Registered number 2973349

Morris Homes (Kettering) Limited
Annual report and financial statements
30 April 2020

Morris Homes (Kettering) Limited

Contents

Morris Homes (Kettering) Limited

Strategic report for the year ended 30 April 2020

The directors present their annual strategic report, together with the audited financial statements for the year ended 30 April 2020.

Principal activities and change of name

The company is a member of the Morris Group, which is one of the largest independent housebuilders in the UK, with operations in the North West, Midlands and South of England. The majority of developments take place on previously used brownfield sites.

The company was previously dormant and did not trade, but was reactivated during the year and returned to trading. The company changed its name to Morris Homes (Kettering) Limited on 12 June 2019.

The principal activity of the company is the construction and sale of new homes.

Business Environment and COVID-19

During the first half of the financial year, the trading environment remained challenging due to the continued uncertainty caused by the UK's impending exit from the European Union and the subsequent general election which took place. When operations recommenced after the Christmas break, we experienced an improvement in activity with many customers keen to progress as confidence returned.

However, as the ramifications of the COVID-19 pandemic began to become clear, the Morris Group acted swiftly to protect employees, customers and subcontractors. By 27 March (following the announcement of the UK-wide lockdown on 23 March) it had taken decisive action to temporarily close all construction sites and sales centres. All offices had been reduced to a skeleton workforce as new social distancing protocols were implemeted, with the majority of those employees working from home where possible.

In response to COVID-19 the Morris Group also acted purposefully to manage its cost base and cashflows. This included pausing certain land transactions, ceasing recruitment activity, reducing operating costs and securing additional funding headroom under the UK government's Coronavirus Large Business Interruption Loan Scheme (CLBILS).

The Group's health and safety team worked diligently during this period and devised new protocols and procedures to facilitate the safe operation of our construction and sales activities. This enabled a gradual reopening of outlets from 11 May to allow the business to resume with adequate safeguards in place.

Housing market dynamics

Ultimately, there remains an undersupply of housing in the UK with the government targeting the construction of 300,000 new homes, and consequently the long-term market fundamentals remain robust. Interest rates are at an all-time low and the mortgage market remains competitive.

The UK government backed Help to Buy scheme continues to support buyers of new homes but it is scheduled to enter a new phase from April 2021 which introduces regional price caps and is only available to first time buyers. In common with other housebuilders, we have entreated the government to reflect on these changes which will disproportionately impact buyers in the North and Midlands particularly, and severely restrict their choice of location and product. The Help to Buy scheme as a whole is scheduled to end in March 2023.

However, material risks to demand remain given the contraction of the UK economy as a result of the COVID-19 pandemic and the threat of further lockdowns if the infection rate rises. Additionally, it is expected that once the government's Coronavirus Job Retention Scheme comes to an end in April 2021, the country is likely to see a large rise in unemployment. Beyond COVID-19, there might also be further economic and political headwinds following the UK's departure from the EU in December 2020.

During this unprecendented period the Morris Group has risen to the challenges faced, and is well placed to deal with further changes in market conditions due to its strong balance sheet, the strength of its supply chain and limited reliance on imports.

Trading results

As noted earlier, the company was reactivated during the year having previously been a dormant member of the Morris Group. The company managed to secure funding to acquire and develop a site of new homes.

Despite the impact of the COVID-19 pandemic which restricted activities around the year end, the company was able to legally complete two properties during the financial year, generating revenue of £680k and an operating profit of £174k.

Net financial expenses of £186k were incurred in respect of the funding sourced to acquire the new site. Overall, the company achieved a loss before tax of £12k.

Key Performance Indicators

The company's directors use a range of KPIs to monitor the business. Performance during the year, together with historic trend data, is set out in the table below:

Key performance indicator	2019-20	2018-19
Residential completion numbers	2	N/A
Private average sales price (£'000)	£340.0	N/A
Operating profit (before exceptional items) %	26.3%	N/A

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The business risks affecting the company are as follows:

Risk: Competition from both national and independent house builders.

Mitigation: The company continues to ensure its presence in the market place is at its optimum. With its relentless focus on quality and customer care the Morris Group recently achieved a five star rating in the HBF customer satisfaction survey.

In addition, the Morris Group again won a significant number of NHBC Pride in the Job awards and continue to top the NHBC reportable item league for the country's top 25 housebuilders.

The lean operating structure of the Morris Group, alongside its strong land bank and a lack of exposure to the apartment market, ensures that Morris Group has the ability to react to market changes very quickly.

Risk: Availability of financing.

The company uses bank borrowings as part of its normal course of business.

Mitigation: During the year the company successfully secured a new funding arrangement which allowed it to develop a new site.

During the year ended 30 April 2020 and in the subsequent period to date, the company has operated within its facilities and has been compliant with all the terms of its facility agreement.

Working capital requirements are regularly monitored through cash flow forecasts, and reported to the Board regularly. Cash forecasting is seen as a key part of the Board reporting within the Group.

Risk: Market

The company's earnings are dependent upon the level of UK house prices. UK house prices are determined by the UK economy and economic conditions including employment levels, interest rates and consumer confidence.

Material risks to demand remain within the UK economy due to the effects of the COVID-19 pandemic and continued uncertainty around the UK's departure from the European Union.

The UK housing market affects the valuation of the company's non-financial assets and liabilities, notably land and work-in-progress, and the critical judgements applied by management in these financial statements, which include the valuation of land and work-in-progress, are detailed in note 1.3.

Mitigation: As a member of the Morris Group, the company is well placed to deal with further changes in market conditions due to its strong balance sheet, the strength of its supply chain and limited reliance on imports.

Risk: Interest rate

The company has interest bearing liabilities which comprise bank borrowings.

Mitigation: Interest rate risk is tempered by the fact that the company's debt is long term and the borrowing rates are largely fixed.

Future outlook

Given the backdrop of a global pandemic, the market for new homes has been very encouraging. Since the start of the new financial year trading has been strong with reservation rates running ahead of the prior year.

We are understandably cautious about the future and also the eventual impact of the proposed changes to the Help to Buy scheme. We do however have a very clear long term plan which has thus far been successful in delivering the appropriate balance of growth alongside continued de-gearing.

We have an enviable forward order book, strong balance sheet, a pipeline of new outlets and a dedicated team. This, along with our reputation for quality and service gives us every reason to remain confident in the company's prospects.

Section 172 Statement
All Directors are made aware of their statutory duties under s.172 of the Companies Act 2006 (the "Act") when they accede to the Board. Directors are entitled to request all such information as they may reasonably require in order to perform their duties in the appropriate manner, including obtaining professional advice at the Company's expense. Should it be required, training is provided to Directors to ensure that their knowledge remains up to date.

The Board of the company is aware of the impact of the business and the decisions we make on our stakeholders and wider society. We have considered whether we have adhered to the requirements of section 172 of the Act and have concluded that we have acted in good faith and in a way that we believe would be most likely to promote the success of the company for the benefit of the shareholder. In doing so we have recognised the importance of considering all key stakeholders and other matters (as set out in s.172 (1) (a-f) in the Act) in our decision making. The table below sets out the key stakeholders, how we have engaged with them and how we have considered them in the decision making process.

Stakeholder and reason for importance to us	How we engage with them	How we consider them in our decision making
Shareholder Provide funding to us to facilitate business growth and generate sustainable returns.	As a wholly owned subsidiary which is part of the Morris Group, the company has a single corporate shareholder. Performance information and business updates are therefore provided to the shareholder for discussion at frequent Board meetings.	Value is generated for the shareholder by delivering the strategy over the long term. By supplying comprehensive and transparent information we are able to demonstrate how the company is working towards achieving its long-term goals and hence the generation of value.
Customers Building new homes is the reason our business exists. It is vital we listen to our customers to ensure we build homes and develop locations that they want to live in.	Our regional sales teams are dedicated to improving the customer experience. We also constantly investing in improving our website which provides information and other functionality to customers.	We constantly strive to improve customer satisfaction which is independently monitored through surveys. Feedback is evaluated and used to continuously improve customer service and our product offering.
Suppliers and sub-contractors Fostering strong relationships with our suppliers enables us to deliver high quality homes to our customers.	Regular meetings are held both regionally and at a group level with our key suppliers to ensure they are up to date on the latest developments and expected requirements. Particular focus this year has been on educating sub-contractors on the new safety precautions put in place in response to the COVID-19 pandemic.	We recognise the importance of our suppliers and subcontractors and regularly monitor payments to ensure they are paid in accordance with contractual terms. We made a conscious decision to continue with this approach even during the period when sites were closed down as a result of the COVID-19 pandemic.
Lenders We are financed through a variety of development specific loans. Together with the shareholder, the lenders provide funds for future growth.	Regular reports and other operational information is provided to the lenders to keep them informed about the relevant aspects of our business. We speak to lenders frequently to encourage a collaborative approach towards the delivery of our strategy.	Our collective approach towards lenders enabled us to secure new site funding during the year which will allow the business to continue to acquire new sites and deliver its business plan.
Communities We want to build communities or integrate new developments into existing communities that people are proud to call home.	We proactively engage with local communities throughout the planning phases to understand their needs and address issues they may have.	We aim to minimise the impact of our activities during the construction our developments. We also look to include open spaces and other amenities to augment our developments.

Morris Homes (Kettering) Limited

Strategic report for the year ended 30 April 2020 *(continued)*

The Strategic Report was approved by the Board on 25 March 2021.

By order of the Board

J Iddon
25 March 2021
Registered Office: Morland House, Altrincham Road, Wilmslow, Cheshire, SK9 5NW

Morris Homes (Kettering) Limited

Directors' report

The directors present their report on the affairs of the company, together with the audited financial statement for the year ended 30 April 2020.

Political and charitable contributions

For the year ended 30 April 2020 the Company did not make any donations to charities, political donations or incur any political expenditure *(2019: £nil)*.

Dividends

There have been no dividends paid or proposed in the year *(2019: £nil)*

Directors

The directors who held office during the year are given below:

M J Gaskell
J Iddon (appointed 5 December 2019)
MP Edmunds (appointed 2 December 2019)
DP Hesson (appointed 21 June 2019, resigned 29 November 2019)

Disclosure of information to auditor

Each director at the date of the approval of the financial statements has confirmed:

a) so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and

b) 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.

Auditor

KPMG LLP were appointed by the directors as the company's first auditors. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

J Iddon
Director

25 March 2021

Registered Office: Morland House, Altrincham Road, Wilmslow, Cheshire, SK9 5NW

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 regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *Reduced Disclosure Framework*.

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; 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 responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORRIS HOMES (KETTERING) LIMITED

Opinion

We have audited the financial statements of Morris Homes (Kettering) Limited ("the company") for the year ended 30 April 2020 which comprise the statement of profit and loss and other comprehensive income, 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 30 April 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. 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. We have nothing to report in these respects.

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.

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.

Other matter - prior period financial statements

We note that the prior period financial statements were not audited. Consequently ISAs (UK) require the auditor to state that the corresponding figures contained within these financial statements are unaudited. Our opinion is not modified in respect of this matter.

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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.

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.

Will Baker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Princess Parade
Liverpool
L3 1QH

25 March 2021

Morris Homes (Kettering) Limited

Income Statement for the year ended 30 April 2020

	Note	2020 £000	Unaudited 2019 £000
Revenue	*2*	**680**	-
Cost of sales		**(506)**	-
Gross profit		**174**	-
Administrative expenses		-	-
Operating profit	*3*	**174**	-
Financial expenses	*5*	**(186)**	-
Loss before taxation		**(12)**	-
Taxation	*6*	-	-
Retained loss and other comprehensive income for the financial year		**(12)**	-

All activity relates to continuing operations.

There were no other items of income or expense other than the loss for the year and accordingly a statement of comprehensive income has not been presented.

The accompanying notes form part of these financial statements.

Morris Homes (Kettering) Limited

Statement of Financial Position
As at 30 April 2020

	Note	2020		Unaudited 2019	
		£000	£000	£000	£000
Current assets					
Inventories	7	8,773		-	
Trade and other receivables	8	3		3	
		8,776		3	
Current liabilities					
Trade and other payables	9	(3,388)		-	
Borrowings	10	(5,397)		-	
		(8,785)		-	
Net (liabilities)/assets			(9)		3
Equity					
Retained earnings			(9)		3
Total equity			(9)		3

The accompanying notes form part of these financial statements. These financial statements were approved by the board of directors on 25 March 2021 and were signed on its behalf by:

J Iddon
Director

Company registered number: 2973349

Morris Homes (Kettering) Limited

Statement of Changes in Equity

	Share capital	Retained earnings	Total equity
	£000	£000	£000
Unaudited balance at 1 May 2018	-	3	3
Total comprehensive income for the period			
Profit for the period	-	-	-
Total comprehensive income for the period	-	-	-
Unaudited balance at 30 April 2019	-	3	3
At 1 May 2019			
Total comprehensive income/(expense) for the period			
Loss for the period	-	(12)	(12)
Total comprehensive expense for the period	-	(12)	(12)
Balance at 30 April 2020	-	(9)	(9)

The accompanying notes form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Morris Homes (Kettering) Limited (the "Company") is a private company incorporated, domiciled and registered in the UK. The registered number is 2973349 and the registered address is Morland House, Altrincham Road, Wilmslow, Cheshire, SK9 5NW.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Morris Group Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Morris Group Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Morland House, Altrincham Road, Wilmslow, Cheshire, SK9 5NW. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Morris Group Limited include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.3.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.2 Going concern

The Company's business activities, together with factors which the directors consider are likely to affect its development, financial performance and financial position are set out in the Strategic Report.

The directors have prepared the financial statements on a going concern basis for the following reasons.

As a member of the Morris Group, the Company meets its day-to-day working capital requirements through operating cash flows and intercompany funding which is supported by bank borrowings provided to the Morris Group. During the financial year to 30 April 2020 and in the subsequent period to date, the Morris Group has operated within its current banking facilities and has been compliant with all financial covenants.

Since the initial lockdown was lifted, the level of activity in the UK housing market increased and demand relative to supply remained strong. Following the introduction of new policies and procedures, the Morris Group has demonstrated that it is able to continue to operate in subsequent lockdown periods. Additionally, at no time has the UK government introduced a ban on construction activities or those connected with moving home and the vaccine has been administered to large numbers of people, particularly the elderly and more vulnerable members of society. However, material risks to demand remain given the contraction of the UK economy as a result of the COVID-19 pandemic, with the country likely to see a large rise in unemployment once the UK government furlough scheme ends.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern (continued)

Beyond COVID-19, there might also be further economic and political headwinds following the UK's departure from the EU in January 2021.

Against this backdrop the Morris Group has prepared a financial forecast based on the best available information at the time of approving these financial statements which reflects the current trading environment. Additionally, a sensitised forecast has been produced based on a severe but plausible worst case scenario in which trading is impacted by future curtailments in the short term. In both scenarios the Morris Group is able to demonstrate compliance with all financial covenants, operate within its current facilities and meet its liabilities as they fall due.

The going concern of the Company is dependent on fellow members of Morris Group Limited not seeking repayment of the amounts currently due to the group, which at 30 April 2020 amounted to £3m, and providing additional financial support during the next 12 months. Morris Group Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the 14 month period covered by the forecasts. 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.

Accordingly, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence and meet its liabilities as they fall due 12 months from the date of approval of the financial statements, and consequently they consider that it is appropriate to adopt the going concern basis of preparation.

1.3 Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate to the related actual results. The estimates and assumptions that have a significant effect on the financial statements are detailed below:

i) Valuation of WIP and margin recognition

Valuations, which include an estimation of costs to complete and remaining revenues, are carried out at regular intervals throughout the year. These assessments include a degree of inherent uncertainty when estimating the profitability of a site and in assessing any impairment provisions that may be required.

The company conducted a review of inventory and write downs have been made where the carrying value exceeded the lower of cost and net realisable value. The review was conducted on a site-by-site basis, using valuations that incorporated selling price reductions, based on local management's and the Board's assessment of market conditions existing at the balance sheet date. If the decline in the UK market exceeds management's expectations then further impairments of land and work in progress may be necessary.

Gross profit is recognised for completed house sales based on the latest whole site/phase gross margin which is an output of the site/phase valuation. These valuations, which are updated at frequent intervals throughout the life of the site/phase, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions. This is a key estimate made in the financial statements.

To determine the amount of profit that the company is able to recognise on its sites/phases in the year, the company needs to allocate site/phase wide costs between all plots. It is also necessary to estimate costs to complete on such sites/phases. In making these assessments certain estimates are made. In addition the company makes estimates in relation to future sales prices on the site/phase. The company has a number of internal controls to assess and review the reasonableness of estimates made.

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes *(continued)*

1 Accounting policies ***(continued)***

1.4 Financial instruments (continued)

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1.5 Financial instruments

(i) Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Financial instruments (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

i. Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

ii. Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

iii. Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.7 Impairment excluding inventories

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Notes *(Continued)*

1 Accounting policies *(continued)*

1.7 Impairment excluding inventories (continued)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.8 Revenue

Revenue represents the fair value received and receivable in respect of the sale of houses, land and ground rents receivable net of value added tax and discounts.

Revenue is recognised in the income statement at a point in time when the performance obligation, being the transfer of a completed dwelling to a customer, has been satisfied. This is when the legal title is transferred.

In the case of units sold under Housing Association contracts, revenue is recognised over time on a stage completion basis which is calculated by reference to work performed to date.

1.9 Expenses

Interest receivable and Interest payable -Interest payable and similar charges include interest payable and finance charges on shares classified as liabilities recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.10 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes *(Continued)*

2 Revenue

	2020 £000	Unaudited 2019 £000
New house sales	680	-

3 Expenses and auditor's remuneration

Auditor's remuneration of £15,000 is borne by the parent company, Morris Homes Limited.

4 Employees and directors remuneration

Other than the directors, the company had no employees in either year. Directors' remuneration for the year ended 30 April 2020 was borne by the parent company, Morris Homes Limited. The Directors were not paid specifically for their services to Morris Homes (Kettering) Limited.

5 Financial expenses

	2020 £000	Unaudited 2019 £000
Loan interest	186	-

6 Taxation

Recognised in the income statement

	2020 £000	Unaudited 2019 £000
UK corporation tax		
Current tax on income for the period	-	-
Tax on profit on ordinary activities	-	-

Reconciliation of effective tax rate

	2020 £000	Unaudited 2019 £000
Loss for the year	(12)	-
Total tax expense	-	-
Loss for the year excluding taxation	(12)	-
Tax using the UK corporation tax rate of 19% (2019: 19%)	(2)	-
Effects of:		
Group relief transferred at nil charge	2	-
Total tax charge	-	-

Notes *(Continued)*

6 Taxation *(continued)*

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. Given this was enacted before the period end, 19% has been used when calculating tax.

7 Inventories

	2020 £000	Unaudited 2019 £000
Land and work in progress	8,773	-

8 Trade and other receivables

	2020 £000	Unaudited 2019 £000
Amounts owed by group undertakings	3	3

Amounts owed by group undertakings are unsecured, non-interest bearing and have no fixed repayment date.

9 Trade and other payables

	2020 £000	Unaudited 2019 £000
Amounts owed to group undertakings	3,388	-

Amounts owed to group undertakings are unsecured, non-interest bearing and have no fixed repayment date.

10 Borrowings

This note provides information about the contractual terms of the company's borrowings, which are measured at amortised cost. The loans consist of bank borrowings, which bear interest at the Bank of England base rate + 4.75% margin and are secured on the land and work in progress to which they relate. The fair value of the loans equals their carrying amount, as they bear interest at floating rates.

	2020 £000	Unaudited 2019 £000
Current		
Loans	5,613	-
Less: costs of raising finance	(216)	-
Total borrowings	5,397	-

11 Ultimate controlling party

The directors regard Morris Group Limited, a company registered in the United Kingdom, as the ultimate controlling party.

Morris Homes Limited is the immediate parent undertaking for which consolidated financial statements are available and of which the company is a member. Copies of the consolidated financial statements of Morris Group Limited and Morris Homes Limited can be obtained from Morland House, Altrincham Road, Wilmslow, SK9 5NW.

Notes *(Continued)*

12 Post balance sheet events

On 1 March 2021, the Morris group, of which the company is a part, successfully concluded a refinancing of its operations. The existing term loan of £62m which was due to be repaid in December 2021 was repaid early as the Morris group secured a new £140m seven year facility with Atlantic Park Strategic Capital Fund, L.P. Additionally, the group's £50m revolving credit facility, due to expire in December 2021, was renewed for a further five years.

As part of this refinancing, a number of legacy shareholders exited and a new ultimate parent undertaking, Morris Homes Group Ltd, was installed at the top of the Morris group.