REGISTERED NUMBER: 02717800 (ENGLAND AND WALES)

MUSE DEVELOPMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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MUSE DEVELOPMENTS LIMITED

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MUSE DEVELOPMENTS LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

Directors	ME Crompton SP Crummett D Hoyle JC Morgan SA Shankland MJ Auger PA Mayall
Secretary	C Sheridan
Head Office	Riverside House Irwell Street Salford M3 5EN
Registered Office	Kent House 14 - 17 Market Place London W1W 8AJ
Auditor	Deloitte LLP Statutory Auditor Glasgow United Kingdom

MUSE DEVELOPMENTS LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Principal activities

Muse Developments Limited (the "Company") and its subsidiary and joint venture undertakings (together "the Group") form a UK-wide urban regeneration business specialising in the delivery of complex mixed-use development projects, predominantly in town and city centre locations. The Group has a portfolio of around 40 projects, the majority of which are delivered in partnership with public or private sector landowners. The Group has established a track record of successful regeneration projects over the last 25 years.

Business review

The Group works with landowners and public sector partners to unlock value from under-developed assets to bring about sustainable regeneration and urban renewal through the delivery of mixed-use projects across the UK.

	2020	2019
Revenue	£122.7m	£118.9m
Operating profit	£9.2m	£19.4m
Profit before tax	£8.7m	£19.0m
Capital employed[1] at year-end	£85.5m	£108.3m
Cash and cash equivalents	£24.4m	(£11.5m)
Regeneration and development pipeline and order book	£2.4bn	£2.3bn

The Group delivered an operating profit of £9.2m in the year, a reduction of 53% on the prior year (FY 2019: £19.4m). The lower profit impacted the return on capital employed (ROCE[1]), which was down to 8% based on the average capital employed in the year of £109.7m. The average ROCE[2] over the last three years was 14%.

The impact of COVID-19 was felt across all stages of the development process. During the first national lockdown in March, construction activity on most of the active development schemes either ceased for a period or activity was significantly reduced, resulting in lower development management fees and delayed residential sales scheduled for later in the year. Delays were also experienced in progressing schemes, with decision-making by partners remaining cautious over future costs, viability and returns.

Capital employed[1] at the year end was £22.8m lower at £85.5m, driven by the timing of completions towards the year end and the choice of funding options for existing schemes. Based upon the current profile and type of scheme activity across the portfolio, the average capital employed[1] for 2021 is expected to increase to c£120m (which includes c£20m capital from Morgan Sindall Investments Limited's property development JV's with local authorities which transferred to Muse Developments in January 2021).

The main contributors to performance were profit and development fees generated from the Salford Central regeneration scheme, being delivered by the English Cities Fund (ECF) joint venture with Legal & General and Homes England; profit from the pre-let and forward sale of three warehouse and distribution buildings totalling over 400,000 sq ft at Logic Leeds; and two separate land sales at Eurocentral in Lanarkshire, Scotland.

[1] Capital employed is calculated as total assets (excluding goodwill, intangibles, inter-company receivables and cash) less total liabilities (excluding corporation tax, deferred tax, inter-company financing and overdrafts).

[2] Return On Average Capital Employed = (Adjusted operating profit less interest on non-recourse debt) divided by (average capital employed). Interest and fees on non-recourse debt was £nil (FY 2019: £nil).

Business review (continued)
In addition, development management fees were generated from Time Square in Warrington and a second office building at Stockport Exchange. Profits were also earned from the sale of new homes at Wapping Wharf, Bristol; Griffon Fields, Hucknall; Brentford Lock West; Hale Wharf, Tottenham Hale; Northshore, Stockton-on-Tees and Millbay, Plymouth. Other significant completions included the new 196,000 sq ft distribution centre at Harrier Park in Hucknall and 26,100 sq ft of commercial and research and development space at Cheadle Royal.

Two significant forward funding deals were agreed in the year, which are both on site and generating regular profits. The first was a £252m deal signed with Get Living plc to deliver the second and final phase of Lewisham Gateway. Due to complete in 2023, the scheme will provide 649 homes for rent, 10,000 sq ft of offices, c25,000 sq ft of retail space, c15,000 sq ft of food and beverage space, a gym, and Lewisham's first major multiplex cinema which has been pre-let. The second was a £130m deal agreed with Pension Insurance Corporation to deliver the first phase of the 'New Victoria' scheme in Manchester city centre, in partnership with Network Rail with support from Manchester City Council and Homes England. The first phase consists of 520 homes for rent and is expected to complete in 2023. In addition, regular profits are being received from active developments in Basingstoke and Blackpool.

ECF made progress in the year on existing schemes. At Salford Central, five new developments are currently under construction at Atelier, Valette Square, Novella, Three New Bailey and a 175,000 sq ft pre-let office to BT at Four New Bailey. The Fund has also completed the latest phase of 137 quayside homes at Quadrant Wharf, Millbay and secured two deals with occupiers at Merchant Gate, Wakefield.

The Group's Waterside Places joint venture with the Canal & River Trust made significant progress on a number of schemes in the year. At Islington Wharf, Manchester, planning consent was achieved on the fourth and final phase of 106 homes over two blocks, which is due to start on site in the first half of 2021; the first phase of development at Hale Wharf, Tottenham Hale is due to complete in Summer 2021, with 108 of 249 homes forward funded by Grainger plc; and the third and final phase of Brentford Lock West, to deliver 425 mixed-use homes, is scheduled to start on site in 2021. Waterside Places has also submitted planning for its residential-led development at Stoke Wharf in joint venture with Slough Urban Renewal, to deliver over 300 new homes along a revitalised canal side.

The Group submitted a series of planning applications during the year, including 1.4m sq ft of mixed-use development in Birkenhead town centre, through the Wirral Growth Company joint venture with Wirral Borough Council; and Stroudley Walk, London which will bring forward 274 homes (50% affordable) in partnership with Poplar HARCA (Housing and Regeneration Community Association). Planning consent was received for new developments at South Shields; Logic Leeds; Rotherham in South Yorkshire; and Manor Road in Canning Town, where 804 homes (50% affordable) will be delivered.

The Group's development portfolio continues to be both active and diverse, with 14 projects on site at the year end across 10 developments, totalling £950m gross development value, and a further 11 projects expected to start on site in 2021.

Business review (continued)
At the year end, the Group's regeneration pipeline and order book amounted to £2.4bn, an increase of 7% on the prior year end, and within this there is a diverse geographic and sector split:

- by value, 45% is in the North West, 41% in London and the South East, 12% in Yorkshire and the North East and 2% in the rest of the UK; and
- by sector, 52% by value relates to residential, 31% to offices, and the remainder is broadly split between retail, leisure, and industrial.

The regeneration pipeline includes c£230m relating to the Group's share of JV gross development value and development management fees from the appointment in the year through ECF as development partner for the Salford Crescent masterplan to create a new 240-acre urban district in Salford over the next 10 to 15 years; the programme will deliver up to 3,000 homes, commercial, innovation and education space, sustainable transport facilities and large areas of green space.

The medium-term target for the Group is to increase its rolling three-year average ROCE[2] up towards 20%. The lower profit achieved in 2020 reduced the three-year average to 14%, however the medium-term outlook has not changed, with progress towards its target ROCE[2] expected in 2021.

Financial position and liquidity
The financial position of the Group is presented in the Consolidated Balance Sheet. The total shareholder's funds at 31 December 2020 were £105.3m (2019: £106.5m). The Group had net current assets of £51.3m (2019: £51.2m), including cash and cash equivalents of £24.4m at 31 December 2020 (2019: overdrawn position of £11.5m).

Key performance indicators
The Company uses the key performance indicators as disclosed in the Business review. In addition to these there are key performance indicators which are employed by the Group's parent company which are discussed in the Strategic Report in Morgan Sindall Group plc's ("MS Group") Annual Report, which does not form part of this report.

Principal risks and uncertainties
The management of the business and the execution of the Group's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to the market and economic environment, uncertainty due to the Brexit transition, health, safety and environmental performance, contractual risk (including mispricing of contracts, managing changes to contracts and contract disputes, poor project delivery and poor contract selection), and counterparty and liquidity risk. Further discussion of these risks and uncertainties, in the context of the MS Group as a whole, is provided in the Strategic Report in MS Group's Annual Report, which does not form part of this report.

During 2020 there has been the emerging risk of COVID-19. Initially, short-term mitigation actions were put in place by management which consisted of usual measures to reduce discretionary costs and improve cash flow. Specifically, these have included salary reductions for all staff, accessing the Government's Coronavirus Job Retention Scheme ('CJRS'), and taking advantage of permissions to defer VAT, PAYE and other tax payments. The salary reductions were repaid in full to all staff within 2020 and the amounts initially paid under CJRS and the deferred VAT and tax payments were also repaid in full within 2020.

Principal risks and uncertainties (continued)
The Group does not own a large land bank, instead the Group typically controls land through Development Agreements with public or private sector landowners. This has helped the Group to reduce exposure to fluctuations in land values. The Group is not totally immune to market risk and the Group reassesses, on a regular basis, the net realisable value of its work in progress.

The Board continues to monitor the potential impact on the Group of the UK leaving the European Union. Being UK focused, no changes have been required to the Company's model, with any obvious effects already factored into forecasting. Specific risks include the potential for increased material costs as a result of exchange differences arising from materials imported from EU countries, potential delays to construction programmes in importing materials and potential skills deficiencies arising from difficulties in obtaining EU workers within the supply chain.

The Group has reviewed these potential impacts and consider that there are sufficient mitigations in place via contract terms or allowances that offset increased costs. The Board continues to closely monitor the potential impacts that leaving the EU may have on the business.

Financial risk management
The Company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, interest rate risk and price risk.

Credit risk
With regard to credit risk the Company has implemented policies that require appropriate credit checks on potential customers before contracts are commenced. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers outside of the Group.

Liquidity risk
This is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company aims to manage liquidity by ensuring that it will always have sufficient resources to meet its liabilities when they fall due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Liquidity is provided through cash balances and access to the MS Group's committed bank loan facilities.

Interest rate risk
In respect of interest rate risk, the Company has interest bearing assets and liabilities. Interest bearing assets and liabilities include cash balances, overdrafts and loan facilities all of which have interest rates applied at floating market rates. Project appraisals are regularly reviewed with changing interest rates to ensure the level of interest risk is within acceptable parameters as set out in the MS Group risk management framework.

Price risk
The Group is exposed to the risk of cost inflation during site development. To mitigate this risk, the group enters into fixed price design and build construction contracts. The Group is also exposed to the risk of price movements in the housing sector which affect underlying sales values. To mitigate this risk a proportion of stock is subject to forward sale agreements.

Section 172(1) statement Companies Act 2006
Throughout 2020, the directors have complied with the requirements of Section 172 of the Companies Act 2006, in promoting the long-term success of the Company for the benefit of all stakeholders. The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006.

Engagement with stakeholders
The directors consider its shareholder, employees, customers, suppliers and local communities to be its core stakeholder groups. As part of its ongoing activities of engaging with stakeholders, the directors have undertaken the following activities in 2020:

Shareholder
Our ultimate shareholder is MS Group. We create value for MS Group by generating strong and sustainable results that translate into dividends. We discuss our performance in monthly management meetings with MS Group's executive directors and provide executive summaries for the MS Group Board. The directors routinely engage with the MS Group on topics of strategy, governance and performance and our strategic plans include information on the impact on each of our stakeholders including the community and environment.

The Company has issued to its senior management team a schedule of authorised approvers and signatories, summarising delegated authorities within the Company. It covers the requirements contained within 'Delegation and Limits of Authority Procedures' ('DELAPs') issued by the MS Group.

Employees
In line with MS Group's Total Commitments, protecting the health, safety and wellbeing of everyone who comes into contact with our business is our number one priority. Furthermore, we are committed to a diverse and inclusive work environment and helping our employees gain skills that support their personal ambitions and drive the business forward. The Company has been Investors in People Gold accredited for 10 years and provides a range of online training for all colleagues across the business.

Alongside MS Group-wide training opportunities, the Company, in 2020 offered an average of 1.0 training days per colleague per year (2019: 3.5 days per colleague per year). The reduction in 2020 was mainly attributable to the lockdown and lack of available opportunities but is expected to resume to normal levels in 2021. Each team within the business has access to relevant training, based on their own personal development needs identified in their annual appraisal.

The directors consider the results of staff surveys and other feedback received to be a good indicator of how employees feel about working for the Company, as well as a measure of their optimism for the future. The directors have overseen a number of initiatives over the years to improve employee relations, including flexible working practices, wellbeing initiatives and moving all regional offices into much-improved spaces, promoting both agile working and wellbeing. The strong, open and supportive culture, which runs deep in the DNA of the Company, is clear to see and is evidenced by 31% of colleagues staying at the business for longer than 10 years, and an overall voluntary attrition rate in 2020 of 4.4%.

Section 172(1) statement Companies Act 2006 (continued)

Employees (continued)

The Company is working hard to promote a diverse and inclusive workforce, while addressing the gender pay gap. Currently 42.5% of its employees are female and the division has a clear succession plan to develop female colleagues into senior roles.

Customers

We aim to continue developing long-term, open relationships with our clients and partners that are forged through a shared vision, values and goal to create game-changing regeneration schemes that transform communities physically, socially and economically. During 2020 we continued to extend our framework offerings, benefitting clients by providing a strategic continuity of knowledge and enhancing our value-add service, to include delivering increased social value outcomes and community impact, which will go further to bring forward schemes that deliver that true sense of place.

The Company has a dedicated New Homes Team whose principal activity is to monitor and respond to queries and requests from residents with a view to consistently improving the customer journey and experience. Feedback from new residents is obtained and discussed regularly, with the Head of New Homes holding weekly 'one to ones' with each New Homes Manager. This feedback process currently involves third-party operators, while the medium-term vision for the Company is to become the first point of contact for customers post-legal completion and aftercare.

Suppliers

Our suppliers and subcontractors are critical to our operations and we take a long-term collaborative approach to working with them. The Company continues to work closely with its supply chain to foster a culture of partnership, trust, transparency and collaboration. It is continuously evolving its ways of working with suppliers to encourage efficiency and improved delivery, for example engaging them early in the design process to develop deliverable solutions. The Company looks to pay suppliers as far as practicable within 30 days, with 80% of invoices paid within this timeframe, and a further 11% of invoices paid within 60 days.

Communities

Enhancing communities is at the very heart of every development that the Company delivers. Every scheme delivered is brought forward to benefit communities, by driving inward investment, opportunities for all and social prosperity right into the towns and cities the Company works in. The Company's brand of repurposed regeneration, essentially urban regeneration, is designed to breathe new life into areas for the long-term to create vibrant new spaces and places.

The Company is involved in many charities and a variety of sponsorship initiatives, including being a corporate sponsor of youth homelessness charity LandAid, Warrington Wolves Rugby League Club and its charitable foundation, along with supporting Brentford Football Club Community Sports Trust.

Section 172(1) statement Companies Act 2006 (continued)

Communities (continued)

The Company continues to promote its volunteer policy launched in 2019, which enables employees to take one day's paid leave a year, to carry out a day of volunteering with a registered charity. Employees are encouraged to take the opportunity to volunteer their time and skills, during work hours, to support a registered charity of their choice and give something back to their community. Further to this, the Company's new wellbeing strategy and committee has been established to support and engage colleagues in four key areas, health and wellbeing, charitable giving, training and development and sustainability and the green agenda. Further information about how the Company and Group engage with stakeholders can be found in MS Group's 2020 annual report (morgansindall.com).

Principal decisions

We define principal decisions as those that are material to the Company and to the Group and those that are significant to our key stakeholder groups as above. As set out below, we have given examples of how the Directors have considered the outcomes from our stakeholder engagement as well as the need to maintain the Company's reputation for high standards of business conduct and to act fairly between the members of the Company in some of the principal decisions we have taken during the year.

During the year, the Directors have reviewed and approved the financial budget whilst considering and determining the Company's appropriate risk appetite, namely being selective over what work we seek to secure and ensuring we have the right skillsets to perform the work, whilst also ensuring alignment with the MS Group plans and priorities.

Contract selectivity was carefully considered on every tender submission. Contract terms and conditions, including payment terms, are carefully balanced against existing resource and contract commitments. We have declined opportunities that have inadequate financial covenants or access to finance. We have also declined opportunities that do not suit our core competencies.

Prior to contractors being asked to tender, each contractor goes through an internal financial review process which reviews the performance of the contractor, its current financial position as well as other factors including the value of work that the Group currently have placed with the contractor. A list of preferred contractors is maintained and reviewed regularly.

We continued to invest in our early careers 'foundation programme' to develop succession planning, diversity and home grow resource for business growth.

Approved for issue by the Board and signed on its behalf by:

D Hoyle
Director

31 March 2021

MUSE DEVELOPMENTS LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020. The annual report comprises the Strategic Report and the Directors' Report, which together provide the information required by the Companies Act 2006. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

Going concern

These financial statements have been prepared on a going concern basis which presumes that the Company has adequate resources to remain in operation and that the directors intend it to do so for at least one year from the date the financial statements are signed.

The Company continues to operate construction sites safely during the pandemic under the Site Operating Procedures ('SOP') agreed by the Construction Leadership Council and following the advice from UK Government, the devolved administrations and public health authorities. The Company has operated profitably with positive operating cash flows throughout the pandemic whilst under these restrictions. The Company is expected to continue to operate under these guidelines for the foreseeable future until the end of the pandemic.

The Company's future workload is healthy with a secured order book of £2.4bn (2019: £2.3bn) and the Company has a strong financial position at the year end with net current assets of £51.3m (2019: £51.2m), including cash and cash equivalents of £24.4m at 31 December 2020 (2019: Overdrawn £11.5m).

The Company participates in MS Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2020, MS Group held cash of £400.5m and total loans and borrowings of £67.7m, including £67.3m of overdrafts repayable on demand (together net cash of £333m). Should further funding be required, MS Group has significant committed financial resources available including unutilised bank facilities of £180m, of which £30m matures in March 2022 and £150m matures in October 2023. The Company is expected to continue to be in a position to obtain finance via intercompany loans to operate for the foreseeable future. In completing this analysis, the Directors have considered the commitment through a letter of support from MS Group and the ability of the MS Group to continue to provide such finance.

Based on the above, the directors have a reasonable expectation that the Company and MS Group of which it is part have adequate resources to continue in operational existence for a minimum of 12 months from the date of signing the accounts. Thus, they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the principal accounting policies in the financial statements.

Impact of COVID-19 on operations

The health and wellbeing of our people, our partners and the public remains the Company's overriding priority. Where safe to operate, activity across the business has continued with strict adherence to Government advice and that of the devolved administrations and public health authorities across the UK.

Impact of COVID-19 on operations (continued)
The impact of COVID-19 was felt across all stages of the development process. During the first national lockdown in March, construction activity on most of the active development schemes either ceased for a period or activity was significantly reduced, resulting in lower development management fees and delayed residential sales scheduled for later in the year. Delays were also experienced in progressing schemes, with decision-making by partners remaining cautious over future costs, viability and returns.

With the gradual lifting of the initial lockdown restrictions in the first half and then through the subsequent tier system and further national lockdown restrictions in the second half, there was no further material impact on the Group's operations. Revenue in the first half of the year was down £9.7m (22.0%) on the prior year. Revenue recovered well in the second half and was up £13.5m (18.2%) on the prior year. Revenue for the year was up by £3.8m, an increase of 3.2% on the prior year.

Through the period, the Company placed a number of its employees on furlough and accessed the Government's Coronavirus Job Retention Scheme ('CJRS'). At the peak, 10 employees (14% of total employees) were furloughed across the Company.

The Company's business activities, together with the factors likely to affect its future development, performance and position as well as the financial position of the Company, its cash flows, liquidity position and the borrowing facilities, are described in the Strategic Report on pages 2 to 8.

Directors
The directors who served during the year and thereafter are shown on page 1. None of the directors had any interest in the shares of the Company during the year ended 31 December 2020.

Directors' indemnities
The Company indemnifies the directors in its Articles of Association to the extent allowed under section 232 of the Companies Act 2006. Furthermore, MS Group maintains liability insurance for its directors and officers and those of its directors and officers of its associated companies. The Company has not made qualifying third-party indemnity provisions for the benefit of its directors during the year.

Dividends
An interim dividend of £7,757,000 was paid during the year (2019: £9,804,000). The directors do not recommend the payment of a final dividend (2019: £nil).

Political contributions
The Company made no political contributions during the year (2019: none).

Employment policies
The Group insists that a policy of equal opportunity employment is demonstrably evident at all times. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential.

Engagement with employees and other stakeholders
As part of its ongoing activities of engaging with employees and other stakeholders, the directors have undertaken a number of activities in 2020. See pages 6 – 8 of the Strategic Report in the Section 172(1) statement.

Post balance sheet events
The directors confirm that there were no post balance sheet events up to the date of signing these financial statements.

Independent Auditor and disclosure of information to the independent Auditor
In the case of each of the persons who are directors of the Company at the date when this report was approved:

- So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- Each director has 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

In accordance with Section 487 of the Companies Act 2006, Deloitte LLP has not been reappointed as the Companies auditors. Following a competitive tender process, Ernst & Young have confirmed their willingness to be appointed as the Company's auditors for the year ending 31 December 2021.

Directors' responsibilities statement
The directors are responsible for preparing the Annual 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 the directors are required to prepare the Company and Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 the Company and Group financial statements, International Accounting Standard 1 requires that directors:

- select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

Directors' responsibilities statement (continued)

- make an assessment of the company's ability to continue as a going concern.

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.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Environmental performance

The Company is committed to minimising its environmental impact both now and in the longer term. We balance this with the need to undertake construction activities for our clients which can have a direct and indirect impact on the environment. Where possible, we encourage our clients to consider more environmentally sustainable products with a longer life expectancy. We also seek to deliver projects in ways that will minimise their impact on the environment by re-using waste and reducing our carbon impact as well as extending the life cycle of the buildings that we construct. MS Group's Total Commitment to 'improving the environment' sets the strategy for managing our environmental impact. Within this Commitment MS Group focuses on climate change and caring for the natural environment by reducing our carbon footprint and re-using and recycling waste where possible. MS Group's Commitment sets out clear KPIs and targets for measuring performance and driving improvement. As a subsidiary company, the Company is exempt from reporting separately under the Streamlined Energy and Carbon Reporting programme, further disclosures on MS Group's performance, including details of its Green House Gas emissions is disclosed in the strategic report of MS Group's annual report.

Approved for issue by the Board and signed on its behalf by:

D Hoyle
Director

31 March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MUSE DEVELOPMENTS LIMITED FOR THE YEAR ENDED 31 DECEMBER 2020

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Muse Developments Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated cash flow statement;
- the consolidated statement of changes in equity;
- the company balance sheet;
- the company cash flow statement;
- the company statement of changes in equity;
- the principal accounting policies; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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

We have nothing to report in this regard.

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

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

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.
In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Paul Hazelton, CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
United Kingdom

31 March 2021

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Revenue	1	122,665	118,850
Cost of sales		(106,980)	(91,789)
Gross profit		**15,685**	**27,061**
Administrative expenses		(9,562)	(13,671)
Share of net profit of joint ventures	9	3,068	6,056
Operating profit	**2**	**9,191**	**19,446**
Interest payable	4	(498)	(428)
Profit before tax		**8,693**	**19,018**
Tax	5	(2,064)	(3,336)
Profit after tax		**6,629**	**15,682**
Other comprehensive income		-	-
Total comprehensive income		**6,629**	**15,682**

There were no discontinued operations in either the current or comparative years.

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Assets			
Goodwill	7	13,645	13,645
Property, plant & equipment	8	4,946	5,658
Investments in joint ventures	9	41,247	41,955
Shared equity loan receivables	11	38	38
Non-current assets		**59,876**	**61,296**
Inventories	12	69,787	71,984
Contract assets	13	5,172	6,376
Trade and other receivables	14	19,720	19,193
Cash and cash equivalents	23	24,400	-
Current assets		**119,079**	**97,553**
Total assets		**178,955**	**158,849**
Liabilities			
Contract liabilities	13	-	(11,235)
Trade and other payables	15	(66,079)	(21,801)
Current tax liabilities		(1,231)	(1,585)
Overdraft	23	-	(11,455)
Lease liabilities	21	(495)	(262)
Current liabilities		**(67,805)**	**(46,338)**
Total assets less current liabilities		**111,150**	**112,511**
Net current assets		**51,274**	**51,215**
Deferred tax liabilities	16	(2,158)	(1,896)
Lease liabilities	21	(3,664)	(4,159)
Non-current liabilities		**(5,822)**	**(6,055)**
Total liabilities		**(73,627)**	**(52,393)**
Net assets		**105,328**	**106,456**
Equity			
Share capital	17	60,000	60,000
Retained earnings		45,328	46,456
Total equity		105,328	**106,456**

The consolidated financial statements of Muse Developments Limited, registered number 02717800, were approved by the Board and authorised for issue on 31 March 2021. They were signed on its behalf by:

D Hoyle
Director

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Profit for the year		**6,629**	**15,682**
Income tax expense		2,064	3,336
Interest payable		498	428
Operating profit		**9,191**	**19,446**
Adjusted for:			
Depreciation	**8**	791	124
Share of net profit of equity accounted joint ventures	**9**	(3,068)	(6,056)
Repayment of shared equity loan receivables	**11**	-	49
Operating cash inflow before movements in working capital		**6,914**	**13,563**
Decrease in inventories	**12**	2,197	1,032
Decrease / (increase) in contract assets	**13**	1,204	(571)
Increase in receivables	**14**	(527)	(3,167)
(Decrease) / increase in contract liabilities	**13**	(11,235)	4,768
Increase / (decrease) in payables	**15**	29,278	(11,074)
Movements in working capital		**20,917**	**(9,012)**
Income taxes paid		(2,156)	(3,580)
Interest paid		(374)	(428)
Net cash inflow from operating activities		**25,301**	**543**
Investing activities			
Purchase of property, plant and equipment	**8**	(79)	(1,302)
Net receipts from joint ventures	**9**	3,776	6,640
Net cash inflow from investing activities		**3,697**	**5,338**
Financing activities			
Repayment of borrowings		-	(8,568)
Proceeds from borrowings from Group undertakings		15,000	-
Dividends paid	**6**	(7,757)	(9,804)
Repayments of lease liabilities	**21**	(386)	(209)
Net cash inflow / (outflow) from financing activities		**6,857**	**(18,581)**
Net increase / (decrease) in cash and cash equivalents		35,855	(12,700)
Cash and cash equivalents at 1 January	**23**	(11,455)	1,245
Cash and cash equivalents at 31 December	**23**	**24,400**	**(11,455)**

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019	**60,000**	**40,578**	**100,578**
Total comprehensive income	-	15,682	15,682
Dividends paid (Note 6)	-	(9,804)	(9,804)
At 31 December 2019	**60,000**	**46,456**	**106,456**
Total comprehensive income	-	6,629	6,629
Dividends paid (Note 6)	-	(7,757)	(7,757)
At 31 December 2020	**60,000**	**45,328**	**105,328**

MUSE DEVELOPMENTS LIMITED

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2020

	Notes	2020	2019
		£'000	£'000
Assets			
Goodwill	7	7,292	7,292
Property, plant & equipment	8	4,946	5,658
Investments in joint ventures	9	5,276	1,584
Investments in subsidiaries	10	17,818	17,819
Non-current assets		**35,332**	**32,353**
Inventories	12	44,385	32,700
Contract assets	13	*2,156*	*6,376*
Trade and other receivables	14	44,176	62,773
Cash and cash equivalents	23	19,041	-
Current assets		**109,758**	**101,849**
Total assets		**145,090**	**134,202**
Liabilities			
Contract liabilities	13	-	(9,627)
Trade and other payables	15	(54,639)	(19,456)
Current tax liabilities		(1,675)	(2,032)
Overdraft	23	-	(13,521)
Lease liabilities	21	(495)	(262)
Current liabilities		**(56,809)**	**(44,898)**
Net current assets		**52,949**	**56,951**
Deferred tax liabilities	16	(1,419)	(1,132)
Lease liabilities	21	(3,664)	(4,159)
Non-current liabilities		**(5,083)**	**(5,291)**
Total liabilities		**(61,892)**	**(50,189)**
Net assets		**83,198**	**84,013**
Equity			
Share capital	17	*60,000*	*60,000*
Retained earnings		23,198	24,013
Total equity		**83,198**	**84,013**

The Company reported a profit for the financial year ended 31 December 2020 of £6,942 (2019: £19,252,000). Advantage has been taken of the exemption from the requirement to publish a separate profit and loss account for the parent company as set out in section 408 of the Companies Act 2006.

The financial statements of Muse Developments Limited, registered number 02717800, were approved by the Board of Directors on 31 March 2021.

D Hoyle
Director

MUSE DEVELOPMENTS LIMITED

COMPANY CASH FLOW STATEMENT
AS AT 31 DECEMBER 2020

	Notes	2020 £'000	2019 £'000
Profit for the year		**6,942**	**19,252**
Adjusted for:			
Dividend income		(8,000)	(12,414)
Income tax expense		565	1,479
Interest receivable		(484)	(433)
Interest payable		498	399
Operating (loss) / profit		**(479)**	**8,283**
Adjusted for:			
Depreciation	8	791	124
Operating inflow before movements in working capital		**312**	**8,407**
Increase in inventories	12	(11,685)	(2,939)
Decrease / (increase) in contract assets	13	4,220	(571)
Decrease in receivables	14	26,598	10,999
(Decrease) / increase in contract liabilities	13	(9,627)	4,587
Increase / (decrease) in payables	15	20,183	(15,180)
Movements in working capital		**29,689**	**(3,104)**
Income taxes paid		(635)	237
Interest paid		(374)	(399)
Net cash inflow from operating activities		**28,992**	**5,141**
Investing activities			
Interest received		484	433
Purchase of property, plant and equipment	8	(79)	(1,302)
Net (payments to) / receipts from joint ventures	9	(3,692)	942
Net cash inflow/(outflow) from investing activities		**(3,287)**	**73**
Financing activities			
Proceeds from borrowings from Group undertakings		15,000	-
Dividends paid	6	(7,757)	(9,804)
Repayments of lease liabilities	21	(386)	(209)
Net cash inflow / (outflow) from financing activities		**6,857**	**(10,013)**
Net increase / (Decrease) in cash and cash equivalents		32,562	(4,799)
Cash and cash equivalents at 1 January	23	(13,521)	(8,722)
Cash and cash equivalents at 31 December	23	19,041	**(13,521)**

MUSE DEVELOPMENTS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2019	**60,000**	**14,565**	**74,565**
Total comprehensive income	-	19,252	19,252
Dividends paid (Note 6)	-	(9,804)	(9,804)
31 December 2019	**60,000**	**24,013**	**84,013**
Total comprehensive income	-	6,942	6,942
Dividends paid (Note 6)	-	(7,757)	(7,757)
31 December 2020	**60,000**	**23,198**	**83,198**

Muse Developments Limited is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The Company is a private company limited by shares and registered in England and Wales. The nature of the Group's operations and its principal activities are set out in the strategic report on pages 2 to 8. The address of the registered office is given on page 1.

Basis of preparation

(a) Statement of compliance

The consolidated and Company financial statements have been prepared on the going concern basis as set out below and in accordance with IFRS adopted by the European Union and, therefore comply with Article 4 of the EU IAS Regulation.

(b) Basis of accounting

The financial statements have been prepared under the historical cost convention except for the revaluation of shared equity loan receivables that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

(c) Functional and presentation currency

These consolidated and company financial statements are presented in pounds sterling which is the Company's functional currency.

(d) Ultimate controlling party

The directors consider that the ultimate parent undertaking and ultimate controlling party of this Company is Morgan Sindall Group plc, which is registered in England and Wales. It is the largest and smallest Group into which the results of the Company are consolidated. Copies of the consolidated financial statements of Morgan Sindall Group plc are publicly available from www.morgansindall.com or from its registered office Kent House, 14-17 Market Place, London, W1W 8AJ.

(e) Adoption of new and revised standards

(i) New and revised accounting standards adopted by the Group

During the year, the Group has adopted the following new and revised standards and interpretations. Their adoption has not had any significant impact on the accounts or disclosures in these financial statements.

- Definition of a Business Combination - Amendments to IFRS 3 'Business Combinations';
- Interest Rate Benchmark Reform – Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments – recognition and measurement' and IFRS 7 'Financial Instruments: Disclosures';
- Definition of Material - Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

(e) Adoption of new and revised standards (continued)
(ii) New and revised accounting standards and interpretations which were in issue but were not yet effective and have not been adopted early
At the date of the financial statements, the Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 17 'Insurance Contracts';
- IFRS 10 and IAS 28 (amendments) *'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'*;
- Amendments to IAS 1 *'Classification of Liabilities as Current or Non-current'*;
- Amendments to IFRS 3 *'Reference to the Conceptual Framework'*;
- Amendments to IAS 16 *'Property, Plant and Equipment – Proceeds before Intended Use'*;
- Amendments to IAS 37 *'Onerous Contracts – Cost of Fulfilling as Contract'*; and
- Amendments to IFRS 16 *'COVID-19 Related Rent Concessions'*.

The Group is currently assessing the impact of the standards but do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Going concern
These financial statements have been prepared on a going concern basis which presumes that the Company has adequate resources to remain in operation and that the directors intend it to do so for at least one year from the date the financial statements are signed.

The Company continues to operate construction sites safely during the pandemic under the Site Operating Procedures ('SOP') agreed by the Construction Leadership Council and following the advice from UK Government, the devolved administrations and public health authorities. The Company has operated profitably with positive operating cash flows throughout the pandemic whilst under these restrictions. The company's is expected to continue to operate under these guidelines for the foreseeable future until the end of the pandemic.

The Company's future workload is healthy with a secured order book of £2.4bn (2019: £2.3bn) and the Company has a strong financial position at the year end with net current assets of £51.3m (2019: £51.2m), including cash and cash equivalents of £24.4m at 31 December 2020 (2019: Overdrawn £11.5m).

The Company participates in the Group's banking arrangements (under which it is a cross guarantor). As at 31 December 2020, the Group held cash of £400.5m and total loans and borrowings of £67.7m, including £67.3m of overdrafts repayable on demand (together net cash of £333m). Should further funding be required, the Group has significant committed financial resources available including unutilised bank facilities of £180m, of which £30m matures in March 2022 and £150m matures in October 2023. The Company is expected to continue to be in a position to obtain finance via intercompany loans to operate for the foreseeable future. In completing this analysis, the Directors have considered the commitment through a letter of support from MS Group and the ability of the MS Group to continue to provide such finance.

Going concern (continued)
Based on the above, the directors have a reasonable expectation that the Company and the Group of which it is part have adequate resources to continue in operational existence for a minimum of 12 months from the date of signing the accounts. Thus, they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the principal accounting policies in the financial statements.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company, together with the Group's share of the results of joint ventures made up to 31 December each year. Business combinations are accounted for using the acquisition method.

(a) Subsidiaries
Subsidiaries are entities that are controlled by the Group. Control is exerted where the Group has the power to govern, directly or indirectly, the financial and operating policies of the entity so as to obtain economic benefits from its activities. Typically, a shareholding of more than 50% of the voting rights is indicative of control. However, the impact of potential voting rights currently exercisable is taken into consideration.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control is obtained to the date that control ceases. The accounting policies of new subsidiaries are changed where necessary to align them with those of the Group.

(b) Joint arrangements
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, which requires unanimous consent for strategic financial and operating decisions.

(i) Joint ventures
A joint venture generally involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The results, assets and liabilities of jointly controlled entities are incorporated in the financial statements using the equity method of accounting.

Goodwill relating to a joint venture which is acquired directly is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group's investments in joint ventures are reviewed to determine whether any additional impairment loss in relation to the net investment in the joint venture is required. When there is a change recognised directly in the equity of the joint venture, the Group recognises its share of any change and discloses this, where applicable, in the statement of comprehensive income.

(b) Joint arrangements (continued)

(i) Joint ventures (continued)

Where the group's share of losses exceeds its equity accounted investment in a joint venture, the carrying amount of the equity interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations. Appropriate adjustment is made to the results of joint ventures where material differences exist between a joint venture's accounting policies and those of the Group.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(ii) Joint operations

Construction contracts carried out as a joint arrangement without the establishment of a legal entity are joint operations. The Group's share of the results and net assets of these joint operations are included under each relevant heading in the income statement and the balance sheet.

(c) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expense arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investments are eliminated to the extent of the Group's interest in that investment. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue recognition

(a) Sale of land and properties

The Company derives a significant portion of revenue from the sale of land, and the development and sale of residential and commercial properties.

Contracts are typically satisfied at a point in time. This is usually deemed to be legal completion as this is the point at which the Group has an enforceable right to payment. The only exception to this is pre-let forward sold developments where the customer controls the work in progress as it is created; or where the Company is unable to put the asset being constructed to an alternative use due to legal or practical limitations and has an enforceable right to payment for the work completed to date. Where these conditions are met, the contract is accounted for as construction contract in accordance with paragraph (b) below.

Revenue from the sale of land, residential and commercial properties is measured at the transaction price agreed in the contract with the customer. While deferred payment terms may be agreed in rare circumstances, the deferral never exceeds twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

Profit is recognised by allocating the total costs of a scheme to each unit at a consistent margin.

Revenue recognition (continued)

(b) Construction contracts

A portion of the Company's revenue is derived from construction contracts. The majority of contracts are considered to contain only one performance obligation for the purposes of recognising revenue. Whilst the scope of works may include a number of different components, in the context of construction activities these are usually highly interrelated and produce a combined output for the customer.

Contracts are typically satisfied over time. For fixed price construction contracts progress is measured through a valuation of the works undertaken by a professional quantity surveyor. Variations are not included in the estimated total contract price until the customer has agreed the revised scope of work.

Where the scope has been agreed but the corresponding change in price has not yet been agreed, only the amount that is considered highly probable not to reverse in the future is included in the estimated total contract price. Where delays to the programme of works are anticipated and liquidated damages would be contractually due, the estimated total contract price is reduced accordingly. This is only mitigated by liquidated damages due from others, expected extensions of time or commercial resolution being achieved where it is highly probable that this will not lead to a significant reversal in the future.

In order to recognise the profit over time it is necessary to estimate the total costs of the contract. Once the outcome of a construction contract can be estimated reliably, margin is recognised in the income statement in line with the stage of completion. Where a contract is forecast to be loss-making, the full loss is recognised immediately in the income statement.

(c) Contract costs of land and properties

Costs to obtain a contract are expensed unless they are incremental, i.e. they would not have been incurred if the contract had not been obtained, and the contract is expected to be sufficiently profitable for them to be recovered.

Costs to fulfil a contract are expensed unless they relate to an identified contract, generate or enhance resources that will be used to satisfy the obligations under the contract in future years and the contract is expected to be sufficiently profitable for them to be recovered.

Where costs are capitalised, they are amortised over the shorter of the period for which revenue and profit can be forecast with reasonable certainty and the duration of the contract except where the contract becomes loss making. If the contract becomes loss making, all capitalised costs related to that contract are immediately expensed.

(d) Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building of affordable housing, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates.

Revenue recognition (continued)

(d) Government grants (continued)

Funding received to support the construction of housing where current market prices would otherwise make a scheme financially unviable is recognised as revenue on a legal completion basis when the properties to which it relates are sold.

Government grants are initially recognised as deferred income at fair value when there is reasonable assurance that the Group will comply with the conditions attached and the grants will be received.

Leases

Where the Company is a lessee, a right-of-use asset and lease liability are recognised at the outset of the lease other than those that are less than one year in duration or of a low value.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date based on the Group's expectations of the likelihood of lease extension or break options being exercised. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable.

The lease liability is subsequently adjusted to reflect imputed interest, payments made to the lessor and any lease modifications.

The right-of-use asset is initially measured at cost, which comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the Group and an estimate of any costs that are expected to be incurred at the end of the lease to dismantle or restore the asset.

The right-of-use assets are presented within the property, plant and equipment line in the balance sheet and depreciated in accordance with the Group's accounting policy on property, plant and equipment. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Finance income and expense

Finance income and expense is recognised using the effective interest method.

Income tax

The income tax expense represents the current and deferred tax charges. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the Group's expected tax liability on taxable profit for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax (continued)
Taxable profit differs from that reported in the income statement because it is adjusted for items of income or expense that are assessable or deductible in other years and is adjusted for items that are never assessable or deductible.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases used in tax computations. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset current tax assets and liabilities.

Intangible assets – goodwill
Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and at least annually thereafter.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost of the assets over their estimated useful lives using the straight-line method on the following basis:

Plant, equipment, fixtures and fittings – between three and five years

Residual values of property, plant and equipment are reviewed and updated annually.

Investments
In the company balance sheet, fixed asset investments in subsidiaries and joint ventures are shown at cost less provision for impairment.

Shared equity loan receivables
The shared equity loans receivable are designated at fair value through profit or loss. Fair value movements are recognised in profit from operations and the resulting financial asset is presented as a non-current receivable. Fair value movements include accreted interest.

Inventories
Inventories principally comprise properties held for sale, properties under construction and land. Inventories are stated at the lower of cost and net realisable value. Cost comprises land, direct materials and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price less applicable costs.

Pensions
The company contributes to The Morgan Sindall Retirement Benefits Plan, which is of a defined contribution type. The annual costs are charged to the profit and loss account as incurred.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Critical accounting judgements and key sources of estimation uncertainty
The preparation of financial statements under IFRS requires management to make judgements, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods of the revision affects both current and future periods.

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Critical accounting judgements and key sources of estimation uncertainty (continued)

- Revenue recognition - the Group acts as a developer and/or contractor on a number of mixed use schemes. In some instances judgement is required to determine whether the revenue on a particular element of the scheme should be recognised as work progresses or upon legal completion. A detailed assessment of the contractual arrangements with the customer as well as the substance of the transaction is performed to determine the point at which the risks and rewards of ownership are transferred to the customer. Relevant factors that are considered include the point at which legal ownership of the land passes to the customer, the degree to which the customer can specify the major structural elements of the design prior to construction work commencing and the degree to which the customer can specify modifications to the major structural elements of the building during construction.

The Group does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1. Revenue and business segments

All revenue relates to the Group's principal activities carried out in the UK. Management review the performance of the Group on a project basis. None of these projects meet the criteria to be classified as an operating segment as defined by IFRS 8. Therefore no segmental analysis is disclosed.

2. Operating profit

	2020 £'000	2019 £'000
Operating profit is stated after charging / (crediting):		
Depreciation of property plant and equipment:		
- owned assets	323	124
- Right of use assets	468	405
Government grants	(3,996)	-
Auditor's remuneration (see below)	122	82

	2020 £'000	2019 £'000
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	100	65
Fees payable to the Company's auditor for the audit of annual financial statements of subsidiary companies pursuant to legislation	12	12
	112	**77**
Group share of fees payable to the Company's auditor for the audit of annual financial statements of joint venture companies pursuant to legislation	10	5
Total auditor's remuneration	**122**	**82**

Non-audit fees during the year were £19,000 (2019: £19,000) relating to planning consultancy services.

3. Staff costs

Group and Company	2020 £'000	2019 £'000
Wages and salaries	5,214	7,732
Social security costs	678	1,002
Pension costs	423	468
	6,315	**9,202**

	No.	No.
The monthly average number of employees (including executive directors) during the year was:	72	75

3. Staff costs (continued)

Group and Company	2020 £'000	2019 £'000
Directors' remuneration		
Emoluments	1,798	3,070
Company contribution to money purchase pension scheme	30	27
Number of directors who are members of money purchase pension schemes	3	3
Number of directors who exercised options over shares in MS Group	-	2

Remuneration of the highest paid director		
Emoluments	595	863

Two directors of the Company received no emoluments (2019: received no emoluments) in their capacity as directors of this Company. These individuals are remunerated by another company in the Morgan Sindall Group. There is only one category of employees within the Group.

4. Interest payable

	2020 £'000	2019 £'000
Loan interest payable	-	(25)
Lease liabilities	(124)	(54)
Other interest payable	(374)	(349)
Total interest payable	**(498)**	**(428)**

5. Tax

	2020 £'000	2019 £'000
UK corporation tax charge on profit for the year	1,662	3,477
Adjustment in respect of previous years	140	(255)
Total current tax	**1,802**	**3,222**
Origination and reversal of timing differences	242	122
Adjustment in respect of previous years	20	(8)
Total deferred tax (Note 16)	**262**	**114**
Total tax expense	**2,064**	**3,336**

Corporation tax is calculated at 19% (2019: 19%) of the estimable taxable profit for the year. The actual tax charge for the current and preceding year differs from the standard rate for the reasons set out in the following reconciliation.

5. Tax (continued)

	2020 £'000	2019 £'000
Profit before tax	8,693	19,018
Tax on profit at corporation tax rate	**1,652**	**3,613**
Factors affecting the charge for the year:		
Share of results of joint ventures	2	1
Adjustments to tax charge in respect of previous years	160	(263)
Effect of revaluing the deferred tax liability	223	-
Other adjustments	27	(15)
Total tax expense	**2,064**	**3,336**

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the UK corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). Deferred taxes at the balance sheet are measured using the enacted rates that are expected to apply to the unwind of each asset or liability. Accordingly, deferred tax balances as at 31 December 2019 were calculated at 17%, and deferred tax balances as at 31 December 2020 have been calculated at 19%. This change in deferred tax calculation rate has resulted in an increased tax charge for the year.

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2020 £'000	2019 £'000
Interim dividend for the year ended 31 December 2020 of 12.93p per share (2019: 16.34p per share)	**7,757**	**9,804**

The directors do not recommend the payment of a final dividend (2019: £nil).

7. Goodwill

	Group Goodwill	Company Goodwill
Cost & Net Book Value	**£'000**	**£'000**
As at 1 January 2019 and 31 December 2019 and 31 December 2020	**13,645**	**7,292**

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. In testing goodwill for impairment, the recoverable amount of the Group has been determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the forecast cash flows, discount rates and long-term growth rates. The calculations are based on a single cash generating unit (CGU).

7. Goodwill (continued)

Cash flow forecasts have been determined by using Board approved budgets and strategic plans for the next five years. Cash flows beyond five years have been extrapolated using an estimated nominal growth rate of 2.1% (2019: 2.1%). This growth rate does not exceed the long-term average for the relevant market. Discount rates are pre-tax and reflect the current market assessment of the time value of money and the specific risks. The risk-adjusted nominal rate used is 10.4% (2019: 12.1%). In carrying out this exercise, no impairment of goodwill has been identified. No reasonably foreseeable change in the assumptions used within the value in use calculations would cause an impairment in consolidated financial statements.

8. Property, plant and equipment

Group and company	Plant, equipment, fixtures & fittings £'000	Right of use assets - Buildings £'000	Total £'000
Cost			
As at 31 December 2018	**605**	**777**	**1,382**
Additions	1,302	4,237	5,539
Disposals	-	(556)	(556)
As at 31 December 2019	**1,907**	**4,458**	**6,365**
Additions	79	-	79
Disposals	-	-	-
As at 31 December 2020	**1,986**	**4,458**	**6,444**
Depreciation			
As at 31 December 2018	**(350)**	**(359)**	**(709)**
Charge for the year	(124)	(405)	(529)
Disposals	-	531	531
As at 31 December 2019	**(474)**	**(233)**	**(707)**
Charge for the year	(323)	(468)	(791)
Disposals	-	-	-
As at 31 December 2020	**(797)**	**(701)**	**(1,498)**
Net Book Value			
As at 31 December 2020	**1,189**	**3,757**	**4,946**
As at 31 December 2019	**1,433**	**4,225**	**5,658**

9. Investments in joint ventures

The details of the Company's investments in joint ventures are shown below. All undertakings are registered in England and Wales or Scotland and the country of incorporation and principal place of business is the UK.

Name of company	Proportion of ordinary shares held	Proportion of voting power held
Waterside Places Limited Partnership [(a)] [(1)]	50%	50%
Waterside Places (General Partner) Limited [(a)]	50%	50%
English Cities Fund [(b)] [(1)]	22.9% equity participation	33.3%
ECF (General Partner) Limited [(b)]	33.3%	33.3%
Lingley Mere Business Park Development Company Limited [(c)]	50%	50%
St Andrews Brae Developments Limited	50%	50%
Wapping Wharf (Alpha) LLP [(2)]	50%	50%
Wapping Wharf (Beta) LLP [(2)]	40%	40%
Logic Leeds Management Company Limited [(3)]	50%	50%
Intercity Developments Limited	50%	50%
Bromley Park (Holdings) Limited	50%	50%
Ashton Moss Developments Limited	50%	50%
Wirral Growth Company LLP [(d)] [(2)]	50%	50%

Unless otherwise stated the registered office address for each of the above is Kent House, 14-17 Market Place, London W1W 8AJ. Registered office classification key:
[(a)] First Floor North Station House, 500 Elder Gate, Milton Keynes, MK9 1BB
[(b)] One Coleman Street, London EC2R 5AA
[(c)] Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
[(d)] C/o Head of Legal Wirral Borough Council, Town Hall, Brighton Street, Walllasey, Wirral, CH44 8ED

Unless otherwise stated, the Group's interest is in ordinary shares issued (or equivalent of ordinary shares issued in the relevant country each). Classification key:
[1] Limited Partnership
[2] Limited Liability Partnership
[3] Limited by guarantee

Waterside Places Limited Partnership: 50% equity participation

Waterside Places is a joint venture with The Canal and River Trust to undertake regeneration of waterside sites.

English Cities Fund Limited Partnership: 22.9% equity participation

English Cities Fund is a limited partnership with Homes England and Legal & General to develop mixed-use regeneration schemes in assisted areas. Joint control is exercised through the board of the general partner at which each partner is represented by two directors and no decision can be taken without the agreement of a director representing each partner.

9. Investments in joint ventures (continued)

Lingley Mere Business Park Development Company Limited: 50% share

Lingley Mere Business Park Development Company Limited is a joint venture with United Utilities delivering development at a site in Warrington.

St Andrews Brae Developments Limited: 50% share

St Andrews Brae Developments Limited is a joint venture with Miller Homes which has completed a development of residential housing and apartments in Bearsden, Glasgow.

Wapping Wharf (Alpha) LLP: 50% partner

Wapping Wharf (Alpha) LLP is a joint venture with Umberslade which has completed development of the first phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Wapping Wharf (Beta) LLP: 40% partner

Wapping Wharf (Beta) LLP is a joint venture with Umberslade which will develop the second phase of residential apartments within the Harbourside Regeneration Area of Bristol.

Wirral Growth Company LLP: 50% partner

Wirral Growth Company LLP is a joint venture with Wirral Borough Council. The LLP was set up to undertake regeneration of numerous sites in the Wirral region of North West England.

Investments in equity accounted joint ventures are as follows:

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
As at 1 January	41,955	1,584	42,538	2,526
Share of net profit	3,068	-	6,056	-
Increase in investment	4,498	3,692	11,163	135
Investment repayment	(8,274)	-	(17,802)	(1,077)
As at 31 December	41,247	5,276	**41,955**	**1,584**

9. Investments in joint ventures (continued)

The following information is given in respect of the Group's equity accounted joint ventures. Information categorised as "Other" relates to joint ventures that are not individually material. The information represents the 100% share reported by the joint ventures unless stated otherwise.

	Waterside Places LP		English Cities Fund		Other	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Non-current assets	880	477	-	-	1,195	1,232
Current assets	82,270	62,746	112,464	126,762	34,203	33,647
Current liabilities	(38,533)	(21,266)	(21,642)	(23,941)	(5,809)	(3,815)
Non-current liabilities	-	-	(42,963)	(22,988)	(13,947)	(19,710)
Net assets	**44,617**	**41,957**	**47,859**	**79,833**	**15,642**	**11,354**
Proportion of the Group's ownership interest	22,308	20,978	10,979	18,521		
Other Adjustments[1]	-	-	65	9		
Carrying amount of the Group's interest in the joint venture	**22,308**	**20,978**	**11,044**	**18,530**	**7,895**	**2,447**
Revenue	23,989	60,466	109,831	137,128	26,548	9,983
Expenses	(22,929)	(53,831)	(107,071)	(128,294)	(22,133)	(8,653)
Net profit	**1,060**	**6,635**	**2,760**	**8,834**	**4,415**	**1,330**

[1] Other adjustments relate to a differential proportion between profit share and funding contribution.

Additional financial information on material joint ventures is given below:

	Waterside Places LP		English Cities Fund	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Cash and cash equivalents	633	85	6,683	3,823
Current loans	-	-	-	-
Non-current loans	26,471	13,874	42,963	23,000
Interest income	9	7	4	22
Interest expense	(1,081)	(535)	3,223	1,705

10. Investments in subsidiary undertakings

The details of the Company's subsidiaries are shown below. The country of incorporation and principal place of business is the UK, the address of the registered office of each entity is the same as the registered office of this Company and the principal activity is property development unless otherwise indicated.

Name of company	Proportion of ordinary shares held	Proportion of voting power held
Muse (ECF) Partner Limited	100%	100%
Muse (Warp 4) Partner Limited	100%	100%
Warp 4 General Partner Limited	100%	100%
Warp 4 General Partner Nominees Limited (4)	100%	100%
Warp 4 Limited Partnership (1) (4)	100%	100%
Alexandria Business Park Management Company Limited (4)	100%	100%
Rail Link Europe Limited	100%	100%
Eurocentral Partnership Limited	99%	99%
EPL Contractor (Plot B West) Limited (4)	99%	99%
EPL Contractor (Plot F East) Limited (4)	99%	99%
EPL Contractor (Plot F West) Limited (4)	99%	99%
EPL Developer (Plot B West) Limited (4)	99%	99%
EPL Developer (Plot F East) Limited (4)	99%	99%
EPL Developer (Plot F West) Limited (4)	99%	99%
Chatham Place (Building 1) Limited	100%	100%
Ician Developments Limited	100%	100%
Harrier Park Management Company Limited	100%	100%
Northshore Management Company Limited (3) (4)	50%	50%
North Shore Development Partnership Limited	100%	100%
Lewisham Gateway Developments (Holdings) Limited	100%	100%
Lewisham Gateway Developments Limited (4)	100%	100%
Lewisham Gateway (Plot A & B) Management Company Limited (b) (3) (4)	62.4%	62.4%
Lewisham Gateway Estate Management Company Limited (b) (3) (4)	81.2%	81.2%
Sovereign Leeds Limited	100%	100%
Chatham Place Building 1 (Commercial) Limited (4)	100%	100%
Chatham Place (Phase 1) Estate Manco Limited (a)	100%	100%
Chatham Square Limited	100%	100%
Cheadle Royal Management Company Limited (a) (2)	28%	28%
Muse Chester Limited	100%	100%
Muse (Brixton) Limited	100%	100%
Muse Brixton (Phase 2) Limited	100%	100%
Brook House (Brixton) Management Company Limited (b) (3)	100%	100%
Ivor House (Brixton) Management Company Limited (b) (3)	100%	100%
Olive Morris House (Brixton) Management Company (c) (3)	100%	100%

Morgan Sindall Consortium LLP [(5)]	100%	100%
Muse Developments (Northwich) Limited	100%	100%
Muse Properties Limited	100%	100%
Muse Aberdeen Limited	100%	100%

10. Investments in subsidiary undertakings (continued)

Unless otherwise stated the registered office address for each of the above is Kent House, 14-17 Market Place, London W1W 8AJ. Registered office classification key:
[(a)] Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES
[(b)] C/o Prism Cosec, Elder House, St. Georges Business Park, 207 Brooklands Road, Weybridge, Surrey KT13 0TS
[(c)] Riverside House, Irwell Street, Salford, M3 5EN

Unless otherwise stated, the Group's interest is in ordinary shares issued (or equivalent of ordinary shares issued in the relevant country each). Classification key:
[1] Limited Partnership
[2] Holding of ordinary and special shares
[3] Limited by guarantee
[4] Indirect holding
[5] Limited Liability Partnership

The movement in investments in subsidiary undertakings during the year was as follows:

	£'000
As at 1 January 2020	**17,819**
Disposals	(1)
As at 31 December 2020	**17,818**

Muse Developments Limited guarantees the following companies under section 479A of the Companies Act 2006 and accordingly these companies are exempt from the requirement to have their accounts audited:

Company	**Registered number**
Eurocentral Partnership Limited	03881458
Sovereign Leeds Limited	07309922
Warp 4 General Partner Limited	04398621
Chatham Square Limited	08312945
Ician Developments Limited	03718782
Muse Chester Limited	08624674

In addition, Muse Developments Limited guarantees the following companies under section 394A of the Companies Act 2006 and accordingly these companies are exempt from the requirement to prepare accounts:

Company	**Registered number**
EPL Developer (Plot F East) Limited	04615055
EPL Developer (Plot F West) Limited	04614646
EPL Developer (Plot B West) Limited	04614968
EPL Contractor (Plot B West) Limited	04615550

11. Shared equity loan receivables

The group has recognised the following shared equity loan receivables:

	2020 £'000	2019 £'000
At 1 January	38	87
Repayments	-	(49)
At 31 December	**38**	**38**

The fair value measurement for shared equity loan receivables is classified as Level 3 as defined by IFRS 7 'Financial Instruments: Disclosures'.

There is no directly observable fair value for individual loans arising from the sale of properties under the scheme, and therefore the loans have been discounted to NPV at a discount factor which reflects the interest rate expected on an instrument of similar risk and duration in the market.

12. Inventories

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Work in progress	69,787	44,385	71,984	32,700

Work in progress comprises land and housing, commercial and mixed-use developments in the course of construction.

13. Construction contracts

The Group has recognised the following revenue-related assets and liabilities:

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Contract assets (note 14)	5,172	2,156	6,376	6,376
Contract liabilities (note 15)	-	-	(11,235)	(9,627)

The contract assets primarily relate to the Groups right to consideration for work completed but not invoiced at the balance sheet date. The contract assets are transferred to trade receivables when the amounts are certified by the contract administrator. On most contracts, certificates are issued by the contract administrator on a monthly basis.

The Group has taken advantage of the practical expedient in paragraph 94 of IFRS 15 to immediately expense the incremental costs of obtaining contracts where the amortisation period of the assets would have been one year or less.

The contract liabilities primarily relate to the advance consideration received from customers in respect of performance obligations which have not yet been fully satisfied and for which revenue has not been recognised.

13. Construction contracts (continued)

Significant changes in the contract assets and the contract liabilities in the Group during the period are as follows:

	2020 £000		2019 £000	
	Contract assets	**Contract liabilities**	Contract assets	Contract liabilities
As at 1 January	6,376	(11,235)	5,805	(6,467)
Revenue recognised				
- performance obligations satisfied in the current period	111,430	11,235	65,154	-
- adjustments to performance obligations satisfied in previous periods	-	-	(5,805)	-
Cash received for performance obligations not yet satisfied	-	-	-	(4,768)
Amounts transferred to trade receivables	(112,634)	-	(58,778)	-
As at 31 December	5,172	-	6,376	(11,235)

Significant changes in the contract assets and the contract liabilities in the Company during the period are as follows:

	2020 £000		2019 £000	
	Contract assets	**Contract liabilities**	Contract assets	Contract liabilities
As at 1 January	6,376	(9,627)	5,805	(5,040)
Revenue recognised				
- performance obligations satisfied in the current period	81,630	9,627	65,154	-
- adjustments to performance obligations satisfied in previous periods	-	-	(5,805)	-
Cash received for performance obligations not yet satisfied	-	-	-	(4,587)
Amounts transferred to trade receivables	(85,850)	-	(58,778)	-
As at 31 December	2,156	-	6,376	(9,627)

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the balance sheet date:

	2020 £000	2021 £000	2022+ £000	Total £m
As at 31 December 2020	110,595	189,318	73,888	**373,801**

14. Trade and other receivables

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year				
Trade receivables (Note 23)	15,765	14,018	17,709	16,906
Amounts owed by Group undertakings	770	770	346	346
Amounts owed by joint ventures	350	350	10	10
Amounts owed by subsidiaries	-	26,396	-	44,715
Prepayments and accrued income	221	221	687	687
Other receivables	2,614	2,421	441	109
Trade and other receivables	19,720	44,176	**19,193**	**62,773**

Amounts owed by group undertakings are payable on demand and are not interest bearing.

15. Trade and other payables

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year				
Trade payables	15,266	11,785	14,201	10,109
Amounts owed to Group undertakings	15,593	15,565	853	820
Amounts owed to joint ventures	159	159	159	159
Amounts owed to subsidiaries	-	6,305	-	2,188
Other taxation and social security	2,376	2,388	1,210	1,470
Accrued expenses	15,108	13,177	3,737	3,737
Deferred income	17,527	5,219	1,641	973
Other payables	50	41	-	-
Trade and other payables	66,079	54,639	**21,801**	**19,456**

An amount of £16.9m (2019: £0.7m) is included as deferred income and represents the difference between the amount of grant received and the amount credited to the Statement of Comprehensive Income. An amount of £4.0m has been credited to the Statement of Comprehensive Income during the year (2019: £nil).

Amounts owed to group undertakings are payable on demand and are not interest bearing.

16. Deferred tax

Deferred tax is provided by the Group as follows:

	Capital Allowances	Short-term timing differences	Goodwill	Total
	£'000	£'000	£'000	£'000
At 31 December 2018	**36**	**(675)**	**(1,143)**	**(1,782)**
Charged to the income statement	(68)	(39)	(7)	(114)
At 31 December 2019	**(32)**	**(714)**	**(1,150)**	**(1,896)**
Credited/(charged) to the income statement	71	(198)	(135)	(262)
At 31 December 2020	**39**	**(912)**	**(1,285)**	**(2,158)**

Deferred tax is recognised on temporary differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at the tax rates expected to apply when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is provided by the company as follows:

	Capital Allowances	Short-term timing differences	Goodwill	Total
	£'000	£'000	£'000	£'000
At 31 December 2018	**36**	**107**	**(1,143)**	**(1,000)**
Charged to the income statement	(68)	(57)	(7)	(132)
At 31 December 2019	**(32)**	**50**	**(1,150)**	**(1,132)**
Credited/(charged) to the income statement	71	(223)	(135)	(287)
At 31 December 2020	**39**	**(173)**	**(1,285)**	**(1,419)**

17. Called-up share capital

	2020	2019
	£'000	£'000
60,000,000 ordinary shares of £1 each	60,000	60,000

All 60,000,000 shares carry equal voting rights and are fully paid.

18. Pension costs

The Company contributes to the Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements. The Morgan Sindall Retirement Benefits Plan is a defined contribution post-retirement benefit plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The pension creditor at 31 December 2020 was £nil (2019: £nil).

19. Contingent liabilities

Performance bonds have been entered into in the normal course of business. Performance bond facilities and the bank accounts of the Group and associated undertakings are supported by cross guarantees given by the Company and other participating companies in the Morgan Sindall Group. It is not anticipated that any liability will accrue.

20. Financial commitments

As at 31 December 2020, the Group has a commitment to invest further funding of up to £26.3m in Warp 4 Limited Partnership (2019: £27.1m) and £12.6m in ECF (General Partner) Limited (2019: £6.7m). This commitment is guaranteed by the Company's ultimate parent, Morgan Sindall Group plc.

21. Lease liabilities

There are 3 leases held by the Group, all of which are leases for properties in which the Groups regional offices are located. The maturity profile for the lease liabilities at 31 December 2020 are set out below:

	Buildings	
Group and company	**2020**	2019
	£000	£000
Maturity analysis		
Within one year	495	262
One to five years	1,793	1,926
After more than five years	1,871	2,233
	4,159	**4,421**

Group and company	**2020**	2019
	£000	£000
As at 1 January	4,421	338
Additions	-	4,238
Terminations	-	-
Repayments	(386)	(209)
Interest expenses	124	54
As at 31 December	**4,159**	**4,421**

22. Related party transactions

In the ordinary course of business, the Group has traded with its parent company Morgan Sindall Group plc together with its subsidiaries. Balances with these entities are disclosed in notes 14 and 15 of these financial statements.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

22. Related party transactions (continued)

Trading transactions

During the year, group companies entered into transactions with related parties which are not members of the Group. Amounts owed at the year end and transactions during the year are as follows:

	2020 Amounts owed by / (to) related parties £'000	2019 Amounts owed by / (to) related parties £'000
Intercity Developments Limited	(153)	(153)
Stockport Exchange Phase 3 Limited	-	5
Wapping Wharf (Alpha) LLP	(6)	(6)
Wapping Wharf (Beta) LLP	27	4
Bromley Park Limited	1	1
Wirral Growth Company LLP	319	-
Muse Brixton Phase 2 Ltd	3	
Total	**191**	**(149)**
Within amounts owed by joint ventures (note 14)	350	10
Within amounts owed to joint ventures (note 15)	(159)	(159)
Total	**191**	**(149)**

During the year ECF (General Partner) Limited was charged £5,217,651 in respect of development management fees by the company (2019: £3,964,245).

During the year Wapping Wharf (Beta) LLP was charged £226,030 in respect of management fees by the company (2019: £190,608).

During the year Wirral Growth Company LLP was charged £156,436 in respect of management fees by the company (2019: £190,608).

Remuneration of key management personnel

The Group considers key management personnel to be the directors. Details of their remuneration are given in note 3 of these financial statements.

23. Financial instruments

Net cash

Cash and cash equivalents comprise cash in hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates to their fair value. Net cash is defined as cash and cash equivalents:

	2020		2019	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash and cash equivalents	24,400	19,041	(11,455)	(13,521)
Net cash	**24,400**	**19,041**	**(11,455)**	**(13,521)**

The Company is a member of Morgan Sindall Group's banking arrangements in which there is an overdraft facility with Lloyds bank. Interest is paid at 1.5% over base rate and is payable on a monthly basis.

The Group's operations expose it to a variety of financial risks that include credit risk, interest rate risk, liquidity risk, price risk and market risk.

Credit risk

With regard to credit risk the Group has implemented policies that require appropriate credit checks on potential customers, investment partners and key suppliers before legal agreements are signed.

The ageing of the Group's trade receivables at the reporting date was as follows:

	2020		2019	
	Gross trade receivables £'000	Provision for impairment £'000	Gross trade receivables £'000	Provision for impairment £'000
Not past due	14,922	-	15,602	-
Past due 1 to 30 days	12	-	1,113	-
Past due 31 to 120 days	582	-	267	-
Past due 121 to 365 days	204	-	114	-

Past due greater than 1 year	95	(50)	663	(50)
	15,815	**(50)**	**17,759**	**(50)**

23. Financial instruments (continued)

Credit risk (continued)

Included in the Group's trade receivable balance are debtors with a carrying amount of £0.8m (2019: £2.1m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group considers that the amounts are still recoverable.

The ageing of the Company's trade receivables at the reporting date was as follows:

	2020		**2019**	
	Gross trade receivables £'000	**Provision for impairment £'000**	**Gross trade receivables £'000**	**Provision for impairment £'000**
Not past due	13,175	-	14,799	-
Past due 1 to 30 days	12	-	1,113	-
Past due 31 to 120 days	582	-	267	-
Past due 121 to 365 days	204	-	114	-
Past due greater than 1 year	95	(50)	663	(50)
	14,068	**(50)**	**16,956**	**(50)**

In determining the recoverability of trade receivables, the Group considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the provision for impairment losses.

Interest rate risk

In respect of interest rate risk the Group has both interest bearing assets and interest bearing liabilities. These include cash balances which have interest rates applied at floating market rates. The interest payable on interest bearing liabilities is determined at either LIBOR or European Community Reference Rate plus a margin. The Group is not exposed to significant interest rate risk as it does not have significant interest bearing liabilities and its only interest bearing asset is cash invested on a short-term basis.

Liquidity risk
The Group has net current assets of £51.3m (2019: £51.2m), which included cash of £24.4m at 31 December 2020 (2019: £nil). In addition, the Company is a subsidiary of Morgan Sindall Group plc and as such is a member of Morgan Sindall Group's banking arrangements under which it is a cross guarantor. In addition to the Morgan Sindall Group cash balances, which stood at £400.5m at 31 December 2020 (2019: £192.7m), the Morgan Sindall Group had £180m of committed loan facilities of which £30m matures in March 2022 and £150m matures in October 2023.

23. Financial instruments (continued)

Price risk
The Group is exposed to the risk of cost inflation during site development. To mitigate this risk, the Group enters into fixed price design and build construction contracts. The Group is also exposed to the risk of price movements in the housing sector which affect underlying sales values. To mitigate this risk a proportion of stock is subject to forward sale agreements.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates or equity prices, will affect the Group's income or the carrying amount of its holdings of financial instruments. The objective of market risk management is to achieve a level of market risk that is within acceptable parameters as set out in the group risk management framework.

Capital management
The Board aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The capital structure of the Morgan Sindall Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The cash and cash equivalents are supplemented by the £180m of committed bank facilities, as described under the liquidity risk section above.

There were no changes in the Group's approach to capital management during the year and the Group is not subject to any capital requirements imposed by regulatory authorities.

24. Exemption in Partnership (Accounts) Regulations taken

Muse Developments Limited, through its wholly owned subsidiary company Muse (Warp 4) Partner Limited, has a 100% interest in Warp 4 Limited Partnership, a partnership governed by English law. The registered place of business of Warp 4 Limited Partnership is: Kent House, 14-17 Market Place, London, W1W 8AJ.

The consolidated financial statements of Muse Developments Limited include the results and financial position of the group's 100% interest in Warp 4 Limited Partnership. Accordingly, advantage has been taken of the exemptions provided by Regulation 7 of the Partnership (Accounts) Regulations 2008 from the requirements for preparation, delivery and publication of the partnership's accounts.