MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT **2018**

Cover picture: Stunning design by @designengineuk of Charterhouse Science and Maths building using Freshfield Lane Danehill Yellow bricks

MICHELMERSH
Britain's Brick Specialists

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Chairman's Statement

Introduction
I am delighted to report on another significant year of growth and achievement for the Group. The exceptional financial performance outlined below exceeds that of previous years, with the growth in earnings maintaining the Group's progressive dividend policy. Since acquiring and integrating Carlton in 2017, the Group is now developing with a broader base of activity and benefitting from its greater scale and capacity. At the same time, the Group has remained focused on the requirements of its customers and developing the products they need.

Post year-end, the Group has successfully completed the acquisition of Floren, a Belgium-based clay brick manufacturing business, which enhances the Group's scale, expands its customer offering and deepens its market presence. The well-established and invested production facility, which is based near Antwerp, complements the Group's premium centric market strategy with a quality range of wirecut brick products which caters for the Belgian and UK markets.

Financial Highlights
The strong growth in turnover and profitability reflects both the contribution of Carlton for a full twelve-month period, for the first time, and the excellent performance from the established members of the Group.

	Increase	2018	2017
Turnover (£m)	+22%	46.3	37.9
Gross Margin	+3.5%	38.9%	35.4%
Operating profit (pre exceptional costs[1]) (£m)	+45%	8.0	5.5
Profit before tax (pre exceptional costs[1]) (£m)	+42%	7.4	5.2
Basic Earnings per share (pence)	+118%	5.78	2.64
EBITDA[2]	+38%	11.0	8.0
Net cash generated by operations	+70%	11.7	6.9

1 Exceptional costs in 2018 relate to the costs associated with the restructuring of operations at the Michelmersh plant being redundancy costs (£390,000) and write down of associated plant (£540,000). In 2017, exceptional costs of £617,000 included an adjustment to cost of sales to reflect fair value and reorganisation following the acquisition of Carlton

2 EBITDA is displayed as Operating profit pre – exceptional costs and depreciation of £1,842,000 (2017: £1,455,000) and amortisation of £1,138,000 (2017: £1,038,000)

Cash and Net Debt
Having acquired Carlton in 2017 principally out of cash and through new debt facilities, the Group has made strong progress in generating cash to reduce its net debt level in 2018. Net debt fell from £17.5 million at 31 December 2017 to under £12 million at 31 December 2018 and strong cash flows post year end means that reaching the target of below one-times EBITDA is now within touching distance. The Group has also improved its interest margin as a result of the profit and cash performance under the terms of its facilities. The term loan stood at just over £17 million at the year end, with a healthy cash balance to meet dividend payments and working capital requirements.

During the year, the Group's strong operating cash flow led to the repayment of £1 million that had been drawn in 2017 under our revolving credit facility and the repayment of the remaining deferred consideration from the Carlton acquisition.

Taking full advantage of the strength of cash flow and with the support of its bank, HSBC, the Group completed the acquisition of Floren in February 2019, in an accelerated timeframe using existing facilities with a completion payment of €9.4 million in cash. Subsequent to the acquisition, the Group issued 5.5 million new shares following a share placing which raised gross proceeds of £5 million to reduce the level of increased debt.

Chairman's Statement
(continued)

Assets and working capital
Through 2018, the Group's net assets grew by £4.4 million with net assets per share improving by 7%. Net working capital reduced marginally with demand for product outstripping production output and inventory levels fell by £0.9 million.

Investment in plant amounted to £2 million which included the project to automate the unloading of the kiln at Carlton. This project will generate cost savings and reduce downtime and may, after further investment in other processes, increase the capacity of the plant.

The Directors have reviewed the Group's land assets and c. £600,000 uplift in value has resulted, principally in respect of the land at Telford encompassing the quarry and ancillary land around the Blockleys site. This followed a review by Carter Jonas on the potential future alternative use of the site, as the mineral is extracted, a new road accessway completed and the land remediated on a phased basis. This is a long-term cycle that is expected to yield cash proceeds in tranches, albeit the present value of the cash flow is reflected in the current values.

The Company continues to nurture the prospect of future alternative value at all of the sites, which in total amount to nearly 500 acres, whilst maximising the opportunities of brick making.

Dividend
On 30 June 2018, the Group paid a final dividend in respect of 2017 of 1.45 pence per ordinary share bringing the total dividend for 2017 to 2.15 pence. In January 2019, the Group paid an interim dividend of 1.06 pence per ordinary share. The Board proposes a final dividend of 2.14 pence bringing the total dividend in respect of 2018 to 3.2 pence per share, a 49% increase over the previous period reflecting the improved performance of the Group, satisfactory debt levels and confidence in future prospects.

The Board has this year added a resolution to the AGM to introduce the option for shareholders to elect to take the dividend in shares rather than cash. A detailed circular accompanies this Annual Report that provides full details of this additional flexibility.

Board and Employees
In the early part of 2018 the Board took the step to restructure the Michelmersh plant, which was deemed necessary in order to secure its future and adapt accordingly to where product demand was coming from. As a consequence of this decision I can report that the Michelmersh plant performance has improved. I am also particularly please to note that all employees made redundant during the restructuring process have moved on to further employment outside the Group.

We welcome the employees of Floren to the Group and look forward to working with them and anticipate that the Group will benefit from the shared expertise that the Floren team brings.

The success of 2018 and recent years reflects on the individual and collective performance of the Group's employees and I must thank them all on behalf of the shareholders and all stakeholders.

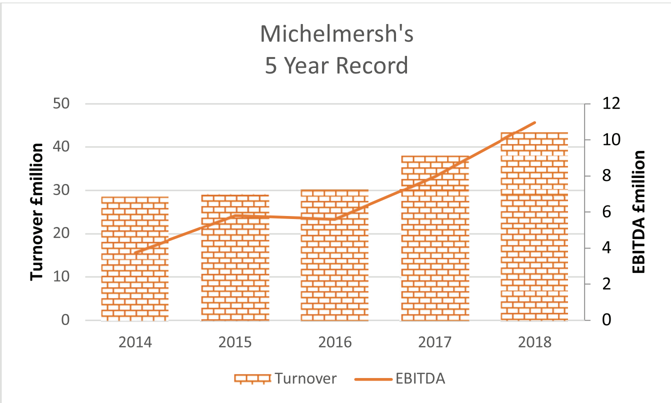
The exercise surrounding the adoption of the QCA Corporate Governance Code has been undertaken with enthusiasm and rigour. We found that the process confirmed our belief that the Group has a robust structure and an open attitude to all of our stakeholders.

Chairman's Statement
(continued)

Outlook
As in previous years, the outlook for the coming year is positive in that demand for our products remains strong and the operational environment conducive to a robust brick industry. The UK still manufactures less bricks than being used and capacity cannot change significantly over the short term.

Whilst Brexit has raised many concerns across the UK business landscape, a specific review of markets, customers and suppliers has not revealed significant threats to our business other than a wider economic downturn, whilst the political landscape around the construction industry gives an expectation that it will be less affected than elsewhere.

The Group has established scale and strength from the acquisitions in 2017 and 2019 and should be better placed to progress and prosper as a result. The Board are intent on nurturing the business through investment in assets and people and will continue to work down debt and reward investors through a progressive dividend policy.



Martin Warner
Chairman

25 March 2019

Chief Executives' Review

Clay Products
Throughout 2018 the Group continued to deliver on its strategy, producing premium centric products for four key areas: the repair, maintenance and improvement sector (RMI), the new housing sector, urban regeneration and the design-led specification commercial sector, which will be reinforced by the recent addition of Floren.

As in 2017, strong teamwork and positive market fundamentals resulted in an excellent performance in 2018 with a number of milestones being achieved by the Group. Notably, two of these milestones were for the highest number of bricks produced and despatched by the Group within a twelve-month period, which reached 106 million. The acquisition of Floren underlines the Group's ambition to continue in this vein.

The continued demand for new housing, driven by an extended period of under building, in conjunction with the extension of the Help to Buy scheme until 2023, will considerably favour the Group's sector dynamics. The Group sees additional opportunity in the renewed focus and funding of social housing, as well as in the ageing housing stock and building fabric of the RMI sector.

Imports continued to rise during 2018 to meet the market demand. Floren was a competitor to the Group in this space and is now a welcome premium addition for 2019 onwards.

The forward Group order book as of December 2018 was the highest on record. This was driven by a strong sales performance and robust distribution partnerships, plus the full year contribution from Carlton.

Performance
Revenue for the year to 31st December 2018 grew 22% to the Group's highest ever level at £46.3 million. (2017: £37.9 million)

Production volumes rose to a Group record 106 million units despite the reduction in output as a result of the restructuring of the Michelmersh plant.

During 2018, the Group continued to ensure a 'balanced market approach' by covering the RMI sector, housing, social housing, and commercial and urban regeneration. This strategy remains central to senior management planning in order to reduce risk and potential overexposure to any sector.

There was notable success during 2018 with key 'off-site' construction projects such as University College Hospital, London, highlighting the Group's ability to supply technically complex projects.

Efficient customer service remained at the heart of the Group's 2018 performance. In addition to enhancing our key strategic distribution relationships, the team fostered new strategic distribution partners with the addition of Carlton, which is also being replicated with the addition of Floren.

The Group is strongly committed to supporting its network of distribution partners, ensuring a smooth flow and delivery of products to its valued end users. A number of new IT and processing initiatives were implemented during the course of 2018 which improved these partnerships and, in turn, improved the experience of our end users.

In 2019, we will see the Group build on our distribution relationships with additional IT infrastructure spend in key areas.

Inspired architecture, stunning design and the continued enhancement of our built environment came to the fore during 2018. The Group won several key industry awards, namely a RIBA National Award, a RIBA Regional Award, a Brick Development Association award, a New London Architecture award and a British Construction Industry award.

The Group also had a robust year supplying products to several quality housing schemes from many national and regional developers such as Taylor Wimpey, Bellway, Berkeley Homes, Cala, Countryside Properties, and Crest Homes as well as several one-off aspirational client builds

Chief Executives' Review
(continued)

The Group's strong online presence was enhanced with the launch of a revised website in 2018. The refresh included an updated product range catalogue, site gallery and an increase in news flow, which in turn drove higher levels of traffic to the site. The Group continued to use its website to showcase inspired, aspirational architectural design, and its social media to share image rich content to drive the Group's branding. This flow of design-led, engaging content inspired our end users, architects, designers and students alike, affirming our market position and premium-centric ethos.

In addition to the main website upgrade, the Group's secondary site, Bimbricks.com, was upgraded to V3 during early 2018. This was yet another example of the Group leading the brick industry in BIM and efficiency-based collaborative working methods. This site and brand continue to grow as a rich source of free data, driving sustainability and industry best practice.

Strong support for students in the industry also continued throughout 2018. The Group donated materials, equipment and management time in the form of training and development. The Board sees education as vitally important to the sector and will continue to support this in 2019 and beyond. The Board believes playing a strong role in education will ensure the industry has the skills required to meet the needs of the construction sector in years to come. The Group was also delighted to announce support for the 2018 UK World Skills candidate.

Management Systems

We focused our management systems effort on Carlton during 2018, enhancing and combining its existing procedures fully into the Group. Our efforts were rewarded with ISO 50001 Energy Management accreditation and full integration of ISO 14001 Environmental Management. Also, because of our efforts, all Carlton products are included in our BES 6001 sustainability and responsible sourcing rating. Achieving ISO 9001 Quality Management at Carlton has been targeted for 2019.

Carlton was also fully integrated into our RoSPA health and safety programme and we were pleased to receive health and safety recognition awards from the industry for specific initiatives at our Carlton and Blockleys factories.

Staff Development

In 2017 the Company established a standalone HR department to manage all aspects of employee welfare, remuneration and development. In addition to the day to day operations one of its key aims is to strengthen the employer/employee relationship by helping to support and develop people's potential in order for them to achieve the businesses' plans and goals. In the summer of 2017, HR and the payroll department jointly visited all sites to raise awareness and offer tips and advice on Employee Wellbeing and Financial Wellbeing. Together with the Company benefits adviser, this team delivered a series of workshops on a range of topics such as mental health, pensions, Give As You Earn and Cycle To Work schemes to name a few.

In 2018, continuing the support of Employee Wellbeing, all senior managers were trained in Mental Health First Aid to help support any employees who may be facing challenges in this area. The aim is to roll this training out to Supervisors and Deputy Managers in 2019. One of the key projects rolled out in 2018 was the introduction of Personal Development Plans (PDP's) for all monthly paid staff to ensure that the Company was not only developing and growing staff but also listening to any issues they may have. The final project for 2018 was the authorisation by the Board for investment in a fully integrated HR and Payroll software system to Go Live in 2019.

Assets

Following operational reviews carried out across the Group in the early part of 2018, the Board approved a capital project at Carlton to update the kiln unloading and packaging equipment. The project replaces the existing maintenance intensive unloading and packaging setup with a new state of art robotic installation located in a new building. The project will improve operational efficiency and was designed to allow for potential future output expansion. Orders were placed in June 2018, the new building was completed in November 2018 and the equipment was delivered in January 2019. Currently the installation is being commissioned and, due to our off-line design solution, factory output is unaffected.

Chief Executives' Review
(continued)

With the acquisitions of Carlton and most recently Floren, the Group has increased its land holdings by more than 70% since 2017 to over 500 acres. This land bank currently has permitted clay reserves of 6.4 million tonne providing over 20 years brick production at current capacity output. Our expanded land asset base offers the Group strategic opportunities to create value from alternative use and development in due course. The current project to relocate the Hadley Road at our Telford site opens up the already restored and optioned land for future development.

Outlook

The acquisitions of Carlton and Floren demonstrate that the Group has ambition to expand its geographic footprint and product range. However, this growth is set within strict parameters to preserve the character and position of Michelmersh in its sector. The Board is equally committed to nurturing its existing business and investing to improve efficiency, as well as acting as a good corporate citizen for the benefit of all its stakeholders.

Despite economic uncertainty both at home and abroad, the fundamentals for the industry remain robust and we move into the forthcoming period with confidence.

Frank Hanna, Peter Sharp
Joint Chief Executives

25 March 2019

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	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Auditors	Nexia Smith and Williamson Audit Limited Chartered Accountants and Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA
Solicitors	Burges Salmon LLP One Glass Wharf Bristol BS2 0ZX
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA
Financial Public Relations	Yellow Jersey PR Limited 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 founded Michelmersh with the former Chairman Eric Gadsden in 1997 and served as Chief Executive from that date until 31 December 2015 when he became Deputy Chairman and subsequently Chairman from May 2017. Martin is a Fellow of the Royal Institute of Chartered Surveyors. He is a member of the Remuneration Committee and chairs the Nomination Committee. He is Chairman of the Brick Development Association and a non-executive director of Aberforth Smaller Companies Trust plc. Martin attends technical briefings from industry forums, maintains CPD for his professional qualification as well as attending seminars and training offered by accounting, legal and financial organisations.

Bob Carlton-Porter Non-Executive Director
An Associate of the Chartered Institute of Bankers, a Fellow of the Association of Corporate Treasurers, and a Fellow of the Chartered Institute of Marketing, Bob is an international industrialist with over 40 years’ experience as a financial and commercial director. Following positions in banking, the food and commodity industry he joined Hoechst AG in finance and treasury, leaving to join English China Clays PLC as Group Finance Director. Over the past years he has chaired listed companies in the property sector latterly Newport Holdings PLC, ARAM Resources PLC and ROK Plc. Bob is chairman of the Audit and Remuneration Committees and sits on the Nominations Committee. He is the recipient of a constant flow of updated information from a number of accounting firms, HMRC, London Stock Exchange and solicitors on pending changes in taxation, accounting requirements, labour law, health & safety, insurances, directors’ legal obligations and requirements both printed and by e-mail. These are augmented by information from the Company’s Nominated Adviser (“NOMAD”) & broker.

Other companies’ accounts are researched to take a view on best practice.

As a member/fellow of professional bodies in Treasury, Banking, Marketing, Management, and a former member of the 100 Group and LSE Committee on Pre-emption, he is a recipient of monthly technical information and able to access their information websites and attend relevant meetings. In certain key matters courses are attended.

Stephen Bellamy Non-Executive Director
Steve 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 Non-Executive Director and Audit Chair of, AIM 30 quoted, Advanced Medical Solutions Group plc. He was previously Chief Operating Officer 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. As a long standing New Zealand Chartered Accountant, Steve ensures he meets his continuing professional development requirements for that society. He also regularly attends seminars and updates on Board matters and on key topics affecting both public companies in general and independent directors more specifically, including Quoted Companies Alliance events on occasion, and regularly receives and reads updates from a wide range of professional organisations on topics affecting public and private company boards.

Stephen sits on the Audit, Nominations and Remuneration Committees.

Frank Hanna Joint Chief Executive
Frank 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 and British Ceramic Confederation. Frank keeps up to date with a broad spectrum of industry issues through membership and involvement of the industry trade bodies,

Directors’ Biographies
(continued)

whilst at the same time being an active governor in the construction skills and education sector. Frank utilises Company advisors to provide regular updates and attends CPD courses on relevant issues. Frank is also a member of the Institute of Directors.

Peter Sharp BA(Hons) FIMMM MIoD Joint Chief Executive
Peter has been in the ceramic industry for 35 years holding various senior leadership and management positions in public and private multi-site businesses. He has extensive knowledge and experience of clay construction products including bricks, pipes and tiles as well as industrial ceramics and sanitaryware. Peter is a Fellow of the Institute of Materials Minerals and Mining and a Member of the Institute of Directors. He is also on the Board of the British Ceramic Confederation and serves as a trustee for the Institute of Clay Workers Benevolent Fund and the Institute of Clay Technology Education and Training Trust. He joined the Board in May 2011 and became Joint Chief Executive on 1 January 2016. Peter regularly attends meetings with the ceramic trade body, government departments, the unions and industry regulators, covering a wide range of operational and business subjects. He is also an active member of the Institute of Directors and the Institute of Materials, Minerals and Mining, maintaining CPD and attending local society events as well as legal and regulatory updates from company advisors.

Stephen Morgan BA ACA Finance Director
Stephen is a Chartered Accountant having trained with KPMG. He was previously Finance Director and Company Secretary at an AIM listed property company where he experienced a range of corporate acquisitions and disposals. He joined Michelmersh in August 2010 as Interim Finance Director and Company Secretary and was appointed as Finance Director and Company Secretary in November 2010. Steve attends a range of technical briefings from both the Company’s auditors and lawyers and independent bodies (e.g. The Quoted Companies Alliance) which cover accounting, tax and regulatory updates as well as reading professional journals.

The Board periodically invites the Company’s Broker and legal adviser to address Board meetings to provide comment on current market issues and specific developments. The Company Secretary and the Senior Independent Director co-ordinate internal procedures that relate to corporate governance issues and provide independent guidance to individual board members.

Directors’ Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2018.

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 2018.

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 25 to 51.

An interim dividend of 1.06 pence per ordinary share was paid on 11 January 2019. The Directors are pleased to recommend the payment of a final dividend for the year of 2.14 p bringing the total dividend for the year ended 31 December 2018 to 3.2 pence (2017: 2.15 p) per ordinary share payable on 28 June 2019 to shareholders on the register on 24 May 2019.

Subject to the necessary approval being given by shareholders at the forthcoming annual general meeting, arrangements will also be made to provide a scrip dividend alternative. The latest date to elect for the scrip dividend alternative will be 11 June 2019. The scrip reference price shall be calculated from the average of the middle market quotations on the London Stock Exchange, as derived from the Official Daily List, during five dealing days beginning on 11 June 2019. The Company will, on or around 28 March 2019, post to shareholders a letter containing additional information on the scrip dividend alternative and how shareholders may participate. A copy of this letter will also be available on the Company's website: www.mbhplc.co.uk

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 2018 Ordinary Shares of 20p each	**31 December 2017 Ordinary Shares of 20p each**
M R Warner	4,638,732	4,638,732
R W Carlton-Porter	20,000	20,000
S Bellamy	–	–
F Hanna	1,050,000	1,050,000
S H P Morgan	–	–
P N Sharp	104,157	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 pages 16 to 17 of the financial statements.

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

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

Directors' Report
(continued)

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

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

The Executives report on financial and operational performance at quarterly Board meetings along with upcoming expectations and strategic opportunities. The non-executives review the executives' reports with a balanced view against the company's business and risk model.

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

The Board comprises three executive directors and three non-executive directors. The chairman co-ordinates the balance of the Board under the guidance of the two Non-Executives. Bob Carlton-Porter is deemed the Senior Independent Director and Stephen Bellamy provides extensive commercial, corporate and financial experience. All of the Non-Executives are deemed to be independent in their roles. Martin Warner has been involved in the business since he formed the company 20 years ago but has distanced himself from day-to-day operations and maintains a strong presence in the UK brick manufacturing industry. Bob Carlton-Porter brings a wealth of business experience from international posts over many years and although he has been a Non-Executive at the Company since 2004, he has maintained a strong and steady role as the Board structure has evolved around him.

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

The Board meets at least quarterly to review each quarter's performance and revised forecasts and to discuss strategy and to ensure the business is on track to achieve its stated goals; the Remuneration and Audit Committees each meet as required but at least twice a year; and the Nominations Committee meets at least once a year. Each of the Committees has formal terms of reference, in line with corporate guidelines, and reports back to the Board and to shareholders, through the annual report as a matter of course. Each of the Committees is comprised solely of non-executive directors, although Executives may also be required to attend Committee meetings as required.

During 2018 and in 2019 to date, all Board and Committees Meetings were attended by all their members.

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

Directors' Report
(continued)

The structure of the Board is kept under regular review by the Chairman and has undergone considerable change and development over the last 36 months. The Chairman meets regularly with each of the Executives individually and promotes an open and constructive environment in the boardroom and actively invites the Non-Executives to express their views. The Non-Executives provide objective, rigorous and constructive challenge to management and hold meetings at which the Executive Directors are not present.

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

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

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

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

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

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.

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

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

The Board considers that the members of the Committee have individually and as a whole have sufficient recent and relevant financial experience to discharge its function. The members of the Committee are Bob Carlton-Porter (Chairman) and Steve Bellamy.

Directors' Report
(continued)

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

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

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.

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

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

Directors' Report
(continued)

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, CITB Site Safety for our sales managers and knowledge enhancement in the form of the NEBOSH general certificate for factory management.

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 2018, the Group employed 318 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.

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 amounted to £10,000.

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

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

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

Signed by order of the Board

F. Hanna, P. Sharp
Directors

Approved by the Directors on 25 March 2019

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Remuneration Report

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

The Remuneration Committee meets at least twice a year.

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

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

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

The Committee did not index Executive Directors basic salaries in 2018 but has augmented these in February 2019 by 2.5%, slightly below the % awarded to all other employees.

The Committee established a Perpetual Bonus Scheme in 2017. This scheme is based on the Board approved Budget in each year. The bonus is triggered by achieving the Budgeted profit before tax, and the achievement of over performance based on agreed parameters.

Group Remuneration Policy
The employees of the Group should be fairly remunerated and 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 2018 £000	Annual Bonus 2018 £000	Other Benefits 2018 £000	Pension 2018 £000	Total Emol-uments 2018 £000	Total Emol-uments 2017 £000
MR Warner	100	–	1	–	**101**	**163**
R Carlton-Porter	50	–	–	–	**50**	**37**
S Bellamy	37	–	–	–	**37**	**–**
FJ Hanna	198	132	18	–	**348**	**323**
SHP Morgan	178	118	14	–	**310**	**292**
PN Sharp	198	132	13	16	**359**	**326**
E J S Gadsden *(left the Board in May 2017)*	–	–	–	–	**–**	**8**
	761	382	46	16	**1,205**	**1,149**

Total emoluments including Employer's NI amounted to £1,361,000 (2017: £1,299,000)

The annual bonus is payable on signing of the audit report. Other benefits include company cars and fuel, medical cover and sundry benefits.

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

Directors Share options

	CSOP	LTIP 2015	LTIP 2017	Total Options 2018	Total Options 2017
	No	No	No	No	No
MR Warner	41,000	–	–	**41,000**	**41,000**
FJ Hanna	41,000	233,334	250,000	**524,334**	**181,000**
SHP Morgan	41,000	200,000	250,000	**491,000**	**161,000**
PN Sharp	–	233,334	250,000	**483,334**	**181,000**
	123,000	666,668	750,000	**1,539,668**	**564,000**

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 options arising in respect of the years ended 31 December 2018 where targets have been met. The options are exercisable after publication of the financial statements in respect of the year ended 31 December 2019.

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.

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 £625,000 (2017: £165,000).

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

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

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

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

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

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

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

Trends and Future Developments

The Group has a 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, this way 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 continued to be a feature of the UK industry and are considered to be a permanent feature in the UK market despite currency issues and Brexit concerns.

Strategic Report
(continued)

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

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

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

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

General Economy and fiscal environment: The majority of the Group's products will be used in residential schemes of new housing schemes 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. Gas prices are monitored against future requirements. Supply agreements with the ability to fix forward costs are 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.

Brexit: The Directors have considered the possible impact of Brexit on the business and have undertaken a risk assessment on critical business processes. The risk associated with European sourced products and services is deemed limited to some short term delays and currency risk.

The UK construction industry depends on imported bricks and friction on those imports would increase demand for UK manufactured product.

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 Executive's Review.

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

Strategic Report
(continued)

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 will 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.

F. Hanna, P. Sharp
Directors

Approved by the Directors on 25 March 2019

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 group financial statements of Michelmersh Brick Holdings plc (the 'group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows, the general information and the notes to the group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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.

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.

Independent Auditors’ Report
(continued)

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

– Reviewed third party valuation obtained by the directors in the year, considering the independence and competence of the expert engaged by management to prepare the valuation;
– Considered the appropriateness of the valuation approach with reference to past experience and the broader nature of the business; and
– Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year.

Valuation of inventory

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

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

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

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

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

– Substantive testing of production and overhead costs incurred in the year;
– Substantive analytical procedures considering the appropriateness and consistency of cost allocations with reference to prior years, brick production in the period and movements in opening and closing inventory levels;
– Analytical review of the appropriateness of stage of completion assumptions with reference to the timespan of the process and work required at each stage;
– Sensitivity analysis considering utilisation in the year, slow moving inventory and reasonable variance in stage of completion.

Key audit matter description – Intangible fixed asset valuation
Intangible assets include Goodwill, Customer Lists and Brand Name. The directors obtained external valuations following the purchase of Carlton, to which most of the intangible assets relate. The carrying value of these assets is considered for impairment on an annual basis by directors which requires significant judgment, in particular regarding cash flows, growth rates, discount rates and sensitivity assumptions.

Independent Auditors' Report
(continued)

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

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

Materiality
The materiality for the group financial statements as a whole was set at £3,189,000. This has been determined with reference to the benchmark of the group's net assets, which we consider to be an appropriate measure for a group of companies with significant value in land and buildings which are fundamental to the future trading of the group. Materiality represents 5% of net assets as presented on the face of the consolidated balance sheet.

The consolidated income statement is underpinned by the activity of the trading subsidiary, Michelmersh Brick UK Limited. The key risks in this company are considered to centre on the trading performance and accordingly, materiality has been calculated at 2% of turnover, being £926,000. 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 9 reporting components, we subjected 4 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 2018, other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. Our opinion on the group financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

Independent Auditors' Report
(continued)

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 14, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the group financial statements

Our objectives are to obtain reasonable assurance about whether the 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 2018.

Use of our report

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

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

25 March 2019

Consolidated Income Statement
for the year ended 31 December 2018

	notes	2018 £'000	2017 £'000
Revenue	3	46,324	37,867
Cost of sales		(28,305)	(24,449)
Gross profit		18,019	13,418
Administrative expenses			
Underlying		(8,994)	(7,435)
Exceptional[1, 2]		(930)	(137)
Amortisation of intangibles		(1,138)	(1,038)
		(11,062)	(8,610)
Other income	4	97	49
Operating profit		7,054	4,857
Exceptional Item – acquisition costs[3]		–	(1,195)
Finance expense	5	(617)	(323)
Profit before taxation	6	6,437	3,339
Taxation	10	(1,452)	(1,127)
Profit for the financial period		4,985	2,212
Basic earnings per share attributable to the equity holders of the company	25	5.78p	2.64p
Diluted earnings per share attributable to the equity holders of the company	25	5.57p	2.60p

Exceptional items

[1] *In 2018, costs relating to the restructuring of operations at the Michelmersh plant incurred redundancy costs (£390,000) and write down of plant and equipment (£540,000) as tile and hand-making activities ceased*

[2] *Costs of reorganisation were incurred in 2017 as a result of integration of Carlton into the Group amounted to £137,000.*

[3] *Costs relating to the acquisition of Carlton Main Brickworks were incurred in 2017.*

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

The accounting policies and notes on pages 30 to 51 form part of these financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2018

	notes	12 months ended 31-Dec 2018 £'000	12 months ended 31-Dec 2017 £'000
Profit for the financial year		4,985	2,212
Other comprehensive income/(expense)			
Items which will not subsequently be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment	12	565	2,069
Revaluation deficit of property, plant and equipment	12	(42)	(322)
Deferred tax on revaluation movement	20	(115)	(170)
		408	1,577
Total comprehensive income for the year		5,393	3,789

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 30 to 51 form part of these financial statements.

Consolidated Balance Sheet
as at 31 December 2018

	notes	As at 31-Dec 2018 £'000	As at 31-Dec 2017 £'000
Assets			
Non-current assets			
Intangible assets	11	22,948	24,086
Property, plant and equipment	12	52,416	52,626
		75,364	76,712
Current assets			
Inventories	14	8,309	9,161
Trade and other receivables	15	8,245	6,934
Cash and cash equivalents		5,255	4,128
Total current assets		21,809	20,223
Total assets		97,173	96,935
Liabilities			
Current liabilities			
Trade and other payables	16	7,065	6,462
Interest bearing borrowings	17	1,770	1,791
Corporation tax payable		564	900
Total current liabilities		9,399	9,153
Non-current liabilities			
Interest bearing borrowings	17	15,310	19,809
Deferred tax liabilities	20	8,670	8,590
		23,980	28,399
Total liabilities		33,379	37,552
Net assets		63,794	59,383
Equity attributable to equity holders			
Share capital	22	17,297	17,234
Share premium account		11,643	11,495
Reserves		21,788	20,816
Retained earnings		13,066	9,838
Total equity		63,794	59,383

These financial statements were approved by the Directors and authorised for issue on 25 March 2019 and are signed on their behalf by

F. Hanna **P. Sharp**
Directors

The accounting policies and notes on pages 30 to 51 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 2017	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
Share based payment	–	196	–	–	–	–	196
Shares issued during the year	940	–	2,444	–	–	–	3,384
Dividend paid	–	–	–	–	–	(1,629)	(1,629)
As at 31 December 2017	17,234	515	3,423	11,495	16,878	9,838	59,383
Profit for the period	–	–	–	–	–	4,985	4,985
Revaluation surplus	–	–	–	–	565	–	565
Revaluation deficit	–	–	–	–	(42)	–	(42)
Deferred taxation on revaluation	–	–	–	–	(115)	–	(115)
Total comprehensive income	–	–	–	–	408	4,985	5,393
Share based payment	–	660	–	–	–	–	660
Transfer to retained earnings	–	(96)	–	–	–	96	–
Shares issued during the year	63	–	–	148	–	–	211
Dividend paid	–	–	–	–	–	(1,853)	(1,853)
As at 31 December 2018	**17,297**	**1,079**	**3,423**	**11,643**	**17,286**	**13,066**	**63,794**

The accounting policies and notes on pages 30 to 51 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

	12 months ended 31-Dec 2018 £'000	12 months ended 31-Dec 2017 £'000
Cash flows from operating activities		
Profit before taxation*	6,437	3,339
(Profit)/loss on sale of fixed assets	(15)	3
Finance expense	617	323
Depreciation	1,842	1,455
Amortisation	1,138	1,038
Profit on disposal of intangible assets	–	(13)
Exceptional write down of assets	540	–
Share based payment charge	660	196
Cash flows from operations before changes in working capital	11,219	6,341
Decrease/(increase) in inventories	1,159	(50)
(Increase)/decrease in receivables	(1,311)	1,346
Increase/(decrease) in payables	602	(768)
Net cash generated by operations	11,669	6,869
Taxation paid	(1,823)	(1,760)
Net cash generated by operating activities	9,846	5,109
Cash flows from investing activities		
Purchase of subsidiary undertaking	–	(23,698)
Purchase of property, plant and equipment	(1,985)	(1,002)
Proceeds of sale of intangibles	–	155
Proceeds of sale of land	–	2,680
Proceeds of disposal of property, plant and equipment	45	11
Net cash used in investing activities	(1,940)	(21,854)
Cash flows from financing activities		
Proceeds of loan drawdown	–	24,000
Repayment of interest bearing liabilities	(4,520)	(5,899)
Interest paid	(617)	(323)
Proceeds of share issue	211	4
Dividend paid	(1,853)	(1,629)
Net cash (used in)/generated by financing activities	(6,779)	16,153
Net increase/(decrease) in cash and cash equivalents	1,127	(592)
Cash and cash equivalents at the beginning of the year	4,128	4,720
Cash and cash equivalents at the end of the year	5,255	4,128
Cash and cash equivalents comprise:		
Cash at bank and in hand	5,255	4,128
Bank overdraft	–	–
	5,255	4,128

* Profit before taxation includes exceptional cashflows of £390,000 in respect of redundancy costs at Michelmersh plant. (2017: cash outflows of £1,332,000 in respect of cash cost of acquisition and reorganisation costs post acquisition of Carlton.)

The accounting policies and notes on pages 30 to 51 form part of these financial statements.

General Information and Accounting Policies

1. General Information

Introduction

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

The principal activity of the Company during the year was the management and administration of its subsidiary companies. The main activity of the main trading subsidiary company 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 2018, with comparative figures for the year 1 January to 31 December 2017.

The companies within the Group during the financial year ended 31 December 2018 are disclosed in note 13.

2. Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the financial years ended 31 December 2018 and 31 December 2017 have been prepared under the historical cost convention, as modified by the revaluation of certain items as stated in the accounting policies.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand ("£000") except where otherwise indicated.

The financial statements of the parent company are prepared under FRS 102 and its subsidiary undertakings are prepared under FRS101, all to the same reporting date. Adjustments are made to remove any differences that may exist between UK GAAP and IFRS for consolidation purposes.

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

New Standards and interpretations

(a) New and amended Standards and Interpretations adopted by the Company

New Standards which have been adopted in these accounts, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 "Financial Instruments"; and
- IFRS 15 "Revenue from Contracts with Customers"

The adoption of the above standards did not have a significant effect on the accounts.

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

(b) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2018.

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 16 “Leases” will be effective for the year ending December 2019 onwards and the impact on the financial statements will be immaterial.

Basis of consolidation
The financial statements comprise a consolidation of the financial statements of Michelmersh Brick Holdings Plc and all its subsidiaries. Subsidiaries include all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which the Group has the power to control. When control of a subsidiary is lost, a disposal occurs and the subsidiary is no longer consolidated from that date.

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

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

The Group meets its day-to-day working capital requirements principally through bank loans and cash balances. Additional facilities are in place including a revolving credit facility provided by HSBC Bank Plc.

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

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

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.

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

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

Purchased goodwill, representing the difference between the fair values of the consideration and the underlying assets and liabilities acquired, is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. See note 11 for further details.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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 12 to the financial statements.

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

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

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

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

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

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

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

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

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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.

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

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

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

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

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.

General Information and Accounting Policies
(continued)

2. Accounting Policies (continued)

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

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit before taxation 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 nor deductible.

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

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

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

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

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

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

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

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

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

Notes to Financial Statements
Year ended 31 December 2018

1. SIGNIFICANT ACCOUNTING JUDGEMENTS

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

The Board have reviewed areas where judgement has been applied, including deferred tax, exceptional items, provisions and impairment but do not consider that the judgement may have a significant impact on the amounts recognised in the financial statements for the years ended 31 December 2017 and 2018.

2. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Area of estimation	Effect on Financial Statement	Period of impact	Change noted from previous financial statements
Intangible asset impairment	Within the Intangibles calculation we undertake an exercise to estimate future cashflows from Carlton. We have key assumptions on the growth rates of revenue and gross margin which impacts the profit assumed and hence cashflow generation at Carlton. These assumptions are key to the calculation of the net present value of the cashflows. The further key assumptions are the perpetuity growth rate and discount rate.	Whilst trading patterns remain the same at Carlton, there is no likelihood of a reduction in the cash flows relating to intangible assets although over a longer period, that may not be true.	No changes
Land and buildings valuation including mineral and landfill assets	The Board values land assets and buildings with guidance from external valuers on a rolling basis. Changes in circumstance both internal to the business and externally can impact the values ascribed in the accounts.	It is possible that factors can arise in the short term that impact the values included in the accounts.	No changes

Please refer to notes 11 and 12 that display the amounts relating to Intangible and Tangible fixed assets.

3. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 31 December 2018. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 30 to 35.

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.

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

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.

	2018		2017	
Continuing Activities	**Segmental Revenue £'000**	**PBT £'000**	**Segmental Revenue £'000**	**PBT £'000**
Building materials				
Blockleys	9,770	3,146	8,736	3,009
Carlton	14,692	7,283	7,110	2,427
Charnwood	3,397	502	3,232	609
Michelmersh	4,623	250	5,314	(60)
Freshfield Lane	14,745	5,097	14,121	5,185
Less rebates	(903)	(903)	(646)	(646)
	46,324	15,375	37,867	10,524
Landfill				
New Acres	–	(18)	–	(8)
	46,324	15,357	37,867	10,516
Unallocated costs*	–	(8,920)	–	(7,177)
	46,324	6,437	37,867	3,339

3. SEGMENTAL REPORTING (continued)

Other segmental disclosure

	2018			2017		
	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	274	247	–	140	287	–
Carlton	1,436	532	1,136	101	266	1,036
Charnwood	90	180	–	82	124	–
Michelmersh	20	469	–	577	429	–
Freshfield Lane	165	414	–	102	349	–
Landfill						
New Acres	–	–	2	–	–	2
	1,985	1,842	1,138	1,002	1,455	1,038

Revenue by geographical destination

	2018 £'000	2017 £'000
United Kingdom	46,288	37,784
Europe	26	45
Rest of the World	10	38
	46,324	37,867

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

Sales of £6,211,000 (2017: £6,142,000) were made to a single customer of the Group.

Total Group revenue made to the top five customers amounted to £19,430,000 (2017: £14,588,000). No other customers were individually over 10% of Group revenue.

4. OTHER INCOME

	2018 £'000	2017 £'000
Rents receivable	13	13
Profit on sale of fixed assets	15	–
Insurance proceeds	31	–
Other	38	36
	97	49

5. FINANCE EXPENSE

	2018 £'000	2017 £'000
Interest expense	(627)	(329)
less		
Interest earned	10	6
	(617)	(323)

6. PROFIT BEFORE TAXATION

		2018 £'000	2017 £'000
Profit before taxation is stated after charging:			
Amortisation	– other	1,138	1,038
Depreciation	– owned assets	1,842	1,455
Operating lease costs	– plant and machinery	97	53
	– motor vehicles	513	644

7. DIVIDEND

On 11 January 2019, an interim dividend was paid of 1.06 pence (2017: 0.7 pence) per share. The Board has proposed a dividend of 2.14 pence per share payable on 28 June 2019 to shareholders on the register on 7 June 2019. The total dividend for the year will amount to 3.2 pence (2017: 2.15 pence) per share and a total payment of £2,757,000.

8. AUDITORS REMUNERATION

	2018 £'000	2017 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	29	24
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	36	35
– tax compliance services	22	21
– corporate finance services	–	151

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

9. PARTICULARS OF EMPLOYEES

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

	2018	2017
Manufacture and supply of bricks	307	329
Administration	44	44
	351	373

	2018 £'000	2017 £'000
Wages and salaries	12,345	11,064
Social security costs	1,282	1,142
Other pension costs	463	384
	14,092	12,590

Details of Directors' emoluments are shown in the Remuneration Report on pages 16 and 17.

10. TAXATION

a) Recognised in the income statement

	2018 £'000	2017 £'000
Current tax expense		
Current year	1,735	1,430
Prior year	(248)	(5)
	1,487	1,425
Deferred tax		
Origination and reversal of temporary differences:	(35)	(298)
Total income tax charge in the income statement	1,452	1,127

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2017 higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below.

	2018 £'000	2017 £'000
Reconciliation of effective tax rate		
Profit before taxation	6,437	3,339
Income tax using the domestic corporation tax rate	1,223	643
Effects of :		
Expenses disallowed	28	370
Share option expense not taxable	8	38
Losses utilised	(2)	(15)
Depreciation in excess of capital allowances	134	83
Change to prior year estimate	30	(2)
Profit/(loss) on sale	(3)	18
Rate changes	–	(49)
Amortisation of intangible assets	–	23
Other timing differences	34	18
	1,452	1,127

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 2018, the Group had no further tax losses carried forward (2017: £nil).

A deferred tax asset has not been recognised in respect of £503,000 (2017: £503,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

11. INTANGIBLE ASSETS

	Goodwill £'000	Customer Lists Brand £'000	PPC license £'000	Carbon emissions quota £'000	Total £'000
Cost or valuation					
As at 1 January 2017	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
As at 31 December 2018	6,891	18,186	75	–	25,152
Amortisation					
As at 1 January 2017	–	–	28	–	28
Charge for the year	–	1,036	2	–	1,038
As at 31 December 2017	–	1,036	30	–	1,066
Charge for the year	–	1,136	2	–	1,138
As at 31 December 2018	–	2,172	32	–	2,204
Net book value					
As at 31 December 2018	6,891	16,014	43	–	22,948
As at 31 December 2017	6,891	17,150	45	–	24,086

GOODWILL

The goodwill brought forward relates to the acquisition of Freshfield Lane Brickworks Limited in 2010 and of Carlton Main Brickworks Limited in 2017. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2018, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections of the brickworks discounted at the Group's weighted average cost of capital.

The key assumptions used in the value in use calculations are those regarding discount rates of 10% (2017: 7%) and revenue and cost growth rates of 3% (2017: 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 (2017: £nil).

During 2017, the Group acquired 100% of the issued share capital of Carlton Main Brickworks Limited and the intangible assets of Carlton were identified externally. The unamortised value at 31 December 2018 are as follows:

	£'000	Remaining Life
Customer Relationships	14,411	14 Years
Brand	1,603	24 Years
	16,014	

12. 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 2017	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
Additions	195	–	–	1,790	1,985
Write off of fully depreciated assets	–	–	–	(6,537)	(6,537)
Transfers to inventories	(306)	–	–	–	(306)
Disposals	–	–	(66)	(1,278)	(1,344)
Revaluation deficit	(42)	–	–	–	(42)
Revaluation surplus	720	(155)	–	–	565
As at 31 December 2018	44,981	47	82	32,813	77,923
Depreciation					
As at 1 January 2017	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
Charge for the year	641	–	29	1,172	1,842
Disposals	–	–	(65)	(709)	(774)
Write off of fully depreciated assets	–	–	–	(6,537)	(6,537)
As at 31 December 2018	6,573	46	62	18,826	25,507
Net book value					
As at 31 December 2018	38,408	1	20	13,986	52,416
As at 31 December 2017	38,482	156	50	13,938	52,626

The Group's freehold land and buildings were valued by the Directors at £38,408,000 at 31 December 2018 (2017: £38,482,000), resulting in a net increase in the revaluation reserve of £523,000 (2017: £1,747,000). Deferred tax liabilities were increased by £115,000 (2017: £170,000) and have been credited to the revaluation reserve.

The revaluation surplus in the year ended 31 December 2018 relates to an increase in value of the land and buildings at Blockleys (Telford) following a review by Carter Jonas on the investment value of land .

The revaluation deficit in the year ended 31 December 2018 relates to the carrying value of the mineral reserve at Charnwood.

The fair value of Carlton's plant and machinery acquired in 2017 was established through a third party valuation. That valuation has superceded the historic cost and net book value recorded in respect of Carlton and an adjustment made to extract the cost and depreciation of fully depreciated assets.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2018 £'000	2017 £'000
Historical cost		
At 1 January	23,774	17,312
On acquisition	–	6,300
Additions	195	210
Transfer to inventories	(306)	(48)
At 31 December	23,663	23,774

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 of £38,408,000 is derived using Level 3 inputs and there have been no transfers between Levels during the period.

Valuation techniques
Brickwork properties have been fair valued using a cost approach, by assessing the rebuild cost provided by external professional valuers on a rolling basis since 2015, ascribing a construction industry price inflation factor and applying a remaining life period over the total life of each asset of between 20 and 50 years. These values were confirmed by a third party valuation in 2015 of Freshfield Lane and Telford properties. Mineral reserves were assessed during 2016 and the volumes of 4.7 million tonnes and market rate less extraction costs have been reviewed and subjected to net present value assessments to arrive at current fair value. Similarly, the fair value of landfill assets have been assessed by updating external third party valuations from 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 between 2015 and 2018 and updated them where they consider conditions have changed in the interim period.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Sensitivity

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

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

13. SUBSIDIARIES

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

Company	Country of Incorporation	Class of Shares held	% age of holding	Nature of business
Michelmersh Brick UK Limited	England	Ordinary	100	Manufacture Bricks
Carlton Main Brickworks Limited	England	Ordinary	100	Non trading property holding
Dunton Brothers Limited	England	Ordinary	100	Non trading
Charnwood Forest Brick Limited	England	Ordinary	100	Non trading
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non trading
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non trading
New Acres Limited	England	Ordinary	100	Non trading landfill operations

No entities have been excluded from the consolidated financial statements.

14. INVENTORIES

	2018 £'000	2017 £'000
Raw materials	3,476	3,722
Work in progress	1,558	1,414
Finished goods	3,275	4,025
	8,309	9,161

The cost of inventories expensed during the year is £25,315,000 (2017: £23,969,000). 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	2018 £'000	2017 £'000
Trade receivables	7,241	6,291
Prepayments and accrued income	1,004	643
	8,245	6,934

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.

15. TRADE AND OTHER RECEIVABLES (continued)

Included within trade receivables is £631,000 (2017: £214,000) 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.

	2018 £'000	2017 £'000
30 days overdue	353	162
30 – 60 days overdue	186	47
60 – 90 days overdue	92	5
	631	214

Trade receivables are monitored on a daily basis to manage credit risk. The company has a credit insurance policy on all debts and follows defined procedures on actions for late payment which mostly entails temporarily suspending credit.

The carrying amount of the Group's trade and other receivables are denominated in sterling. The total cash and receivables category comprises trade and other receivables above together with cash of £5,255,000 as shown in the balance sheet, totalling £12,496,000.

During the year no provisions were made against any debtors (2017: nil).

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

16. TRADE AND OTHER PAYABLES

Amounts falling due within one year	2018 £'000	2017 £'000
Trade payables	2,685	2,701
Other taxation and social security	1,272	757
Other payables	144	259
Accruals	2,894	2,677
Pension	70	68
	7,065	6,462

The fair values of trade and other payables are approximate to their carrying value. The total financial liabilities at amortised cost category comprises the above payables excluding other taxation and social security totalling £3,993,000.

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

17. BORROWINGS

Interest rate risk of financial assets and liabilities

The Group has floating rate borrowings of £17,080,000 (2017: £21,600,000), which consist of a bank Term Loan and a Revolving Credit Facility which bear interest linked to LIBOR. The Group's financial assets at 31 December 2018 and 31 December 2017 include cash at bank and in hand for which minimal interest is earned.

Notes to Financial Statements (continued)
Year ended 31 December 2018

17. BORROWINGS (continued)

Subsequent to drawing down on the HSBC loan facilities in 2017, the Group entered into an interest rate SWAP agreement with HSBC to fix the LIBOR rate on half of the Term Loan balance for the life of the Term Loan.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2018 of £6,000,000 (2017: £5,000,000). 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:

	2018 £'000	2017 £'000
In one year or less	1,770	1,791
Between one and two years	3,270	1,791
Between two and five years	12,040	12,873
Over 5 years	–	3,395
	17,080	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 the balance of the RCF has been repaid.

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 in 2017 included deferred payments that carry interest on the unpaid balance.

Interest was chargeable 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 31 August 2018, the remaining balance was repaid early.

	2018 £'000	2017 £'000
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

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short and long-term borrowing. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group has an interest rate swap agreement with HSBC that limits the interest rate risk at 50% of the balance due.

Liquidity risk

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

Capital management

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

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

Fair value estimation

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

19. PENSIONS

Defined contribution Scheme

The Group operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the Group in trustee administered funds. The pension charge for contributions made by the Group to the defined contribution scheme amounted to £464,000 (2017: £384,000). Amounts unpaid at the year end in respect of contributions amounted to £42,000 (2017: £41,000).

Notes to Financial Statements (continued)
Year ended 31 December 2018

20. DEFERRED TAXATION
Deferred tax at 31 December 2018 relates to the following:

	Losses £'000	Roll-over gain £'000	Intangibles £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost						
As at 1 January 2017	(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
Recognised in income	(50)	228	(193)	91	(111)	(35)
Recognised in other comprehensive income	–	–	–	115	–	115
As at 31 December 2018	(50)	228	2,727	5,863	(98)	8,670

Deferred tax assets included above are deemed recoverable against future taxable profits in certain Group companies.

In addition to the above, the Group has un-provided deferred tax assets of £85,000 (2017: £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:

	2018 £'000	2017 £'000
Within one year	548	614
Between two and five years	780	1,273
	1,329	1,887

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

22. SHARE CAPITAL

Authorised share capital	2018 Number	2018 £'000	2017 Number	2017 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2018 Number	2018 £'000	2017 Number	2017 £'000
Ordinary shares of 20p each	86,486,113	17,297	86,171,664	17,234

During the year, the Company issued 314,449 new shares under Group sharesave schemes.

In February 2019, the Company issued 5,555,556 new ordinary shares to raise capital to part fund the acquisition of Floren & Cie (see note 26).

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

23. SHARE BASED PAYMENTS

Share option reserve	£'000
As at 1 January 2018	515
Charge for the year	660
Transferred to revenue reserves on maturity of options	(96)
As at 31 December 2018	1,079

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 2017	Options exercised	Options forfeited/ lapsed in the year	No. of options as at 31 December 2018
2008	96p	February 2011 – February 2018	12,500	–	(12,500)	–
2014	72.75p	July 2017 – July 2024	164,000	(41,000)	–	123,000
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 nil cost options were granted under the "Long Term Incentive Plan" and are subject to earnings per share performance conditions and continued employment.

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No. of options as at 31 December 2017	Options granted in the year	Options exercised in the year	Options lapsed/ forfeited in the year	No. of options as at 31 December 2018
2015	66.2p	August 2015 – August 2018	355,419	–	(273,449)	(80,883)	1,087
2015	66.2p	August 2015 – August 2020	39,877	–	–	(4,532)	35,345
2018	75.1 p	August 2018 – August 2021	–	750,250	–	–	750,250
2018	75.1 p	August 2018 – August 2023	–	68,065	–	–	68,065

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 £660,000 (2017: £196,000).

23. SHARE BASED PAYMENTS (continued)

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	£0.840
Expected volatility	30%
Expected dividend yield	4.1%
Risk free rate	1.63%

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:

	2018		2017	
	No	**Weighted average exercise price**	**No**	**Weighted average exercise price**
Outstanding as at 1 January	5,441,533	21.0 p	1,608,320	24.4 p
Exercised	(314,449)	66.7 p	–	–
Lapsed and forfeited	(97,915)	70.0 p	–	–
Granted	818,315	75.1 p	3,833,213	19.6 p
Outstanding as at 31 December	5,847,484	25.3 p	5,441,533	21.0 p

The fair value of options issued during the year was £682,000.

Of the share options outstanding at 31 December 2018, 123,000 are currently exercisable at 72.75 pence and 1,087 at 66.2 pence.

The weighted average contractual life for the share options outstanding at 31 December 2018 is 7 years (2017: 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 12.

25. EARNINGS PER SHARE

Earnings	2018 £'000	2017 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders from continuing operations	4,985	2,212
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	86,312,463	83,913,140
Number of dilutive shares under option	2,342,595	1,138,070
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	88,655,058	85,051,210

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

26. POST BALANCE SHEET EVENT

Acquisition of Floren & Cie and placing of ordinary shares.

On 15 February 2019, the Company completed the acquisition of 100% of the share capital of a Belgian brick manufacturer for a total maximum consideration of €9.9 million including deferred consideration of 400,000 ordinary shares in Michelmersh. Floren manufactures approximately 20 million bricks of which circa 25% are imported into the UK and are expected to generate EBITDA of €1.5 million pa.

The strategic acquisition will enhance Michelmersh's product portfolio, significantly increase the Group's overall output and provide a foothold in new European markets.

The balance sheet of Floren at 31 December 2018 may be summarised as follows:

	€000	€000
Tangible fixed assets		3,255
Current Assets		
Inventories	1,309	
Accounts recievable	670	
Cash	2,159	
	4,138	
Creditors; amounts falling due within one year		
Trade and other payables	707	
Interest bearing borrowings	179	
	886	
Net current assets		3,252
Non-current liabilities		
Interest bearing borrowings	1,275	
Provisions	175	
Deferred taxation	884	
		2,334
Net assets		4,173

An exercise is under way that will establish the fair value of these assets and liabilities.

In conjunction with the acquisition, the Company issued 5.55 million new ordinary shares to raise gross proceeds of £5 million which along with existing bank facilities funded the acquisition.

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	As at 31 December 2017 £000	Repaid during the year £000	As at 31 December 2018 £000
Bank Loans	19,850	(2,770)	17,080
Deferred consideration	1,750	(1,750)	–
	21,600	(4,520)	17,080

Michelmersh Brick Holdings Plc

Parent Company Financial Statements

Year ended 31 December 2018

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 2018 which comprise the balance sheet, the statement of changes in equity, the parent company general information and the parent company notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2018
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Conclusions relating to going concern
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 parent company financial statements is not appropriate; or
- the directors have not disclosed in the parent company financial statements any identified material uncertainties that may cast significant doubt about the parent 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 parent company 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 this individual matter.

Valuation of land and buildings

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

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

- Reviewed third party valuation obtained by the directors in the year, considering the independence and competence of the expert engaged by management to prepare the valuation;
- Considered the appropriateness of the valuation approach with reference to past experience and the broader nature of the business; and
- Considered the implications of movements identified through third party valuations for the sites where external input was not sought in the current year.

Key audit matter description – Investment value
Investment value in the accounts is significant and relates to the purchase of subsidiary companies. The carrying value of these investments is considered for impairment on an annual basis by the directors which requires significant judgment, in particular regarding cash flows, growth rates, discount rates and sensitivity assumptions.

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

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

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

Other information
The other information comprises the information included in the annual report 2018 other than the group and parent company financial statements and our auditor's reports thereon. The directors are responsible for the other information. Our opinion on the parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 14 the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the parent company financial statements

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

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

Other matter

We have reported separately on the group financial statements of Michelmersh Brick Holdings plc for the year ended 31 December 2018.

Use of our report

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

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

25 March 2019

Company Balance Sheet
as at 31 December 2018

	notes	2018 £'000	2017 £'000
Fixed assets			
Investment properties	1	33,162	32,739
Investments	2	49,470	49,470
Intangible assets	3	–	–
Total fixed assets		82,632	82,209
Current assets			
Cash at bank and in hand		3,674	538
Debtors – amounts falling due within one year	4	2,646	4,508
Total current assets		6,320	5,046
Creditors: Amounts falling due within one year	5	762	468
Interest bearing liabilities	6	1,770	1,791
		2,532	2,259
Net Current assets		3,788	2,787
Creditors: Amounts falling due after more than one year			
Interest bearing liabilities	6	15,310	19,809
Provisions for liabilities			
Deferred taxation	7	3,602	3,569
		18,912	23,378
Net assets		67,508	61,618
Capital and Reserves			
Share capital	12	17,297	17,234
Share premium account	13	11,495	11,495
Merger reserve	13	3,571	3,423
Revaluation reserve	13	24,970	24,562
Share option reserve	13	1,079	515
Profit and loss account	13	9,096	4,389
Equity shareholders' funds		67,508	61,618

No Profit or Loss Amount or Statement of Comprehensive Income is presented for the Company as permitted under S408 of the Companies Act 2006. The profit after tax for the Company was £6,464,000 (2017: £1,800,000).

These financial statements were approved by the Directors and authorised for issue on 25 March 2019 and are signed on their behalf by

Director

The accounting policies and notes on pages 59 to 65 form part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

	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 2017	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**
Profit for the year	–	–	–	–	–	6,464	6,464
Shares issued during the year	63	–	–	148	–	–	211
Revaluation surplus	–	–	–	–	565	–	565
Revaluation deficit	–	–	–	–	(42)	–	(42)
Deferred taxation on revaluation	–	–		–	(115)	–	(115)
Share based payment	–	660	–	–	–	–	660
Transfer to retained earnings	–	(96)	–	–	–	96	–
Dividend paid	–	–	–	–	–	(1,853)	(1,853)
As at 31 December 2018	**17,297**	**1,079**	**11,495**	**3,571**	**24,970**	**9,096**	**67,508**

Notes to Company Financial Statements
For the year ended 31 December 2018

Accounting Policies

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

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

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.

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

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

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

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

Notes to Company Financial Statements (continued)
For the year ended 31 December 2018

1. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2017	30,831
Additions	209
Revaluation deficit	(322)
Revaluation surplus	2,069
Transfer	(48)
As at 31 December 2017	32,739
Additions	195
Revaluation surplus	565
Revaluation deficit	(42)
Transfer	(295)
At 31 December 2018	33,162

Revaluation of fixed assets
The Company's investment property was valued by the directors on 31 December 2018 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 2018.

The Company's freehold land and buildings were valued at £33,162,000 at 31 December 2018.

2. INVESTMENTS – UNLISTED

	2018 £'000	2017 £'000
Cost		
As at 1 January	49,470	10,245
Additions	–	39,225
As at 31 December	49,470	49,470

All of the subsidiary companies have their registered office at Freshfield Lane, Danehill, Haywards Heath RH17 7HH.

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

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

Notes to Company Financial Statements (continued)
For the year ended 31 December 2018

3. INTANGIBLE ASSETS

The intangible asset relates to carbon allowances	2018 £'000	2017 £'000
Cost		
At 1 January	–	142
Disposals	–	(142)
At 31 December	–	–

4. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	1,868	4,095
Other debtors	–	2
Prepayments	778	411
	2,646	4,508

5. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	2017 £'000
Accruals and deferred income	762	468
	762	468

6. BORROWINGS

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

	2018 £'000	2017 £'000
In one year or less	1,770	1,791
Between one and two years	3,270	2,666
Between two and five years	12,040	13,748
Over 5 years	–	3,395
	17,080	21,600

7. PROVISIONS FOR LIABILITIES

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

	2018 £'000	2017 £'000
At 1 January	3,569	3,371
Revaluation	115	–
Prior year adjustment	–	(2)
(Decrease)/increase in provision	(82)	200
At 31 December	3,602	3,569

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.

Notes to Company Financial Statements (continued)
For the year ended 31 December 2018

8. DIVIDEND

On 11 January 2019, an interim dividend was paid of 1.06 pence (2017: 0.7 pence) per share. The Board has proposed a dividend of 2.14 pence per share payable on 28 June 2019 to shareholders on the register on 7 June 2019. The total dividend for the year will amount to 3.2 pence (2017: 2.15 pence) per share and a total payment of £2,757,000.

9. PARTICULARS OF EMPLOYEES

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

	2018	2017
Management and Administration	23	19
	£'000	**£'000**
Wages and salaries	1,522	1,257
Social security costs	212	206
Other pension costs	44	40
	1,778	1,503

10. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated June 2018. At the end of the year total Group bank borrowings were £17,080,000 (2017: £21,600,000).

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group disclosures on page 46 of the Group accounts are appropriate to the Company.

12. SHARE CAPITAL

Authorised share capital	2018 Number	2018 £'000	2017 Number	2017 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000

Allotted, called up and fully paid:	2018 Number	2018 £'000	2017 Number	2017 £'000
Ordinary shares of 20p each	86,486,113	17,297	86,171,664	17,234

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 12 to the group financial statements.

14. SHARE BASED PAYMENTS

Share option reserve	**£'000**
As at 1 January 2018	515
Charge for the year	660
Transferred to revenue reserves on maturity of options	(96)
As at 31 December 2018	1,079

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 2017	Options exercised	Options granted	No. of options as at 31 December 2018
2014	72.75p	July 2017 – July 2024	164,000	(41,000)	–	123,000
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	83,218	–	–	83,218
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.

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 2017	No. of options exercised in the year 31 December	Options forfeited in the year	No. of options as at 31 December 2018
2015	66.2p	August 2015 – August 2018	92,895	–	(41,691)	51,204
2015	66.2p	August 2015 – August 2020	27,189	–	(3,437)	23,752
2018	75.1p	August 2018 – August 2021	–	38,585	–	38,585
2018	75.1p	August 2018 – August 2023	–	39,946	–	39,946

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 £221,000 (2017: £196,000).

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	£0.840
Expected volatility	30%
expected dividend yield	4.1%
Risk free rate	1.63%

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:

	2018		2017	
	No	Weighted average exercise price	No	Weighted average exercise price
Outstanding as at 1 January	5,153,821	18.4p	1,320,608	56.3p
Exercised	(41,000)	19.0p	–	–
Lapsed and forfeited	(45,128)	66.2p	–	–
Granted	78,531	75.1p	3,833,213	19.6p
Outstanding as at 31 December	5,146,224	18.0p	5,153,821	18.4p

The weighted average contractual life for the share options outstanding at 31 December 2018 is 5 years (2017: 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 14 May 2019 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 8 and 9 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 2018.

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

3 To reappoint Bob Carlton-Porter who retires by rotation and who, being eligible, offers himself for reappointment as a director.

4 To approve the payment of a dividend of 2.14 pence per Ordinary Share on 28 June 2019 to members on the register on 24 May 2019.

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.

6 That the directors of the Company be and are hereby authorised pursuant to Article 143 of the Company's Articles of Association to resolve, at their discretion, that the holders of ordinary shares in the capital of the Company shall be entitled to elect to receive an allotment of ordinary shares in the capital of the Company, credited as fully paid, in lieu of cash in respect of any final dividend declared in respect of financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 and any interim dividends (or part thereof) declared in respect of financial years ending 31 December 2019, 31 December 2020 and 31 December 2021, provided that such resolution of the directors of the Company is in accordance with, and subject to, the provisions of Article 143 of the Company's Articles of Association.

Special Business

7 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 £12,272,367 (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

Notice of Annual General Meeting
(continued)

(b) in any other case, up to an aggregate nominal amount of £3,068,091 (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 £6,136,183),

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.

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.

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

8.1 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 7, 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 8.1(a) of this resolution) to any person up to an aggregate nominal amount of £920,427; and

8.2 in addition to any authority granted under paragraph 8.1 of this resolution, to allot equity securities (as defined in section 560 of the CA 2006) for cash under the authority conferred by resolution 7 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 £920,427; 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.

9 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 9,204,275 (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 Appendix 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.

25 March 2019

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 48 hours before the time appointed for holding the meeting or adjourned meeting. 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 7 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 8-9 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
At every annual general meeting, a certain number of directors must retire by rotation in accordance with the Company's Articles of Association.

Resolution 6: Implementation of scrip dividend scheme
Under the Company's Articles of Association, the directors are permitted to allot new ordinary shares to holders of ordinary shares as an alternative to cash in respect of dividends declared by the Company, if authorised to do so by the Company at a general meeting. Such arrangements are customarily referred to as 'scrip dividend schemes'. This resolution seeks authority for the directors to grant ordinary shareholders the right to receive an allotment of ordinary shares in the capital of the Company credited as fully paid in lieu of cash in respect of any final dividend declared in respect of financial years ending 31 December 2018, 31 December 2019 and 31 December 2020 and any interim dividends (or part thereof) declared in respect of financial years ending 31 December 2019, 31 December 2020 and 31 December 2021. The directors believe that the offer of the scrip dividend scheme is advantageous to shareholders and allows shareholders to increase their shareholdings in the Company in a simple manner without paying dealing costs or stamp duty. A separate circular addressed to shareholders relating to this proposed scrip dividend scheme accompanies this notice of annual general meeting.

Resolution 7: 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 £12,272,367 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 £6,136,183 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 £6,136,183.

The maximum nominal value of allotments or grants (including equity securities) which may be made under this resolution is £12,272,367.

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.

Save pursuant to resolution 6, 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 8: Disapplication of pre-emption rights
This resolution will, if passed, give the directors power, pursuant to the authority to allot granted by resolution 7, 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 £6,136,183 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 £6,136,183 which represents approximately one third of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this Notice; and

(b) in any other case, up to a maximum nominal amount of £1,840,855 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 8.2 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 9: 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 9,204,275 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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