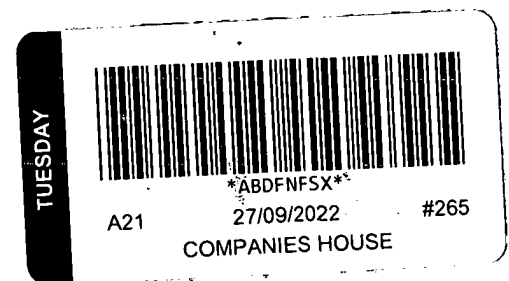


Company number: 09911886



Legal & General Homes Modular Limited
Annual Report and Financial Statements
For the year ended 31 December 2021



Legal & General Homes Modular Limited Contents

Page

3	Strategic Report
10	Directors' Report and Statement of Directors' responsibilities
13	Independent Auditor's Report to the members of Legal & General Homes Modular Limited
17	Income Statement for the year ended 31 December 2021
18	Statement of Financial Position as at 31 December 2021
19	Statement of Changes in Equity for the year ended 31 December 2021
20	Notes to the Financial Statements

Registered Office:
One Coleman Street
London
EC2R 5AA

Registered in England & Wales No. 09911886

Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

The Directors present their Strategic Report for Legal & General Homes Modular Limited (the “Company”) for the year ended 31 December 2021.

Principal activities

The Company is registered in England and Wales under company registration number 09911886 and is domiciled in the UK. Our ultimate controlling party is Legal & General Group Plc (the “Group”). The Company's registered office is at One Coleman Street, London, EC2R 5AA.

The Company produces high quality modular homes, using a volumetric approach, from our 550,000 square foot manufacturing facility near Leeds. We have adopted design, manufacturing and assembly techniques from the construction, aerospace and automotive industries to deliver these homes. Our modular approach can almost halve build time, and create new, sustainable capacity in the housing market.

Quality is at the heart of everything we do, from design and manufacturing to construction and aftercare.

Our strategy

The Company's principal strategic objective is to be a leader in supplying sustainable, high quality, affordable modular housing.

Our determination to produce modular homes at speed and scale is matched by our commitment to deliver thriving communities for our customers to live in.

Our customers

We buy and develop land, or partner with local authorities, councils and housing associations, building long-term relationships to make the housing market fairer for all.

Our homes are comfortable to live in, energy efficient and affordable. The repeatability and precision of our design, manufacturing and construction techniques helps us lead the way in setting a new standard for the housebuilding industry.

Review of the business

The Company achieved a significant milestone in 2021, recognising revenue for the first time in respect of development sites in Broadstairs, Kent, Selby, North Yorkshire and North Horsham, West Sussex. The Company also continued to make significant progress adding further projects to an already strong sales pipeline, making further enhancements to our production lines, developing partnerships with key suppliers and driving further product development of our EPC-A rated dwellings.

The Company's production activities continued uninterrupted during 2021, using the “Covid secure” measures first introduced in April 2020. Covid measures were kept under review throughout 2021 and adapted as necessary to reflect changes in government guidance.

The main impact the Company has felt from Covid-19 is the effect it has had on supply chains and prices of key raw materials. Prices of timber and steel jumped significantly during 2021, putting significant pressure on the cost of producing homes. Product cost reduction initiatives, already underway, together with strong growth in property sales prices during the year helped to mitigate the impact of the cost hikes.

Interest from existing and potential customers remains strong and the Directors believe that the Company is well placed to adapt to any changes in market conditions. During the year, the Company entered contracts with two major Housing Associations for the development of over 180 homes.

The Company recognised a loss after tax for the year of £29,000,475 (2020: £25,387,990) and held net assets of £40,865,837 at 31 December 2021 (2020: £35,066,312).

Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

Principal risks and uncertainties

The principal operating risks currently affecting the Company, along with key mitigation measures for each, are described as follows:

Risk	Mitigation	Change since 2020
Health and safety Injury or death caused by unsafe practices operated in our factory and offices or on our sites.	<p>We have a comprehensive health, safety and environmental management system in place which is accredited and audited annually to ISO45001. We have a positive and active safety culture throughout the Company and proactively adapt our work practices to eliminate safety risks as they are identified.</p> <p>Thorough training is given to all employees and all contractors must also comply with our policies and procedures.</p> <p>Comprehensive measures have been put in place to make the Company workplaces Covid-secure.</p>	<p>Risk stable</p> <p>Health and safety procedures are continuously being improved and expanded to keep pace with the ramp up in our activities and to address additional risks as they are identified.</p>
Sales pipeline Interruption of production flow due to failure to secure pipeline.	<p>We are establishing strategic, long-term relationships with key customers, thereby building a more secure future pipeline.</p> <p>We also acquire land for development. The pace of development of our own sites can be controlled to smooth the demand for modules from other projects.</p> <p>A regular sales and operating review process is in place to examine and align demand and supply plans.</p>	<p>Risk reducing</p> <p>The Company is now in contract with Housing Associations in respect of the development of homes on several sites.</p> <p>The sales pipeline has continued to strengthen further during the year.</p>
Product cost Reduced long term profitability caused by product cost targets not being met.	<p>Formal cost reduction programs run through our product development lifecycle to ensure that current and forecast product costs are understood and managed.</p> <p>We have strengthened our procurement team and are continuing to develop our procurement strategies.</p>	<p>Risk increasing</p> <p>Supply chain constraints caused by Covid-19 led to significant inflation in raw material prices during 2021, counteracting good progress that had been made through implementation of cost reduction plans.</p>
Product regulatory approval Modifications could be needed to our homes if they fail to achieve regulatory standards.	<p>Our product development programmes include design review gateways at several points throughout the process. One of the purposes of these reviews is to ensure that regulatory requirements are being met.</p> <p>We maintain detailed technical records to demonstrate compliance with regulations and we engage with the relevant regulatory bodies throughout the design process to gather their feedback and approval.</p>	<p>Risk stable</p> <p>Compliance with regulatory requirements continues to be closely monitored throughout the design, production and construction process. Our products designs are already well placed to meet and exceed new building regulations that are due to come into force.</p>

Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

Financial key performance indicators

Given the nature of the business and the stage that it is at in its development, the Directors are of the opinion that an analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Section 172(1) Statement & Stakeholder engagement

The Board of the Company consider that they have adhered to the requirements of section 172 of the Companies Act 2006 and have, in good faith, acted in a way that they consider would be most likely to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, have had regard to and recognised the importance of considering all stakeholders and other matters (as set out in s.172(1)(a-f) of the Companies Act 2006) in its decision-making.

As part of the wider Legal & General Group (the “Group”), taking into account the relative size and complexity of the Company and centralised nature of the Group, the Board may consider it reasonable for decision making to be handled by the Group Board. In such cases, this will be articulated in the statement and reference provided to the appropriate section of the Group’s Annual Report & Accounts.

The reporting legislation around stakeholder engagement is welcomed by the Board and the commentary and table below sets out our s.172(1) statement. This statement provides details of key stakeholder engagement undertaken by the Board during the year and how this helps the Board to factor potential impacts on stakeholders in the decision-making process. Additional details of the Group’s key stakeholders and why they are important to us are set out on pages 68-72 in the Group’s Annual Report & Accounts, which can be found here www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

General

The Group promotes the highest standards of governance and ensures that these standards cascade throughout the Group and its subsidiaries. Guiding principles are in place for the relationship between the Group Board and the Boards of the Group’s principal subsidiaries. This framework promotes full and effective interaction across all levels of the Group to support the delivery of strategy and business objectives within a framework of best corporate governance practice. A full description of the Group’s governance arrangements can be found in the Group Annual Report & Accounts, which can be found here www.legalandgeneralgroup.com/investors/results-reports-and-presentations.

Corporate governance underpins how we conduct ourselves as a Board, our culture, values, behaviours and how we do business. As a Board we are conscious of the impact that our business and decisions have on our direct stakeholders as well as our wider societal impact.

As part of the director induction process, Directors are briefed on their duties, including their duty under s.172 of the Companies Act 2006. The Directors are entitled to request from the Company all such information they may reasonably require in order to be able to perform their duties as Directors, including professional advice from either the Company Secretary or from an independent advisor at the Company’s expense. On-going training is provided to the Directors, as required, to ensure that their knowledge remains up to date and they continue to be able to discharge their duties as Directors.

Legal & General Homes Modular Limited

Strategic Report for the year ended 31 December 2021

In 2019 we implemented a new standard practice across the Group which requires all Group and subsidiary Board papers to demonstrate that stakeholders have been considered. Details of this have been included in the cover sheet for each Group and subsidiary Board papers throughout the year where relevant. For each transaction approved by the Board, including but not limited to material acquisitions and strategic expansion, discussion takes place around employee impact and impact on other stakeholders, such as customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making. Additionally, the Group or subsidiary Company Secretary is on hand to provide support to the Board in ensuring that sufficient consideration and time is given to stakeholder issues during these discussions.

Principal decisions

For the year ending 31 December 2021, the Board consider that the following are examples of principal decisions that were made in the period:

- **Approval of annual budget and business plans** – the Company's five-year plan and detailed budget for 2021 were approved
- **Approval of the 2020 annual financial statements** – the financial statements were approved in June 2021.
- **Issue of share capital** – the issue of three new ordinary shares to the parent company for consideration of £34,800,000 was approved
- **Land acquisition and project approvals** – proposals for new housing development projects were presented to the Board, throughout the year, for approval to proceed to bid/offer stage.
- **Asset impairments** – an annual asset impairment review was conducted, and the decision taken to impair the value of assets that were no longer in use or beyond economic repair.

The table below sets out our key stakeholders and how we have engaged with them in the period, as well as demonstrating stakeholder consideration in the decision-making process.

Stakeholders and their importance to us	The Board's approach to stakeholder engagement	Stakeholder consideration in the Board's decision making
Shareholders Our shareholders are vital to the future success of our business, providing funds which aid business growth and the generation of sustainable returns.	Our ultimate shareholder is the Group, whose shareholders are institutional and individual investors who own Legal & General shares or bonds. Performance metrics and updates are provided by the Board to our parent company, with subsidiary performance cascaded up the Group.	As a Board, we aim to provide clear information to our parent company and ultimate shareholders, being honest and transparent as to the performance of the business. Long-term value is generated for shareholders by achieving the business plan, which will ultimately see the business achieve profitability and therefore generate returns for the Group.

Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

<p>Customers</p> <p>Listening to our customers helps us to better understand their needs and provide suitable and reliable products and services.</p>	<p>Our Business Development team are dedicated to making sure we understand what our current and prospective customers and strategic business partners are looking to achieve from their developments. This information is fed back to our in-house design and development teams so that we can create schemes that satisfy our customers' needs.</p> <p>For example, our homes have been designed to achieve an EPC A rating.</p>	<p>When deciding what types of dwellings our product development programmes should focus on next, the Board pays close attention to the feedback received from our prospective customers. This ensures we have the right product offering to enable us to create thriving communities.</p>
<p>Workforce</p> <p>Engaging with our people enables us to create an inclusive company culture and a positive working environment.</p>	<p>In 2019 the Group moved from a traditional annual employee survey to a 'Voice Survey' of more frequent digital listening, giving real-time employee feedback and allowing us to create a better dialogue with the workforce. This regular engagement was particularly important during the Covid-19 pandemic to ensure we were able to meet our employees needs and that they were able to work effectively in a remote environment. The surveys also provided insight into our employees' wellbeing and cultural changes.</p> <p>Following these surveys, action plans at Group, divisional and local level are put into place. At Group level there is a Designated Workforce Director on the Board.</p> <p>These methods of engagement coupled with regular local briefing on strategy and performance ensure that we continue to foster an inclusive and supportive working environment for our employees, thus ensuring the sustainability of the Company in the long term.</p>	<p>We have maintained all Legal & General employees' jobs at full pay without relying on the UK Government's Job Retention Scheme.</p> <p>Our robust, well-embedded Covid secure on-site and remote working solutions have helped keep employees engaged and efficient during the pandemic.</p> <p>The Board, uses the results of the employee survey and other feedback to help inform decisions on a wide range of issues including training and development, communications and continuous improvement plans.</p>
<p>Suppliers</p> <p>Interaction with our suppliers and treating our suppliers fairly allows us to drive high standards and reduce risk in our supply chain whilst also benefitting from cost efficiencies and generating a positive impact for the wider society.</p>	<p>We hold regular meetings with our key suppliers ensuring risks are proactively managed and they are up to date on latest developments and best practice. We strive to work with like-minded businesses, requiring suppliers to comply with our Supplier Code of Conduct. This safeguards the relationship and establishes standards that ensure suppliers operate ethically, are environmentally responsible and that their workers are treated with respect and dignity.</p>	<p>The Board received updates regarding any supplier performance issues during the Covid pandemic, including the work undertaken with suppliers to mitigate any risks.</p>

Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

<p>Community/wider society</p> <p>Contributing positively to wider society enables us to create stronger communities and have a positive environmental impact.</p>	<p>The Group's purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities. The Group's approach to inclusive capitalism takes our belief in responsible behaviour and extends it into investing in communities and cities to change people's lives for the better.</p> <p>The Group's full Corporate Responsibility Report can be found here: www.legalandgeneralgroup.com/csr</p> <p>The Company is leading the industry, pioneering the development of thriving new communities made from sustainable, high quality, affordable modular homes.</p>	<p>The Group uses its own capital and its policyholders' assets to make long term investments in real assets. This allows us to create value for shareholders, provide stability for pension customers and benefit communities right across the UK.</p> <p>The Group has a Group Corporate Responsibility & Ethics (GCRE") Committee which has responsibility and oversight of such matters. The Group Board approve the GCRE Policy on an annual basis and this is implemented across the Group.</p> <p>The Group has supported research and testing by accelerating components of our £20m partnership with Edinburgh University's research into elderly care and being one of the UK's largest COVID-19 testing sites through its investment in Bruntwood SciTech Alderley Park.</p> <p>Additionally, the Group is looking to address the needs of local communities in respect of COVID-19; this includes establishing a £500,000 Community Fund and the Group is stepping up support for relevant Corporate Social Responsibility projects which particularly address the impact of the pandemic on the older population and those using social care.</p>
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Legal & General Homes Modular Limited
Strategic Report for the year ended 31 December 2021

Further information on how the Group Board have engaged with stakeholders can be found in the Group s.172(1) Statement, which can be found here:

www.legalandgeneralgroup.com/investors/results-reports-and-presentations

By Order of the Board

Andrew Fairhurst

Andrew Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
05 August 2022

Legal & General Homes Modular Limited
Directors' Report for the year ended 31 December 2021

The Directors present their Annual Report together with the audited financial statements of the Company for the year ended 31 December 2021.

Directors

The Directors of the Company, who served during the year and up to the date of signing the financial statements, together with their dates of appointment and resignation, where appropriate, are shown below:

R. Toogood
K.W. Procter (resigned 24 June 2021)
W. Hughes
S. N. Price (resigned 4 May 2021)
J Fitzpatrick
L. Gillett (appointed 4 May 2021)

Directors' insurance

The Group maintains an appropriate level of Directors' and Officers' liability insurance which is reviewed annually.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The ultimate parent company, the Group, maintains an appropriate level of directors' and officers' liability insurance which is reviewed annually.

Future developments

Future developments of relevance to the Company can be found within the Review of the Business section of the Strategic Report.

Result for the year and dividend

The Company recognised a loss after tax for the year of £29,000,475 (2020: £25,387,990). The Directors do not recommend the payment of a dividend, (2020: £Nil).

Share capital

During the year, the Company received £34,800,000 (2020: £37,000,000) from its immediate parent company, Legal & General Homes Holdings Limited, to allow it to execute its strategy in exchange for 4 £1 ordinary shares (2020: 3 £1 ordinary shares).

Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate. When making their assessment the Directors have referred to cash flow forecasts, which have been updated to reflect the likely impacts of the Covid-19 pandemic and have confirmed the continued financial support of Legal & General Capital Investments Limited ('LGCIL'), a wholly owned subsidiary of the Group. The Directors have received confirmation that LGCIL intends to support the Company for at least 12 months from the date of signing the financial statements.

Financial Instruments

Legal & General companies use financial instruments to manage certain financial risks. The Company's exposure to financial risk through its financial assets and liabilities is not considered material to the assessment of the Company's assets, liabilities, financial position and the profit and loss of the Company.

Legal & General Homes Modular Limited
Directors' Report for the year ended 31 December 2021

Financial Risks

Overall responsibility for the management of financial risks is invested in the Board. In particular, the Company has a funding risk, which is mitigated by the support of LGCIL for a period of at least 12 months from the date of these accounts. The Company has also used a number of forward contracts to mitigate the exchange rate risk incurred in sourcing structural materials from overseas suppliers. The Company intends to cover non-sterling material requirements using forward contracts to mitigate exchange rate risks as the need arises.

Modern slavery

The Group and its global subsidiaries ("Legal & General") recognise that companies have an obligation to ensure that their business and supporting supply chains are slavery free.

Legal & General's full modern slavery statement can be found at <https://www.legalandgeneralgroup.com/>.

Branches

The Company operates within the UK and has no overseas branches (2020: none).

Employees

It is the Company's policy to treat its employees without discrimination and to operate equal opportunity and employment practices designed to achieve this end. Furthermore, it is the Company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue, wherever possible, the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Employees are remunerated with packages designed to align the interests of employees with those of shareholders, with an appropriate portion of total remuneration dependent on performance. Communication with all employees continues through newsletters and Company briefs.

Political contributions

The Company did not make any political contributions during the year (2020: none).

Legal & General Homes Modular Limited
Directors' Report for the year ended 31 December 2021

Statement of directors' responsibilities in respect of the Strategic report, the Directors report and the Financial statements

The Directors are responsible for preparing the Strategic Report, the Directors Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the auditor

Each of the Directors, who held office at the date the Directors' Report is approved, confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By Order of the Board

Andrew Fairhurst

Andrew Fairhurst
For and on behalf of Legal & General Co Sec Limited
Company Secretary
05 August 2022

**Independent auditor's report to the members of Legal & General Homes Modular Limited
for the year ended 31 December 2021**

Opinion

We have audited the financial statements of Legal & General Homes Modular Limited ("the Company") for the year ended 31 December 2021 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of Legal & General Homes Modular Limited for the year ended 31 December 2021

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as provision for impairment. On this audit we do not believe there is a fraud risk related to revenue recognition because the entity has not generated any revenue yet.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries based on risk criteria and comparing the identified entries to supporting documentation.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the nature of the activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

**Independent auditor's report to the members of Legal & General Homes Modular Limited
for the year ended 31 December 2021**

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Independent auditor's report to the members of Legal & General Homes Modular Limited
for the year ended 31 December 2021**

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Sarah Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Snow Hill Queensway, Birmingham, B4 6GH

11 August 2022

Legal & General Homes Modular Limited
Income Statement
For the year ended 31 December 2021

		Year Ended 31 December 2021	Year Ended 31 December 2020
	Note	£	£
Revenue	3	12,192,478	-
Cost of sales		<u>(15,240,303)</u>	<u>(2,641,382)</u>
Gross loss		(3,047,825)	(2,641,382)
Administrative expenses		(32,477,111)	(26,127,720)
Profit on disposal of fixed assets		17,056	4,766
Impairment of intangible and tangible fixed assets		<u>(215,816)</u>	<u>(330,288)</u>
Operating loss		(35,723,696)	(29,094,624)
Finance income	7	171	13,170
Finance costs	8	<u>(1,143,925)</u>	<u>(1,164,824)</u>
Loss before income tax	4	(36,867,450)	(30,246,278)
Income tax credit	9	7,866,975	4,858,288
Loss for the financial year		<u>(29,000,475)</u>	<u>(25,387,990)</u>

There were no gains or losses in the year other than those included in the above income statement and therefore a statement of comprehensive income has not been prepared.

The notes on pages 20 to 34 form an integral part of these financial statements.

Legal & General Homes Modular Limited
Statement of Financial Position
As at 31 December 2021

Company number: 09911886

		2021	2020
		£	£
	Note		
Assets			
Non-current assets			
Property, plant and equipment	10	36,425,008	33,187,813
Intangible assets	11	5,672,508	5,059,651
Deferred tax asset	12	<u>3,650,198</u>	<u>2,545,375</u>
Total non-current assets		45,747,714	40,792,839
Current assets			
Inventories	13	42,599,121	7,710,070
Trade and other receivables	14	12,625,749	9,188,685
Cash and cash equivalents		<u>14,956,543</u>	<u>7,990,229</u>
Total current assets		70,181,413	24,888,984
Total assets		115,929,127	65,681,823
Liabilities			
Current liabilities			
Trade and other payables	15	(39,542,774)	(7,235,212)
Lease liability	16	<u>(2,319,927)</u>	<u>(1,130,253)</u>
Total current liabilities		(41,862,701)	(8,365,465)
Non-current liabilities			
Bank loans	16	(9,192,203)	-
Lease liability	17	(22,262,289)	(20,575,293)
Provisions	18	<u>(1,746,097)</u>	<u>(1,674,753)</u>
Total liabilities		(75,063,290)	(30,615,511)
Net assets		40,865,837	35,066,312
Equity			
Called up share capital	20	120	116
Share premium	20	181,863,551	147,063,555
Accumulated losses		<u>(140,997,834)</u>	<u>(111,997,359)</u>
Total equity		40,865,837	35,066,312

The notes on pages 20 to 34 form an integral part of these financial statements.

The financial statements were authorised for issue by the Board of Directors on 04 May 2022 and were signed on its behalf by



Rosie Toogood
 Director

Legal & General Homes Modular Limited
Statement of Changes in Equity
As at 31 December 2021

	Note	Called up share capital £	Share premium £	Accumulated losses £	Total Equity £
As at 1 January 2020		113	110,063,558	(86,609,369)	23,454,302
Result for the financial year		-	-	(25,387,990)	(25,387,990)
Total comprehensive income for the year		-	-	(25,387,990)	(25,387,990)
Transactions with owners, recorded directly in equity					
Shares issued during the year	20	3	36,999,997	-	37,000,000
As at 31 December 2020		116	147,063,555	(111,997,359)	35,066,312
Result for the financial year		-	-	(29,000,475)	(29,000,475)
Total comprehensive income for the year		-	-	(29,000,475)	(29,000,475)
Transactions with owners, recorded directly in equity					
Shares issued during the year	20	4	34,799,996	-	34,800,000
As at 31 December 2021		120	181,863,551	(140,997,834)	40,865,837

The notes on pages 20 to 34 form an integral part of these financial statements.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

(a) Basis of Preparation

The financial statements of the Company have been prepared in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. The financial statements have been prepared under the historical cost convention as modified by derivative financial assets and financial liabilities measured at fair value through profit and loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise price of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Statements: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, 'Revenue from Contracts with Customers'.
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16, 'Leases'.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (a statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position)
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

(b) Going Concern

Notwithstanding, a loss for the year ended 31 December 2021 of £29,000,475, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through funding from its parent company, LGCIL, to meet its liabilities as they fall due for that period. Those forecasts are dependent on LGCIL providing additional financial support during that period.

After making enquiries, the Directors have received confirmation that LGCIL intends to support the Company for at least 12 months from the date of signing the financial statements. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. LGCIL is a wholly owned subsidiary of the Group and the Directors are therefore confident that LGCIL has the ability to provide the necessary financial support.

The Directors therefore have a reasonable expectation that the Company will have adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on the going concern basis.

(c) Foreign currency translation

(i) Functional and presentational currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other income'.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

(d) Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation and related impairment charges where these are required following operational reviews. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight-line basis. Immaterial items of capital expenditure are charged to the income statement as incurred.

Straight line annual rates of depreciation are used as follows:

Leasehold improvements	up to 10 years
Plant & machinery	up to 5 years
Show homes	up to 10 years
Computers and IT equipment	up to 4 years
Office equipment	up to 4 years
Right of use assets	over the term of the specific asset lease

(e) Intangible assets

(i) Development costs

Costs associated with the acquisition of the 'know how' associated with the modular process will be recognised as an intangible asset as they are incurred where such costs are directly associated with a commercially recognised market. Subject to annual impairment reviews, these costs will be amortised over their useful economic life of 10 years on a straight-line basis from the date that operating capabilities are established. However, should the impairment review indicate that the whole or any part of the intangible assets held no longer have an associated commercial market, any remaining asset value will be expensed.

Costs associated with the on-going operation of the business are recognised as an expense when incurred.

Development costs that are directly attributable to the commercialisation of the modular concept, finalising the design work to complete the initial factory and the documenting and testing of associated design and business processes are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the development, design and testing of the processes so that they will be available for use;
- management intends to complete the operation and use the processes to operate it;
- there is an ability to use the processes to build / sell the entity's products;
- it can be demonstrated how the processes will be used to generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the operation.

Directly attributable costs that are capitalised, include consultants and project management resources engaged to commercialise the modular concept by finalising the initial factory design, defining and testing the design and operational processes. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs recognised as assets are amortised over their estimated useful lives of 10 years on a straight-line basis from the date that operating capabilities are established.

Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(ii) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives of 4 years.

(f) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is based on a first in, first out basis. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based in the estimated selling price of each product less any further costs to be incurred prior to disposal.

Materials and module inventory are measured at standard cost. Standard costs are reviewed on a regular basis and revised accordingly to capture any significant movements.

Inventories are assessed for impairment. If inventory is impaired, the carrying value is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the profit and loss account.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

(g) Financial assets

On initial recognition, financial assets are measured at fair value. Subsequently, they can be measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification depends on two criteria:

- (i) the business model within which financial assets are managed; and
- (ii) their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' ("SPPI")).

Movements in the carrying amount are recognised in other comprehensive income except for the recognition of impairment gains or losses and interest revenue which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to income statement. Interest income from these financial assets is included in finance and similar income using the effective interest rate method. Impairment expenses are presented as separate line item in the income statement.

Financial assets which fail the SPPI test are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

The Company has no equity instruments.

Receivables are initially measured at fair value plus acquisition costs, and subsequently measured at amortised cost using the effective interest method.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(i) Current and deferred income tax

Current tax

Current tax comprises tax payable on current period profits, adjusted for non-tax deductible or non-taxable items, and any adjustments to tax payable in respect of previous periods. Current tax is recognised in the income statement unless it relates to items which are recognised directly to equity or other comprehensive income.

Deferred tax

Deferred tax is calculated on differences between the accounting value of assets and liabilities and their respective tax values. Deferred tax is also recognised in respect of unused tax losses to the extent it is probable that future taxable profits will arise against which the losses can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

Tax rates

Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year therefore remained at 19%. The future enacted tax rate of 25% has been used in the calculation of UK deferred tax assets and liabilities, as the rate of corporation tax that is expected to apply when those deferred tax balances reverse.

To calculate the current tax on profits, the rate of tax used is 19.0% (2020: 19.0%), which is the average rate of Corporation Tax applicable for the year.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

(j) Revenue recognition

Revenue is stated excluding recoverable Value Added Tax and represents the fair value of consideration received or receivable in respect of the sale of completed homes, land and work done under development contracts for customers.

(k) Leases

As a lessee, the Company recognises leases on the balance sheet as 'right-of-use' assets and lease liabilities. The right-of-use assets are either classified as property, plant and equipment or investment property.

The right-of-use assets' value is initially recognised as the calculated value of the lease liabilities with several additional adjustments, including initial direct costs. The right-of-use assets are subsequently accounted for in accordance with the cost model in IAS 16 – Property, Plant and Equipment. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The initial measurement of the lease liabilities is made up of the present value of lease payments to be made over the lease term, including fixed and variable lease payments and excluding lease incentive receivables. The Company policy is to use the incremental borrowing rates as a discount rate for calculating the lease liabilities. The lease liabilities are unwound over the term of the lease giving rise to an interest expense. Additionally, the liabilities are reduced when lease payments are made. The Company need to re-assess the valuation of lease liabilities and right-of-use assets if certain events occur that modify the original assumptions used to calculate the lease balances upon initial recognition.

2. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are considered to be those relating to the value in use of intangible and tangible fixed assets which have previously been acquired and capitalised and the net realisable value of inventories.

As required under accounting policies 1(d) and 1(e) above, the tangible and intangible assets have been reviewed against indicators of impairment. Where indications of impairment have been identified, the assets are assessed for impairment by comparing them against their recoverable value. The recoverable value is the higher of the fair value less cost to sell the asset and its value in use. Value in use is assessed using discounted cash flow calculations based on management forecasts. Where the recoverable amount is lower than the carrying value, the difference is written off as an impairment.

The value of inventory is reviewed to ensure that it is appropriately carried at the lower of cost and net realisable value. When conducting this review, management must make a judgement about the achievable sale price for the inventory. This judgement is based on current market conditions which may subsequently change favourably or adversely.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

3. Turnover

The turnover and pre-tax profit is all attributable to the Company's activities as a developer of residential dwellings and arises wholly in the UK.

4. Loss before income tax

The loss before income tax is stated after charging/(crediting):

	2021	2020
	£	£
Profit on disposal of property, plant and equipment	(17,056)	(4,766)
Impairment of intangible and tangible fixed assets	215,816	330,288
Impairment of stock	(155,511)	1,792,260
Short-term/low value lease charges	213,479	4,133
Audit fees payable to the Company's auditor	<u>43,750</u>	<u>30,000</u>

The loss on ordinary activities before taxation is stated after charging for wages and salaries. Staff are employed by Legal & General (Services Co) Limited and are recharged to the Company as they are incurred.

The above audit fee paid for by the Company includes £3,000 (year ended 31 December 2020: £3,000) relating to the audit of Legal & General Homes (Services Co) Limited. In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'other services' as this information is included in the consolidated financial statements of the Group.

5. Employees

The average monthly number of persons employed by the Company during the year was as follows:

	2021	2020
	No.	No.
Full time equivalent	<u>399</u>	<u>269</u>

All staff contracts of employment are with Legal & General Homes (Services Co) Limited but salaries are paid by the Company.

	2021	2020
	£	£
Wages and salaries	16,671,700	11,663,126
Social security costs	1,756,282	1,409,977
Other pension costs	<u>983,862</u>	<u>732,953</u>
Total staff costs	<u>19,411,844</u>	<u>13,806,056</u>

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

6. Directors' emoluments

The Company had four directors as at 31 December 2021 (2020: five).

During the year, two of the Directors were employed by Legal & General Homes (Services Co) Limited (2020: two). The fees and emoluments were paid by that company and have been recharged to the Company. Fees and emoluments for the other Directors who served during the year, represent that portion of the directors' emoluments that are estimated to relate to their services to the Company. Directors are not employees of the Company.

	2021 £	2020 £
Short-term employee benefits	777,900	522,953
Post-employment benefits	2,151	2,170
Share-based incentive awards	265,356	182,942
Other long-term benefits	1,536	2,812
	<u>1,046,943</u>	<u>710,877</u>

Emoluments relate to salaries, benefits, performance bonuses receivable and amounts receivable under long term incentive schemes. Retirement benefits are accruing to four directors who served during the year under the defined contribution scheme (2020: five).

Highest paid director:	2021 £	2020 £
Short-term employee benefits	498,156	289,567
Share-based incentive awards	212,504	137,153
	<u>710,660</u>	<u>426,720</u>

7. Finance Income

	2021 £	2020 £
Other interest	171	13,170
	<u>171</u>	<u>13,170</u>

8. Finance Costs

	2021 £	2020 £
Interest charge on leases	1,009,827	1,028,828
Other interest	71,344	125,394
Exchange losses	62,754	10,602
	<u>1,143,925</u>	<u>1,164,824</u>

Fair value exchange losses have arisen as the Company has in place forward currency contracts used to manage the exchange rate risk associated with the sourcing of structural materials from overseas suppliers.

The interest charge on leases arises in accordance with IFRS 16 - Leases.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

9. Taxation

	2021 £	2020 £
<u>Current tax</u>		
UK Corporation Tax at average rate of 19% (2020: 19%)		
- Current tax on the result for the year/period	(6,804,931)	(5,853,707)
- Adjustments in respect of prior periods	42,779	373,624
Total current tax credit	(6,762,152)	(5,480,083)
<u>Deferred tax</u>		
- Origination and reversal of temporary differences	78,532	55,582
- Impact of change in tax rates 19-25% (2020: 19-17%)	(876,047)	(273,785)
- Adjustments in respect of prior periods	(307,308)	839,998
Total deferred tax charge/(credit)	(1,104,823)	621,795
Tax credit	<u>(7,866,975)</u>	<u>(4,858,288)</u>

Tax credit for the period is higher (2020; lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2021 of 19.0% (2020: 19.0%). The differences are explained below:

	2021 £	2020 £
Loss before income tax	<u>(36,867,450)</u>	<u>(30,246,278)</u>
Tax calculated at the average UK Corporation Tax rate of 19.00% (2020: 19.00%):	(7,004,815)	(5,746,793)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	278,416	(52,237)
Adjustment in respect of prior year deferred tax	(307,308)	839,998
Adjustments in respect of prior year current tax	42,779	373,624
Impact of the revaluation of deferred tax balances to 25% (2020: 19%)	(876,047)	(273,785)
Other timing differences	-	905
Tax credit	<u>(7,866,975)</u>	<u>(4,858,288)</u>

Factors which may affect future tax charges

Finance Act 2021 increased the rate of corporation tax from 19% to 25% from 1 April 2023. The prevailing rate of UK corporation tax for the year therefore remained at 19%. The future enacted tax rate of 25% has been used in the calculation of UK deferred tax assets and liabilities, as the rate of corporation tax that is expected to apply when those deferred tax balances reverse.

The Company has no unprovided deferred tax assets or liabilities as at 31 December 2021 (2020: £nil).

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

10. Property, plant and equipment

	Leasehold Improve- ments	Plant Machinery	Computers and IT Equipment	Office Equipment	Assets Under Construction	Right of Use Asset – Factory Lease (note 17)	Total
Cost	£	£	£	£	£	£	£
At 1 January 2021	11,682,158	20,099,139	1,442,804	310,855	587,060	25,024,721	59,146,737
Additions	34,253	14,089	3,206	-	3,811,662	5,038,450	8,901,660
Disposals	-	(150,348)	-	(28,975)	(2,378)	-	(181,701)
Transfer between categories	16,192	537,411	41,341	72,143	(667,087)	-	-
At 31 December 2021	11,732,603	20,500,291	1,487,351	354,023	3,729,257	30,063,171	67,866,696
Accumulated depreciation and impairment							
At 1 January 2021	5,234,936	15,465,896	882,207	249,835	-	4,126,050	25,958,924
Charge for the year	1,232,319	1,742,448	205,198	31,231	-	2,229,889	5,441,085
Impairment for the year	-	215,816	-	-	-	-	215,816
Disposals	-	(145,162)	-	(28,975)	-	-	(174,137)
At 31 December 2021	6,467,255	17,278,998	1,087,405	252,091	-	6,355,939	31,441,688
Net book value at 31 December 2021	5,265,348	3,221,293	399,946	101,932	3,729,257	23,707,232	36,425,008
Net book value at 31 December 2020	6,447,222	4,633,243	560,597	61,020	587,060	20,898,671	33,187,813

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

11. Intangible Assets

	Development Costs £	Software Costs £	Intangible assets under construction £	Total £
Cost				
At 1 January 2021	9,038,360	1,099,812	140,497	10,278,669
Additions	804,554	45,945	47,881	898,380
Transfer between categories	—	173,190	(173,190)	—
At 31 December 2021	<u>9,842,914</u>	<u>1,318,947</u>	<u>15,188</u>	<u>11,177,049</u>
Accumulated amortisation and impairment				
At 1 January 2021	4,975,288	243,730	—	5,219,018
Charge for the year	—	285,523	—	285,523
At 31 December 2021	<u>4,975,288</u>	<u>529,253</u>	<u>—</u>	<u>5,504,541</u>
Net book value at 31 December 2021	<u>4,867,626</u>	<u>789,694</u>	<u>15,188</u>	<u>5,672,508</u>
Net book value at 31 December 2020	<u>4,063,072</u>	<u>856,082</u>	<u>140,497</u>	<u>5,059,651</u>

12. Deferred Tax Asset

	2021 £	2020 £
At 1 January	2,545,375	3,167,170
Amount credited in the Income Statement for year	<u>1,104,823</u>	<u>(621,795)</u>
At 31 December	<u>3,650,198</u>	<u>2,545,375</u>
	£	£
Capital allowances in excess of depreciation	4,398,169	2,988,370
Accounting provisions	87,670	192,092
Other timing differences	<u>(835,641)</u>	<u>(635,087)</u>
	<u>3,650,198</u>	<u>2,545,375</u>

The Company is a UK member of the Legal & General Group, which is projected to make profits in future. Tax losses arising in this Company in future years as a result of the reversal of temporary differences will therefore be utilised by other profitable companies within the UK Group. The Group policy is to pay for such surrendered tax losses at the prevailing corporation tax rate.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

13. Inventories

	2021 £	2020 £
Raw materials and consumables	3,629,361	1,063,205
Work in progress and finished goods	<u>38,969,760</u>	<u>6,646,865</u>
	<u>42,599,121</u>	<u>7,710,070</u>

During the year, the Company reduced its provision against the value of its stock by £155,511 (2020: £1,792,260 provision made to write-down the value of its stock and work in progress).

The total stock provision at the year-end stood at £4,486,349 (2020: £4,641,860).

14. Trade and other receivables

	2021 £	2020 £
Trade receivables	1,366,369	95,326
Amounts owed by group undertakings	233,061	5,930
Other debtors	3,660	-
Corporation Tax receivable	6,611,883	6,443,312
VAT recoverable	2,110,845	1,919,612
Prepayments and accrued income	<u>2,299,931</u>	<u>724,505</u>
	<u>12,625,749</u>	<u>9,188,685</u>

The amounts owed by group undertakings are unsecured, interest free, and are repayable on demand.

The Corporation Tax receivable balance represents amounts that will be received from group undertakings as payment for the surrender of trading losses via group relief.

15. Trade and other payables

	2021 £	2020 £
Trade payables	5,980,542	790,314
Amounts owed to group undertakings	26,970,369	2,868,347
Other taxes and social security	532,469	401,381
Other payables	183,126	97,798
Accruals and deferred income	<u>5,876,267</u>	<u>3,077,372</u>
	<u>39,542,773</u>	<u>7,235,212</u>
Settled within 12 months	39,542,773	7,235,212
Settled after 12 months	<u>-</u>	<u>-</u>
	<u>39,542,773</u>	<u>7,235,212</u>

The amounts owed to group undertakings are unsecured, interest free, and have no fixed date of repayment.

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

16. Borrowings

	2021 £	2020 £
Bank loans	9,192,203	=
	<u>9,192,203</u>	<u>=</u>

The banks loans are secured by fixed and floating charges over the assets of the Company and are repayable in 2025.

Interest is charged at 3.20% above SONIA on the bank loans.

17. Leases

Lease contracts are typically entered into for fixed periods ranging from 1 to 10 years.

Extension and termination options are included in various leases across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. The range of remaining terms of leases is from 1 years to 9 years. One lease has an extension option and no leases have termination options.

The interest expense of £1,009,827 (2020: £1,028,828) on lease liabilities is included in finance costs in the profit and loss account.

Movements in the lease liability, shown on the balance sheet, during the year were as follows:

	2021 £	2020 £
Lease liability as at 1 January	21,705,546	24,150,899
Lease payments during the year	(3,171,607)	(3,474,181)
New lease liabilities contracted during the year	398,288	-
Increase in lease liabilities following rent review	4,640,162	-
Interest charge on lease liability during the year	1,009,827	1,028,828
Closing lease liability at 31 December	<u>24,582,216</u>	<u>21,705,546</u>

The lease liability shown on the balance sheet at the year-end is split between amounts due under one year, and amounts due over one year as follows:

	2021 £	2020 £
Amounts shown within current liabilities	2,319,927	1,130,253
Amounts shown within non-current liabilities	<u>22,262,289</u>	<u>20,575,293</u>
	<u>24,582,216</u>	<u>21,705,546</u>

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

The undiscounted maturity profile of lease liabilities as at 31 December, for amounts due in over one year, is as follows:

	2021	2020
	£	£
1-2 years	2,427,117	1,902,837
2-3 years	2,504,361	1,983,898
3-4 years	2,493,903	2,068,412
4-5 years	2,600,143	2,156,527
Over 5 years	12,236,765	12,463,619
	<u>22,262,289</u>	<u>20,575,293</u>

At 31 December 2021 the Company was not committed to any leases which had not yet commenced (2020: none).

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2021	2020
	£	£
Leases of short-term/low value assets	213,479	1,735
	<u>213,479</u>	<u>1,735</u>

18. Provisions

The Company has made a provision for factory dilapidation costs which will be payable at the end of the lease. The balance at as 31 December 2021 was £1,746,097 (2020: £1,674,753).

19. Contingent liabilities

The Company has contingent obligations arising from commercial agreements entered in the normal course of business. The outcome of these obligations is dependent on a future event which at the date of these financial statements is uncertain.

20. Share capital and share premium

	2021	2020	2021	2020
	Number of shares	Number of shares	£	£
Allotted share capital				
At 31 December: ordinary shares of £1 each	<u>120</u>	<u>116</u>	<u>119</u>	<u>116</u>
Called up share capital paid				
At 31 December: ordinary shares of £1 each	<u>120</u>	<u>116</u>	<u>119</u>	<u>116</u>
Issued share capital, fully paid				
	Number of shares	Share capital	Share premium	
		£	£	
As at 31 December 2019	113	113	110,063,558	
Issued shares paid for during the period	<u>3</u>	<u>3</u>	<u>36,999,997</u>	
As at 31 December 2020	116	116	147,063,555	
Issued shares paid for during the year	<u>4</u>	<u>4</u>	<u>34,799,996</u>	
As at 31 December 2021	<u>120</u>	<u>120</u>	<u>181,863,551</u>	

During the year, 4 ordinary shares were issued for cash (2020: 3). The nominal value of these shares was £4 (2020: £3) and the consideration received was £34,800,000 (2020: £37,000,000).

Legal & General Homes Modular Limited
Notes to the Financial Statements
For the year ended 31 December 2021

21. Commitments

Future project and capital expenditure approved by the Directors, but not provided for in these financial statements, amounts to £15,928,305 (2020: £1,752,239).

Operating lease commitments

Due to the impact of IFRS16 the land and building lease has been recorded as an asset and a corresponding liability recognised in the accounts. On this basis there are no other operating lease commitments to report other than leases of low value assets which are summarised below.

	2021 £	2020 £
Annual commitments under non-cancellable, low value operating leases:		
Within one year	-	1,735
Within two to five years	-	-
After five years	-	-
	<u>-</u>	<u>1,735</u>

22. Ultimate parent undertaking

The immediate parent company is Legal & General Homes Holdings Limited.

The ultimate parent company is Legal & General Group Plc, a company incorporated in England & Wales - the controlling party which consolidates the financial statements of the Company. These financial statements therefore provide information about the Company as an individual undertaking. Copies of the financial statements of the ultimate holding company, the Group, are available on the Group website, www.legalandgeneralgroup.com or from the Company Secretary at the Registered Office, One Coleman Street, London, EC2R 5AA.

23. Cash flow statement

The Company has taken advantage of the exemption under paragraph 8 (h) of FRS 101 from the requirements of IAS 7 Statement of Cash flows, and hence has not presented a cash flow statement.

24. Related party transactions

The Company has taken advantage of the exemption under paragraph 8 (j) and (k) of FRS 101 from certain requirements under IAS 24 Related party disclosures. These include the requirement to disclose transactions entered into by the Company with other wholly owned members of the Group, and the requirement to present disclosures on compensation arrangements for key management personnel.

25. Post balance sheet events

In January 2022, the Company entered into contract to build a housing development in Littlestone, Kent for a major Housing Association. The Company will deliver a mixture of house types on the site during 2022 and 2023.