note 17 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk. The Group meets its funding requirements through a combination of cash balances, a term loan and a revolving credit facility.

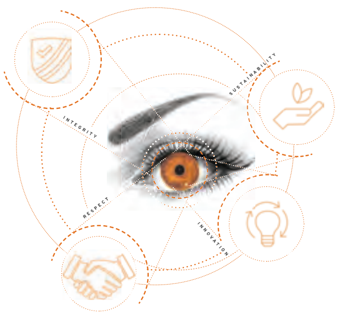
The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

SUSTAINABILITY, A CORE COMPANY VALUE

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

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

Sustainability is key for Michelmersh as it strongly upholds its responsibilities to nurture land, the environment around us and the people it employs. Through rolling investment programs its modernised plants are streamlined and automated, contributing to a supported and trained workforce which equates to maximising efficiency and high-quality product output.



I - Integrity
R - Respect
I - Innovation
S - Sustainability

DRIVING SUSTAINABILITY PERFORMANCE

INVESTING IN CULTURE AND COMMUNITY

INVESTING IN OUR PEOPLE

INVESTING IN OUR ENVIRONMENT

SUSTAINABILITY COMMITTEE

The Michelmersh Sustainability Committee was formed in 2020 from all Associate Directors with the aim of developing further governance and progression for the Group's sustainability roadmap. Proposing and evaluating key sustainability performance indicators by pursuing creative ideas that will add considerable sustainable value to the Group for the long term. The Committee represents cross departmental collaboration to disseminate goals, actions and targets to all employees throughout the business. Educating our workforce on sustainability is at the forefront of the committee's remit, to ensure that the value of our products through evaluating the cradle to grave role they play in the built environment is vital to making substantial cultural change across all areas of the Industry.

NET ZERO STEERING GROUP

In 2020 Michelmersh also established a Net Zero Steering Group to evaluate long term strategic and investment based carbon reduction initiatives. Consisting of Production, Technical, Marketing and Finance Directors the group reviews the risks and opportunities for all stakeholders of the business.

TOWARDS A NET ZERO CARBON FUTURE

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

TOGETHER WE CAN RESHAPE THE FUTURE

As the first brick manufacturer to join as partner of the Supply Chain Sustainability School (SCSS) Michelmersh can further collaborate with major UK housebuilders, contractors and clients who all share a mutual interest in their commitment to lead the industry into an innovative, sustainable future.

The United Nations 17 Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. Michelmersh realises the importance of these goals and has set progressive targets against 13 relative aims for positive change towards reshape a better future, for many generations.

SUSTAINABILITY ROADMAP

FUNDRAISING
10% year on year increase of charitable financial donations.

SUPPLIERS
100% of material suppliers/ contractors signed up to the Michelmersh Supplier Charter.

MENTAL HEALTH
100% senior managers to be trained in Mental Health First Aid (IACT Trainers).

HEALTH & SAFETY
Achieve ISO 45001 Health & Safety Management System for UK sites by 2025.

ENERGY
15% energy reduction per kWh/tonne (gas and electric).
10% reduction by 2025.

CARBON
5% Carbon reduction of kg CO_2 per tonne, excluding distribution, without reduction in production output.

WASTE
ZERO waste to landfill (exc. hazardous waste) by 2025.

TRAINING
60hrs training per employee, 200% increase in training.

PLEDGE
5% year on year increase of products donated to educational or vocational courses.

ZERO HARM
50% Increase in proactive reporting to promote zero harm to employees.

WOOD
70% reduction of virgin wood (re-sourced from second hand) pallets.

PLASTIC
7% reduction in all plastic use of kg per saleable tonne.

FLEET
100% of forklift fleet to be electric and 100% car fleet to be hybrid/ electric by 2025.

WATER
5% reduction in potable mains water use of m^3 per tonne of production.

2016 BASELINE

BY **2030**

Targets also include:
ZERO internal environmental incidents.
ZERO environmental complaints.
CONTINUED COMMITMENT to sustainable land use, restoration and biodiversity action plans.

All our environmental commitments are available on the Policies/Certificates section of our website.

ENERGY & CARBON REPORTING - 2020 data

Group Energy Use:
219,335,637 kWh

Associated Greenhouse Gas emissions:
57,127 tCO_2

Group intensity ratio:
223.0 kg CO_2 /tonne fired product

NARRATIVE

Michelmersh has long been committed to reduction of energy consumption and emissions throughout its operations and will continue to invest in more efficient equipment and lower emission processes.

2020 is the first year on which MBH has been obliged to report under the streamlined energy & carbon reporting requirements and as such we have no reported figures from the previous year for comparison.
Whilst the company has performed well despite the challenges of a global pandemic, 2020 could not be regarded as typical year in energy profile terms, particularly in relation to company car fleet.

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

METHODOLGY

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

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

The intensity ratio is chosen to reflect our principal environmental impact and aligns with the group's wider sustainability performance indicators.

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(continued)

Business Model

Objectives and strategies

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

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

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

A robust structure of targets, key performance indicators ("**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.

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

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

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

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

Trends and Future Developments

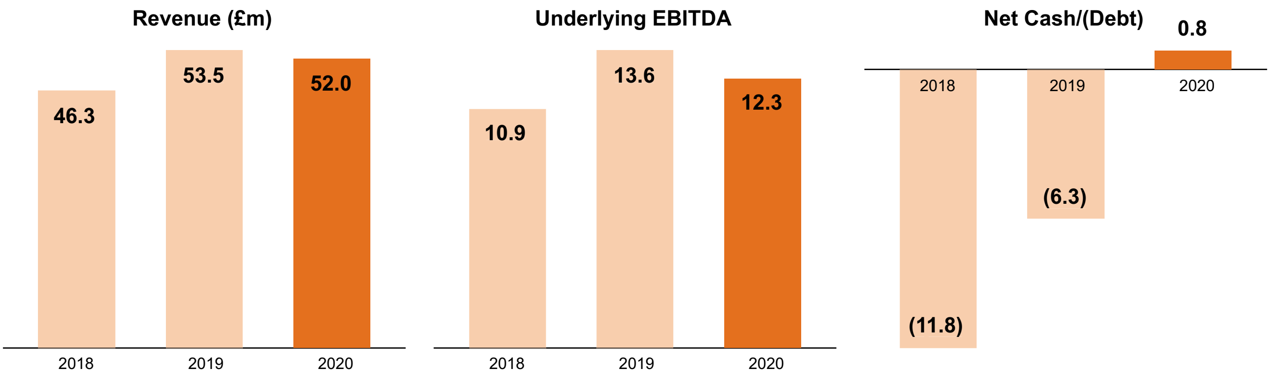
The Group has a strategy of maintaining a well-balanced forward order book. The product profiles available and the size of our plants helps us to ensure that as a business we always balance sector risk. Whilst like others we naturally benefit from the robust demand arising from a structural shortage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

Economic conditions are fragile as the world starts to come out of the worst of Covid-19 and the UK finds a new place in world trade. In the near term, government support is in place to help recover from the impact of Covid-19 but future tax rises are inevitable. However, the sector in which the Group operates is showing resilience and mild positivity. The government seems intent on supporting residential development and on promoting housebuilding and is expected to continue to provide incentives for housebuilders. Endemic UK housing shortage remains, and the property market is strong. As a consequence, brick manufacturing businesses should see continued healthy activity. Energy costs have supported manufacturing in 2020 which is expected to remain relatively benign in the short term and should keep inflation on input cost at reasonable levels. UK Brick imports fell in 2020 for obvious reasons but have for many years been a characteristic of the UK industry and are expected to recover somewhat post Brexit.

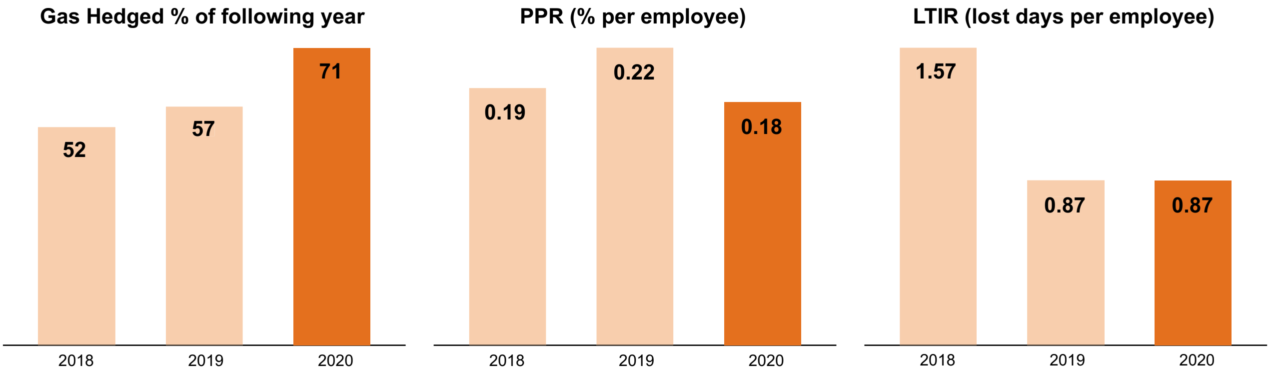
The Directors consider the prospects for the Group to be encouraging through increased efficiency as a result of past and ongoing investment.

Financial and non-financial indicators

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



Non-financial



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

Section 172(1) Statement

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

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

Strategic Report
(continued)

In this regard, the Directors identify:

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

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

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

Examples of stakeholder considerations in certain key Board decisions during the year
In discharging its duties, the Board considers the views of its stakeholders alongside information pertaining to key areas such as strategy, risk and legal and regulatory compliance. The Board considers the following to be the key decisions and considerations it has made during the year to 31 December 2020:

Board Decision	Considerations
Recommencing operations following COVID-19 enforced closure.	The health, safety and wellbeing of employees and ensuring a COVID-safe working environment, as well as the need to maximise revenue generating opportunities to protect the financial position of the Group.
Appointments of Non-Executive Directors and external company secretarial support.	The need to strengthen independent representation on the Board and its Committees, in turn supporting compliance with appropriate governance standards. The appointment of a dedicated corporate Company Secretary further strengthens the governance framework, protecting shareholder interests.
The Board decided to suspend, and then recommence, dividend payments to shareholders.	The Board considered the need to balance duties owed to shareholders in short-term, and to protect cash within the Company during a period of uncertainty and acknowledging the need to foster the long-term success of the business.
The Board considered and agreed the appointment of a new Chief Financial Officer.	The need to recruit a talented individual who was the right fit and understood both the culture and ethos of the business, as well as the requirements of shareholders and the market. The need to also consider long-term succession planning in terms of future Board development.
Having drawn furlough payments under the government job retention scheme whilst operations were suspended, the Board decided to repay the sums in full in December 2020.	The Board considered that the trading performance and financial stability achieved after the return to normal operations, meant that government support was not appropriate and that wider obligations should be taken into account.

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:
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.

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

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

Approved by the Directors on 30 March 2021

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Corporate Governance

Directors' Biographies

Board of Directors

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

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. Bob has decided to retire at the 2021 Annual General meeting having served as non-executive director since 2004.

Paula Hay-Plumb Non-Executive Director
Paula has extensive directorship experience and currently sits on the Board of a number of prominent organisations in the property sector. Paula is a Commissioner and non-executive Board member of The Crown Estate and holds non-executive positions at Oxford University Hospitals NHS Foundation Trust and Aberforth Smaller Companies Trust plc. She is also a Trustee of Calthorpe Estates. In her executive career, Paula was Corporate Finance and Group Reporting Director at Marks & Spencer Plc, between 2003 and 2005, and an Executive Director and Board member of English Partnerships, the UK government backed regeneration agency, from 1994 to 2002, Chief Executive from 1999. Paula is a Chartered Accountant (ACA) and is a Fellow of the Association of Corporate Treasurers.

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

Frank Hanna Joint Chief Executive
Frank Hanna has over 25 years of brick industry experience. Frank joined Freshfield Lane Brickworks Limited ("FLB") in 1991 having formerly worked for Lesser D&B and Hanson Brick Ltd. Frank was appointed to the Board of FLB in 1996 as sales and technical director before becoming a shareholder in 2000. He was appointed as a Director of the Company on 30 March 2010 and became Joint Chief Executive on 1 January 2016. Frank has chaired both the Brick Federation and PWP within the Brick Development Association and is currently a main board Director of the Brick Development Association.

Peter Sharp BA(Hons) Cert IoD MIoD Joint Chief Executive
Peter Sharp has been in the industry for 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. After 10 years in the role, Stephen has decided to step down from the Board at the 2021 Annual General Meeting.

Corporate Governance
(continued)

Chairman's Introduction

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

The Company has adopted the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"), and the board of the Company (the "Board"), continues to believe that this is the most appropriate corporate governance code for us as an AIM listed company. The Company supports all 10 principles of the QCA Code and applies these principles in its operations through the Board, and the following report is set out under headings showing how the company has applied those 10 broad principles of the Code. The report should be read in conjunction our section 172 statement on page 12, which describes how the Board has considered the factors set out in section 172 of the Companies Act (including stakeholder interests and long-term consequences) in its decision making.

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

Martin Warner
Chairman

30 March 2021

Strategy and business model

Principle 1 of the Code requires that companies establish a strategy and business model which promote long-term value for shareholders. Our strategy and business model, including the key challenges in their execution, are set out in the Strategic Report on pages 2 to 14.

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

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

Shareholder relations

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

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

In normal conditions, the AGM is an opportunity for shareholders to meet and put questions to the Board and Chairs of the Board Committees. Given ongoing social distancing measures due to the Covid-19 pandemic, we do not anticipate that shareholders will be able to attend the AGM this year. We will again welcome questions submitted by shareholders in writing on the business of the AGM, and endeavour to publish responses to such questions on the company's website. Full details of our AGM arrangements are contained in the Notice of AGM.

Our stakeholders

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

We consider our key stakeholders, other than our shareholders, to be our customers, staff, suppliers, the communities we operate in, and the environment.

Our customers

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

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

Corporate Governance
(continued)

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

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

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

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

In normal circumstances, Non-Executives would visit sites, and engage directly with staff, during the year. The Covid-19 pandemic has curtailed these opportunities, but it is intended that site visits will be reinstated as soon as practicable.

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

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

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

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

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

More information on the actions we take to mitigate our environmental impact and to ensure the sustainability of our business are set out in the Sustainability section of the annual report on pages 9 to 10.

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

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

Further information on the key risks faced by the business is set out on page 14 of the Strategic Report.

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

Our Chairman, Martin Warner, is responsible for leading the Board which also currently comprises three Executive Directors (Frank Hanna and Peter Sharp, the Joint Chief Executives, and Stephen Morgan, the Finance Director) and three independent Non-Executive Directors (Bob Carlton-Porter, Paula Hay-Plumb and Tony Morris). The balance of independent directors on the Board was improved during 2020 with the appointments of Paula Hay-Plumb (from 18th June 2020) and Tony Morris (from 23rd November 2020).

Stephen Morgan and Bob Carlton-Porter have indicated that they will stand down from the Company's 2021 AGM. A replacement CFO has been recruited to take up the position vacated.

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

There were four formally scheduled Board meetings during the year, with additional ad-hoc meetings convened when required, including to consider routine matters such as the issue of shares under company share schemes. During 2020, additional Board meetings were convened to consider the Company's response to Covid-19, including assessing risks and measures to protect the business.

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

Corporate Governance
(continued)

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

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

* Paula Hay-Plumb was appointed to the Board on 18 June 2020 and has attended all Board and committee meetings since her appointment.

** Tony Morris was appointed to the Board on 23 November 2020 and has attended all Board and committee meetings since his appointment.

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

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

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

Our Chairman and Executive Directors have extensive experience in the brick industry, and our Non-Executives have broad experience in relevant sectors (including property, governance, finance and M&A), and Board level experience in the listed company environment, as highlighted in their biographies on page 15. The Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge.

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

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

There is an established ongoing approach to monitoring Board performance which includes a bi-annual meeting of the Non-Executives to assess the performance of the Executives, and an annual meeting of the independent Non-Executives to appraise the performance of the Chairman. Given the significant changes to the structure of the Board during 2020 and moving into 2021, the Board has agreed that it was not appropriate to conduct a formal performance evaluation process this year. However it is intended that an internally facilitated Board and Committee evaluation process will be considered later in 2021, any such process will be reported on in the 2021 Annual Report.

Corporate Governance
(continued)

The performance of the independent Non-Executive Directors is considered by the Board prior to the proposal for their re-election at the AGM to ensure that they remain effective in their role and that they retain their independence.

Nomination Committee
The Nomination Committee reviews the structure and constitution of the Board and plans for succession issues. The balance of the Board is kept under regular review and has undergone considerable change and development during 2020. The Committee defined the requirements for additional Non-executive directors resulting in the appointment of Paula Hay-Plumb and Tony Morris to the Board and the Audit, Nomination, and Remuneration committees. The Committee is mindful that the Board does not currently comply with developing guidance on diversity, and will ensure that diversity considerations are included as part of future Board appointment processes.

The Nomination committee oversaw the recruitment of Ryan Mahoney, who will join the Company as CFO following the departure of Stephen Morgan at the AGM in 2021.

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

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

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

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

Feedback from stakeholders (in particular employees, customers and suppliers) allows the Board to monitor the Company's corporate culture, as well as the ethical values and behaviours within the business.

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

The Chairman is responsible for effectively leading the Board and ensuring that the Group's corporate governance framework is appropriate and effective. The Board has adopted the Code as a guide by which to measure its corporate governance procedures, and regularly reviews all aspects of its corporate governance policies and procedures. In November 2020, the Board appointed Prism Cosec Limited ("Prism") as corporate Company Secretary, and Prism conducted a full review of the Company's governance structures and processes, and its application of the QCA Code, and recommended some minor improvements (including formalising the schedule of matters reserved to the Board, and reviewing and updating the Committee terms of reference) which have been taken forward.

Corporate Governance
(continued)

The schedule of matters reserved for the Board includes:

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

The roles and terms of reference of the Committees are described on the Company's website **www.mbhplc.co.uk**

Audit Committee Report
On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 December 2020.

Responsibilities and composition
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 Committee receives and reviews reports from the Group's management and external auditors relating to the annual accounts and the accounting policies and internal financial control procedures in use throughout the Group.

The members of the Committee are Paula Hay-Plumb (Chair), Tony Morris and Bob Carlton-Porter. Paula Hay-Plumb and Tony Morris joined the Committee on their appointment as Directors of the Company on 18 June 2020 and 23 November 2020 respectively, and Paula Hay-Plumb was appointed as Chair of the Committee (replacing Bob Carlton-Porter) from 18 August 2020. Martin Warner was a member of the Committee until 18 August 2020.

The Board considers that the members of the Committee, individually and as a whole, have sufficient recent and relevant financial experience to discharge its function.

Activities during the year
The Audit Committee meets at least twice a year and met on 3 occasions during 2020 and once following the year end to consider the annual financial statements. Attendance at the meetings held during the year is set out in the Corporate Governance statement on page 20.

During the year the Audit Committee discharged its responsibilities by:

- Approving the external auditor's plan for the audit of the Group's annual financial statements, including the key audit matters and key risks, and confirming the auditor's independence and terms of engagement (including fees);
- Reviewing the draft full year and interim financial statements, and the accounting judgements and estimates set out below; and
- Considering accounting policy changes.

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

Significant issues considered in relation to the Financial Statements
The Committee reviewed the financial statements, with particular attention to accounting policies and areas of judgement. The key matters considered by the Committee in respect of the year ended 31 December 2020 are set out below:

- Property valuations; the Group's balance sheet is dominated by a strong core of fixed assets including a significant element of land and buildings. The Committee reviewed the valuation process and methodology. It was satisfied that this had resulted in an effective valuation and that appropriate disclosure has been made.
- Intangible asset impairment; the Committee discussed management's assessment of the applicable life of the intangible assets and any changes in circumstances that might impact their value. The Committee was satisfied that the intangible assets are appropriately valued.
- Going concern; the Committee reviewed the forecast cash flows of the Group, together with existing and potential funding facilities, and examined underlying risks and sensitivities. the Committee was satisfied that the financial statements should be prepared on a going concern basis.

Corporate Governance
(continued)

External auditors
The Audit Committee oversees the relationship with the external auditor, Nexia Smith & Williamson (NSW), to ensure that auditor independence and objectivity are maintained, and this includes monitoring the nature and extent of any non-audit services that the external auditor is engaged to provide. The breakdown of fees for audit and non-audit work paid to NSW during 2020 is set out in Note 8 to the financial statements on page 53.

At the outset of the audit process, the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key audit matters and their intended areas of focus. The Committee also reviews the effectiveness of the external process on an annual basis.

The Committee has recommended to the Board that NSW be reappointed as the external auditors, and a resolution for their reappointment will be proposed at the 2021 Annual General Meeting.

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

- a Group organisational structure with clear lines of responsibility;
- detailed business planning procedures, including the annual preparation of detailed budgets for the year ahead and projections for future years;
- comprehensive monthly reporting systems, highlighting operational performance against agreed budgets and setting out regularly updated forecasts; and
- regular review of the detailed risk register and ongoing assessment of risk levels and the effectiveness of mitigating actions or controls.

Whistleblowing
The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. The Committee will keep the arrangements under review to ensure they are operating effectively.

Paula Hay-Plumb
Audit Committee Chair

30 March 2021

Remuneration Committee Report
I am pleased to present this remuneration report which sets out the activity of the Remuneration Committee, and the remuneration paid to the Directors, during the year ended 31 December 2020.

Members of the Committee
The members of the Committee during the period were Bob Carlton-Porter (Chairman) and Martin Warner, with Paula Hay-Plumb and Tony Morris joining the Committee on their appointment to the Board on 18 June 2020 and 23 November 2020 respectively. Tony Morris has been appointed as Chairman of the Committee from 31 March 2021, succeeding Bob Carlton-Porter who will retire from the Board at the 2021 AGM.

Duties
The responsibilities of the Remuneration Committee are set out in its terms of reference which are available at **www.mbhplc.co.uk/corporate-governance**. 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. The Remuneration Committee meets at least twice a year and met on four formal occasions during 2020. There were also a number of ad-hoc meetings of the Committee held by telephone during 2020 due to Covid-19 restrictions. Attendance at the formal Remuneration Committee meetings held during the year is set out in the table in the Corporate Governance Statement on page 20.

Group Remuneration Policy
The employees of the Group (including the Executive Directors) 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 for employees and senior managers to achieve these aims including performance related payments, share option schemes, sharesave schemes and other benefits. There is also a Long Term Incentive (LTIP) scheme established for the Executive Directors and senior employees. The non-executive Directors do not participate in any incentive schemes or share options.

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

	Basic Salary 2020 £000	Annual Bonus 2020 £000	Other Benefits 2020 £000	Pension 2020 £000	Total Emol-uments 2020 £000	Total Emol-uments 2019 £000
MR Warner	100	–	1	–	**101**	**102**
R Carlton-Porter	50	–	–	–	**50**	**50**
S Bellamy*	–	–	–	–	**–**	**23**
P Hay-Plumb**	22	–	–	–	**22**	**–**
A Morris***	3	–	–	–	**3**	**–**
FJ Hanna	205	159	21	–	**385**	**482**
SHP Morgan	185	159	14	–	**358**	**435**
PN Sharp	205	159	21	20	**405**	**502**
	770	477	57	20	**1,324**	**1,594**

* S Bellamy left the Board on 25 April 2019.

** P Hay-Plumb joined the Board on 18 June 2020.

*** A Morris joined the Board on 23 November 2020.

Total emoluments including Employer's NI amounted to £1,452,000 (2019: £1,788,000).

Corporate Governance
(continued)

Salary, fees and other benefits
As disclosed in the 2019 Annual Report, the Executive Directors waived increases to their base salaries in February 2020 and there were therefore no changes to base salaries or fees during the year.

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

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

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

Perpetual bonus scheme
The Committee established the 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. For 2020, the Committee exercised discretion to approve a bonus outturn of 80% of the maximum opportunity, resulting in the payments to the Executive Directors set out in the table above. The decision to exercise discretion was taken in the context of:

- Exceptional performance by management in delivering PBT which would have exceeded budget but for the operational impact of Covid-19;
- the fact that the Company had repaid furlough money, and not taken advantage of any other UK Government coronavirus related financial support;
- The performance of Group employees during the pandemic has been recognised in the form of bonus payments, and a salary increase of an average of 3% has been applied across the Group; and
- The Board's decision to recommence distributions to shareholders with the proposal of a final dividend in respect of 2020.

Directors share options
The following options awarded under the Long Term Incentive Plan (LTIP) have met the targets for the relevant period.

	LTIP 2017 No	Total Options 2020 No	Total Options 2019 No
MR Warner	–	–	**41,000**
FJ Hanna	600,000	600,000	**891,000**
SHP Morgan	600,000	600,000	**841,000**
PN Sharp	600,000	600,000	**850,000**
	1,800,000	1,800,000	**2,623,000**

Notes
CSOP: During 2020 Martin Warner, Frank Hanna and Stephen Morgan each exercised 41,000 options under the Michelmersh Brick Holdings plc 2014 Schedule 4 Company Share Option at 72.75 pence. Following the exercises, there are no outstanding awards held by the Executive Directors under the CSOP.

LTIP 2015: During 2020, nil cost options granted to the Executive Directors under the Michelmersh Brick Holdings Plc Long Term Incentive Plan in 2015 matured having met EPS targets to 31 December 2019. The options were exercised in January 2020, and following the exercise there are no outstanding awards held by the Executive Directors under the LTIP 2015.

Corporate Governance
(continued)

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 £971,000 (2019: £691,000).

2021 Executive remuneration
The base salaries of the Executive Directors were reviewed at the end of 2020 following a benchmarking exercise in part conducted in conjunction with the search process for the incoming CFO. Following the review Committee approved increases of 22% to the salaries of the Joint Chief Executives , and 5% to the Finance Director, with effect from 1 January 2021. The increased salaries remain in the median quartile compares with listed companies with a similar market capitalisation.

Bob Carlton-Porter
Remuneration Committee Chairman

30 March 2021

Directors' Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2020. The Corporate Governance Statement on pages 15 to 32 also forms part of this Directors' Report.

Financial Results and Dividends
The Group's profit before taxation for the year was £6,871,000. More information about the Group's financial performance can be found in the financial review on pages 2 to 7 and in the financial statements on pages 38 to 65.

The Board has recommended a final dividend for the year of 2.5 pence per share, to be paid on 14 July 2021 to shareholders whose names appear of the register of members at the close of business on 4 June 2021. More information about dividends can be found in the Chairman's Statement on page 3.

Review of Business
The Chairman's Statement on page 2, the CEO's Report on pages 4 to 6 and the Strategic Report on pages 7 to 14 provides a review of the business, the Group's trading for the year ended 31 December 2020, key performance indicators and an indication of future developments and risks, and form part of this Directors' Report.

Directors and their Interests in Shares of the Company
The Directors who served the Company during the year together with their beneficial interests in the shares of the Company were as follows:

	31 December 2020 Ordinary Shares of 20p each	**31 December 2019 Ordinary Shares of 20p each**
MR Warner	4,179,732	4,138,732
RW Carlton-Porter	20,000	20,000
P Hay-Plumb	–	n/a
A Morris	22,658	n/a
F Hanna	591,000	550,000
SHP Morgan	41,000	–
PN Sharp	104,157	104,157

Analysis of Directors' emoluments for the year and their interest in options in shares in the Company is shown in the Remuneration Committee Report on page 25.

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

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

Share Capital
As at 31 December 2020, the Company's issued share capital was £18,788,676.20 divided into 93,943,381 ordinary shares of 20p each. The holders of ordinary shares are entitled to one vote per share at the Company's general meetings.

Directors' Report
(continued)

Significant Shareholdings

	Number of Ordinary Shares of 20p each	% of Total Voting Rights
Mr Eric John Spencer Gadsden	22,658,274	24.1
Hosking and Co	18,467,195	19.7
Telworth Investments	6,446,250	6.9
Canaccord Genuity Group Inc	5,200,000	5.5
Interactive Investor	4,443,229	4.7
Hargreaves Lansdown	3,804,475	4.0

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 out both internally and externally by external consultants at various levels of the business ranging from our quarries to product delivery. The results of health and safety inspections are reviewed by our management teams and any corrective actions taken accordingly.

We consult regularly with our employees on health and safety matters holding quarterly health and safety meetings at each of our locations as well as additional meetings and briefings covering specific health and safety matters. All of our employees are part of an ongoing health and safety training programme that starts with an initial induction programme and expands to include all the relevant training needs required for them to carry out their work safely. We encourage the 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.

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 2020, the Group employed 322 male and 30 female members of staff. Paula Hay-Plumb was appointed as a Non-Executive Director of the Company during the year, and the Board therefore comprised 1 female and 6 male Directors as at 31 December 2020. 4 of the Group's 15 senior managers were female.

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

Directors' Report
(continued)

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 £12,000.

Annual General Meeting
The Annual General Meeting will be held on 3 June 2021. Under the guidance set out in the government 'roadmap' published on 22 February 2021, it is anticipated that restrictions on indoor gatherings will still be in place at the time of the AGM. As the health and well-being of the Company's shareholders, employees and our wider communities are of the utmost importance to the Board, and given the uncertainty surrounding public gatherings and the broader public health considerations, it is therefore recommended that shareholders do not attend the meeting in person.

Further information relating to the AGM is set out in the AGM Notice which will be sent to shareholders separately and is available on the Company's website. Given the constantly evolving nature of the COVID-19 situation, we will provide updates on our website at www.mbhplc.co.uk/investor-relations and, where appropriate, by an announcement via a Regulatory Information Service, if any changes are required to the AGM arrangements.

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

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

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

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

Directors 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 in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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; and

Directors' Report
(continued)

- 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

M. Warner
Chairman

Approved by the Directors on 30 March 2021

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Report
(continued)

Directors and Professional Advisers

Directors	MR Warner – Chairman FJ Hanna – Joint Chief Executive PN Sharp – Joint Chief Executive SHP Morgan– Finance Director RW Carlton-Porter P Hay-Plumb A Morris
Company Secretary	Prism Cosec
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 Auditor’s Report
to the Members of Michelmersh Brick Holdings Plc

Opinion
We have audited the group financial statements of Michelmersh Brick Holdings plc (the ‘group’) for the year ended 31 December 2020 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 significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the group’s ability to continue to adopt the going concern basis of accounting included:

- Challenging key assumptions used in the detailed budgets prepared by management for the financial years ending 2021 and 2022;
- Considering historical accuracy of budgeting;
- Comparing the actual results to budget for 2020 and post year end results to 2021 budget;
- Reviewing and challenging management’s calculations suggesting the Group is able to comply with all loan facility covenants in the 12 months from approval of the financial statements; and
- Considering the sensitivity of the key assumptions and re-assessing headroom after sensitivity analysis performed.

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

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

Key audit matters
We identified the key audit matters described below as those which were of most significance in the audit of the financial statements of the current period. Key audit matters 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.

Independent Auditor's Report
(continued)

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.

Key audit matter description – Valuation of land and buildings
Land and buildings are measured at fair value based upon their highest and best use. Fair value measurement is inherently judgemental as is the highest and best use of each site.

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 – valuation of 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. As a result, the valuation of 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 testing of a sample of sales invoices to ensure finished goods are held at the lower of cost and net realisable value;
– Analytical procedures considering the appropriateness and consistency of cost allocations with reference to prior years, brick production in the period and movements in opening and closing inventory levels;
– Consideration of slow moving inventory and reasonableness of provision recognised.

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;
– our internal experts assessed the appropriateness of the assumptions concerning growth rates and the discount rate; and
– performed sensitivity analysis on the future free cash flow calculations.

Independent Auditor's Report
(continued)

Our application of materiality
The materiality for the group financial statements as a whole ("group FS materiality") was set at £3,980,000. This has been determined with reference to the benchmark of the group's net assets, which we consider to be one of the principal considerations for members of the company in assessing the group's performance. Materiality represents 5% of net assets as presented on the face of the consolidated balance sheet.

The consolidated income statement is underpinned by the activity of the trading subsidiary, Michelmersh Brick UK Limited. The principal consideration for this company is the trading performance and accordingly, materiality has been calculated at 2% of turnover, being £940,000. 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.

Performance materiality for the group financial statements was set at £3,184,000, being 80% of group FS materiality, for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. We have set it at this amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds FS materiality. We judged this level to be appropriate based on our understanding of the group and its financial statements, as updated by our risk assessment procedures and our expectation regarding current period misstatements including considering experience from previous audits. It was set at 80% to reflect the fact that few misstatements were expected in the current period and that there are few judgements with limited areas of estimation.

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

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

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

Other information
The other information comprises the information included in the annual report 2020, other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information contained within the annual report 2020. Our opinion on the group financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the group financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

Independent Auditor's Report
(continued)

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

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

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

- Reviewed the procedures management has implemented over compliance with the regulations.
- Inspected the year end internal reporting to the Board regarding compliance with significant regulations.
- Inspected internal health and safety records and external site audit reports.
- Review response from component auditor.

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

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

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

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

- Testing of a sample of revenue transactions to underlying documentation;
- Testing of a sample of journal entries, selected through applying specific risk assessments based on the processes and controls surrounding journal entries;
- Challenging management regarding the assumptions used in the estimates identified above, and comparison to post-year-end data and third-party correspondence as appropriate.

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

Other matter
We have reported separately on the parent company's financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2020.

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

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

30 March 2021

Consolidated Income Statement
for the year ended 31 December 2020

	notes	12 months 2020 £'000	12 months 2019 £'000
Revenue	3	52,044	53,523
Cost of sales		(30,525)	(31,618)
Gross profit		21,519	21,905
Administrative expenses		(12,840)	(11,754)
Amortisation of intangibles		(1,170)	(1,166)
		(14,010)	(12,920)
Other income	4	75	224
Exceptional Item – Bargain purchase		–	2,422
– Acquisition costs		–	(566)
Operating profit	6	7,584	11,065
Finance expense	5	(713)	(698)
Profit before taxation		6,871	10,367
Taxation	10	(1,938)	(1,763)
Profit for the financial period		4,933	8,604
Basic earnings per share attributable to the equity holders of the company	24	5.27p	9.41p
Diluted earnings per share attributable to the equity holders of the company	24	4.95p	9.19p

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

The accounting policies and notes on pages 43 to 65 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2020

	notes	12 months ended 31-Dec 2020 £'000	12 months ended 31-Dec 2019 £'000
Profit for the financial year		4,933	8,604
Other comprehensive income/(expense)			
Items which may subsequently be reclassified to profit or loss			
Currency movements		66	67
Items which will not subsequently be reclassified to profit or loss			
Revaluation deficit of property, plant and equipment	12	(3,710)	(10)
Revaluation surplus of property, plant and equipment	12	1,571	801
Deferred tax on revaluation movement	20	280	(134)
		(1,793)	724
Total comprehensive income for the year		3,140	9,328

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 43 to 65 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2020

	notes	As at 31-Dec 2020 £'000	As at 31-Dec 2019 £'000
Assets			
Non-current assets			
Intangible assets	11	21,420	22,590
Property, plant and equipment	12	60,948	65,348
		82,368	87,938
Current assets			
Inventories	14	10,046	9,760
Trade and other receivables	15	11,189	8,567
Cash and cash equivalents		12,243	15,140
Total current assets		33,478	33,467
Total assets		115,846	121,405
Liabilities			
Current liabilities			
Trade and other payables	16	12,049	9,889
Lease liabilities	17	530	542
Interest bearing borrowings	17	986	3,414
Corporation tax payable		240	882
Total current liabilities		13,805	14,727
Non-current liabilities			
Interest bearing borrowings	17	10,487	18,036
Lease liabilities	17	240	673
Deferred tax liabilities	20	11,663	11,866
		22,390	30,575
Total liabilities		36,195	45,302
Net assets		79,651	76,103
Equity attributable to equity holders			
Share capital	21	18,789	18,498
Share premium account	23	15,827	15,545
Reserves	23	21,581	23,192
Retained earnings	23	23,454	18,868
Total equity		79,651	76,103

These financial statements were approved by the Directors and authorised for issue on 30 March 2021 and are signed on their behalf by;

F. Hanna
Director

P. Sharp
Director

The accounting policies and notes on pages 43 to 65 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital £'000	Other reserves £'000	Share premium £'000	Retained earnings £'000	Total £'000
As at 1 January 2019	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
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)
As at 31 December 2019	**18,498**	**23,192**	**15,545**	**18,868**	**76,103**
Profit for the period	–	–	–	4,933	4,933
Revaluation deficit	–	(3,710)	–	–	(3,710)
Revaluation surplus	–	1,571	–	–	1,571
Deferred tax on revaluation	–	280	–	–	280
Currency difference	–	66	–	–	66
Total comprehensive income	–	(1,793)	–	4,933	3,140
Transfer between reserves	–	66	–	(66)	–
Share based payment	–	1,099	–	–	1,099
Released on maturity of options	200	(983)	–	783	–
Shares issued during the year	44	–	86	–	129
Dividend paid	47	–	196	(1,064)	(821)
As at 31 December 2020	**18,789**	**21,581**	**15,827**	**23,454**	**79,651**

The accounting policies and notes on pages 43 to 65 form part of these financial statements

Consolidated Statement of Cash Flows
for the year ended 31 December 2020

	notes	12 months ended 31-Dec 2020 £'000	12 months ended 31-Dec 2019 £'000
Cash flows from operating activities			
Profit before taxation		6,871	10,367
Loss on sale of fixed assets		119	247
Finance expense/(income)		713	698
Depreciation	12	3,544	3,313
Amortisation	11	1,170	1,166
Bargain purchase		–	(2,422)
Share based payment charge	22	899	765
Cash flows from operations before changes in working capital		13,316	14,134
(Increase)/decrease in inventories		(234)	822
(Increase)/decrease in receivables		(2,422)	37
Increase in payables		2,223	1,629
Net cash generated by operations		12,883	16,622
Taxation paid		(2,501)	(2,105)
Net cash generated by operating activities		10,382	14,517
Cash flows from investing activities			
Purchase of subsidiary undertaking		–	(6,202)
Purchase of property, plant and equipment	12	(1,241)	(2,412)
Net cash used in investing activities		(1,241)	(8,614)
Cash flows from financing activities			
Proceeds of loan drawdown		3,000	5,100
Lease payments		(656)	(646)
Repayment of interest bearing liabilities		(12,977)	(1,990)
Interest paid		(713)	(698)
Proceeds of share issue		129	4,704
Dividend paid		(821)	(2,488)
Net cash used in financing activities		(12,038)	3,982
Net increase in cash and cash equivalents		(2,897)	9,885
Cash and cash equivalents at the beginning of the year		15,140	5,255
Cash and cash equivalents at the end of the year		12,243	15,140
Cash and cash equivalents comprise:			
Cash at bank and in hand		12,243	15,140
Bank overdraft		–	–
		12,243	15,140

The accounting policies and notes on pages 43 to 65 form part of these financial statements

General Information and Accounting Policies

1. General Information

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

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

These financial statements cover the financial year from 1 January to 31 December 2020, with comparative figures for the year 1 January to 31 December 2019.

The companies within the Group during the financial year ended 31 December 2020 are disclosed in note 12.

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 UK. The consolidated financial statements for the financial years ended 31 December 2020 and 31 December 2019 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

- IFRS 3 has been amended for the definition of business which clarifies whether a transaction should be accounted for as a business combination or as an asset acquisition. Under the amended definition, a business acquired must have an input and a substantive process that together contribute to the ability for the business to create outputs. In the current year, the subsidiary acquired by the group has been accounted for using acquisition accounting.

- 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 amendments clarify the definition of what is material to the financial statements and how to apply the definition.

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 2020 but not currently relevant to the Group or Company

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:

- Interest rate benchmark reform: amending hedge accounting requirements of IFRS 9, IAS 39 and IFRS 7.

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2020 include:

- IFRS 17: “Insurance Contracts”
- Amendment to IAS 1: “Classification of Liabilities as Current or Non-current”

Basis of consolidation

The financial statements comprise a consolidation of the financial statements of Michelmersh Brick Holdings Plc and all its subsidiaries. Subsidiaries include all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which the Group has the power to control. 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 reasonably possible changes in trading performance, show that the Group should be able to operate within its facilities.

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

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, representing the difference between the fair values of the consideration and the underlying assets and liabilities acquired, is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. See note 10 for further details.

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

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

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

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

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.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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%

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

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

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

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

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

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

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

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:

2. Accounting Policies (continued)

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.

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

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

Energy contracts
The Group fixes prices on unit energy costs for future periods but uses ‘own-use’ exemption and accounts for derivatives at FVTPL not using hedge accounting.

Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less.

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

Leases
A right of use asset and a lease liability has been recognized for all leases except leases of low value assets. These are further explained in note 17. The right-of-use asset has been measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date. The Group will depreciate the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Where impairment indicators exist, the right of use asset will be assessed for impairment. The lease liabilities are measured at the present value of the lease payments due to the lessor over the lease term, discounted using the interest rate implicit in the lease if that rate is readily available or the Group’s incremental borrowing rate. After initial measurement, any payments made will reduce the liability and the interest accrued will increase it. Any reassessment or modification will lead to a remeasurement of the liability. In such case, the corresponding adjustment will be reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

Taxation
Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that deferred tax relates to items recognised directly in equity, in which case, this element of the deferred tax charge is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit as reported in the 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.

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.

Exceptional costs in relation to investing activities notably acquisition costs are presented below operating profit.

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 2019 and 2020.

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 the businesses associated with intangible assets. We have key assumptions on the growth rates of revenue and gross margin which impacts the profit assumed and hence cashflow generation at each relevant site. These assumptions are key to calculation of the net present value of cashflows. The further key assumptions are the perpetuity growth rate and discount rate.	Whilst trading patterns remain robust at the relevant businesses, there is a low likelihood of a reduction in the cash flows relating to intangible assets over a longer period.	No changes
Land and buildings valuation including mineral and landfill assets	The Board value land assets and buildings with guidance from external valuers on 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

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 2020. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 43 to 48.

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	2020 Segmental Revenue £'000	2020 PBT £'000	2019 Segmental Revenue £'000	2019 PBT £'000
Building materials				
Blockleys	8,670	2,591	9,662	3,452
Carlton	15,725	7,555	15,306	7,338
Charnwood	3,565	340	3,912	464
Michelmersh	3,946	522	4,838	1,020
Freshfield Lane	16,026	5,676	16,054	5,810
Floren	5,120	1,608	4,790	547
Less rebates	(969)	(969)	(1,039)	(1,039)
	52,083	17,323	53,523	17,592
Landfill				
New Acres	–	(13)	–	(16)
	52,083	17,310	53,523	17,576
Inter-segmental revenue and unallocated costs*	(39)	(10,439)	–	(9,065)
Exceptional costs and Bargain purchase	–	–	–	1,856
	52,044	6,871	53,523	10,367

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

Other segmental disclosure

	2020			2019		
	Property, plant and equipment		Intangible fixed assets	Property, plant and equipment		Intangible fixed assets
	Additions £'000	Depreciation £'000	Amortisation £'000	Additions £'000	Depreciation £'000	Amortisation £'000
Building materials						
Blockleys	380	441	–	533	408	–
Carlton	196	674	1,136	603	616	1,136
Charnwood	107	192	–	373	183	–
Michelmersh	–	504	–	1	502	–
Freshfield Lane	185	433	–	340	397	–
Floren	372	639	32	771	607	28
Motor vehicles (Value in use assets)	212	661	–	260	600	–
Landfill						
New Acres	–	–	2	–	–	2
	1,452	3,544	1,170	2,881	3,313	1,166

3. SEGMENTAL REPORTING (continued)

Revenue by geographical destination

	2020 £'000	2019 £'000
United Kingdom	48,243	50,177
Europe	3,801	3,337
Rest of the World	–	9
	52,044	53,523

Revenue by geographical origination		
United Kingdom	46,924	48,733
Belgium	5,120	4,790
	52,044	53,523

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

Sales of £5,027,000 (2019: £5,085,000) were made to a single customer of the Group.

Total Group revenue made to the top five customers amounted to £18,386,000 (2019: £18,800,000). No other customers were individually material in revenue value.

4. OTHER INCOME

	2020 £'000	2019 £'000
Rents receivable	10	23
Profit on sale of fixed assets	5	–
Currency gain	–	164
Other	60	37
	75	224

5. FINANCE (EXPENSE)/INCOME

		2020 £'000	2019 £'000
Interest expense	Bank loans	(523)	(495)
	Amortisation of bank fees	(149)	(63)
	Fair value adjustment to deferred consideration	21	(67)
	In respect of value-in-use assets	(84)	(117)
		(735)	(742)
less			
Interest earned		22	44
		(713)	(698)

6. PROFIT BEFORE TAXATION

	2020 £'000	2019 £'000
Profit before taxation is stated after charging:		
Amortisation	1,170	1,166
Depreciation	3,544	3,313

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. As a result of financial uncertainty in the early stages of the Covid-19 pandemic, the board decided that no final dividend in respect of 2019 would be paid. The Company has not made an interim dividend but has proposed a dividend of 2.5 pence per share payable on 14 July 2021 to shareholders on the register on 4 June 2021 in respect of 2020.

8. AUDITOR'S REMUNERATION

	2020 £'000	2019 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	50	49
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	61	51
– tax compliance services	16	25

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:

	2020	2019
Manufacture and supply of bricks	330	319
Administration	52	50
	382	369

	2020 £'000	2019 £'000
Wages and salaries	13,742	13,177
Social security costs	1,661	1,615
Other pension costs	571	531
	15,974	15,323

Details of Directors' emoluments are shown in the Remuneration Committee Report on page 25.

10. TAXATION

a) Recognised in the income statement

	2020 £'000	2019 £'000
Current tax expense		
Current year	1,545	1,958
Prior year	(10)	(15)
	1,535	1,943
Overseas tax	203	212
Deferred tax		
Origination and reversal of temporary differences:	200	(392)
Total income tax charge in the income statement	1,938	1,763

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2019 lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

	2020 £'000	2019 £'000
Reconciliation of effective tax rate		
Profit before taxation	6,871	10,367
Income tax using the domestic corporation tax rate	1,305	1,970
Effects of:		
Expenses disallowed	64	66
Share option expense not taxable	(93)	(192)
Losses utilised	–	–
Rate changes	454	–
Depreciation in excess of capital allowances	(6)	163
Change to prior year estimate	(55)	(8)
Disallowed depreciation	220	–
Difference in overseas tax	49	23
Amortisation of intangible assets	44	–
Other timing differences	(44)	(259)
	1,938	1,763

c) Factors affecting future tax charges

Finance Bill 2021 includes legislation to increase the main rate of corporation tax from 19% to 25% from 1 April 2023. These changes are not included above as Finance Bill 2021 was not substantively enacted by the year end.

As at 31 December 2020, the Group had £784,000 further tax losses carried forward (2019: £791,000).

A deferred tax asset has not been recognised in respect of £503,000 (2019: £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				
Cost	6,891	18,994	75	25,960
As at 31 December 2019	6,891	18,994	75	25,960
As at 31 December 2020	6,891	18,994	75	25,960
Amortisation				
Cost	–	2,172	32	2,204
Charge for the year	–	1,164	2	1,166
As at 31 December 2019	–	3,336	34	3,370
Charge for the year	–	1,168	2	1,170
As at 31 December 2020	–	4,504	36	4,540
Net book value				
As at 31 December 2020	6,891	14,490	39	21,420
As at 31 December 2019	6,891	15,658	41	22,590

GOODWILL

The goodwill brought forward relates to the acquisition of Freshfield Lane Brickworks Limited in 2010 and of Carlton Brick in 2017. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2020, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections of the brickworks discounted at the Group's weighted average cost of capital. Customer lists, order book and brand values originated in the fair value exercises associated with the acquisitions of Carlton and, in 2019, Floren and are amortised over their expected useful lives.

The key assumptions used in the value in use calculations are those regarding discount rates of 12% (2019: 11%) and revenue and cost growth rates of 3% (2019: 3%). The Group prepares cash flow forecasts as part of the budget process, and these are extrapolated forward for the expected life of the business.

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

There were no impairment losses recognised on goodwill during the year (2019: £nil).

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site develop-ment £'000	Motor vehicles £'000	Right of-use-assets £'000	Plant and machinery £'000	Total £'000
Cost or valuation						
Cost	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
Additions	366	–	–	212	874	1,452
Transfers to inventories	(48)	–	–	–	–	(48)
Disposals	–	(47)	(23)	–	(264)	(334)
Revaluation deficit	(3,710)	–	–	–	–	(3,710)
Revaluation surplus	1,571	–	–	–	–	1,571
As at 31 December 2020	55,980	-	266	2,049	39,080	97,375
Depreciation						
On adoption of IFRS16	6,573	46	62	–	18,826	25,507
Charge for the year	866	–	38	670	1,739	3,313
Disposals	–	–	(106)	–	(270)	(376)
Currency adj	1,179	–	241	–	3,232	4,652
As at 31 December 2019	8,618	46	235	670	23,527	33,096
Charge for the year	1,203	-	28	660	1,653	3,544
Disposals	–	(46)	(23)	–	(144)	(213)
As at 31 December 2020	9,821	-	240	1,330	25,036	36,427
Net book value						
As at 31 December 2020	46,159	-	27	718	14,044	60,948
As at 31 December 2019	49,183	1	54	1,167	14,943	65,348

The Group's freehold land and buildings were valued by the Directors at £46,159,000 at 31 December 2020 (2019: £49,183,000), resulting in a net decrease in the revaluation reserve of £2,139,000 (2019: increase £791,000). Deferred tax liabilities were decreased by £280,000 (2019: increase £134,000) and have been credited to the revaluation reserve.

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

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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 £46,159,000 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 2019 and 2020, 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 2020 of Carlton Michelmersh and Charnwood 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 in 2019 updated them where they consider conditions have changed in the interim period.

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.

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2020

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
Blockleys Brick Limited	England	Ordinary	100	Non trading
Corswarem BVBA	Belgium	Ordinary	100	Non trading intermediate holding company

There have been no changes in holdings in the year.

14. INVENTORIES

	2020 £'000	2019 £'000
Raw materials	2,926	3,970
Work in progress	1,747	1,679
Finished goods	5,373	4,111
	10,046	9,760

The cost of inventories expensed during the year is £27,780,000 (2019: £23,969,000). The inventory cost disclosed above is used for security of previous borrowings as disclosed in note 17.

15. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2020 £'000	2019 £'000
Trade receivables	9,841	7,238
Prepayments and accrued income	1,348	1,329
	11,189	8,567

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

Included within trade receivables is £131,000 (2019: £139,000) of receivables past due but not impaired. The Directors do not feel that there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows.

15. TRADE AND OTHER RECEIVABLES (continued)

	2020 £'000	2019 £'000
30 days overdue	72	113
30 – 60 days overdue	32	23
60 – 90 days overdue	35	3
	139	139

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

During the year no provisions were made against any debtors (2019: nil).

16. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2020 £'000	2019 £'000
Trade payables	2,690	3,248
Other taxation and social security	3,590	1,462
Other payables	634	622
Accruals	5,044	4,465
Pension	91	92
	12,049	9,889

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.

17. BORROWINGS

Interest rate risk of financial assets and liabilities

Following a voluntary prepayment of Term Loan to the sum of £10,000,000 in December 2020, the Group had floating rate borrowings of £10,479,000 (2019: £21,665,000), which consist of a bank Term Loan and a Revolving Credit Facility ("RCF") which bear interest linked to LIBOR . The RCF includes a sum of E6,000,000 subject to currency fluctuations. The Group's financial assets at 31 December 2020 and 31 December 2019 included cash at bank and in hand for which minimal interest is earned.

Euro denominated indebtedness in Floren is at a rate fixed at inception of the borrowing and amounts to E1,105,000 at 31 December 2020 (2019: E1,275,000).

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

Subsequent to drawing down on the HSBC loan facilities in 2017, the Group entered into an interest rate SWAP agreement with HSBC to fix the LIBOR rate on half of the scheduled Term Loan balance for the life of the Term Loan. At 31 December 2020, the quantum of the SWAP amounted to £6,041,000.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2020 of £603,000 (2019: £3,900,000). The facilities are committed until 2023.

17. BORROWINGS (continued)

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 BANK Plc.

Bank loans

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

	2020 £'000	2019 £'000
In one year or less	986	3,414
Between one and two years	986	4,914
Between two and five years	9,272	12,759
Over 5 years	228	363
	11,473	21,450

Borrowings on right-use assets

On adoption of IFRS16 in 2019, 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 2020 in respect of the right-of-use assets is as follows:

	2020 £'000	2019 £'000
In one year or less	530	542
Between one and two years	193	434
Between two and five years	47	239
	770	1,215

18. 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.

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

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.

19. 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 £571,000 (2019: £372,000). Amounts unpaid at the year end in respect of contributions amounted to £54,000 (2019: £41,000).

20. DEFERRED TAXATION

Deferred tax at 31 December 2020 relates to the following:

	Losses £'000	Roll-over gain £'000	Intangibles £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost						
As at 1 January 2019	(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**
On acquisition						
Recognised in income	(5)	(97)	30	199	(50)	**77**
Recognised in other comprehensive income	–	–	–	(280)	–	**(280)**
As at 31 December 2020	(54)	806	2,803	8,592	(484)	**11,663**

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 £96,000 (2019 £85,000) in respect of unrelieved tax losses.

21. SHARE CAPITAL

	2020 Number	2020 £'000	2019 Number	2019 £'000
Authorised share capital				
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

	2020 Number	2020 £'000	2019 Number	2019 £'000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	93,943,381	18,789	92,489,001	18,498

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

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

22. SHARE BASED PAYMENTS

	£'000
Share option reserve	
As at 1 January 2020	1,825
Charge for the year	1,099
Transferred to revenue reserves on maturity of options	(982)
As at 31 December 2020	1,942

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 2019	Options exercised in the year	Options granted	Options forfeited/ lapsed in the year	No. of options as at 31 December 2020
2014	72.75p	July 2017 - July 2024	123,000	(123,000)	–	–	–
2015	nil	May 2020 - June 2025	1,000,000	(1,000,000)	–	–	–
2017	nil	December 2020 - December 2021	78,732	(58,590)	–	(7,500)	12,642
2017	20p/nil	December 2022 - December 2023	3,000,000	–	–	–	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
2020	nil	March 2023 - March 2024	–	–	95,776	–	95,776

The options granted in the year were made under the "Long Term Incentive Plan" and are subject to performance conditions. The conditions relate to EPS targets in respect of the first grant (see Directors Remuneration Committee Report on page 25).

22. SHARE BASED PAYMENTS (continued)

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No. of options as at 31 December 2019	Options exercised in the year	Options lapsed/ forfeited in the year	No. of options as at 31 December 2020
2015	66.2p	August 2015 - August 2020	35,345	(35,345)	–	–
2018	75.1p	August 2018 - August 2021	706,632	–	(10,784)	695,848
2018	75.1p	August 2018 - August 2023	55,283	–	(3,994)	51,289

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 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	£0.821
Expected volatility	30%
Expected dividend yield	1.8%
Risk free rate	5%

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

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

	2020 No	2020 Weighted average exercise price	2019 No	2019 Weighted average exercise price
Outstanding as at 1 January	8,085,529	13.5p	5,847,484	25.3p
Exercised	(1,225,998)	7.30p	(31,691)	0.23p
Lapsed and forfeited	(13,215)	66.20p	(816,801)	0.23p
Granted	95,776	–	3,086,537	–
Outstanding as at 31 December	6,942,093	8.1p	8,085,529	13.5p

The weighted average contractual life for the share options outstanding at 31 December 2020 is 3 years (2019: 4 years).

23. 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.

Currency reserve

The currency reserve relates to the impact of changes in currency rates used in the translation of opening balances of assets and liabilities of the Belgian subsidiary whose accounts are denominated in Euros.

24. EARNINGS PER SHARE

	2020 £'000	2019 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders	4,933	8,604
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	93,680,537	91,463,549
Number of dilutive shares under option	5,687,687	2,169,290
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	99,368,224	93,632,839

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.

25. RECOGNITION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 31 December 2018 £'000	On acquisition	Currency adj £'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	–	1,260	–	–	(176)	1,084
Revolving credit facility drawn during the year	–	–	–	5,100	–	5,100
On adoption if IFRS16	–	–	–	1,861	(646)	1,215
	17,080	1,260	–	6,961	(2,636)	22,665

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

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

26. CONTINGENCIES

There are specific performance guarantees granted by HSBC amounting to £1,669,000.

Michelmersh Brick Holdings Plc

Parent Company Financial Statements

Year ended 31 December 2020

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

Opinion
We have audited the financial statements of Michelmersh Brick Holdings plc (the 'parent company') for the year ended 31 December 2020 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 2020
- 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.

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

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

- Challenging key assumptions used in the detailed budgets prepared by management for the financial years ending 2021 and 2022;
- Considering historical accuracy of budgeting;
- Comparing the actual results to budget for 2020 and post year end results to 2021 budget;
- Reviewing and challenging management's calculations suggesting the Group is able to comply with all loan facility covenants in the 12 months from approval of the financial statements; and
- Considering the sensitivity of the key assumptions and re-assessing headroom after sensitivity analysis performed.

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

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

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

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

Key audit matter description – Investment Properties
Investment properties are measured at fair value at each reporting date. Fair value measurement is inherently judgemental.

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

- Reviewed third party valuations 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;
- our internal experts assessed the appropriateness of the assumptions concerning growth rates and the discount rate; and
- performed sensitivity analysis to stress the future free cash flow calculations.

Our application of materiality
The materiality for the parent company financial statements as a whole ("parent FS materiality") was set at £3,184,000. This has been determined with reference to the benchmark of the parent company's net assets, which we consider to be one of the principal considerations for members of the company in assessing the company's performance. Parent FS materiality represents 5% of the parent company's net assets as presented on the face of the parent company balance sheet. This materiality level was capped at performance materiality for the group.

Performance materiality for the parent company financial statements was set at £2,547,200, being 80% of parent FS materiality. It was set at 80% to reflect the fact that few misstatements were expected in the current period and that there are few judgements with limited areas of estimation.

Other information
The other information comprises the information included in the annual report 2020 other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information contained within the annual report 2020. Our opinion on the parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the parent company financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the parent company financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 30, 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

- Reviewed the procedures management has implemented over compliance with the regulations.
- Inspected the year end internal reporting to the Board regarding compliance with significant regulations.
- Inspected internal health and safety records and external site audit reports.

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

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

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

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

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

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

Other matter
We have reported separately on the group financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2020.

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

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

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

30 March 2021

Company Balance Sheet
as at 31 December 2020

	notes	2020 £'000	2019 £'000
Fixed assets			
Investment properties	1	36,453	39,925
Investments	2	57,990	58,291
Total fixed assets		94,443	98,216
Current assets			
Cash at bank and in hand		3,664	9,761
Debtors – amounts falling due within one year	3	1,063	5,138
Total current assets		4,727	14,899
Creditors: Amounts falling due within one year	4	2,318	1,180
Interest bearing liabilities	5	833	3,270
		3,151	4,450
Net Current assets		1,576	10,449
Creditors: Amounts falling due after more than one year			
Interest bearing liabilities	5	9,646	17,096
Provisions for liabilities			
Deferred taxation	6	4,524	4,453
		14,170	21,549
Net assets		81,849	87,116
Capital and Reserves			
Share capital	11	18,789	18,498
Share premium account	12	15,678	15,397
Other reserves	12	27,757	31,024
Profit and loss account	12	19,625	22,197
Equity shareholders' funds		81,849	87,116

These financial statements were approved by the Directors and authorised for issue on 30 March 2021 and are signed on their behalf by

F. Hanna
Director

P. Sharp
Director

The accounting policies and notes on pages 74 to 79 form part of these financial statements

Statement of Changes in Equity
for the year ended 31 December 2020

	Share capital £'000	Other reserves £'000	Share premium £'000	Profit and loss account £'000	Total shareholders funds £'000
As at 1 January 2019	17,297	29,620	11,495	9,096	67,508
Profit for the year	–	657	–	15,970	16,627
Shares issued during the year	1,201	–	3,902	–	5,103
Share based payment	–	765	–	–	765
Transfer to profit and loss account	–	(18)	–	18	–
Dividend paid	–	–	–	(2,887)	(2,887)
As at 31 December 2019	**18,498**	**31,024**	**15,397**	**22,197**	**87,116**
Loss for the year	–	(3,383)	–	(2,291)	(5,674)
Shares issued during the year	44	–	85	–	129
Share based payment	–	1,099	–	–	1,099
Released on maturity of options	200	(983)	–	783	–
Dividend paid	47	–	196	(1,064)	(821)
As at 31 December 2020	**18,789**	**27,757**	**15,678**	**19,625**	**81,849**

Notes to Company Financial Statements
For the year ended 31 December 2020

Accounting Policies – year ended 31 December 2020

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.

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.

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.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2020

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 2020

1. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2019	33,162
Additions	702
Revaluation surplus	42
Revaluation deficit	(10)
Transfer	6,029
As at 31 December 2019	39,925
Additions	366
Revaluation deficit	(5,361)
Revaluation surplus	1,571
Transfer	(48)
At 31 December 2020	36,453

Revaluation of fixed assets
The Company's investment property was valued by the directors on 31 December 2020 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 2019 and during 2020.

2. INVESTMENTS – UNLISTED

	2020 £'000	2019 £'000
Cost		
As at 1 January	58,291	49,470
Additions	106	8,821
Written off	(407)	–
As at 31 December	57,990	58,291

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

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

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

Company	Country of incorporation	Class of shares held	Percentage holding	Nature of business
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non-trading
Michelmersh Brick UK Limited	England	Ordinary	100	Brick manufacturer
New Acres Limited	England	Ordinary	100	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
Blockley Brick Limited	England	Ordinary	100	Non-trading
Floren et Cie b.e.	Belgium	Ordinary	100	Brick manufacturer
Corswarem BVBA	Belgium	Ordinary	100	Non trading intermediate holding company

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

3. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	–	4,237
Prepayments	1,063	901
	1,063	5,138

4. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £'000	2019 £'000
Amounts owed by Group undertakings	799	–
Accruals and deferred income	1,519	1,180
	2,318	1,180

5. BORROWINGS

Bank loans are due for repayment as follows:

	2020 £'000	2019 £'000
In one year or less	833	3,270
Between one and two years	986	4,770
Between two and five years	8,660	12,326
	10,479	20,366

6. PROVISIONS FOR LIABILITIES

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

	2020 £'000	2019 £'000
At 1 January	4,453	3,602
Relating to transfer of land and buildings from Group Companies	–	998
Prior year adjustment	(56)	7
Revaluation	(406)	134
Decrease in provision	533	(288)
At 31 December	4,524	4,453

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. As a result of financial uncertainty in the early stages of the Covid-19 pandemic, the board decided that no final dividend in respect of 2019 would be paid. The Company has not made an interim dividend but has proposed a dividend of 2.5 pence per share payable on 14 July 2021 to shareholders on the register on 4 June 2021 in respect of 2020.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2020

8. PARTICULARS OF EMPLOYEES
The average number of staff employed by the Group during the year amounted to:

	2020 No.	2019 No.
Management and Administration	25	24
	£'000	**£'000**
Wages and salaries	2,208	2,393
Social security costs	277	346
Other pension costs	61	58
	2,546	2,797

Details of Directors' emoluments are shown in the Remuneration Committee Report on page 25

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 £10,479,000 (2019: £21,600,000).

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES
Group disclosures on page 60 of the Group accounts are appropriate to the Company.

11. SHARE CAPITAL

Authorised share capital	2020 Number	2020 £'000	2019 Number	2019 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2020 Number	2020 £'000	2019 Number	2019 £'000
Ordinary shares of 20p each	93,943,381	18,789	92,489,001	18,498

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.

13. SHARE BASED PAYMENTS

Share option reserve	**£'000**
As at 1 January 2020	1,825
Charge for the year	1,099
Transferred to revenue reserves on maturity of options	(982)
As at 31 December 2020	1,942

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