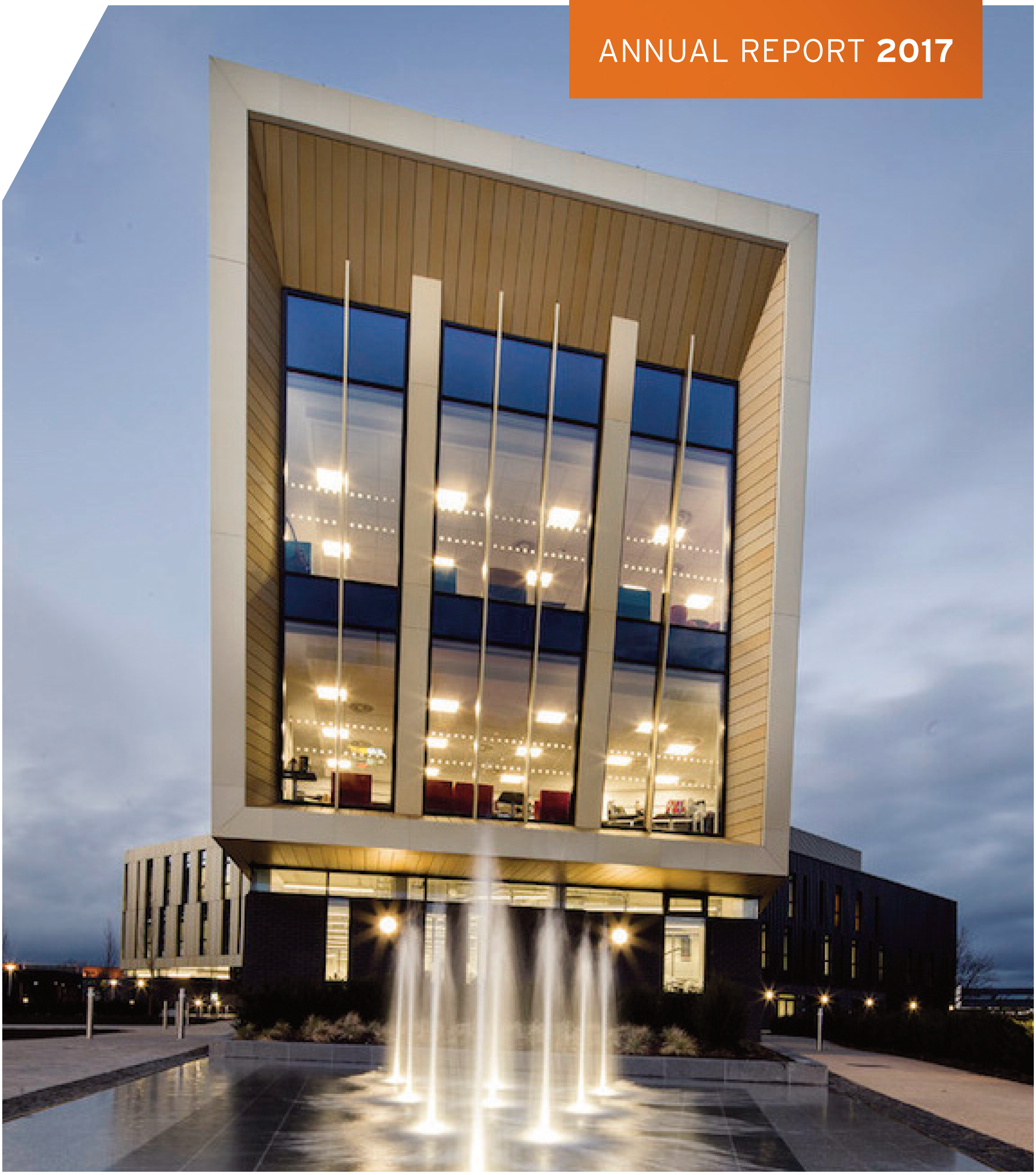
MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT **2017**



Cover picture: IfAM Building at the University of Nottingham

MICHELMERSH
Britain's Brick Specialists

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Chairman's Statement

Introduction

I am very pleased to report on a landmark year for the Group, which has significantly expanded following the acquisition of Carlton Main Brickworks Limited ("Carlton") in June 2017, for a net consideration of £31.2m. Carlton is an established and highly regarded brick manufacturer based in South Yorkshire, which increases the scale and reach of the Group and fits our business model and culture perfectly. This acquisition is a decisive step forward, which will yield a range of benefits over the coming years. The impact of the acquisition affects all areas of the financial statements as you will see in the coming pages.

Financial Highlights

The results include a part year contribution from Carlton from 23 June 2017, but the exceptional charges and amortisation of associated intangibles have disrupted the statutory format. A reconciliation of the reported results and the underlying performance is given below:

	Reported	Adjustments		**Underlying[4]**	
				2017	**2016**
Summary Results	£'000	*£'000*		**£'000**	**£'000**
Revenue	37,867	–	*26%*	37,867	30,057
Gross profit	13,418	*480[1]*	*34%*	13,898	10,348
	35.4%	–	*2.3%*	36.7%	34.4%
Administrative expenses	(8,610)	*1,173[2]*	*28%*	(7,437)	(5,833)
Other income	49			49	36
Operating profit	4,857		*43%*	6,510	4,551
EBITDA[3]	7,338		*42%*	7,965	5,617

1 The brick stocks acquired with Carlton were fair valued at £480,000 in excess of their book value and hence no profit arose on their disposal. This adjustment reflects valuing the brick stocks at cost and taking the profit when the bricks are sold during the period.

2 Administrative expenses include amortisation of £1,036,0000 on intangible assets associated with the acquisition of Carlton and are disclosed separately below and £137,000 one-off reorganisation costs relating to the integration of Carlton which are included under exceptional items.

3 EBITDA is computed as Operating profit excluding depreciation, amortisation and exceptional items.

4 Underlying results reflect the statutory results excluding one-off items that arose in connection with the acquisition of Carlton and the amortisation of intangible assets generated by the fair value exercise.

The Group reports a 43% increase underlying operating profit before taxation of £6.5 million (2016: £4.6 million) and a similar rate of increase in underlying EBITDA to £8.0m (2016:£5.6m).

Turnover and underlying operating profit increased with the inclusion of Carlton, the full effect of which will be seen in 2018 with a full year of trading from all Group brick plants.

Earnings per share on the underlying results amount to 5.87 pence (2016: 4.38 pence) represent an improvement of 34%.

Cash and Borrowings

At 31 December 2017, the Group had net debt of £17.5 million (at 31 December 2016: cash of £4.7 million). The acquisition of Carlton required the Group to seek new funding and after a competitive process, which resulted in the appointment of HSBC Bank plc as the Group's principal banker. HSBC has provided a range of facilities for a six-year term to meet the funding of the acquisition and provide working capital facilities for the Group. These facilities are described in more detail in the notes to the financial statements.

The net debt figure also includes some interest bearing deferred consideration (£1.75 million) of the original amount of £3.5 million, which formed part of the total acquisition consideration for Carlton. The first instalment of £1.75 million was due for repayment in June 2018, but surplus funds allowed this to be repaid early in November 2017. The remaining balance is due in equal instalments in June 2019 and June 2020.

Chairman's Statement
(continued)

Net cash generated by operations was £6.9 million, an increase of 22% over the previous year and 41% more than reported operating profit. This inflow was enhanced by receipt of £2.68 million for the sale of the Dunton landfill site in June 2017.

Assets and Working Capital

Gross assets held by the Group have increased during 2017 principally in respect of the Carlton acquisition. The total Carlton consideration of £38 million exceeded the historic net book value of the Company by £25 million and a valuation exercise has attributed a fair value to plant and machinery, land and buildings, stocks and intangible assets including £4.6 million goodwill.

Investment in fixed assets amounted to £1 million during the year. A number of projects are in the feasibility assessment stage and are projected to commence over the next two years.

Dividend

On 30 June 2017, the Group paid a dividend in respect of 2016 of 2.0 pence per share after doubling the dividend paid in respect of the 2015 financial year. Over recent years, the Group has striven to reward shareholders by lifting dividends to a meaningful level on an appropriate distribution of earnings taking into account the Group's desire to also reduce debt and invest in the business for the long-term.

On 12 January 2018, the Group paid an interim dividend of 0.7 pence per share in respect of 2017 earnings. The Board has considered the final dividend against the underlying earnings of the Group so that exceptional and amortisation costs relating to the acquisition of Carlton do not adversely affect the balance of payments. It proposes a final dividend of 1.45 pence per share, bringing the total dividend for 2017 to 2.15 pence per share representing a 7.5% increase over 2016.

Land Assets

Following an arduous and technically challenging planning process, the sale of the former Dunton Brickworks site was completed in June 2017 and proceeds of £2.68 million were received.

The Directors assess the value of the Group's land and buildings annually with guidance from independent experts on a rolling basis. A net revaluation surplus of £1.7 million was recognised as at 31 December 2017, which reflected assessments of all Group properties, given specific assumption on their future prospects and activity at each site, and included surpluses and deficits over book value as appropriate.

The Group continues to evaluate and enhance the future cash returns from its land assets over and above the brick manufacturing operations. The planning conditions around the remediation of the quarry at Charnwood has been revised and the Board expects further commercial evaluation of the site alongside the continuation of our brickmaking activities. At Telford, the plans to relocate the public road running through the site have progressed well, which will eventually unlock the possibility to develop an area of surplus land.

Board and Employees

With Eric Gadsden stepping down from the board in May 2017, a recruitment process was undertaken to appoint a further non-executive director, which culminated in Stephen Bellamy joining the Board in February 2018. Stephen has extensive financial and operational experience and is enthusiastic to bring the benefits of his abilities to Michelmersh. I welcome Stephen to the Board and look forward to working with him.

I would like to thank the efforts of our employees who have risen to the challenge of acquisition and integration of Carlton. I also welcome the Carlton employees to the Group who I am sure will benefit from being part of a wider business and the opportunities that this brings.

Chairman's Statement
(continued)

Outlook
The Group's position has been significantly strengthened in 2017 with the addition of the Carlton plant. Our geography, product range, scale and market presence have all been enhanced as a result and there is further scope to benefit from this acquisition as the management teams work together to maximise the performance of the Group. Since the year end, we have also taken a decision to change the operational structure at the Michelmersh plant which addresses operational challenges at this plant and reduces risk going forward. The Group's order book is strong and 2018 promises to be busy.

The UK construction industry remains stable with a level of activity that keeps UK brick manufacturing operating at capacity with limited options for expansion. Statistics show that demand was strong and increased in 2017, whilst production capacity grew at a lower rate. Industry brick stocks have fallen and imported product continues to have a place in the market. Despite this balance of supply and demand, industry prices over 2016 were flat. At some point, inflationary pressures should lead to increases in prices and margin improvement. During the most recent economic recession insufficient margin led to a lack of investment in the UK brick manufacturing sector. During the cycle we have seen ageing plant along with the exhaustion of local mineral result in the closure some of the historic industry capacity. Medium to long term margin improvement is therefore a necessity. This will in turn ensure realistic investment to secure a positive well balanced brick output that is sufficient to support any future housing growth in the UK.

I look forward with confidence to the coming year against a positive construction industry backdrop.

Martin Warner
Chairman

19 March 2018

Chief Executives' Review

Clay Products

The Group continued to benefit from positive construction fundamentals during 2017. There were three key positive areas: RMI (repair, maintenance and improvement), private housing and urban regeneration schemes, all of which contributed to the Group's success. The Group also achieved significant success in the specification and commercial sector. From a political standpoint, the Group notes that all parties continue to support the need for more house building. As such, the forward fundamentals continue to be positive as the UK strives to meet housing needs through new builds and the refurbishment of the ageing housing stock.

The Office for National Statistics ("ONS") statistics noted that brick production rose just over 4% from the previous year, whilst brick deliveries rose 11%, with 2017 being the strongest year for despatches since 2007. ONS also noted brick stocks falling by nearly 28% towards the end of the year against a background of flat pricing.

2017 saw the combined Group's highest forward order intake for a 12-month period and, along with the acquisition of Carlton mid-year, the Group despatched the highest ever number of bricks in a 12 month period, setting the tone for Group targets in 2018.

Michelmersh continued its focus and core ambition to lead the premium brick and Terra Cotta sector. Another central theme of 2017 was the Group's continued support of the distribution sector, whereby we ensured a well-managed timely supply of product to sites and merchant yards.

Performance

Group revenue for the year to 31 December 2017 of £37.9 million (2016: £30.1 million) reflects the uplift provided by Carlton. Excluding Carlton, brick turnover grew by 3% achieved with a 2% increase in sales volumes and modest price inflation.

Gross margins on a Group level have been enhanced by the addition of the Carlton works. As the Group's largest site, it can generate higher margins which will feed through into 2018 as it contributes for a full 12 months. Investment in plant is being considered in order to further improve output and production efficiencies.

Production volumes excluding Carlton increased by 2% through increased plant utilisation efficiencies at Blockleys.

The Michelmersh plant in Romsey had a difficult year. This plant has one of the smallest capacities in the Group in an industry where scale is a significant factor. Despite considerable management input and investment in the plant, 2017 saw continued deterioration in results. Turnover fell as average selling price and volumes struggled, while cost of production increased, and the plant contributed a net deficit compared to modest profitability in 2016. Following a detailed analysis of performance and future prospects, the Group decided to restructure operations in February 2018. Unfortunately, a number of employees were made redundant as a result of this change, but following a comprehensive consultation and outplacement process we are pleased that the majority of affected staff have found alternative employment. The recent changes are already improving margin at the plant, and this is set to continue, moving the site back into a positive underlying contribution in 2018.

Our Charnwood factory in Leicestershire is expected to benefit from the changes at Michelmersh where traditionally, within the product ranges, there have been some competing market forces.

At 31 December 2017, the business and operating assets of Carlton were 'hived-up' into Michelmersh Brick UK Limited and Carlton now operates as a plant within the existing Group structure. The production management teams have been fully integrated and will both benefit with shared experience and resource. The sales and administration teams have been amalgamated to provide greater geographical and product coverage.

Since acquisition, the Carlton plant has exceeded expectations not only in terms of operational performance but also through integration into the Michelmersh Group. A pre-planned extended shutdown of the plant over the Christmas period caused loss of output and sales in December and into January. The shutdown included a significant reconditioning of the kiln and a range of backlog maintenance that should reduce risk of breakdowns and improve future operational performance.

Chief Executives' Review
(continued)

During 2017 the Group saw a continuation of its "balanced market approach". Strong customer service and, as alluded to earlier, a strong support of the distribution network on both a national and regional basis drove a smooth, robust flow of deliveries throughout the whole year. The Group's RMI and housing orders remained particularly strong throughout the year and this trend has continued into 2018. Quality housing and urban regeneration was again a key sector during 2017, with the Group supplying products to many notable house builders such as Crest Homes, Berkeley Group, Croudace, Countryside Properties PLC.

The year saw tremendous success in supplying and completing award winning projects. As in previous years, our commitment to enhancing the built environment came to the fore. The Group won orders to supply bespoke Blockleys products for the iconic Battersea Power Station redevelopment. Dujardin Mews, Enfield won the BDA Supreme Award using Freshfield Lane products, whilst South Gardens in South East London picked up the BDA award for Best Urban style. This project was also utilised to enhance our digital offering with a data and image rich environment to serve self-builders, architects, specifiers, contractors, house builders and students.

Enhanced and engaging social media coupled with an increase in BIM (Building Information Modelling) website traffic improved the Group's 2017 online profile, underlining the Group's drive to provide free technical data and quality information for the sector as a whole. Continuing to inspire architects and designers is at the forefront of the Group's online ethos, with the digital content and data always helping to shape and enhance our future built environment.

Hathern Terra Cotta had another strong year in the specialist terra cotta restoration sector. Notable projects included Dulwich College, the BBC Television Centre and remedial work to The GAP store in Leeds.

Other notable Group projects included the stunning IfAM building at the University of Nottingham. A further example of the Group's ability to supply innovative contemporary high quality products can be seen at the Ronald Mcdonald House near London Bridge where our i-line Charnwood bricks have enhanced the architectural details and elevations.

The Group has improved its online presence with a new revised website and updated BIM files incorporating all the products on offer from the latest Carlton acquisition. The new clean succinct style was developed to enhance our digital offering with a data and image rich environment to serve self-builders, architects, specifiers, contractors, house builders and students.

Management Systems
During 2017 we completed the integration of our quality and environmental systems for the existing four manufacturing sites giving us one combined system. The integration of Carlton into this group system commenced during the second half of the year. Alongside this process we also commenced updating our ISO 9001 and ISO 14001 documentation to comply with the revised standards. The Group delivered compliance with EU-ETS carbon emission and our successful ISO 50001 Energy management objectives achieved ESOS compliance.

In May 2017, the Group was honoured and delighted to be invited as guest of RoSPA, to the Queen's Garden Party at Buckingham Palace. The Group is a member of RoSPA and supports the excellent work that it does. The invitation was in recognition of this and the health and safety performance demonstrated during RoSPA's audits of the Group's factories.

Staff Development
The planned enhancement of our Group HR department was completed with the redeployment of existing staff. The new focused team embarked on a very successful series of roadshows around the Group engaging and consulting with all staff on various HR matters, not least the promotion of the workplace pension. It is pleasing to note that very few employees chose to opt out of the Group pension scheme.

The Group added to its operations team towards the end of the year, bringing in specialist skills to focus on materials procurement and product development. This decision is already delivering material input cost savings, manufacturing synergies and innovation of new and exciting products for future markets.

Chief Executives' Review
(continued)

Landfill and Land Assets
There were no landfill operations in the existing void of our New Acres facility in Telford during 2017. This is in line with the Group's strategy to maximise future mineral reserves for brickmaking. Plans for the relocation of the Hadley Road are progressing well with construction likely to commence in 2019. When complete this will supply the Blockleys factory with mineral for around 20 years while expanding the void space further for recommencement of landfill operations in due course. In addition, it will open transport links to the already restored land.

Planning permission was granted at the Charnwood quarry to allow for the importation of clay minerals, which will enable the Group to import clay commercially, adding to and extending the existing reserves. The permission also includes a re-worked low-level restoration scheme that will be beneficial for future alternative development.

The acquisition of Carlton brings further underlying long term value to the Group's land portfolio adding 93 acres to the land bank. The current adjacent quarry that forms 47 acres, has a void of around 2.7 million cubic metres and large clay mineral reserves of around 3 million cubic metres.

Outlook
The Board is confident that the actions taken at the Michelmersh and Carlton plants provide the foundations for a much stronger business in the coming years. The Group's plants operate close to capacity and, as such, we continue to seek to make advances through yield improvement and production cost reduction. A range of operational reviews are under way that are expected to improve output and the cost of production.

The Group has historically been able to outperform industry pricing, even at the more difficult high end, by reacting to the market by bringing new products to market and entering new market segments. UK brick manufacturing is facing stock shortages, with demand exceeding supply, and cost inflation. Any margin improvements that result from these forces will benefit the Group.

A number of strategic projects are being evaluated with a view to continuing the development of the Group.

Frank Hanna, Peter Sharp
Joint Chief Executives

19 March 2018

Officers and Professional Advisers

Directors	M R Warner – Chairman F J Hanna – Joint Chief Executive P N Sharp – Joint Chief Executive S H P Morgan – Finance Director R W Carlton Porter S G Bellamy
Company Secretary	S H P Morgan
Registered Office	Freshfield Lane Danehill Haywards Heath West Sussex RH17 7HH
Nominated Adviser And Broker	Cenkos Securities PLC 6-8 Tokenhouse Yard London EC2R 7AS
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 30 Stamford Street London SE1 9LQ
Principal Bankers	HSBC Bank plc 1st Floor First Point Buckingham Gate London Gatwick Airport RH6 0NT

Directors' Biographies

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.

Stephen Bellamy
Steve Bellamy was appointed to the Board on 1 February 2018. He has been Chairman and non-executive director to a wide range of both public and private companies and Chairman of and advisor to Investment Committees and capital providers. Steve is currently also Chairman of Becrypt Limited, Chairman of Concirrus Limited and NED and Audit Chair of, AIM 30, Advanced Medical Solutions Group plc. He was previously COO and Finance Director of Sherwood International Plc, UK Investment Director of Brierley Investments, and worked at Coopers & Lybrand (now PwC) in New Zealand and New York. He is a New Zealand Chartered Accountant.

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) MIOD Joint Chief Executive
Peter Sharp has been in the industry for 33 years including 13 with Michelmersh and 14 years with Ibstock Brick holding various senior leadership and management positions. He is a member of the Institute of Directors and the Institute of Materials Minerals and Mining. Peter is also a board Director of the British Ceramic Confederation, the trade body for the ceramic industry. He joined the board in May 2011 and became Joint Chief Executive on 1 January 2016.

Stephen Morgan BA ACA Finance Director
Stephen Morgan 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.

Directors' Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2017.

Principal Activities and Business Review
The principal activity of the Company during the year was the management and administration of its subsidiary companies. The principal activity of the main trading subsidiary company was the manufacture of bricks and related products. All other subsidiary companies were non-trading.

The Directors are satisfied with the performance of the Group for the year and with the position of the Group at 31 December 2017.

Future developments in the business are discussed in the Chairman's Review and the Chief Executives' Review.

Trading Results and Dividends
The trading results for the year and the Group's financial position at the end of the year are shown in the financial statements on pages 22 to 50.

An interim dividend of 0.7 pence per ordinary share was paid on 12 January 2018. The Directors are pleased to recommend the payment of a final dividend for the year of 1.45 pence bringing the total dividend for the year ended 31 December 2017 to 2.15 pence (2016: 2.0 pence) per ordinary share payable on 30 June 2018 to shareholders on the register on 1 June 2018.

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 2017 Ordinary Shares of 20p each	31 December 2016 Ordinary Shares of 20p each
E J S Gadsden	22,658,274	22,658,274
M R Warner	4,638,732	5,388,732
R W Carlton-Porter	20,000	20,000
F Hanna	1,050,000	1,050,000
S H P Morgan	–	–
P N Sharp	63,157	–

Analysis of Directors' emoluments for the year and their interest in options in share in the Company is shown in the Remuneration Report on page 14 of the financial statements.

Corporate Governance
The Company's shares are traded on the AIM Market of the London Stock Exchange and the Company is not therefore required to report on compliance with the Combined Code ("The Code"). However, the Board of Directors supports The Code, and also the recommendations of the Quoted Companies Alliance ("QCA") in its bulletin "Corporate Governance Code for Small and Mid-sized entities 2013" (the "QCA Code"). The QCA Code provides a series of recommendations for smaller quoted companies in approaching the question of corporate governance.

Accordingly, the Board has established an Audit Committee and a Remuneration Committee, and complies with The Code in areas where it is felt justified by reference to the QCA comments as being relevant to a business the size of Michelmersh Brick Holdings Plc. Both commitees were chaired by Bob Carlton-Porter and comprised at the end of the year the Chairman and Martin Warner.

A nominations committee was established in 2017 to seek recruitment of a non-executive director comprising Martin Warner and chaired by Bob Carlton-Porter.

Directors' Report
(continued)

Going Concern
The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and the Chief Executives' Review on pages 2 to 7. In addition, note 18 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk. The company meets its funding requirements through a combination of cash balances, a term loan and a revolving credit facility.

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.

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

Financial Instruments
The Group's policy is to finance working capital through cash balances, appropriate bank facilities and retained earnings. The Group is exposed to the usual credit and cash flow risk associated with selling on credit and manages this through credit control procedures. For further details refer to note 18 in the financial statements.

Health and Safety
The Group has established a documented health and safety management system with arrangements and procedures based around the Health and Safety Executive guidance HSG65. Workplace health and safety audits and inspections are carried both internally and 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 actioned accordingly.

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

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

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 2017, the Group employed 361 male and 30 female members of staff. None of the females were Directors of the Company and 3 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.

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 £8,200.

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

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

Gender Pay Gap
Michelmersh are required by law to carry out Gender Pay Reporting under the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

The headline averages as determined by the six measures required are:

Measure	Percentage
Difference in the mean pay of full-pay men and women	-6.6%
Difference in the median pay of full-pay men and women	-11.6%
Difference in the mean bonus pay of men and women	66%
Difference in median bonus pay of men and women	69%
Proportion of men and women who received bonus pay	69.2% Male/90.5% Female

(a negative percentage means that men are lower than women in that measure)

The statistics show a headline pay bias in favour of female staff although this is not reflected in the other various specified measures. The Group has only 2 female weekly paid members of staff and 19 monthly paid with limited comparability in role with the male workforce. With the clear majority of the workforce being male, and the concentration of female workers in certain functions, the calculations do not lead to robust conclusions about pay ratios.

Our aim as a company is to continue to monitor our gender pay gap and endeavour to ensure that no gender pay imbalances exist on individuals and groups of employees.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

Directors' Report
(continued)

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

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.

Signed by order of the Board

Director

Approved by the Directors on 19 March 2018

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Remuneration Report

Remuneration Committee
The Remuneration committee was chaired by Bob Carlton-Porter throughout the year, and comprised at the end of the year the chairman and Martin Warner. The role of the Remuneration Committee is to determine the terms of employment of the Executive Directors including remuneration, share options and other benefits.

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

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

	Basic Salary 2017 £000	Annual Bonus 2017 £000	Other Benefits 2017 £000	Pension 2017 £000	Total Emol-uments 2017 £000	Total Emol-uments 2016 £000
E J S Gadsden*	8	–	–	–	**8**	**20**
M R Warner	100	50	13	–	**163**	**130**
R Carlton-Porter	37	–	–	–	**37**	**30**
F J Hanna	158	140	25	–	**323**	**175**
S H P Morgan	138	140	14	–	**292**	**144**
P N Sharp	158	140	13	15	**326**	**170**
	599	470	65	15	**1,149**	**669**

Total emoluments including Employer's NI amounted to £1,299,000 (2016: £752,000)

* Mr. Gadsden left the Board in May 2017 at which point Mr. Warner became Executive Chairman. Mr. Warner became non-executive Chairman on 1 September 2017.

The Annual bonus is awarded after performance targets set by the remuneration committee are met. The performance targets relate to the audited profit before taxation of the Group.

Other benefits include a car allowance or a company car and fuel, medical cover and sundry benefits.

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

Directors' Remuneration Report
(continued)

Directors Share options

	CSOP 2017 No	LTIP 2017 No	Total Options 2017 No	Total Options 2016 No
M R Warner	41,000	–	**41,000**	**41,000**
F J Hanna	41,000	140,000	**181,000**	**111,000**
S H P Morgan	41,000	120,000	**161,000**	**101,000**
P N Sharp	41,000	140,000	**181,000**	**174,157**
	164,000	400,000	**564,000**	**427,157**

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

LTIP 2015: nil cost options have been granted under the Michelmersh Brick Holdings Plc Long Term Incentive Plan in 2015 which accrue in incremental annual tranches over 5 years provided EPS targets are achieved. The options disclosed relate to the vested options arising in respect of the years ended 31 December 2017 where targets have been met. The options are exercisable after publication of the financial statements in respect of the year ended 31 December 2019.

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 £165,000 (2016: £165,000).

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.

Strategic Report

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

Clay products are produced at five 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.

Trends and Future Developments
The Group has a continued strategy of 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 current robust housing starts, we always remain well represented in the RMI, specification and commercial sectors, which means that we are never overly reliant on one particular sector should market forces dictate a change.

Generally economic conditions in the UK are positive, although there are short term and sector specific concerns, with further uncertainty over the Brexit process. All political parties are in support of residential development and the current government seems intent on promoting housebuilding and is expected to continue to provide incentives for housebuilders. In general, commentators suggest housebuilding will continue at the higher levels reported recently and as a consequence, brick manufacturing businesses should see continued healthy activity. Energy cost stability assists in the attempts to keep inflation on input cost at low levels. Brick imports have reduced through 2016 but are still considered as a permanent feature at a lower level in the UK market despite currency issues and Brexit concerns.

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

Principal Risks and Uncertainties
General Economy and fiscal environment: The majority of the Group's products will be used in residential schemes of new housing schemes, commercial and academic buildings or repair and maintenance 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 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.

Input prices: Energy and labour are the most significant input costs. Supply agreements with hedging of energy 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.

Strategic Report
(continued)

Financial and non-financial indicators
The Directors monitor the business predominantly through review of financial results, including revenue, operating profit and cash flow, as well as through quality control indicators such as health and safety reporting, employee welfare and efficiency reviews. The Directors are satisfied that these indicators adequately address the principal business risks faced by the Group which include energy prices, the failure of quality control systems and skill shortages as well as the prevailing economic climate. For further information regarding the business in the year, refer to the Chairman's Statement and the Chief Executives' Review. Explanations are sought for variance to budget and historic trends on a site by site basis.

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 on a site by site basis. Other production indicators include absenteeism, yield, energy usage and health and safety statistics. The Board measures performance against industry statistics for both the UK brick industry and the wider construction sector, and reviews prospects through energy indicators and construction trends.

Development and Performance
Manufacturing of clay products and operation of landfill sites are closely regulated by the environmental authorities and the Group has extensive embedded procedures to manage its activities. The Group is committed to the protection of the environment and aims to minimise the impact of its business activities by maintaining a management structure which ensures effective environmental management and compliance with all relevant legislation. Management review environmental considerations as part of the decision making process, and strive to improve performance by minimising waste, maximising recycling and optimising the use of energy, water and raw materials. Management will communicate and consult with interested parties on environmental issues, and provide employees with relevant environmental training.

Frank Hanna **Peter Sharp**
Director

Approved by the Directors on 19 March 2018

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

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

Opinion
We have audited the consolidated financial statements of Michelmersh Brick Holdings plc (the 'group') for the year ended 31 December 2017 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 financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the group financial statements is not appropriate; or
- the directors have not disclosed in the group financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the group financial statements are authorised for issue.

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

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

Business combinations – assessment of the acquisition accounting in respect of Carlton Main Brickworks Limited and revisions made to the fair value assigned to acquired assets and liabilities.

Key audit matter description
Fair value calculations are inherently judgemental and IFRS 3 requires that consideration is given to the existence and measurement of separable, identifiable intangibles assets that have been acquired. For the acquisition of Carlton, significant value has been attributed to customer relationships and brand and adjustments made to recognise the fair value of property, plant and equipment acquired. The valuation of these assets is dependent on a number of factors, including revenue and cash flow forecasts and the application of an appropriate discount rate. Each of these factors is subjective and management engaged independent experts to assist with the valuation.

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

– Evaluated the approach to valuation with reference to the method/model utilised;
– Critically reviewed the assumptions incorporated in the valuation including discount, attrition and royalty rates; and
– Considered the overall valuation of intangible assets identified relative to similar companies in the industry.

In addition to the procedures noted above, the audit team has carried out the following testing:

– Considered the expertise and independence of the experts engaged by management;
– Reviewed the intangible assets identified and adjustments to reflect the fair value of other assets relative to the requirements of IFRS 3, with consideration to similar transactions observed on other audit assignments;
– Reviewed the trading projections incorporated in the valuation relative to recent trading patterns; and
– Considered the implications of reasonable fluctuations in the trading assumptions in addition to the overall basis for residual goodwill.

Valuation of land and buildings

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

Response to key audit matter
In order to address this key audit matter, the audit team has 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;
– Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year;
– Reviewed the directors' valuations of these sites with reference to recent valuations and any key changes in assumptions; and
– Reviewed alternative use valuations provided by the independent expert, considering any implications for our highest and best use conclusions.

Valuation of inventory

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

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

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

Independent Auditors' Report
(continued)

Key audit matter description – work in progress and finished goods
Finished goods inventory is costed based on production costs and attributable overheads incurred during the period and attributed across the number of bricks produced at each site, as adjusted for any non-standard products which are typically more labour intensive. Work in progress is valued as a fixed percentage of finished goods inventories. As a result, the valuation of work in progress and finished good inventory incorporates a degree of judgement.

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

- Substantive testing of production and overhead costs incurred in the year;
- Attendance at the stock take for existence and completeness purposes, performing floor to sheet as well as sheet to floor verification;
- Substantive analytical procedures considering the appropriateness and consistency of cost allocations with reference to prior years, brick production in the period and movements in opening and closing inventory levels;
- Consideration of the appropriateness of stage of completion assumptions with reference to the timespan of the process and work required at each stage;
- Sensitivity analysis considering utilisation in the year, slow moving inventory and a reasonable variance in stage of completion.

Materiality
The materiality for the group financial statements as a whole was set at £2,950,000. This has been determined with reference to the benchmark of the group's net assets, which we consider to be an appropriate measure for a group of companies with significant value in land and buildings which are fundamental to the future trading of the group. Materiality represents 5% of net assets as presented on the face of the consolidated balance sheet.

The consolidated income statement is underpinned by the activity of the trading subsidiaries, Michelmersh Brick UK Limited and Carlton Main Brickworks Limited. The key risks in these companies are considered to centre on their trading performance and accordingly, materiality has been calculated at 2% of turnover (being £616,000 and £131,000 respectively). Thus, a lower level of trading materiality has been factored into our overall conclusions on the consolidated income statement.

An overview of the scope of our audit
Of the group's 8 reporting components, 4 were subjected to audits for group reporting purposes. The remaining components were non-trading.

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

Other information
The other information comprises the information included in the annual report 2017, other than the consolidated and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Independent Auditors' Report
(continued)

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

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

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

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

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on pages 12-13, the directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Other matter
We have reported separately on the parent company's financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2017.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

19 March 2018

Consolidated Income Statement
for the year ended 31 December 2017

	notes	2017 £'000	2016 £'000
Revenue	2	37,867	30,057
Cost of sales		(24,449)	(19,709)
Gross profit		13,418	10,348
Administrative expenses			
Underlying		(7,435)	(5,830)
Exceptional reorganisation costs		(137)	–
Amortisation of intangibles		(1,038)	(3)
		(8,610)	(5,833)
Other income	3	49	36
Operating profit		4,857	4,551
Exceptional Item – acquisition costs	13	(1,195)	–
Finance (expense)/income	4	(323)	18
Profit before taxation	5	3,339	4,569
Taxation	9	(1,127)	(1,010)
Profit for the financial period		2,212	3,559
Basic earnings per share attributable to the equity holders of the company	25	2.64p	4.38p
Diluted earnings per share attributable to the equity holders of the company	25	2.60p	4.36p

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

The accounting policies and notes on pages 27 to 50 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	notes	2017 £'000	2016 £'000
Profit for the financial year		2,212	3,559
Other comprehensive (expense)/income			
Items which will not subsequently be reclassified to profit or loss			
Revaluation deficit of property, plant and equipment	11	(322)	–
Revaluation surplus of property, plant and equipment	11	2,069	1,369
Deferred tax on revaluation movement	20	(170)	49
		1,577	1,418
Total comprehensive income for the year		3,789	4,977

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 27 to 50 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2017

	notes	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	10	24,086	2,469
Property, plant and equipment	11	52,626	40,794
		76,712	43,263
Non-current assets held for resale		–	2,542
Current assets			
Inventories	14	9,161	7,193
Trade and other receivables	15	6,934	5,052
Cash and cash equivalents		4,128	4,720
Total current assets		20,223	16,965
Total assets		96,935	62,770
Liabilities			
Current liabilities			
Trade and other payables	16	6,462	4,702
Interest bearing borrowings	17	1,791	–
Corporation tax payable		900	373
Total current liabilities		9,153	5,075
Non-current liabilities			
Interest bearing borrowings	17	19,809	–
Deferred tax liabilities	20	8,590	4,052
		28,399	4,052
Total liabilities		37,552	9,127
Net assets		59,383	53,643
Equity attributable to equity holders			
Share capital	22	17,234	16,294
Share premium account		11,495	11,495
Other reserves		20,816	18,410
Retained earnings		9,838	7,444
Total equity		59,383	53,643

These financial statements were approved by the Directors and authorised for issue on 19 March 2017 and are signed on their behalf by

F. Hanna **P. Sharp**
Directors

The accounting policies and notes on pages 27 to 50 form part of these financial statements.

Consolidated Statement of Changes in Equity

	Share capital £'000	Share option reserve £'000	Merger reserve £'000	Share premium £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
As at 1 January 2016	16,247	177	979	11,495	15,694	4,627	49,219
Profit for the year	–	–	–	–	–	3,559	3,559
Revaluation surplus	–	–	–	–	1,369	–	1,369
Deferred taxation on revaluation	–	–	–	–	49	–	49
Total comprehensive income	–	–	–	–	1,418	3,559	4,977
Share based payment	–	212	–	–	–	–	212
Shares issued during the year	47	–	–	–	–	–	47
Transfer to retained earnings	–	(70)	–	–	–	70	–
Dividend paid	–	–	–	–	–	(812)	(812)
As at 31 December 2016	16,294	319	979	11,495	17,112	7,444	53,643
Profit for the year	–	–	–	–	–	2,212	2,212
Revaluation deficit	–	–	–	–	(322)	–	(322)
Revaluation surplus	–	–	–	–	2,069	–	2,069
Released on sale of land	–	–	–	–	(1,811)	1,811	–
Deferred taxation on revaluation	–	–	–	–	(170)	–	(170)
Total comprehensive income	–	–	–	–	(234)	4,023	3,789
Shares issued during the year	940	–	2,444	–	–	–	3,384
Share based payment	–	196	–	–	–	–	196
Dividend paid	–	–	–	–	–	(1,629)	(1,629)
As at 31 December 2017	**17,234**	**515**	**3,423**	**11,495**	**16,878**	**9,838**	**59,383**

The accounting policies and notes on pages 27 to 50 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Profit before taxation	3,339	4,569
Loss/(profit) on sale of fixed assets	3	(8)
Finance expense/(income)	323	(18)
Depreciation	1,455	1,063
Amortisation	1,038	3
Profit on disposal of intangible assets	(13)	–
Market value adjustment of Intangible assets	–	4
Share based payment charge	196	212
Cash flows from operations before changes in working capital	6,341	5,825
(Increase)/decrease in inventories	(50)	35
Decrease/(increase) in receivables	1,346	(744)
(Decrease)/increase in payables	(768)	537
Net cash generated by operations	6,869	5,653
Taxation paid	(1,760)	(905)
Net cash generated by operating activities	5,109	4,748
Cash flows from investing activities		
Purchase of subsidiary undertaking net of cash acquired	(23,698)	–
Purchase of property, plant and equipment	(1,002)	(2,254)
Proceeds of sale of investments	–	30
Proceeds of sale of intangibles	155	–
Proceeds of sale of land	2,680	–
Proceeds of disposal of property, plant and equipment	11	8
Net cash used in investing activities	(21,854)	(2,216)
Cash flows from financing activities		
Proceeds of loan drawdown	24,000	–
Interest (paid)/received	(323)	18
Repayment of interest bearing liabilities	(5,899)	–
Proceeds of share issue	4	47
Dividend paid	(1,629)	(812)
Net cash generated by/(used) in financing activities	16,153	(747)
Net (decrease)/increase in cash and cash equivalents	(592)	1,785
Cash and cash equivalents at the beginning of the year	4,720	2,935
Cash and cash equivalents at the end of the year	4,128	4,720
Cash and cash equivalents comprise:		
Cash at bank and in hand	4,128	4,720
Bank overdraft	–	–
	4,128	4,720

The accounting policies and notes on pages 27 to 50 form part of these financial statements.

General Information and Accounting Policies

1. General Information

Michelmersh Brick Holdings Plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006. The registered office address is Freshfield Lane, Danehill, Haywards Heath, West Sussex RH17 7HH.

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The main activity of the two 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 2017, with comparative figures for the year 1 January to 31 December 2016.

The companies within the Group during the financial year ended 31 December 2017 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 EU. The consolidated financial statements for the financial years ended 31 December 2017 and 31 December 2016 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. 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

There were a number of Amendments to Standards adopted in the current year, but none of these had a material impact on the Company in the current period.

(b) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2017.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 9 "Financial instruments" will be effective for the year ending December 2018 onwards, the main impact being the impairment assessment methodology used to value trade receivables. This is not anticipated to have a significant impact in the financial statements.

IFRS 15 "Revenue from contracts with customers" will be effective for the year ending December 2018 onwards. The transition from IAS 18 to IFRS 15 is not expected to have a significant impact on the financial statements.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

IFRS 16 “Leases” will be effective for the year ending December 2019 onwards and the impact on the financial statements is expected to be insignificant.

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.

Intangible Assets
Intangible Assets acquired as part of a business combination are recognised at their fair value at the date of acquisition. They are subsequently amortised on a straight line basis over their estimated useful lives on the following basis:

Order book	– 6 months
Customer relationships	– 15 years
Brand	– 25 years

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.

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

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when the significant rights and rewards of ownership of the goods have passed to the buyer, normally on despatch of the goods. Discounts are negotiated with customers at the beginning of each financial year.

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.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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

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.

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 11 to the financial statements.

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

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

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.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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

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

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

Financial Instruments
Financial Instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

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

In August 2017, the Group entered into a swap agreement in order to hedge against movements in LIBOR on a fixed proportion of the overall borrowings. The fair value of this arrangement is currently considered insignificant to the financial statements and therefore has not been recognised at 31 December 2017.

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

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

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

Share based payment transactions
An expense for equity instruments granted under employee share schemes and the Save-As-You-Earn Schemes is recognised in the financial statements based on 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.

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

Taxation
Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that 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 administrative expenses in the Income Statement.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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. Interim dividends are recognised when paid.

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 the current year acquisition of Carlton Main Brickworks Limited are presented below operating profit.

Notes to Financial Statements
Year ended 31 December 2017

1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

- Freehold land and buildings are valued by the Directors, after taking into account external professional advice, and incorporate certain assumptions in relation to the future use of the properties and the estimated useful economic life relating to clay extraction and landfill facilities.
- Useful life of property, plant and equipment is estimated and reviewed at each financial year end. The Group also tests for impairment whenever a trigger event occurs. Impairment test assumptions include cash flows based on trading forecasts generated from current performance of each of the cash generating units. Cash generating units are deemed to be each integrated trading site, due to the integrated business model adopted by the Group. Discounting is applied based on weighted average cost of capital. Further detail is provided in note 11.
- The valuation of intangible assets acquired in a business combination is based upon a number of assumptions around trading projections, including growth and attrition rates, royalty rates and forecast EBIT margins. Judgement is also required in determining an appropriate discount rate for each asset. Further detail on the intangible assets acquired in the current year through Carlton Main Brickworks is provided in note 10.
- The valuation of raw materials inventory (clay stocks) at each year end is based upon management estimates of usage in the year with reference to bricks produced.

  The valuation of work in progress and finished goods inventory is determined with reference to production costs incurred and attributable overheads. This results in an element of judgement being incorporated in the year end valuation. The stage of completion of work in progress is also assumption driven with reference to the time span of the overall process.

  The values involved in respect of raw materials, work in progress and finished goods inventories are disclosed in note 14.

2. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 31 December 2017. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 27 to 32.

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

2. SEGMENTAL REPORTING (continued)

Landfill:

Engagement in landfill operations:

- New Acres Limited – based in Telford, Shropshire

Segment performance is evaluated by the Board based on revenue and profit before tax. 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.

	2017		2016	
Continuing Activities	**Segmental Revenue £'000**	**PBT £'000**	**Segmental Revenue £'000**	**PBT £'000**
Building materials				
Blockleys	8,736	3,009	7,121	2,162
Carlton	7,110	2,427	–	–
Charnwood	3,232	609	3,507	948
Michelmersh	5,314	(60)	5,802	188
Freshfield Lane	14,121	5,185	14,104	5,614
Less rebates	(646)	(646)	(477)	(477)
	37,867	10,524	30,057	8,435
Landfill				
New Acres	–	(8)	–	(8)
	37,867	10,516	30,057	8,427
Inter-segmental revenue and unallocated costs*	–	(7,177)	–	(3,858)
	37,867	3,339	30,057	4,569

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

2. SEGMENTAL REPORTING (continued)

Other segmental disclosure

	2017			2016		
	Property, plant and equipment Additions £'000	Property, plant and equipment Depreciation £'000	Intangible fixed assets Amortisation £'000	Property, plant and equipment Additions £'000	Property, plant and equipment Depreciation £'000	Intangible fixed assets Amortisation £'000
Building materials						
Blockleys	140	287	–	238	280	–
Carlton	101	266	1,036	–	–	–
Charnwood	82	124	–	118	67	–
Michelmersh	577	429	–	1,362	433	–
Freshfield Lane	102	349	–	285	283	–
Landfill						
New Acres	–	–	2	–	–	3
	1,002	1,455	1,038	2,003	1,063	3

Revenue by geographical destination

	2017 £'000	2016 £'000
United Kingdom	37,784	29,990
Europe	45	36
Rest of the World	38	31
	37,867	30,057

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

Sales of £6,142,000 (2016: £4,559,000) were made to a single customer of the Group.

Total Group revenue made from the top five customers amounted to £14,588,000 (2016: £13,602,000). No other customers contributed more than 10% of revenue in the Group.

3. OTHER INCOME

	2017 £'000	2016 £'000
Rents receivable	13	15
Profit on sale of fixed assets	–	8
Other	36	13
	49	36

4. FINANCE (EXPENSE)/INCOME

	2017 £'000	2016 £'000
Interest expense	(329)	–
less		
Interest earned	6	18
	(323)	18

5. PROFIT BEFORE TAXATION

		2017 £'000	2016 £'000
Profit before taxation is stated after charging:			
Amortisation	– other	1,038	3
Depreciation	– owned assets	1,455	1,063
Operating lease costs	– plant and machinery	53	91
	– motor vehicles	644	435

6. DIVIDEND

On 30 June 2017, a dividend was paid of 2.0 pence per share, amounting in total to £1,629,000 in respect of 2016.

On 12 January 2018, an interim dividend was paid of 0.7 pence per share, amounting in total to £603,000 in respect of 2017. The Board has proposed a dividend of 1.45 pence per share payable on 30 June 2018 to shareholders on the register on 1 June 2018. The total dividend for the year will amount to 2.15 pence per share and a total payment of £1,853,000.

7. AUDITORS REMUNERATION

	2017 £'000	2016 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	24	20
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	35	23
– tax compliance services	21	26
– corporate finance services	151	7

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.

8. PARTICULARS OF EMPLOYEES

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

	2017	2016
Manufacture and supply of bricks	329	266
Administration	44	33
	373	299

	2017 £'000	2016 £'000
Wages and salaries	11,064	8,909
Social security costs	1,142	864
Other pension costs	384	338
	12,590	10,111

Details of Directors' emoluments are shown in the Remuneration Report on page 14.

9. TAXATION

a) Recognised in the income statement

	2017 £'000	2016 £'000
Current tax expense		
Current year	1,430	843
Prior year	(5)	(21)
	1,425	822
Deferred tax		
Origination and reversal of temporary differences:	(298)	188
Total income tax charge in the income statement	1,127	1,010

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2016 higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below.

	2017 £'000	2016 £'000
Reconciliation of effective tax rate		
Profit before taxation	3,339	4,569
Income tax using the domestic corporation tax rate	643	914
Effects of :		
Expenses disallowed	370	19
Share option expense not taxable	38	28
Losses utilised	(15)	–
Depreciation in excess of capital allowances	83	65
Change to prior year estimate	(2)	32
Profit on sale	18	(2)
Rate changes	(49)	(38)
Amortisation of intangible assets	23	–
Other timing differences	18	(8)
	1,127	1,010

9. TAXATION (continued)

c) Factors affecting future tax charges

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

As at 31 December 2017, the Group had no further tax losses carried forward (2016: £1,169,000).

A deferred tax asset has not been recognised in respect of £503,000 (2016: £503,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

10. INTANGIBLE ASSETS

	Goodwill £'000	Customer Lists, Order Book and Brand £'000	PPC license £'000	Carbon emissions quota £'000	Total £'000
Cost or valuation					
As at 1 January 2016	2,280	–	75	146	2,501
Revaluation adjustment	–	–	–	(4)	(4)
As at 31 December 2016	2,280	–	75	142	2,497
Disposal	–	–	–	(142)	(142)
On acquisition	4,611	18,186	–	–	22,797
As at 31 December 2017	6,891	18,186	75	–	25,152
Amortisation					
As at 1 January 2016	–	–	25	–	25
Charge for the year	–	–	3	–	3
As at 31 December 2016	–	–	28	–	28
Charge for the year	–	1,036	2	–	1,038
As at 31 December 2017	–	1,036	30	–	1,066
Net book value					
As at 31 December 2017	6,891	17,150	45	–	24,086
As at 31 December 2016	2,280	–	47	142	2,469

10. INTANGIBLE ASSETS (continued)

GOODWILL

The goodwill brought forward relates exclusively to the acquisition of Freshfield Lane Brickworks Limited in 2010. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2017, 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 over the expected life of the plant discounted at the Group's weighted average cost of capital.

The key assumptions used in the value in use calculations are those regarding discount rates of 7% (2016: 10%) and revenue and cost growth rates of 3% (2016: 3%). The Group prepares cash flow forecasts as part of the budget process, and these are extrapolated forward for the expected life of the business.

There were no impairment losses recognised on goodwill during the year (2016: £nil).

During 2017, the Group acquired 100% of the issued share capital of Carlton Main Brickworks Limited (see note 13).

These valuations were determined on the following bases:

Order book: income approach based on the order book value at acquisition incorporating a fixed EBIT margin and discount factor of 8%

Customer relationships: income approach based on excess earnings incorporating a growth rate of 2%, a churn rate of 5%, a fixed EBIT margin and a discount factor of 15.3%

Brand: relief from royalty approach based on projected revenues over the 25 year life of the quarry incorporating a royalty rate of 2% and a discount rate of 15.3%.

The intangible assets of Carlton were identified and valued with the assistance of an independent expert as follows:

	£'000	Life
Order Book	468	6 months
Customer Relationships	16,013	15 Years
Brand	1,705	25 Years
	18,186	

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site develop-ment £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost or valuation					
As at 1 January 2016	33,360	202	27	25,801	59,390
Additions	640	–	11	1,602	2,253
Transfer to current assets	(2,639)	–	–	–	(2,639)
Transfers to inventories	(33)	–	–	–	(33)
Disposals	–	–	–	(38)	(38)
Revaluation surplus	1,369	–	–	–	1,369
As at 31 December 2016	32,697	202	38	27,365	60,302
Additions	210	–	–	792	1,002
Transfers to inventories	(48)	–	–	–	(48)
On acquisition	9,808	–	156	10,681	20,645
Disposals	–	–	(46)	–	(46)
Revaluation deficit	(322)	–	–	–	(322)
Revaluation surplus	2,069	–	–	–	2,069
As at 31 December 2017	44,414	202	148	38,838	83,602
Depreciation					
As at 1 January 2016	1,798	46	27	16,709	18,580
Charge for the year	317	–	1	745	1,063
On acquisition	–	–	–	–	–
Transfer to current assets	(97)	–	–	–	(97)
Disposals	–	–	–	(38)	(38)
As at 31 December 2016	2,018	46	28	17,416	19,508
Charge for the year	406	–	16	1,033	1,455
On acquisition	3,508	–	85	6,451	10,044
Disposals	–	–	(31)	–	(31)
As at 31 December 2017	5,932	46	98	24,900	30,976
Net book value					
As at 31 December 2017	38,482	156	50	13,938	52,626
As at 31 December 2016	30,679	156	10	9,949	40,794

The Group's freehold land and buildings were valued by the Directors at £38,482,000 at 31 December 2017 (2016: £30,679,000), resulting in a net increase in the revaluation reserve of £1,747,000 (2016: decrease £1,369,000). Deferred tax liabilities were increased by £107,000 (2016: decrease £49,000) and have been debited to the revaluation reserve.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The revaluation surplus in the year ended 31 December 2017 relates to an increase in value of the land and buildings at Charnwood (Shepshed) and Michelmersh (Romsey) following a valuation by Gerald Eve LLP on a depreciated replacement cost basis. Gerald Eve valuations also led to an increase in the investment value of land at these sites due to changes in planning status and expectations.

The revaluation deficit in the year ended 31 December 2017 relates to the investment value of the Telford site. At Telford continued evaluation of the timing of mineral extraction, landfill and remediation has encouraged a change in expected timing of disposal of investment land as the Board are intent on achieving the maximum return from the site from all income sources. As disposal of investment land is likely to be deferred until all mineral is extracted, the net present value has fallen.

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

	2017 £'000	2016 £'000
Historical cost		
At 1 January	17,312	16,705
On acquisition	6,300	–
Additions	210	640
Transfer to inventories	(48)	(33)
At 31 December	23,774	17,312

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

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 £38,482,000 are all derived using Level 3 inputs and there have been no transfers between Levels during the period.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Valuation techniques
Brickwork properties have been fair valued using a cost approach, by assessing the rebuild cost provided by external professional valuers in 2015 and 2017, ascribing a construction industry price inflation factor and applying a remaining life period over the total life of each asset of between 20 and 50 years. These values were confirmed by a third party valuation in 2015 of Freshfield Lane and Telford properties and in 2017 of the properties at Shepshed, Romsey and Barnsley. 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 2011 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 2011 updated them where they consider conditions have changed in the interim period.

	2017 £'000	2016 £'000
Fair value of Land and Buildings at 1 January	30,679	31,562
Transferred to inventories	(48)	(33)
Charged to the Income Statement in cost of sales	(406)	(317)
Expenditure on assets	210	640
Transferred to current assets	–	(2,542)
On acquisition	6,300	–
Net gains recognised in Other Comprehensive Income	1,747	1,369
Fair value of Land and Buildings at 31 December	38,482	30,679

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.

12. SUBSIDIARIES

The following subsidiaries, all of whose registered office is Freshfield Lane, Danehill, Haywards Heath RH17 7HH, 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
Carlton Main Brickworks Limited	England	Ordinary	100	Manufacture Bricks
Dunton Brothers Limited	England	Ordinary	100	Non trading
Charnwood Forest Brick Limited	England	Ordinary	100	Non trading
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non trading
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non trading
New Acres Limited	England	Ordinary	100	Non trading landfill operations

No entities have been excluded from the consolidated financial statements.

13. ACQUISITION OF SUBSIDIARY

On 23 June 2017, the Group acquired 100% of the issued share capital of Carlton Main Brickworks Limited ("Carlton"). Carlton is a clay brick manufacturer based in Barnsley, South Yorkshire and the acquisition has significantly increased the Group's manufacturing capacity and provided access to a wider geographical market for the expanded Group output.

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

	£'000
Inventory	1,871
Debtors and prepayments*	3,228
Property, plant and equipment	10,600
Identifiable intangible assets	18,186
Cash in hand	7,453
Financial liabilities*	(3,253)
Deferred taxation	(4,665)
Total identifiable net assets	33,420
Goodwill	4,611
Total Consideration:	38,031
Satisfied by:	
Cash	31,151
Shares in Michelmersh Brick Holdings Plc	3,380
Deferred consideration	3,500
	38,031
Cash outflow arising on acquisition:	31,151
Cash acquired	(7,453)
Net cash outflow on acquisition	23,698

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

The property, plant and equipment comprises the freehold land on which the factory stands and the plant and equipment and vehicles operated within the business. The land and mineral reserves and plant and equipment were independently valued as at the date of acquisition by Gerald Eve LLP and Cartwight LLP at the values stated, and this resulted in an uplift to historic cost values of £6.5 million.

RSM LLP independently valued the identifiable intangible assets within the business, being Order book, Brand value and Customer relationships as at the date of acquisition and identified the useful lives of these assets which will govern the amortisation profile. Further details on this are provided in note 10.

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

The non-cash consideration comprised the issue of new ordinary shares in Michelemersh Brick Holdings Plc (see note 22) at a market value of 72 pence, and non-contingent deferred cash consideration of £3.5 million repayable over three years. The first instalment of £1.75 million was due in June 2018 but was repaid early on 1 November 2017, and two further instalments of £875,000 are due in June 2019 and June 2020. The impact of discounting is considered immaterial and has not been reflected.

The goodwill reflects access to a geographical market and the experience of the workforce.

13. ACQUISITION OF SUBSIDIARY (continued)

Acquisition related costs of £1.2 million are disclosed as an exceptional item in the Income Statement on page 22 Carlton contributed £7.1 million to the Group turnover and £2.4 million net profit in the period between acquisition and 31 December 2017.

If the acquisition of Carlton had been completed on the first day of the financial year, Group revenues for the period would have been £45 million and the reported Group profit would have been £5.6 million.

14. INVENTORIES

	2017 £'000	2016 £'000
Raw materials	3,722	2,555
Work in progress	1,414	1,235
Finished goods	4,025	3,403
	9,161	7,193

The cost of inventories expensed during the year is £23,969,000 (2016: £17,909,000). The inventory cost disclosed above is used for security of borrowings as disclosed in note 17.

15. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2017 £'000	2016 £'000
Trade receivables	6,291	4,440
Prepayments and accrued income	643	612
	6,934	5,052

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

Included within trade receivables is £214,000 (2016: £10,000) of receivables past due but not impaired. The Directors do not feel there is any deterioration of credit quality of these receivables. The age analysis of receivables past due but not impaired is as follows.

	2017 £'000	2016 £'000
30 days overdue	162	4
30 – 60 days overdue	47	–
60 – 90 days overdue	5	6
	214	10

The carrying amount of the Group's trade and other receivables is denominated in sterling. The total cash and receivables category comprises trade and other receivables above together with cash of £4,128,000 as shown in the balance sheet, totalling £10,419,000.

During the year no provisions were made against any debtors (2016: nil).

16. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2017 £'000	2016 £'000
Trade payables	2,701	2,137
Other taxation and social security	757	709
Other payables	259	149
Accruals	2,677	1,658
Pension	68	49
	6,462	4,702

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 £5,705,000.

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

The Group has floating rate borrowings of £21,600,000 (2016: £nil), which consist of a bank Term Loan and a Revolving Credit Facility which bear interest linked to LIBOR and deferred consideration linked to bank base rate. The Group's financial assets at 31 December 2017 and 31 December 2016 include cash at bank and in hand for which minimal interest is earned.

Subsequent to drawing down on the HSBC loan facilities, the Group entered into an interest rate SWAP agreement with HSBC to fix the LIBOR rate on half of the Term Loan balance for the life of the Term Loan. The fair value of this agreement is considered insignificant and has therefore not been reflected in as at 31 December 2017.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2017 of £5,000,000 (2016: £4,500,000). The facilities are committed until 2023.

The Group currently operates with positive cash reserves. The Group has a £6 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:

	2017 £'000	2016 £'000
In one year or less	1,791	–
Between one and two years	1,791	–
Between two and five years	12,873	–
Over 5 years	3,395	–
	19,850	–

In June 2017, the Group entered into new bank facilities with HSBC in connection with the acquisition of Carlton Main Brickworks Limited which comprised a six year £20 million Term Loan and a 6 year £6 million Revolving Credit Facility ("RCF"), of which £4 million was drawn to complete the acquisition. Quarterly repayments have been made to the Term Loan and £3 million was repaid to reduce the drawn balance of the RCF.

17. BORROWINGS (continued)

The borrowings carry interest at LIBOR plus a variable margin depending on EBITDA multiples. A non-utilisation fee is payable on undrawn RCF balances. The loans are secured by a fixed and floating charge over the Group's assets.

Deferred Consideration

Consideration for the acquisition of Carlton (see note 13) included deferred payments that carry interest on the unpaid balance.

Interest is charged at Bank Base rate plus a margin of 2.75%. The deferred consideration was repayable to the sum of £1,750,000 on the first anniversary the completion date, and £875,000 on each of the second and third anniversaries. On 1 November 2017, the first instalment was repaid early, leaving an outstanding balance of £1,750,000.

	2017 £'000	2016 £'000
In one year or less	–	–
Between one and two years	875	–
Between two and five years	875	–
	1,750	–

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

The main market risk which affects the financial statements is interest rate risk which is further described in note 17.

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.

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

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 £384,000 (2016: £338,000). Amounts unpaid at the year end in respect of contributions amounted to £41,000 (2016: £31,000).

20. DEFERRED TAXATION

Deferred tax at 31 December 2017 relates to the following:

	Losses £'000	Intangibles £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost					
As at 1 January 2016	(122)	–	4,011	25	3,914
Recognised in income	9	–	183	(5)	187
Recognised in other comprehensive income	–	–	(49)	–	(49)
As at 31 December 2016	(113)	–	4,145	20	4,052
On acquisition	–	3,096	1,569	–	4,665
Recognised in income	113	(176)	(227)	(7)	(297)
Recognised in other comprehensive income	–	–	170	–	170
As at 31 December 2017	–	2,920	5,657	13	8,590

In addition to the above, the Group has un-provided deferred tax assets of £85,000 (2016: £85,000) in respect of unrelieved tax losses.

21. COMMITMENTS UNDER OPERATING LEASES

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

	2017 £'000	2016 £'000
Within one year	614	601
Between two and five years	1,273	1,114
	1,887	1,715

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

22. SHARE CAPITAL

Authorised share capital	2017 Number	2017 £'000	2016 Number	2016 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2017 Number	2017 £'000	2016 Number	2016 £'000
Ordinary shares of 20p each	86,171,664	17,234	81,471,178	16,294

During the year, the Company issued 4,700,486 new shares. Of these, 4,694,444 new shares were issued as consideration for the acquisition of Carlton Main Brickworks Limited, with the remainder issued under a Group sharesave scheme.

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

23. SHARE BASED PAYMENTS

The Group operates two share based payment schemes for directors and their employees. Both of these schemes are equity settled.

Share option reserve	£'000
As at 1 January 2017	319
Charge for the year	196
As at 31 December 2017	515

23. SHARE BASED PAYMENTS (continued)

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 2016	Options granted	Options forfeited/ lapsed in the year	No. of options as at 31 December 2017
2008	96p	February 2011 – February 2018	12,500	–	–	12,500
2014	72.75p	July 2017 – July 2024	164,000	–	–	164,000
2015	nil	May 2020 – June 2025	1,000,000	–	–	1,000,000
2015	nil	December 2018 – December 2025	36,524	–	–	36,524
2017	nil	December 2020 – December 2021	–	83,213	–	83,213
2017	20p	December 2020 – December 2023	–	3,750,000	–	3,750,000

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

The options granted during the year were made under the Michelmersh Brick Holdings Plc Long Term Incentive Plan 2017 and are conditional upon maintaining employment throughout the three or five year option period. The options issued at 20 pence also contain performance targets set around Group EPS.

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No. of options as at 31 December 2016	Options exercised in the year	Options lapsed/ forfeited in the year	No. of options as at 31 December 2017
2015	66.2p	August 2015 – August 2018	355,419	–	–	355,419
2015	66.2p	August 2015 – August 2020	39,877	–	–	39,877

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £196,000 (2016: £212,000).

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

Weighted average share price	£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.

23. SHARE BASED PAYMENTS (continued)

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

	2017		2016	
	No	Weighted average exercise price	No	Weighted average exercise price
Outstanding as at 1 January	1,608,320	24.4p	1,873,926	24.3p
Exercised	–	–	(238,416)	19p
Lapsed and forfeited	–	–	(27,190)	66.2p
Granted	3,833,213	19.6p	–	–
Outstanding as at 31 December	5,441,533	21.0p	1,608,320	24.4p

The fair value of the options issued during the year was £2,480,000.

Of the share options outstanding at 31 December 2017, 164,000 are currently exercisable at 72.75 pence.

The weighted average contractual life for the share options outstanding at 31 December 2017 is 7 years (2016: 7 years).

24. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

Share option reserve
The share option reserve relates to the Group Share Option and SAYE Share Option Schemes. Additional details are disclosed in note 23 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 11.

25. EARNINGS PER SHARE

Earnings	2017 £'000	2016 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders from continuing operations	2,212	3,559
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	83,913,140	81,259,280
Number of dilutive shares under option	1,138,070	379,105
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	85,051,210	81,638,385

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.

Michelmersh Brick Holdings Plc

Parent Company Financial Statements

Year ended 31 December 2017

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

Opinion
We have audited the financial statements of Michelmersh Brick Holdings plc (the 'parent company') for the year ended 31 December 2017 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2017;
- 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 financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matter
We identified the key audit matter described below as that which is 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 matter.

Valuation of land and buildings

Key audit matter description
Land and buildings are measured at fair value which 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;
- Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year; and
- Reviewed the directors' valuations of these sites with reference to recent valuations and any key changes in assumptions.

Materiality
The materiality for the financial statements as a whole was set at £2,729,000. This has been determined with reference to the benchmark of the company's net assets, which we consider to be an appropriate measure for a holding company with significant value in its asset base. Materiality represents 4.4% of net assets as presented on the face of the balance sheet.

Other information
The other information comprises the information included in the annual report 2017, other than the consolidated and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 12-13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the 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.

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

Other matter

We have reported separately on the consolidated financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2017.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

19 March 2018

Company Balance Sheet
as at 31 December 2017

	notes	2017 £'000	2016 £'000
Fixed assets			
Investment properties	1	32,739	30,831
Investments	2	49,470	10,245
Intangible assets	3	–	142
Total fixed assets		82,209	41,218
Current assets			
Cash at bank and in hand		538	3,221
Debtors – amounts falling due within one year	4	4,508	15,489
Total current assets		5,046	18,710
Creditors: Amounts falling due within one year	5	468	267
Interest bearing liabilities	6	1,791	–
		2,259	267
Net current assets		2,787	18,443
Creditors: Amounts falling due after more than one year			
Interest bearing liabilities	6	19,809	–
Provisions for liabilities			
Deferred taxation	7	3,569	3,371
		23,378	3,371
Net assets		61,618	56,290
Capital and Reserves			
Share capital	12	17,234	16,294
Share premium account	13	11,495	11,495
Merger reserve	13	3,423	979
Revaluation reserve	13	24,562	22,425
Share option reserve	13	515	319
Profit and loss account	13	4,389	4,778
Equity shareholders' funds		61,618	56,290

No profit and loss account or statement of comprehensive income is presented for the Company as permitted under s 408 of he Companies Act 2006. The profit after tax for the Company was £1,800,000 (2016: loss £815,000).

These financial statements were approved by the Directors and authorised for issue on 19 March 2018 and are signed on their behalf by

Frank Hanna **Peter Sharp**
Directors

The accounting policies and notes on pages 57 to 63 form part of these financial statements

Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital £'000	Share option reserve £'000	Share premium £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total shareholders funds £'000
As at 1 January 2016	16,247	177	11,495	979	22,425	5,775	57,098
Loss for the year	–	–	–	–	–	(815)	(815)
Shares issued during the year	47						47
Revaluation surplus	–	–	–	–	–	325	325
Deferred taxation on revaluation	–	–	–	–	–	235	235
Share based payment	–	212	–	–	–	–	212
Dividend paid	–	–	–	–	–	(812)	(812)
Transfer to profit and loss account	–	(70)	–	–		70	–
As at 31 December 2016	**16,294**	**319**	**11,495**	**979**	**22,425**	**4,778**	**56,290**
Transfer to retained earnings					560	(560)	–
Profit for the year	–	–	–	–	–	1,800	1,800
Shares issued during the year	940	–	–	2,444	–	–	3,384
Revaluation deficit	–	–	–	–	(322)	–	(322)
Revaluation surplus	–	–	–	–	2,069	–	2,069
Deferred taxation on revaluation	–	–	–	–	(170)	–	(170)
Share based payment	–	196	–	–	–	–	196
Dividend paid	–	–	–	–	–	(1,629)	(1,629)
As at 31 December 2017	**17,234**	**515**	**11,495**	**3,423**	**24,562**	**4,389**	**61,618**

Notes to Company Financial Statements
For the year ended 31 December 2017

Accounting Policies

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

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets in accordance with the Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland and the Companies Act 2006.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements:

– The requirements of section 7 Statements of Cash Flows;

– The requirements of section 11 Financial Instruments paragraphs 11.39 – 11.48; and

– The requirements of section 33 Related Party Disclosures paragraph 33.7.

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

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

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

Cash and cash equivalents are classified as basic financial instruments and comprise cash in hand and at bank, short-term bank deposits with an original maturity of three months or less and bank overdrafts which are an integral part of the company's cash management.

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

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

In August 2017, the Group entered into a swap agreement in order to hedge against movements in LIBOR on a fixed proportion of the overall borrowings. The fair value of this arrangement is currently considered insignificant to the financial statements and has therefore not been recognised at 31 December 2017.

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 administrative expenses in the income statement in the year in which they are incurred.

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. Interim dividends are recognised when they are paid.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2017

1. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2016	29,312
Additions	392
Revaluation surplus	8
Transfer	1,119
As at 31 December 2016	30,831
Additions	209
Revaluation deficit	(322)
Revaluation surplus	2,069
Transfer	(48)
At 31 December 2017	32,739

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

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

The Company's freehold land and buildings were valued at £32,739,000 at 31 December 2017.

2. INVESTMENTS – UNLISTED

	2017 £'000	2016 £'000
Cost		
As at 1 January	10,245	10,245
Additions	39,225	–
As at 31 December	49,470	10,245

The addition in the year relates to the acquisition of Carlton Main Brickworks Limited (see note 13 in the Consolidated Financial Statements).

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

Company	Country of incorporation	Class of shares held	Percentage holding	Nature of business
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non-trading
Michelmersh Brick UK Limited	England	Ordinary	100	Brick manufacturer
New Acres Limited	England	Ordinary	100	Landfill operator
Charnwood Forest Brick Limited	England	Ordinary	100	Non-trading
Dunton Brothers Limited	England	Ordinary	100	Non-trading
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non-trading
Carlton Main Brickworks Limited	England	Ordinary	100	Brick manufacturer

The registered office of all of the above subsidiaries is Freshfield Lane, Danehill, Haywards Heath RH17 7HH.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2017

3. INTANGIBLE ASSETS

The intangible asset relates to carbon allowances	2017 £'000	2016 £'000
Cost		
At 1 January	142	146
Revaluation	–	(4)
Disposals	(142)	–
At 31 December	–	142

4. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Amounts owed by Group undertakings	4,095	15,010
Other debtors	2	47
Prepayments	411	432
	4,508	15,489

5. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £'000	2016 £'000
Accruals and deferred income	468	267
	468	267

6. BORROWINGS

Bank loans and deferred consideration are due for repayment as follows:

	2017 £'000	2016 £'000
In one year or less	1,791	–
Between one and two years	2,666	–
Between two and five years	13,748	–
Over 5 years	3,395	–
	21,600	–

The borrowings are secured by a floating charge over all property and assets of the Group, both present and future, in favour of HSBC Bank plc.

7. PROVISIONS FOR LIABILITIES

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

	2017 £'000	2016 £'000
At 1 January	3,371	3,469
Relating to transfer of land and buildings from Group Companies	–	90
Prior year adjustment	(2)	31
Increase/(decrease) in provision	200	(219)
At 31 December	3,569	3,371

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.

8. DIVIDEND

On 30 June 2017, a dividend was paid of 2.0 pence per share, amounting in total to £1,629,000 in respect of 2016.

On 12 January 2018, an interim dividend was paid of 0.7 pence per share, amounting in total to £603,000 in respect of 2017. The Board has proposed a dividend of 1.45 pence per share payable on 30 June 2018 to shareholders on the register on 1 June 2018. The total dividend for the year will amount to 2.15 pence per share and a total payment of £1,853,000.

9. PARTICULARS OF EMPLOYEES

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

	2017	2016
Management and Administration	19	19
	£'000	**£'000**
Wages and salaries	1,257	1,294
Social security costs	206	144
Other pension costs	40	40
	1,503	1,478

10. CONTINGENCIES

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

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group disclosures in note 18 of the Group accounts are appropriate to the Company.

12. SHARE CAPITAL

Authorised share capital	2017 Number	2017 £'000	2016 Number	2016 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2017 Number	2017 £'000	2016 Number	2016 £'000
Ordinary shares of 20p each	86,171,664	17,234	81,234,656	16,247

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

13. 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 23 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 11 to the group financial statements.

14. SHARE BASED PAYMENTS

Share option reserve	**£'000**
As at 1 January 2017	319
Charge for the year	196
As at 31 December 2017	515

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 2016**	**Options granted**	**No. of options as at 31 December 2017**
2014	72.75p	July 2017 – July 2024	164,000	–	164,000
2015	nil	May 2020 – June 2025	1,000,000	–	1,000,000
2015	nil	December 2018 – December 2025	36,524	–	36,524
2017	nil	December 2020 – December 2021		83,213	83,213
2017	20p	December 2020 – December 2023		3,750,000	3,750,000

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

The options granted during the year were made under the Michelmersh Brick Holdings Plc Long Term Incentive Plan 2017 and are conditional upon maintaining employment throughout the three or five year option period. The options issued at 20 pence also contain performance targets set around Group EPS.

14. 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 2016	No. of options exercised in the year 31 December 2016	Options forfeited in the year	No. of options as at 31 December 2017
2015	66.2p	August 2015 – August 2018	92,895	–	–	92,895
2015	66.2p	August 2015 – August 2020	27,189	–	–	27,189

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £196,000 (2016: £221,000).

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

Weighted average share price	£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:

	2017 No	2017 Weighted average exercise price	2016 No	2016 Weighted average exercise price
Outstanding as at 1 January	1,320,608	56.3p	1,393,238	56.3p
Exercised	–	–	(72,630)	19.0p
Granted	3,833,213	19.6	–	–
Outstanding as at 31 December	5,153,821	18.4p	1,320,608	15.0p

The weighted average contractual life for the share options outstanding at 31 December 2017 is 8 years (2016: 8 years).

Michelmersh Brick Holdings Plc
Notice of Annual General Meeting

This year's annual general meeting will be held at 10.30 a.m. on 10 May 2018 at the offices of Burges Salmon LLP, 6 New Street Square, London EC4A 3BF. You will be asked to consider and pass the resolutions below. Resolutions 7 and 8 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary Business

1 To receive the Company's Accounts and Reports of the directors and the auditors for the financial year ended 31 December 2017.

2 To reappoint Martin Warner who retires by rotation and who, being eligible, offers himself for reappointment as a director.

3 To confirm the appointment of Stephen Bellamy who retires as a director following his appointment by the board of directors following the last annual general meeting of the Company and who, being eligible, offers himself for reappointment as a director.

4 To approve the payment of a dividend of 1.45 pence per Ordinary Share on 30 June 2018 to members on the register on 1 June 2018.

5 To appoint Nexia Smith & Williamson Audit Limited as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.

Special Business

6 That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**2006 Act**") to exercise all the powers of the Company to allot shares in the capital of the Company and to grant rights to subscribe for, or convert any security into, shares in the capital of the Company:

(a) comprising equity securities (as defined by section 560 of the 2006 Act) up to an aggregate nominal amount of £11,489,555 (such amount to be reduced by the nominal amount of any allotments or grants made pursuant to the authority in paragraph (b) of this resolution) solely in connection with an offer by way of a rights issue:

(i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) in any other case, up to an aggregate nominal amount of £5,744,777 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in paragraph (a) of this resolution in excess of £5,744,777),

provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would, or might, require shares to be allotted or rights to be granted to subscribe for, or convert securities into, shares after the authority ends and the directors may allot shares or grant rights to subscribe for, or convert securities into, shares in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Notice of Annual General Meeting
(continued)

This resolution revokes and replaces all unexercised authorities previously granted to the directors to allot shares in the capital of the Company and to grant rights to subscribe for, or convert any security into, shares in the capital of the Company but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

7 That, subject to the passing of resolution 6, the directors be authorised:

7.1 to allot equity securities (as defined in section 560 of the CA 2006) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash as if section 561 of the CA 2006 did not apply to any such allotment or sale, provided that such authority shall be limited to:

(a) the allotment of equity securities and sale of treasury shares for cash in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (a) of resolution 6, by way of a rights issue only);

(i) to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings;

(ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment of equity securities or sale of treasury shares (otherwise than pursuant to paragraph 7.1(a) of this resolution) to any person up to an aggregate nominal amount of £861,716; and

7.2 in addition to any authority granted under paragraph 7.1 of this resolution, to allot equity securities (as defined in section 560 of the CA 2006) for cash under the authority conferred by resolution 6 and/or to sell ordinary shares held by the Company as treasury shares as if section 561 of the CA 2006 did not apply to any such allotment or sale, provided that such authority shall be:

(a) limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £861,716; and

(b) used only for the purpose of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice.

The authority granted by this resolution will expire at the conclusion of the Company's next annual general meeting after this resolution is passed, save that the Company may, before such expiry make offers or agreements which would, or might, require equity securities to be allotted (or treasury shares to be sold) after the authority expires and the directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement as if the authority had not expired.

This resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities or sell treasury shares as if section 561 of the CA 2006 did not apply but without prejudice to any allotment of equity securities or sale of treasury shares already made or agreed to be made pursuant to such authorities.

8 That the Company be generally and unconditionally authorised for the purposes of section 701 of the 2006 Act to make one or more market purchases (within the meaning of section 693(4) of the 2006 Act) of fully paid ordinary shares of 20p each in the capital of the Company provided that:

(a) the maximum aggregate number of ordinary shares authorised to be purchased is 8,617,166 (representing 10 per cent. of the Company's issued ordinary share capital as at the date of this Notice);

(b) the minimum price (exclusive of expenses) which may be paid for each ordinary share shall be the nominal value;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:

(i) an amount equal to 105 per cent of the average of the closing middle market prices for the ordinary shares of the Company (as derived from the AIM section of the London Stock Exchange Daily Official List) for the five business days immediately preceding the date of purchase; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out.

The authority conferred by this resolution shall expire at the conclusion of the Company's next annual general meeting save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

19 March 2018

By order of the Board

Stephen Morgan
Company Secretary

Registered Office:
Freshfield Lane
Danehill
Haywards heath
RH17 7HH

Notice of Annual General Meeting
(continued)

Notes

1 To be entitled to attend and vote at the meeting or any adjournment (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company by 6:30 p.m. on Tuesday 8 May 2018 or, if the AGM is adjourned, by 48 hours before the time of any such adjourned AGM. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice.

3 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at the office of the Company's registrars no later than 48 hours before the time appointed for holding the meeting.

4 The return of a completed proxy form will not prevent a shareholder attending the meeting and voting in person if he/she wishes to do so.

5 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6 Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

7 Copies of the service contracts of the directors of the Company or any of its subsidiary undertakings are available for inspection at the registered office of the Company during normal business hours (excluding weekends and public holidays) from the date of this Notice until the conclusion of the annual general meeting, and will also be available for inspection at the place of the annual general meeting from 15 minutes before it is held until its conclusion.

Notice of Annual General Meeting
(continued)

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING
The notes on this page give an explanation of the proposed resolutions.

Resolutions 1 to 6 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 7 to 8 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 2 and 3: Reappointment of directors
In accordance with the Company's Articles of Association any director newly appointed by the Board is required to retire and submit himself for re-appointment at the first annual general meeting following his appointment. In addition at every annual general meeting a certain number of directors must retire by rotation.

Resolution 6: Authority to allot shares
This resolution deals with the directors' authority to allot shares or grant rights to subscribe for, or convert any securities into, shares in accordance with section 551 of the CA 2006. The authority previously given to the directors at the last annual general meeting of the Company will expire at this year's annual general meeting.

This resolution complies with the Investment Association Share Capital Management Guidelines issued in July 2016.

If passed, the resolution will authorise the directors to allot:

(a) in relation to a pre-emptive rights issue only, equity securities (as defined by section 560 of the CA 2006) up to a maximum nominal amount of £11,489,555 which represents approximately two thirds of the Company's issued ordinary shares (excluding treasury shares) as at the date of this Notice. This maximum is reduced by the nominal amount of any allotments or grants made under the authority set out in paragraph (b) of this resolution; and

(b) in any other case, allotments or grants up to a maximum nominal amount of £5,744,777 which represents approximately one third of the Company's issued ordinary shares (excluding treasury shares) as at the date of this Notice. This maximum is reduced by the nominal amount of any equity securities allotted under the authority set out paragraph (a) of this resolution in excess of £5,744,777.

The maximum nominal value of allotments or grants (including equity securities) which may be made under this resolution is £11,489,555.

As at close of business on the date of this Notice, the Company did not hold any treasury shares.

The authority granted by this resolution will expire on the conclusion of next year's annual general meeting.

The directors have no present intention to allot new shares or grant rights, however, the directors may consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

Resolution 7: Disapplication of pre-emption rights
This resolution will, if passed, give the directors power, pursuant to the authority to allot granted by resolution 6, to allot equity securities (as defined by section 560 of the CA 2006) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings:

(a) in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of £5,744,777 which represents approximately one third of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this Notice and, in relation to rights issues only, up to a maximum additional amount of £5,744,777 which represents approximately one third of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this Notice; and

Notice of Annual General Meeting
(continued)

(b) in any other case, up to a maximum nominal amount of £1,723,432 which represents approximately 10% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this Notice.

This resolution is in line with guidance issued by the Investment Association (as updated in July 2016) and the Pre-Emption Group's Statement of Principles (as updated in March 2015) (the "**Statement of Principles**"), and the template resolutions published by the Pre-Emption Group in May 2016.

In compliance with the Statement of Principles, the directors confirm that they will not allot shares for cash on a non-pre-emptive basis pursuant to the authority in paragraph 7.2 of this resolution other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

In addition, the directors also confirm that in accordance with the Statement of Principles, they do not intend to issue shares for cash representing more than 7.5% of the Company's issued ordinary share capital in any rolling three-year period other than to existing shareholders, save as permitted in connection with an acquisition or specified capital investment as described above, unless shareholders have been notified and consulted in advance.

The power granted by this resolution will expire on the conclusion of next year's annual general meeting.

Resolution 8: Authority to purchase Company shares
This resolution seeks authority for the Company to make market purchases of its own ordinary shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 8,617,166 of its ordinary shares, representing 10 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this Notice.

The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the conclusion of next year's annual general meeting.

The directors will only exercise the authority to purchase ordinary shares where they consider that such purchases will be in the best interests of shareholders generally and will result in an increase in earnings per ordinary share.

The Company may either cancel any shares it purchases under this authority or transfer them into treasury (and subsequently sell or transfer them out of treasury or cancel them).

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