



MICHELMERSH
Brick Holdings PLC

ANNUAL REPORT 2016



HIGHLIGHTS – At a glance

	2016	
Turnover	£30.1 m	+3%
Profit before tax	£4.6 m	–
Sales volumes	69.4 m	+4%
Net cash	£4.7 m	+61%
NAV	65.8 p	+9%
Dividend	2.0 p	+100%



MICHELMERSH

Britain's Brick Specialists

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Chairman's Statement

I am very pleased to report that the Company delivered another strong performance in 2016, which culminated in matching 2015's levels of profit before tax. What is more pleasing is that this was achieved despite some challenging operational issues, notably at the Michelmersh plant as reported at the half year. The Company has grown stronger through investment, cash balances have increased and further progress has been made on land assets across the Group. The Board is pleased to report that confidence is high and we seek to continue steady growth in 2017. This confidence also allows us to double the dividend again, ahead of expectations, to reward shareholders.

Financial Highlights

Turnover grew by 3.4% to £30.1 million, with additional output from Freshfield Lane satisfying the increased demand for Company product. The Group generated profit before tax of £4.6 million (2015: £4.6 million). We maintained our average selling prices across the Group despite the dilution caused by increased sales of lower priced products. As reported at the half-year, operational issues at the Michelmersh plant had an impact on Group margins and consequently profit before tax, and being a higher value product further diluted the Group average selling price. The problem is now behind us and operations have returned to normal.

Cash and Borrowings

Cash balances at the year-end amounted to £4.7 million (2015; £2.9 million). Having cleared all borrowings in previous years, the Group can now invest its resources in the business whilst increasing cash headroom. Available debt facilities were not utilised during the year and the proceeds of sale of the Dunton landfill site will further enhance our cash profile. This creates opportunity to invest in operational and land assets and supports strong dividend returns going forward.

Assets and Working Capital

The Group continues to invest in plant and land assets, spending £2.3 million during 2016. The most significant individual investment was the replacement of a kiln at Michelmersh for £1 million which became operational later in the year and which is now working at full capacity. The investment programme is set to continue at a sustainable rate through 2017 as expenditure is targeted at energy and labour inefficient processes.

Dividend

In 2015 the Group paid its first, albeit modest, dividend since 2008 which was doubled in 2016. The Board are pleased to announce that they will propose a dividend of 2 pence per share in respect of the year to 31 December 2016 (2015: 1 pence). Having restored the Group's positive cash balance, this represents a commitment to shareholders to provide a meaningful return on their investment. In addition, the Board has decided to commence payment of an interim as well as a final dividend in respect of 2017 in December and June respectively. The dividend represents over 40% of earnings and, whilst the Group is trading favourably, it is the Board's intention that this level of distribution is maintained.

Land Assets

The Board announced in January that it had signed a conditional contract for the sale of the former Dunton brickworks site at Chesham. Since the brickmaking operations ceased in 2013, the site has been subject to a long and technically involved process to achieve the best economic outcome for the site, which is as a high value landfill site. The sale will complete when the landfill licence is transferred to the purchaser, which is expected to take place in the summer of 2017. A deposit has been paid, and the remainder of the £2.68 million sale price will be paid on completion. The land is treated as a 'non-current asset held for resale' in the balance sheet as at 31 December 2016 at sale value less the costs of disposal. The land was subject to a £1 million revaluation uplift in the accounts to 31 December 2016 and contributed to the increase in net asset value.

Board and Employees

The appointment of Frank Hanna and Peter Sharp as joint CEO from 1 January 2016, has proved effective. To support the change, a sub-board of Associate Directors was established to manage operations at a regional and national level. The Board would like to recognise the important contribution of the new structure and would like to thank all employees for their contribution to the Group's performance in 2016.

Chairman's Statement

(continued)

Outlook

The Group sits in a well-defined segment of the UK brick sector; our high quality products set technical standards and our service levels are recognised by our customers. We continue to develop the business around our product offering and commitment to our customers.

The UK construction sector is facing continued demands to provide increased residential output to meet the housing shortage. This will support demand for bricks alongside other products and the short and medium term prospects for our industry encourage investment. The Board will continue to evaluate industry opportunities as they arise.

On a personal note, this will be my last Chairman's Report as I will be retiring from the Board at the forthcoming AGM. It is interesting to reflect that what started as little more than a hobby for Martin and myself to save a small craft brickworks in the Chilterns has grown into a sizeable Public Company. It has been a thoroughly enjoyable 20 years during which time I have learnt an enormous amount about manufacturing thanks to the help of some of the nicest and most professional people you could wish to meet. I am proud of the fact that together we have managed to establish Michelmersh as the foremost provider of bricks for premium projects many of which have won awards both nationally and locally. Martin Warner will take over the Chairman's role and I look forward to the business's continued prosperity with him at the helm.

Eric Gadsden
Chairman

20 March 2017

Chief Executives' Review

Clay Products

The UK's construction sector fundamentals remain positive as most housebuilders are reporting increased activity in 2016 and suggesting further growth in 2017. The UK brick industry had a comparatively steady 2016 against a backdrop of a positive drive to increase housing starts but with some economic uncertainty caused by wider political events. Overall the UK produced 7% less bricks and imports fell. Deliveries increased by a similar percentage but the impetus was strongest later in the year. Average prices were flat or falling as the market sought equilibrium of supply and demand.

Michelmersh occupies a defined sector of the market but is affected by the wider industry forces. The Group despatched 69.4 million bricks, up 4% from the previous year, and would perhaps have despatched more had output not reduced by 1.3%. Bricks produced fell across the Group from 69.5 million to 68.6 million as yields from the Michelmersh factory were affected by the clay geological issues in the existing quarry, while delays in working through ecological and archaeological issues restricted expansion into the new available reserves. This and the associated production downtime was addressed by a combination of improved clay recipes and additional engineering resource. Towards the end of the period the new kiln was commissioned, further improving yields at the factory.

The Group continues to invest in its plants, systems and skilled staff to seek to protect the business and enhance yield and quality. Besides expenditure of £1 million on the new kiln at Michelmersh, the Group invested in selected parts of the manufacturing process through 2016. This included replacing two old brick dryers at Freshfield Lane with one new £250k investment that increases capacity and energy efficiency. Investment during 2017 will largely be focussed on yield and energy efficiency projects with existing kilns and dryers. The Group also plans to undertake an extensive engineering review of our key manufacturing assets to identify further plant maximisation and risk reduction projects. We continue to explore larger conceptual projects that afford output increases and / or target cost or risk reduction. Two such projects are technically well advanced and will be subject to financial feasibility assessments as time progresses.

During 2016 the Group achieved success by having a balanced market approach as was set out in our annual sales strategy. The focus was centred around delivering strong customer service to our regional and national distribution partners in both the merchant and factor sectors. The Group's distribution centric approach ensured robust deliveries throughout the year.

As in recent years, our products were delivered into the Group's usual sector mix of Repairs, Maintenance & Improvements (RMI), new homes, quality urban regeneration and specification projects. RMI remained steady and strong for the Group throughout 2016.

The Group saw the delivery and completion of some iconic projects during the year. Of particular architectural note were the following: the beautiful Englemere, Ascot, by Millgate Homes; Urban regeneration at Chobham Manor, Stratford; the new Police and Fire HQ in Butterley, Derbyshire perfectly highlighting our contemporary and innovative Synthesis S17 blend delivered through our Select Order Process; the new Banham offices in Thornsett Road, Wandsworth; and lastly the Whitty Theatre at Luckley House School which won the coveted Architects Choice Award at the 2016 BDA Brick Awards.

High quality housing and urban regeneration has always been key for the Group. Our strong product offering was again at the forefront of key projects with companies such as Keepmoat, Telford Homes, Countryside Properties PLC, Berkeley Group and A2 Dominion to highlight a few.

The Group's strategy to maintain a well balanced forward order book will continue to prevail post 2016 and into the current year, thus ensuring a continued optimum product mix.

Hathern Terracotta had a positive year and produced a solid result albeit slightly below the exceptional result for 2015. Stand out projects included Victoria Quarter, Leeds and Hans Place, London.

During 2016, the Group increased its delivery fleet as part of a rolling improvement programme. This investment will afford additional flexibility, efficiency and customer service. The Group's Freight Transport Association regulated haulage function also currently holds Bronze FORS accreditation with a continuous improvement programme aiming for Silver accreditation.

The Group's online BIMBricks.com brand continues to attract significant web traffic from designers, architects and students. 2016 saw the Group receive the largest single order via BIM totalling over half a million bricks. Our drive to continuously improve and enhance the available data for free distribution continues in the Group's effort to contribute to the creation of an innovative and digitised construction sector.

As well as BIM, the Group was delighted to see a rise in social media activity during the year, inspiring architects through our online renders and images and in turn generating new enquiries.

Chief Executives' Review

(continued)

Throughout 2016 the Group continued its support of education by means of free products, funding and Continuing Professional Development. This was in line with our ethos of future proofing the UK construction sector by assisting local colleges in training much needed bricklayers.

Management Systems

During the year we commenced a consolidation and integration exercise of our quality and environmental management systems. When complete, this will combine our four manufacturing sites into a Group-wide system that will deliver consistent best practice across the Group along with associated operational synergies. We also delivered compliance with our EU-ETS carbon emissions and ESOS energy saving obligations.

2016 saw the Group change its health and safety auditors with a view to further improving our safety performance above and beyond compliance. We joined and engaged RoSPA (The Royal Society for the Prevention of Accidents) to carry out a Quality Safety Audit (QSA) encompassing workplace and management audits across the group and we are pleased to have achieved a Health and Safety Performance Rating of 75%. ROSPA indicated that this was a credible result for a first audit and we have targeted improvement for 2017.

Staff development

During 2016 we strengthened and developed our engineering team across the group. In addition to our successful engineering apprenticeship programme we now have a mix of technical and management skills as well as succession planning which is being enhanced with experience, training and development. Succession and development has also been addressed in both the manufacturing and commercial departments of the business with several new graduates taking on key roles. Our key managers are engaged on our tailored Institute of Leadership and Management programme as well as health and safety training from The Institute of Occupational Safety and Health.

Plans are under way to enhance the Group's HR function in 2017 by reallocating resources and redefining its role. This development reflects the Group's commitment to its staff and recognises the importance of a structured format to improve their skills and support their personal development and wellbeing.

Landfill and land Assets

At the end of the period we successfully delivered two technically challenging land projects at our Dunton and Michelmersh sites. As detailed in the Chairman's Statement we have exchanged contracts for the sale of the Dunton site for £2.68 million. At Michelmersh we completed extensive ecology and archaeological field work to enable us to extend our quarrying operations to our School House Field. The archaeological work alone involved a team of several archaeologists for five months stripping and excavating subsoil. The field was found to contain a significant find of Neolithic flint tools and fragments of international importance. Clay extraction will commence towards the summer of 2017.

During 2016, we also updated the mineral valuation of the clay resource within the Group's land holdings after taking advice from mineral valuer, Wardell Armstrong LLP. The value of mineral reserves was increased by £325,000 to £1.24 million.

The Board

Eric Gadsden has decided to relinquish his position as Chairman of the Board at this year's AGM. It is fair to say that he has been incredibly supportive to the Company as a whole and to us individually. Michelmersh would not have achieved the success it has without his energy and insight. We would like to thank him for his contribution over many years. The Board intend to recruit a non-executive director in due course to re-balance the Board.

Outlook

The positive indicators and market fundamentals look set to continue. There is a widely accepted need and publicised government drive for delivering new housing. We believe this backdrop presents significant opportunities for the Group in not only new builds, but also in RMI where we are particularly strong. During 2017 the Group will improve efficiency and promote new innovative and contemporary products to the market. Through the course of the year the market may see brick demand rise to meet current mid-term UK output capacity, however, the significant uncertainties surrounding the impact of Brexit continue to prevail.

Frank Hanna, Peter Sharp
Joint Chief Executives

20 March 2017

Officers and Professional Advisers

Directors	E J S Gadsden – Chairman M R Warner MSc FRICS – Deputy Chairman F J Hanna – Joint Chief Executive P N Sharp – Joint Chief Executive S H P Morgan BA ACA – Finance Director R W Carlton Porter
Company Secretary	S H P Morgan
Registered Office	Freshfield Lane Danehill Haywards Heath West Sussex RH17 7HH
Nominated Adviser And Broker	Cenkos Securities Plc 6-8 Tokenhouse Yard London EC2R 7AS
Auditors	Nexia Smith and Williamson Audit Limited Chartered Accountants and Statutory Auditor Portwall Place Portwall Lane Bristol BS1 6NA
Solicitors	Burges Salmon LLP One Glass Wharf Bristol BS2 0ZX
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA
Financial Public Relations	Yellow Jersey PR 7th Floor 22 Upper Ground London SE1 9PD
Principal Bankers	Barclays Bank Plc 15 Colmore Row Birmingham B3 2BH

Directors' Biographies

Eric Gadsden, Chairman

In 1997, Eric Gadsden formed the Company with Martin Warner. Eric has spent all his working life in the construction industry and is currently Managing Director of W.E. Black Limited, a Buckinghamshire based construction and property company. Eric is a member of the Audit and Remuneration Committees.

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.

Martin Warner MSc FRICS Deputy Chairman

Martin Warner formed Michelmersh with Eric Gadsden in 1997 and has served as Chief Executive from that date until 31 December 2015 when he became Deputy Chairman. Martin is a Fellow of the Royal Institute of Chartered Surveyors. Martin is a member of the Audit and Remuneration Committees and has been appointed Chairman of the Brick Development Association.

Frank Hanna Joint Chief Executive

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

Peter Sharp BA (Hons) MIOD Joint Chief Executive

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

Stephen Morgan BA ACA Finance Director

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

Directors' Report

The Directors present their report and consolidated financial statements of the Group for the year ended 31 December 2016.

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 2016.

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 16 to 39.

The Directors are pleased to recommend the payment of a dividend for the year of 2.0p (2015: 1.0p) per ordinary share payable on 30 June 2017 to shareholders on the register on 2 June 2017.

Subsequent events: a conditional contract has been exchanged in January 2017 in relation to the sale of the Dunton landfill site. See note 11 for further details.

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 2016	31 December 2015
	Ordinary Shares of 20p each	Ordinary Shares of 20p each
E J S Gadsden	22,658,274	22,658,274
M R Warner	5,388,732	5,388,732
R W Carlton-Porter	20,000	20,000
F Hanna	1,050,000	1,050,000
S H P Morgan	–	–
P N Sharp	–	–

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 11 and 12 of the financial statements.

Corporate Governance

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

Accordingly, the Board has established an Audit Committee and a Remuneration Committee, and complies with The Code in areas where it is felt justified by reference to the QCA comments as being relevant to a business the size of Michelmersh Brick Holdings Plc.

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 5. In addition, note 17 to the financial statements includes the company's objectives, policies and processes for

Directors' Report

(continued)

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 revolving credit facility and overdraft facilities.

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

Internal Control

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

Financial Instruments

The Group's policy is to finance working capital through cash balances, appropriate bank facilities and retained earnings. The Group is exposed to the usual credit and cash flow risk associated with selling on credit and manages this through credit control procedures. For further details refer to note 17 in the financial statements.

Health and Safety

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

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

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

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 2016, the Group employed 281 male and 19 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 year amounted to £8,000.

Directors' Report

(continued)

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.

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.

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
Directors

P. Sharp

Approved by the Directors on 20 March 2017

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Directors' Remuneration Report

Remuneration Committee

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

Group Remuneration Policy

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

Directors' Emoluments

The emoluments of the individual Directors were as follows:

	Basic Salary 2016 £000	Annual Bonus 2016 £000	Other Benefits 2016 £000	Pension 2016 £000	Total Emol- uments 2016 £000	Total Emol- uments 2015 £000
E J S Gadsden	20	–	–	–	20	20
M R Warner	110	–	20	–	130	209
R Carlton-Porter	30	–	–	–	30	30
F J Hanna	150	–	25	–	175	200
A R G Hardy*	–	–	–	–	–	19
S H P Morgan	130	–	14	–	144	180
P N Sharp	150	–	12	8	170	180
	590	–	71	8	669	838

Total emoluments including Employer's NI amounted to £752,000 (2015: £942,000)

*Resigned 1 October 2015

The Annual Bonus is awarded when performance targets set by the remuneration committee are met. The performance targets relate to the audited profit before taxation of the Group. 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' Remuneration Report

(continued)

Directors Share options

	SAYE Scheme 2016 No	CSOP 2016 No	LTIP 2016 No	Total Options 2016 No	Total Options 2015 No
M R Warner	–	41,000	–	41,000	41,000
F J Hanna	–	41,000	70,000	111,000	64,333
S H P Morgan	–	41,000	60,000	101,000	61,000
P N Sharp	63,157	41,000	70,000	174,157	127,490
	63,157	164,000	200,000	427,157	293,823

Notes

SAYE Scheme: under the Michelmersh Brick Holdings Plc SAYE Scheme, Peter Sharp can purchase Michelmersh 20p ordinary shares at 19 pence per share between December 2016 and May 2017.

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: nil cost options have been granted under the Michelmersh Brick Holdings Plc Long Term Incentive Plan which accrue in incremental annual tranches over 5 years provided EPS targets are achieved. The options disclosed relate to the vested options arising in respect of the years ended 31 December 2016 where targets have been met. The options are exercisable after publication of the financial statements in respect of the year ended 31 December 2019.

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year relating to Directors amounted to £165,000 (2015: £104,000).

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

Trends and Future Developments

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

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

Principal Risks and Uncertainties

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

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

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

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

Financial 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.

Strategic Report

(continued)

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.

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
Directors

P. Sharp

Approved by the Directors on 20 March 2017

Michelmersh Brick Holdings Plc

Registered in England and Wales No. 03462378

Independent Auditors' Report

to the Members of Michelmersh Brick Holdings Plc

We have audited the group financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2016 which comprise the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows General Information, Accounting Policies and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2016 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

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.

Other matter

We have reported separately on the parent company's financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2016.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

20 March 2017

Consolidated Income Statement

for the year ended 31 December 2016

	notes	2016 £'000	2015 £'000
Revenue	2	30,057	29,071
Cost of sales		(19,709)	(17,961)
Gross profit		10,348	11,110
Administrative expenses		(5,833)	(6,468)
Other income	3	36	68
Operating profit		4,551	4,710
Finance income/(expense)	4	18	(153)
Profit before taxation	5	4,569	4,557
Taxation	9	(1,010)	(951)
Profit for the financial year		3,559	3,606
Basic earnings per share attributable to the equity holders of the company	24	4.38p	4.44p
Diluted earnings per share attributable to the equity holders of the company	24	4.36p	4.42p

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

The accounting policies and notes on pages 21 to 39 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	notes	2016 £'000	2015 £'000
Profit for the financial year		3,559	3,606
Other comprehensive income/(expense)			
Items which will not subsequently be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment	11	1,369	1,163
Revaluation deficit of property, plant and equipment	11	–	(2,771)
Deferred tax on revaluation movement	19	49	804
		1,418	(804)
Total comprehensive income for the year		4,977	2,802

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 21 to 39 form part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2016

	notes	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	10	2,469	2,476
Property, plant and equipment	11	40,794	40,810
		43,263	43,286
Non-current assets held for resale	11	2,542	–
Current assets			
Inventories	13	7,193	7,195
Trade and other receivables	14	5,052	4,308
Investments		–	30
Cash and cash equivalents		4,720	2,935
Total current assets		16,965	14,468
Total assets		62,770	57,754
Liabilities			
Current liabilities			
Trade and other payables	15	4,702	4,165
Corporation tax payable		373	456
Total current liabilities		5,075	4,621
Non-current liabilities			
Deferred tax liabilities	19	4,052	3,914
Total liabilities		9,127	8,535
Net assets		53,643	49,219
Equity attributable to equity holders			
Share capital	21	16,294	16,247
Share premium account		11,495	11,495
Reserves		18,410	16,850
Retained earnings		7,444	4,627
Total equity	23	53,643	49,219

These financial statements were approved by the Directors and authorised for issue on 20 March 2017 and are signed on their behalf by

F. Hanna
Directors

P. Sharp

The accounting policies and notes on pages 21 to 39 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 2015	16,247	48	979	11,495	16,503	1,422	46,694
Profit for the year	–	–	–	–	–	3,606	3,606
Revaluation surplus	–	–	–	–	1,163	–	1,163
Revaluation deficit	–	–	–	–	(2,771)	–	(2,771)
Deferred taxation on revaluation	–	–	–	–	804	–	804
Total comprehensive income	–	–	–	–	(804)	3,606	2,802
Share based payment	–	129	–	–	–	–	129
Transfer to retained earnings	–	–	–	–	(5)	5	–
Dividend paid	–	–	–	–	–	(406)	(406)
As at 31 December 2015	16,247	177	979	11,495	15,694	4,627	49,219
Profit for the year	–	–	–	–	–	3,559	3,559
Revaluation surplus	–	–	–	–	1,369	–	1,369
Deferred taxation on revaluation	–	–	–	–	49	–	49
Total comprehensive income	–	–	–	–	1,418	3,559	4,977
Share based payment	–	212	–	–	–	–	212
Shares issued during the year	47	–	–	–	–	–	47
Transfer to retained earnings	–	(70)	–	–	–	70	–
Dividend paid	–	–	–	–	–	(812)	(812)
As at 31 December 2016	16,294	319	979	11,495	17,112	7,444	53,643

The accounting policies and notes on pages 21 to 39 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit before taxation	4,569	4,557
Profit on sale of fixed assets	(8)	(7)
Finance (income)/expense	(18)	153
Depreciation	1,063	1,174
Amortisation	3	3
Market value adjustment of Intangible assets	4	(3)
Share based payment charge	212	129
Cash flows from operations before changes in working capital	5,825	6,006
Decrease/(increase) in inventories	35	(1,070)
(Increase)/decrease in receivables	(744)	1,489
Increase in payables	537	197
Net cash generated by operations	5,653	6,622
Taxation paid	(905)	(740)
Interest received/(paid)	18	(104)
Net cash generated by operating activities	4,766	5,778
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,254)	(1,734)
Proceeds of sale of investments	30	–
Proceeds of sale of land	–	1,500
Proceeds of disposal of property, plant and equipment	8	7
Net cash used in investing activities	(2,216)	(227)
Cash flows from financing activities		
Repayment of interest bearing borrowings	–	(5,000)
Proceeds of share issue	47	–
Dividend paid	(812)	(406)
Repayment of hire purchase and finance lease obligations	–	(5)
Net cash used in financing activities	(765)	(5,411)
Net increase in cash and cash equivalents	1,785	140
Cash and cash equivalents at the beginning of the year	2,935	2,795
Cash and cash equivalents at the end of the year	4,720	2,935
Cash and cash equivalents comprise:		
Cash at bank and in hand	4,720	2,935
Bank overdraft	–	–
	4,720	2,935

The accounting policies and notes on pages 21 to 39 form part of these financial statements.

General Information and Accounting Policies

General Information

Introduction

Michelmersh Brick Holdings Plc (“the Company”) is a public limited company limited by shares 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 2016, with comparative figures for the year 1 January to 31 December 2015.

The companies within the Group during the financial year ended 31 December 2016 are disclosed in note 12.

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 2016 and 31 December 2015 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

IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers* and IFRS 16, *Leases* are in issue but are not yet effective so the Group has not adopted these standards in these Accounts. The directors have not yet made an assessment of the likely impact of these.

Accounting standards and interpretations adopted during the year

No other Amendments and Improvements have been issued that are not yet effective that would have an impact on the Group’s Accounts.

General Information and Accounting Policies

(continued)

Accounting Policies (continued)

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 cash balances. Additional facilities are in place including a revolving credit facility and an overdraft facility provided by Barclays Bank Plc.

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

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

Revenue

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

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

The following specific recognition criteria must also be met before revenue is recognised:

Building materials product revenue

Revenue is recognised when the significant rights and rewards of ownership of the goods have passed to the buyer, normally on despatch of the goods. Discounts are negotiated with customers at the beginning of each financial year.

Landfill revenue

Revenue is recognised following delivery of service in line with quantities of inert landfill waste tipped by customers.

Goodwill

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

Licences

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

General Information and Accounting Policies

(continued)

Accounting Policies (continued)

Property, plant and equipment

Plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Land and buildings are carried at appropriate valuation for the land and buildings concerned. Further details are disclosed in note 11 to the financial statements.

Freehold buildings are revalued annually

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

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

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

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

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

Impairment of assets

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

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)

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

Trade and other payables

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

Cash and cash equivalents

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

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)

Accounting Policies (continued)

Taxation

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

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are neither taxable or deductible.

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

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

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

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

Pension costs

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

Carbon emissions allowances policy

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

Dividends

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

Notes to Financial Statements

Year ended 31 December 2016

1. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

- Future taxation payments and receipts, which have been estimated on the basis of the best information available (see note 9).
- Freehold land and buildings are valued by the Directors, after taking into account external professional advice, and incorporate certain assumptions in relation to the future use of the properties and the estimated useful economic life relating to clay extraction and landfill facilities.
- Estimated useful life of property, plant and equipment is estimated and reviewed at each financial year end. The Group also tests for impairment whenever a trigger event occurs. Impairment test assumptions include cash flows based on trading forecasts generated from current performance of each of the cash generating units. Cash generating units are deemed to be each integrated trading site, due to the integrated business model adopted by the Group. Discounting is applied based on weighted average cost of capital.
- The fair value of share based payments is calculated using the appropriate fair value model with the estimated level of vesting being reviewed annually by management. The key assumptions of this model are set out in note 22.

2. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 31 December 2016. Segment information has been prepared in accordance with the accounting policies of the Group as set out on pages 21 to 25.

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

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

The Group comprises the following segments:

Building materials:

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

- Blockleys – based in Telford, Shropshire
- Charnwood – based in Shepshed, Leicestershire
- Freshfield Lane – based in Danehill, West Sussex
- Michelmersh – based in Romsey, Hampshire

Landfill:

Engagement in landfill operations:

- New Acres Limited – based in Telford, Shropshire

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

Notes to Financial Statements (continued)

Year ended 31 December 2016

2. SEGMENTAL REPORTING (continued)

	2016		2015	
	Segmental Revenue £'000	PBT £'000	Segmental Revenue £'000	PBT £'000
Continuing Activities				
Building materials				
Blockleys	7,121	2,162	7,464	2,113
Charnwood	3,507	948	3,491	991
Michelmersh	5,802	188	6,057	1,377
Freshfield Lane	14,104	5,614	12,475	5,215
Less rebates	(477)	(477)	(461)	(461)
	30,057	8,435	29,026	9,235
Landfill				
New Acres	–	(8)	50	4
	30,057	8,427	29,076	9,239
Inter-segmental revenue and unallocated costs*	–	(3,858)	(5)	(4,682)
	30,057	4,569	29,071	4,557

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

Other segmental disclosure

	2016			2015		
	Property, plant and equipment		Intangible fixed assets	Property, plant and equipment		Intangible fixed assets
	Additions £'000	Depreciation £'000	Amortisation £'000	Additions £'000	Depreciation £'000	Amortisation £'000
Building materials						
Blockleys	238	280	–	560	258	–
Charnwood	118	67	–	265	55	–
Michelmersh	1,362	433	–	185	380	–
Freshfield Lane	285	283	–	655	396	–
	2,003	1,063	–	1,665	1,089	–
Landfill						
New Acres	–	–	–	–	–	3
Dunton	251	–	–	68	–	–
	2,254	1,063	–	1,733	1,089	3

Revenue by geographical destination

	2016 £'000	2015 £'000
United Kingdom	29,990	29,017
Europe	36	37
Rest of the World	31	17
	30,057	29,071

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

Sales of £4,559,000 (2015: £4,296,000) were made to a single customer of the Group.

Total Group revenue made to the top five customers amounted to £13,602,000 (2015: £11,284,000). No other customers were individually material in revenue value.

Notes to Financial Statements (continued)

Year ended 31 December 2016

3. OTHER INCOME

	2016 £'000	2015 £'000
Rents receivable	15	19
Profit on sale of fixed assets	8	7
Market value adjustment to intangible asset	–	3
Other	13	39
	36	68

4. FINANCE COSTS

	2016 £'000	2015 £'000
Interest expense	–	82
Charges in respect of early termination and new facilities	–	188
Charges in respect of hire purchase agreements	–	1
less		
Release of interest adjustment on deferred proceeds of land sale	–	(118)
Interest earned	(18)	–
	(18)	153

5. PROFIT BEFORE TAXATION

	2016 £'000	2015 £'000
Profit before taxation is stated after charging:		
Amortisation – other	3	3
Depreciation – owned assets	1,063	1,171
– assets held under hire purchase agreements	–	3
Operating lease costs – plant and machinery	91	281
– motor vehicles	435	449

6. DIVIDEND

On 30 June 2016, a dividend was paid of 1.0 pence per share, amounting in total to £812,000.

The Board has proposed a dividend of 2.0 pence per share payable on 30 June 2017 to shareholders on the register on 2 June 2017. The dividend will amount to a total payment of £1,629,000.

7. AUDITORS REMUNERATION

	2016 £'000	2015 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	20	20
Fees payable to the Group's auditor and its associates for other services		
– the audit of the Group's subsidiaries, pursuant to legislation	23	25
– tax compliance services	26	26
– corporate finance services	7	7

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

Notes to Financial Statements (continued)

Year ended 31 December 2016

8. PARTICULARS OF EMPLOYEES

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

	2016	2015
Manufacture and supply of bricks	266	257
Administration	33	32
	299	289

	2016 £'000	2015 £'000
Wages and salaries	8,909	8,597
Social security costs	864	844
Other pension costs	338	330
	10,111	9,771

Details of Directors' emoluments are shown in the Remuneration Report on page 11.

9. TAXATION

a) Recognised in the income statement

	2016 £'000	2015 £'000
Current tax expense		
Current year	843	876
Prior year	(21)	(50)
	822	826
Deferred tax		
Origination and reversal of temporary differences	188	125
Total income tax charge in the income statement	1,010	951

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2015 higher) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below.

	2016 £'000	2015 £'000
Reconciliation of effective tax rate		
Profit before taxation	4,569	4,557
Income tax using the domestic corporation tax rate	914	923
Effects of :		
Expenses disallowed	19	53
Share option expense not taxable	28	–
Depreciation in excess of capital allowances	65	44
Change to prior year estimate	32	(4)
Profit on sale	(2)	(25)
Rate changes	(38)	(55)
Other timing differences	(8)	15
	1,010	951

Notes to Financial Statements (continued)

Year ended 31 December 2016

9. TAXATION (continued)

c) Factors affecting future tax charges

The Chancellor has announced that the main UK corporation tax rate will be reduced from the current rate of 20%, which has applied from 1 April 2015 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 2016, the Group had tax losses carried forward of approximately £1,169,000 (2015: £1,181,000).

A deferred tax asset has not been recognised in respect of £503,000 (2015: £503,000) of these tax losses, as the Directors do not consider their recovery to be sufficiently certain in the near future.

10. INTANGIBLE ASSETS

	Goodwill £'000	PPC license £'000	Carbon emissions quota £'000	Total £'000
Cost or valuation				
As at 1 January 2015	2,280	75	143	2,498
Revaluation adjustment	–	–	3	3
As at 31 December 2015	2,280	75	146	2,501
Revaluation adjustment	–	–	(4)	(4)
As at 31 December 2016	2,280	75	142	2,497
Amortisation				
As at 1 January 2015	–	22	–	22
Charge for the year	–	3	–	3
As at 31 December 2015	–	25	–	25
Charge for the year	–	3	–	3
As at 31 December 2016	–	28	–	28
Net book value				
As at 31 December 2016	2,280	47	142	2,469
As at 31 December 2015	2,280	50	146	2,476

GOODWILL

The goodwill relates exclusively to the acquisition of Freshfield Lane Brickworks Limited in 2010. In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 December 2016, 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% (2015: 10%) and revenue and cost growth rates of 3% (2015: 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 (2015: £nil).

Notes to Financial Statements (continued)

Year ended 31 December 2016

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Site develop- ment £'000	Motor vehicles £'000	Plant and machinery £'000	Total £'000
Cost or valuation					
As at 1 January 2015	33,671	202	27	25,477	59,377
Additions	1,338	–	–	396	1,734
Transfer between categories	(41)	–	–	–	(41)
Transfers to inventories	–	–	–	(72)	(72)
Revaluation surplus	1,163	–	–	–	1,163
Revaluation deficit	(2,771)	–	–	–	(2,771)
As at 31 December 2015	33,360	202	27	25,801	59,390
Additions	640	–	11	1,602	2,254
Transfers to inventories	(33)	–	–	–	(33)
Transfer to current assets	(2,639)	–	–	–	(2,639)
Disposals	–	–	–	(38)	(38)
Revaluation surplus	1,369	–	–	–	1,369
As at 31 December 2016	32,697	202	38	27,365	60,302
Depreciation					
As at 1 January 2015	1,666	46	27	15,739	17,478
Charge for the year	132	–	–	1,042	1,174
Disposals	–	–	–	(72)	(72)
As at 31 December 2015	1,798	46	27	16,709	18,580
Charge for the year	317	–	1	745	1,063
Transfer to current assets	(97)	–	–	–	(97)
Disposals	–	–	–	(38)	(38)
As at 31 December 2016	2,018	46	28	17,416	19,508
Net book value					
As at 31 December 2016	30,679	156	10	9,949	40,794
As at 31 December 2015	31,562	156	–	9,092	40,810

The Group's freehold land and buildings were valued by the Directors at £30,679,000 at 31 December 2016 (2015: £31,562,000), resulting in a net increase in the revaluation reserve of £1,369,000 (2015: decrease £1,608,000). Deferred tax liabilities were decreased by £49,000 (2015: £804,000) and have been credited to the revaluation reserve.

The revaluation surplus in the year ended 31 December 2016 relates to an increase in value of a landfill asset and the Group's mineral reserves. Conditional contracts have been exchanged in January 2017 for the sale of the Dunton landfill site for £2.68 m. The asset was revalued to the sale value less costs to sell and re-categorised as 'non-current assets, held for resale' as at 31 December 2016. The Group's mineral assets were revalued during the year by Wardell Armstrong LLP and the value was increased accordingly.

Notes to Financial Statements (continued)

Year ended 31 December 2016

11. 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:

	2016 £'000	2015 £'000
Historical cost		
At 1 January	16,705	15,408
Additions	640	1,338
Transfer to inventories	(33)	(41)
At 31 December	17,312	16,705

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. Current and best use is considered by the directors to represent highest and best use.

Methodology

IFRS13 requires the fair values to be categorised in a three level 'fair value hierarchy' based on the inputs used in the valuation.

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

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

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

The fair value of Land and Buildings above of £30,679,000 are all derived using Level 3 inputs and there have been no transfers between Levels during the period.

Valuation techniques

Brickwork properties have been fair valued using a cost approach, by assessing the rebuild cost provided by external professional valuers in 2011, 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.

Notes to Financial Statements (continued)

Year ended 31 December 2016

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Other property comprises land assets that may be treated as Investment properties at some point in the future. The Directors have reviewed the third party professional valuations conducted in 2011 updated them where they consider conditions have changed in the interim period.

	2016 £'000	2015 £'000
Fair value of Land and Buildings at 1 January	31,562	32,005
Transferred to inventories	(33)	(41)
Charged to the Income Statement in cost of sales	(317)	(132)
Expenditure on assets	640	1,338
Transferred to current assets	(2,542)	–
Net loss recognised in Other Comprehensive Income	–	(2,771)
Net gains recognised in Other Comprehensive Income	1,369	1,163
Fair value of Land and Buildings at 31 December	30,679	31,562

Sensitivity

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

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

12. SUBSIDIARIES

The following subsidiaries 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
Dunton Brothers Limited	England	Ordinary	100	Non trading property holding
Charnwood Forest Brick Limited	England	Ordinary	100	Non trading property holding
Michelmersh Brick and Tile Company Limited	England	Ordinary	100	Non trading property holding
Freshfield Lane Brickworks Limited	England	Ordinary	100	Non trading property holding
New Acres Limited	England	Ordinary	100	Non trading landfill operations

No entities have been excluded from the consolidated financial statements.

Notes to Financial Statements (continued)

Year ended 31 December 2016

13. INVENTORIES

	2016 £'000	2015 £'000
Raw materials	2,555	2,532
Work in progress	1,235	1,112
Finished goods	3,403	3,551
	7,193	7,195

The cost of inventories expensed during the year is £17,909,000 (2015: £17,929,000). The inventory cost disclosed above is used for security of previous borrowings as disclosed in note 16.

14. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2016 £'000	2015 £'000
Trade receivables	4,440	4,039
Prepayments and accrued income	612	269
	5,052	4,308

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

Included within trade receivables is £10,000 (2015: £82,000) 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.

	2016 £'000	2015 £'000
30 days overdue	4	82
30 – 60 days overdue	–	–
60 – 90 days overdue	6	–
	10	82

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 £4,720,000 as shown in the balance sheet, totalling £9,160,000.

During the year no provisions were made against any debtors (2015: nil).

Notes to Financial Statements (continued)

Year ended 31 December 2016

15. TRADE AND OTHER PAYABLES

	2016	2015
Amounts falling due within one year	£'000	£'000
Trade payables	2,137	1,155
Other taxation and social security	709	698
Other payables	149	3
Accruals	1,658	2,256
Pension	49	53
	4,702	4,165

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.

16. BORROWINGS

Interest rate risk of financial assets and liabilities

The Group has no borrowings at 31 December 2016 (2015: £nil) and has no hire purchase liabilities (2015: £nil). The Group's financial assets at 31 December 2016 and 31 December 2015 include cash at bank and in hand for which minimal interest is earned.

Borrowing facilities

The Group has undrawn committed borrowing facilities at 31 December 2016 of £4,500,000 (2015: £4,500,000). The facilities are committed until 2018.

The Group currently operates with positive cash reserves. The Group has a £4 million committed Revolving Credit Facility and a £500,000 overdraft facility with Barclays. 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, and a fixed charge on one property, dated 23 March 2006 in favour of Barclays Bank Plc.

17. 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.

Notes to Financial Statements (continued)

Year ended 31 December 2016

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (continued)

Market risk

Cash flow and fair value interest rate risk

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

Liquidity risk

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

Capital management

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

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

Fair value estimation

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

18. 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 £340,000 (2015: £328,000). Amounts unpaid at the year end in respect of contributions amounted to £31,000 (2015: £33,000).

19. DEFERRED TAXATION

Deferred tax at 31 December 2016 relates to the following:

	Losses £'000	Property plant and equipment £'000	Other items £'000	Total £'000
Cost				
As at 1 January 2015	(139)	4,684	48	4,593
Recognised in income	17	131	(23)	125
Recognised in other comprehensive income	–	(804)	–	(804)
As at 31 December 2015	(122)	4,011	25	3,914
Recognised in income	9	183	(5)	187
Recognised in other comprehensive income	–	(49)	–	(49)
As at 31 December 2016	(113)	4,145	20	4,052

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 (2015: £90,000) in respect of unrelieved tax losses.

Notes to Financial Statements (continued)

Year ended 31 December 2016

20. 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:

	2016 £'000	2015 £'000
Within one year	601	590
Between two and five years	1,114	517
	1,715	1,107

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

21. SHARE CAPITAL

Authorised share capital	2016 Number	2016 £'000	2015 Number	2015 £'000
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000
Allotted, called up and fully paid:	2016 Number	2016 £'000	2015 Number	2015 £'000
Ordinary shares of 20p each	81,471,178	16,294	81,234,656	16,247

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

22. SHARE BASED PAYMENTS

Share option reserve	£'000
As at 1 January 2016	177
Released on maturity	(70)
Charge for the year	212
As at 31 December 2016	319

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

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

The options granted in the year were made under the “Long Term Incentive Plan” and are subject to performance conditions. The conditions relate to EPS targets in respect of the first grant (see Directors Remuneration Report on page 11) and the second grant to senior management relate to profitability of the brick business.

Notes to Financial Statements (continued)

Year ended 31 December 2016

22. SHARE BASED PAYMENTS (continued)

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No. of options as at 31 December 2015	Options exercised in the year	Options lapsed/ forfeited in the year	No. of options as at 31 December 2016
2011	19p	November 2011 – December 2016	238,416	(238,416)	–	–
2015	66.2p	August 2015 – August 2018	382,609	–	(27,190)	355,419
2015	66.2p	August 2015 – August 2020	39,877	–	–	39,877

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £212,000 (2015: £129,000).

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

Weighted average share price	£0.821
Expected volatility	30%
Expected dividend yield	1.8%
Risk free rate	5%

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

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

	2016		2015	
	No	Weighted average exercise price	No	Weighted average exercise price
Outstanding as at 1 January	1,873,926	24.3p	440,179	57.0p
Exercised	(238,416)	19p	–	–
Lapsed and forfeited	(27,190)	66.2p	(34,506)	31.6p
Granted	–	–	1,468,253	19.5p
Outstanding as at 31 December	1,608,320	24.4p	1,873,926	24.3p

The weighted average contractual life for the share options outstanding at 31 December 2016 is 7 years (2015: 7 years).

Notes to Financial Statements (continued)

Year ended 31 December 2016

23. EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

Share option reserve

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

Share premium account

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

Merger reserve

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

Revaluation reserve

The revaluation reserve relates to revaluation of property as disclosed in note 11.

24. EARNINGS PER SHARE

Earnings	2016 £'000	2015 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity shareholders from continuing operations	3,559	3,606
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	81,259,280	81,234,656
Number of dilutive shares under option	379,105	389,741
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	81,638,385	81,624,397

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.

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Michelmersh Brick Holdings Plc
Parent Company Financial Statements
Year ended 31 December 2016

Independent Auditors' Report

to the Members of Michelmersh Brick Holdings Plc

We have audited the parent company financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2016 which comprise the Company Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity, the Accounting Policies and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

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.

Other matter

We have reported separately on the group financial statements of Michelmersh Brick Holdings Plc for the year ended 31 December 2016.

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

Portwall Place
Portwall Lane
Bristol
BS1 6NA

20 March 2017

Company Balance Sheet

as at 31 December 2016

	notes	2016 £'000	2015 £'000
Fixed assets			
Investment properties	1	30,831	29,312
Investments	2	10,245	10,245
Intangible assets	3	142	146
Total fixed assets		41,218	39,703
Current assets			
Cash at bank and in hand		3,221	2,850
Debtors – amounts falling due within one year	4	15,489	18,549
Total current assets		18,710	21,399
Creditors: Amounts falling due within one year	5	(267)	(535)
Net current assets		18,443	20,864
Creditors: Amounts falling due after more than one year			
Provisions for liabilities			
Deferred taxation	6	(3,371)	(3,469)
Net assets		56,290	57,098
Capital and Reserves			
Share capital	11	16,294	16,247
Share premium account	12	11,495	11,495
Merger reserve	12	979	979
Revaluation reserve	12	22,425	22,425
Share option reserve	12	319	177
Profit and loss account	12	4,778	5,775
Equity shareholders' funds		56,290	57,098

No profit and loss account or statement of comprehensive income is presented for the Company as permitted by section 408 of the Companies Act 2006. The loss after tax for the Company was £815,000 (2015: profit £21,907,000).

These financial statements were approved by the Directors and authorised for issue on 20 March 2017 and are signed on their behalf by

Director

The accounting policies and notes on pages 46 to 53 form part of these financial statements

Statement of Cash Flows

for the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
(Loss)/profit before taxation	(769)	21,854
Dividends paid in specie	–	(23,078)
Finance (income)/costs	(16)	153
Market value adjustment of Intangible assets	4	(3)
Share based payment charge	212	129
Cash flows from operations before changes in working capital	(569)	(945)
Decrease in receivables	2,315	5,523
(Decrease)/increase in payables	(267)	168
Net cash generated by operations	1,479	4,746
Taxation paid	–	(8)
Interest received/(paid)	16	(153)
Net cash generated by/(used in) operating activities	1,495	4,585
Cash flows from investing activities		
Expenditure on investment properties	(392)	–
Transfer on mineral paid in specie	33	–
Proceeds of sale of land	–	1,500
Net cash used in investing activities	(359)	1,500
Cash flows from financing activities		
Repayment of interest bearing borrowings	–	(5,000)
Proceeds of issue of shares	47	–
Dividend paid	(812)	(406)
Net cash used in financing activities	(765)	(5,406)
Net increase in cash and cash equivalents	371	679
Cash and cash equivalents at the beginning of the year	2,850	2,171
Cash and cash equivalents at the end of the year	3,221	2,850
Cash and cash equivalents comprise:		
Cash at bank and in hand	3,221	2,850
Bank overdraft	–	–
	3,221	2,850

The accounting policies and notes on pages 46 to 53 form part of these financial statements

Statement of Changes in Equity

for the year ended 31 December 2016

	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
At 1 January 2015	16,247	48	11,495	979	4,618	1,733	35,120
Profit for the year	–	–	–	–	–	21,907	21,907
Transfer of unrealised profits on revaluation reserve	–	–	–	–	17,464	(17,464)	–
Revaluation gain	–	–	–	–	348	–	348
Share based payment	–	129	–	–	–	–	129
Dividend paid	–	–	–	–	–	(406)	(406)
Transfer to profit and loss account	–	–	–	–	(5)	5	–
At 31 December 2015	16,247	177	11,495	979	22,425	5,775	57,098
Loss for the year	–	–	–	–	–	(815)	(815)
Shares issued during the year	47	–	–	–	–	–	47
Revaluation surplus	–	–	–	–	–	325	325
Deferred taxation on revaluation	–	–	–	–	–	235	235
Share based payment	–	212	–	–	–	–	212
Transfer to retained earnings	–	(70)	–	–	–	70	–
Dividend paid	–	–	–	–	–	(812)	(812)
At 31 December 2016	16,294	319	11,495	979	22,425	4,778	56,290

The accounting policies and notes on pages 46 to 53 form part of these financial statements

Accounting Policies

Year ended 31 December 2016

Basis of preparation

Michelmersh Brick Holdings Plc is a public limited company limited by shares incorporated in the United Kingdom. The registered office for Michelmersh Brick Holdings Plc and all of subsidiaries 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.

Accounting Policies (continued)

Year ended 31 December 2016

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

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

Pension costs

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

Carbon emissions allowances

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

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

Dividends

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

Notes to Company Financial Statements

For the year ended 31 December 2016

1. INVESTMENT PROPERTIES

	£'000
Cost or valuation	
As at 1 January 2015	12,593
Additions	285
Transfers	16,434
As at 31 December 2015	29,312
Additions	392
Revaluation surplus	8
Transfer	1,119
At 31 December 2016	30,831
Amortisation	
As at 1 January 2015	1,199
Transfers	(1,199)
As at 31 December 2015	–
Charged	–
At 31 December 2016	–
Net book value	
At 31 December 2016	30,831
At 31 December 2015	29,312

Revaluation of fixed assets

The Company's investment property was valued by the directors on 31 December 2016 at fair value.

The directors have valued the properties on a range of bases including depreciated replacement cost and market value basis consistent with the methodologies utilised by external valuers in 2011 and 2015 against individual properties.

The Company's freehold land and buildings were valued at £30,831,000 at 31 December 2016.

The transfer in the year relates to a Group property at Shepshed that was transferred from a property holding subsidiary at valuation. Associated deferred tax liabilities were also transferred and the revaluation surplus within the subsidiaries has been recognised as unrealised in the Holding Company accounts.

Notes to Company Financial Statements (continued)

For the year ended 31 December 2016

2. INVESTMENTS – UNLISTED

	2016 £'000	2015 £'000
Cost		
As at 31 December	10,245	10,245

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

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

3. INTANGIBLE ASSETS

	2016 £'000	2015 £'000
The intangible asset relates to carbon allowances		
Cost		
At 1 January	146	143
Revaluation	(4)	3
At 31 December	142	146

The carbon allowances are valued at current market rates.

4. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	15,010	18,374
Other debtors	47	2
Prepayments	432	173
	15,489	18,549

Notes to Company Financial Statements (continued)

For the year ended 31 December 2016

5. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Accruals and deferred income	267	535
	267	535

6. PROVISIONS FOR LIABILITIES

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

	2016 £'000	2015 £'000
At 1 January	3,469	1,186
Relating to transfer of land and buildings from Group Companies	90	2,409
Prior year adjustment	31	(6)
Decrease in provision	(219)	(120)
At 31 December	3,371	3,469

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. See note 9 in the Group financial statements for factors affecting future tax charge.

7. DIVIDEND

On 30 June 2016, a dividend was paid of 1.0 pence per share, amounting in total to £812,000.

The Board has proposed a dividend of 2.0 pence per share payable on 30 June 2017 to shareholders on the register on 2 June 2017. The dividend will amount to a total payment of £1,629,000.

8. RELATED PARTY TRANSACTIONS

The Company is the holding company of Group companies as disclosed in Note 2. During the year, the following transactions occurred.

Management charges were made in respect of recharged expenses and shared services.

The Company acquired properties from Group Companies at Directors' valuation with the transfer value being settled by crediting to inter company balances. Associated deferred tax liabilities were transferred simultaneously.

	Michelmersh Brick UK Limited £'000	Charnwood Forest Brick Limited £'000	New Acres Limited £'000	Freshfield Lane Brickworks Limited £'000	Dunton Brothers Limited £'000	Total £'000
Management charges	1,850	–	–	–	–	1,850
Transfer of investment Properties	–	–	–	–	(1,152)	(1,152)
Associated deferred tax	–	–	–	–	90	90
Inter company debtor/(creditor) at 31 December 2016	13,166	–	116	(63)	1,791	15,010

Notes to Company Financial Statements (continued)

For the year ended 31 December 2016

9. CONTINGENCIES

The bank holds a cross guarantee between the Company and its subsidiaries dated 30 December 2006. At the end of the year total Group bank borrowings were £nil (2015: £nil).

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Group disclosures on page 35 of the Group accounts are appropriate to the Company.

The Company has no borrowings at 31 December 2016.

11. SHARE CAPITAL

	2016 Number	2016 £'000	2015 Number	2015 £'000
Authorised share capital				
Ordinary shares of 20p each	110,000,000	22,000	110,000,000	22,000
Allotted, called up and fully paid:				
Ordinary shares of 20p each	81,471,178	16,294	81,234,656	16,247

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

12. RESERVES

Share option reserve

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

Share premium account

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

Merger reserve

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

Revaluation reserve

The revaluation reserve relates to revaluation of property as disclosed in note 11 to the group financial statements.

13. SHARE BASED PAYMENTS

	£'000
Share option reserve	
As at 1 January 2016	177
Released on maturity	(70)
Charge for the year	212
As at 31 December 2016	319

Notes to Company Financial Statements (continued)

For the year ended 31 December 2016

13. SHARE BASED PAYMENTS (continued)

a) Michelmersh Brick Holdings Plc Group share option schemes

Year of Grant	Exercise price per share	Period of exercise	No. of options as at 31 December 2015	Options granted	No. of options as at 31 December 2016
2014	72.75p	July 2017 – July 2024	164,000	–	164,000
2015	nil	May 2020 – June 2025	1,000,000	–	1,000,000
2015	nil	December 2018 – December 2025	36,524	–	36,524

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.

b) Michelmersh Brick Holdings Plc SAYE scheme

Year of Grant	Exercise price per share	Vesting period	No of options as at 31 December 2015	No. of options granted in the year 31 December 2015	Options forfeited in the year	No. of options as at 31 December 2016
2011	19p	November 2011 – December 2016	72,630	(72,630)	–	–
2015	66.2p	August 2015 – August 2018	92,895	–	–	92,895
2015	66.2p	August 2015 – August 2020	27,189	–	–	27,189

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

Options were valued using the principles of the Black Scholes Model. This valuation is amortised to the income statement over the vesting period. The charge for the year amounted to £221,000 (2015: £129,000).

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

Weighted average share price	£0.821
Expected volatility	30%
expected dividend yield	1.8%
Risk free rate	5%

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

Notes to Company Financial Statements (continued)

For the year ended 31 December 2016

13. SHARE BASED PAYMENTS (continued)

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

	2016		2015	
	No	Weighted average exercise price	No	Weighted average exercise price
Outstanding as at 1 January	1,393,238	56.3p	236,630	56.3p
Exercised	(72,630)	19.0p	–	–
Lapsed and forfeited	–	–	(1,631)	66.2p
Granted	–	–	1,158,239	6.8p
Outstanding as at 31 December	1,320,608	15.0p	1,393,238	6.4p

The weighted average contractual life for the share options outstanding at 31 December 2016 is 8 years (2015: 8 years).

14. PARTICULARS OF EMPLOYEES

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

	2016	2015
Manufacture and supply of bricks	6	4
Administration	13	13
	19	17

	2016 £'000	2015 £'000
Wages and salaries	1,294	1,185
Social security costs	144	147
Other pension costs	40	33
	1,478	1,365

Michelmersh Brick Holdings Plc

Notice of Annual General Meeting

This year's annual general meeting will be held at 10.30 a.m. on 10 May 2017 at 6 New Street Square, London EC4A 3BF. You will be asked to consider and pass the resolutions below. Resolutions 6, 7 and 8 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary Business

- 1 To receive the Company's Accounts and Reports of the directors and the auditors for the financial year ended 31 December 2016.
- 2 To reappoint Stephen Morgan who retires by rotation and who, being eligible, offers himself for reappointment as a director.
- 3 To reappoint Peter Sharp who retires by rotation and who, being eligible, offers himself for reappointment as a director.
- 4 To approve the payment of a dividend of 2.0 pence per Ordinary Share on 30 June 2017 to members on the register on 2 June 2017.
- 5 To appoint Nexia Smith & Williamson Audit Limited as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company and to authorise the directors to fix their remuneration.

Special Business

- 6 That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**2006 Act**") to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the 2006 Act) of £5,431,411.
- 7 That, subject to the passing of resolution 6, the directors of the Company be and they are hereby empowered pursuant to sections 570 of the Companies Act 2006 (the "**2006 Act**") to allot equity securities (as defined in section 560 of the 2006 Act) of the Company for cash pursuant to the authority conferred by resolution 6 as if section 561 of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash:
 - (a) in connection with or pursuant to an offer or invitation in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may deem necessary or appropriate to deal with fractional entitlements, treasury shares, record dates, or legal, regulatory or practical problems which may arise under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever; and
 - (b) in the case of the authority granted under resolution 6, and otherwise than pursuant to paragraph (a) of this resolution, for cash up to an aggregate nominal amount of £814,711 being 5% of the Company's issued ordinary share capital as at the date of this Notice.

This power shall expire at the conclusion of the next Annual General Meeting, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry.

- 8 That the Company be generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (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:

Notice of Annual General Meeting

(continued)

- (a) the maximum aggregate number of ordinary shares authorised to be purchased is 8,147,117 (representing 10 per cent. of the Company's issued ordinary share capital);
- (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share shall be the nominal value;
- (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share shall not be more than 5 per cent. above the average of the middle market quotations for an ordinary share, as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;
- (d) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Company's next Annual General Meeting; and
- (e) the Company may make a contract or contracts to purchase ordinary shares under this authority prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

20 March 2017

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 AGM, and will also be available for inspection at the place of the AGM from 15 minutes before it is held until its conclusion.

Notice of Annual General Meeting

(continued)

PART III

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on this page give an explanation of the proposed resolutions.

Resolutions 1 to 5 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 6 to 8 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolutions 2 and 3: Reappointment of directors

In accordance with the Company's Articles of Association any Director newly appointed by the Board is required to retire and submit himself for re-appointment at the first Annual General Meeting following his appointment. In addition at every Annual General Meeting a certain number of Directors must retire by rotation.

Resolution 6: Authority to allot shares

This resolution proposes that the Directors' authority to allot shares be renewed. The authority previously given to the Directors at the last AGM of the Company will expire at this year's AGM. Under the Companies Act 2006, the Directors of the Company may only allot shares or grant rights to subscribe for or convert into shares if authorised to do so.

Resolution 6 will allow the Directors to allot new shares or grant rights up to an aggregate nominal value of £5,431,411, which is equal to approximately one third of the total issued ordinary share capital of the Company as at the date of this Notice.

If passed the authority given by this resolution will expire at the conclusion of the Company's next Annual General Meeting. The Directors have no present intention to allot new shares or grant rights, however, the Directors may consider doing so if they believe it would be appropriate in respect of business opportunities that may arise consistent with the Company's strategic objectives.

Resolution 7: Disapplication of pre-emption rights

Under the Companies Act 2006, if the Directors wish to allot shares for cash (other than in connection with an employee share scheme) they must first offer them to existing shareholders in proportion to their holdings ("a pre-emption offer"). There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emption offer to existing shareholders.

This resolution seeks to renew the directors' power to allot equity securities in certain limited circumstances otherwise than to in relation to pre-emption offers. The power granted at the last AGM is due to expire at this year's AGM. Apart from pre-emption offers, the power is limited to the allotment of equity securities for cash up to an aggregate nominal value of £814,711 (being 5% of the issued ordinary share capital as at the date of this Notice. If given, this power will expire at the conclusion of the 2018 AGM.

The Board does not intend to issue more than 7.5% of the issued share capital of the Company on a non pre-emptive basis in any rolling three-year period. This is in line with corporate governance guidelines.

Resolution 8: Authority to purchase Company shares

This resolution renews the Company's general authority to repurchase up to 8,147,117 of its own shares in the market (being 10% of the Company's issued share capital as at the date of this notice), at or between the maximum and minimum prices specified in the resolution giving the authority.

Current legislation allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Directors may use the authority to purchase shares and hold them in treasury (and subsequently sell or transfer them out of treasury as permitted in accordance with legislation) rather than cancel them, subject to institutional guidelines applicable at the time. Shares will only be purchased if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally.



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Britain's Brick Specialists