REGISTERED NUMBER: 02717800 (ENGLAND AND WALES)

MUSE DEVELOPMENTS LIMITED

ANNUAL REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

MUSE DEVELOPMENTS LIMITED

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MUSE DEVELOPMENTS LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

Directors	ME Crompton SP Crummett NJH Franklin D Hoyle JC Morgan SA Shankland
Secretary	C Sheridan
Head Office	Anchorage 1 Anchorage Quay Salford Quays Manchester M50 3YJ
Registered Office	Kent House 14 - 17 Market Place London W1W 8AJ
Auditor	Deloitte LLP Statutory Auditor Manchester

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.

	2017	**2016**
Revenue	£175.3m	£156.5m
Operating profit	£10.0m	£13.4m
Profit before tax	£7.9m	£11.9m
Capital employed[1] at year-end	£86.6m	£68.9m
Cash and cash equivalents	(£3.6m)	£10.5m
Regeneration and development pipeline and order book	£2.2bn	£2.4bn

The Group delivered operating profit for the year of £10.0m, which although lower than the prior year, was in line with its schedule of development completions. Revenue in the year was up 12% to £175m, however this increase was determined more by the type of development scheme from which the profits were generated rather than being an indicator of underlying activity.

Capital employed at the year end was £86.6m. Average capital employed for the last 12-month period was £88.5m, with an overall ROCE[2] of 9%. The average ROCE over the previous three years is 13%, diluted by the current year performance. Capital employed is expected to increase in 2018 to within the range of £100m-£110m as a result of the higher level of scheme activity.

Good progress was made on the Group's existing town centre developments. Key contributors to performance include the completion of a landmark mixed use scheme at Marischal Square in Aberdeen, and two residential developments delivered by the English Cities Fund, a joint venture with Legal & General and Homes England as part of the Salford regeneration: 36 townhouses at Timekeepers Square, all sold by completion and a £16m, 10-storey block of 90 apartments at The Slate Yard, New Bailey, the first in Greater Manchester to be institutionally funded and custom built for private rental.

Other highlights in the year included the sale of One City Place, a six-storey, Grade A office building in Chester's central business district; and, ahead of forecast, the full letting of a 50,000 sq ft Grade A office building at Stockport Exchange. The division is now working with Stockport Metropolitan Borough Council to deliver the next phase of office development.

[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 less unwind of discount on deferred consideration) divided by (average capital employed). Interest and fees on non-recourse debt was £1.5m (FY 2016: £1.1m) and the unwind of discount on deferred consideration was £0.2m (FY 2016: £0.3m).

Business review (continued)

Additional completions include a health centre as part of the Swindon regeneration programme; a multi-storey car park in Warrington, part of the Time Square development; a second private rental building of 68 new homes for Fizzy Living at Lewisham Gateway; and a residential block at Brentford Lock West. In Brixton, the £70m refurbishment of the Grade II listed town hall continued, with the interior handed over to Lambeth Council. Work also progressed on two residential developments in Brixton, Hambrook House and Ivor House, both due to complete in autumn 2018.

The development portfolio continues to generate a high volume of construction work, with c£400m currently on site and a further c£420m expected to be awarded over the next 12 months. Key projects that started on site include phase four of the Warrington Bridge Street regeneration which will provide a 13-screen cinema and seven restaurants, new indoor market and 105,000 sq ft of council office space; a 160,000 sq ft office building at 2 New Bailey in Salford; three industrial units totalling 100,000 sq ft at Logic Leeds and 137 new homes at Millbay, Plymouth.

The regeneration and development pipeline and order book at £2.2bn (2016: £2.4bn) has a diverse geographic and sector split:

- by value, 44% of the pipeline is in the South East and London, 35% in the North West, 17% in Yorkshire and the North East, and 4% in the rest of the UK;
- by sector, 51% by value relates to residential, 30% to offices, and the remainder is broadly split between retail, leisure, and industrial.

The pipeline excludes three significant new projects where the Group has achieved preferred bidder status, in Dartford, Slough and the Wirral.

The target for the Group is to increase its ROCE[2] towards 20%. Looking ahead to 2018, based upon the higher level of scheme activity and the current profile of scheduled completions, the Group is expected to deliver increased profits from higher average capital employed and to make progress towards its target ROCE.

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 which are discussed in the Strategic Report in Morgan Sindall Group plc's 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 Group are considered to relate to the market environment, the availability of new business opportunities, the ability to attract and retain talented individuals and legal risks. Further discussion of these risks and uncertainties, in the context of Morgan Sindall group as a whole, is provided in the Strategic Report in Morgan Sindall Group plc's Annual Report, which does not form part of this report.

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.

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 Morgan Sindall 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 Morgan Sindall 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.

For and on behalf of the Board:

D Hoyle
Director

16 April 2018

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017. 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
The directors have a reasonable expectation that the Company and the Morgan Sindall Group of which it is a part have adequate resources to continue in operational existence for the foreseeable future. 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.

Directors
The directors who served during the year and thereafter are shown on page 1.

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 Morgan Sindall Group plc 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 £3,953,000 was paid during the year (2016: £5,313,000). The directors do not recommend the payment of a final dividend (2016: £nil).

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.

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 such 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 Financial Reporting Standards (IFRSs) as adopted by 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:

- properly 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 IFRSs 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
- 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.

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.

Deloitte LLP has expressed its willingness to be reappointed for another term and subject to the receipt of any objections as provided under statute or the Company's Articles of Association, the Company is relying on the provisions as provided in section 487 of the Companies Act 2006 for the deemed reappointment of Deloitte LLP as auditors.

Approved by the Board and signed on its behalf by:

D Hoyle
Director
16 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MUSE DEVELOPMENTS LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Muse Developments Limited (the 'parent company') and its subsidiaries (the 'group') 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions 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 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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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

We have nothing to report in respect of these matters.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MUSE DEVELOPMENTS LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

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.

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.

Rachel Argyle

Rachel Argyle (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Manchester
United Kingdom

16th April 2018

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Revenue	1	175,341	156,477
Cost of sales		(154,204)	(137,713)
Gross profit		**21,137**	**18,764**
Administrative expenses		(10,828)	(11,287)
Share of net (loss)/profit of joint ventures	9	(341)	5,898
Operating profit	**2**	**9,968**	**13,375**
Net finance expense	4	(2,049)	(1,509)
Profit before tax		**7,919**	**11,866**
Tax	5	(1,626)	(1,843)
Profit after tax		**6,293**	**10,023**
Other comprehensive income		-	-
Total comprehensive income		**6,293**	**10,023**

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

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Assets			
Goodwill	7	13,645	13,645
Property, plant & equipment	8	79	147
Investments in joint ventures	9	38,296	34,705
Shared equity loan receivables	11	88	127
Non-current assets		**52,108**	**48,624**
Inventories	12	110,880	88,137
Trade and other receivables	13	19,617	14,865
Cash and cash equivalents	23	-	10,514
Current assets		**130,497**	**113,516**
Total assets		**182,605**	**162,140**
Liabilities			
Trade and other payables	14	(76,926)	(83,925)
Current tax liabilities		(768)	(1,123)
Borrowings	23	(26,486)	(4,823)
Overdraft	23	(3,576)	-
Provisions for liabilities	16	(80)	(80)
Current liabilities		**(107,836)**	**(89,951)**
Total assets less current liabilities		**74,769**	**72,189**
Net current assets		**22,661**	**23,565**
Deferred tax liabilities	15	(1,896)	(1,656)
Non-current liabilities		**(1,896)**	**(1,656)**
Total liabilities		**(109,732)**	**(91,607)**
Net assets		**72,873**	**70,533**
Equity			
Share capital	17	40,000	40,000
Retained earnings		32,873	30,533
Total equity		**72,873**	**70,533**

The consolidated financial statements of Muse Developments Limited, registered number 02717800, were approved by the Board and authorised for issue on 16 April 2018. They were signed on its behalf by:

D Hoyle
Director

MUSE DEVELOPMENTS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Profit for the year		**6,293**	**10,023**
Income tax expense		1,626	1,843
Interest payable		2,049	1,509
Operating profit		**9,968**	**13,375**
Adjusted for:			
Depreciation	**8**	68	67
Share of net loss / (profit) of equity accounted joint ventures	**9**	341	(5,898)
Repayment of shared equity loan receivables	**11**	39	172
Decrease in provisions	**16**	-	(714)
Operating cash inflow before movements in working capital		**10,416**	**7,002**
(Increase) / decrease in inventories	**12**	(22,743)	27,225
(Increase) / decrease in receivables	**13**	(4,752)	3,324
Decrease in payables	**14**	(7,738)	(10,462)
Movements in working capital		**(35,233)**	**20,087**
Income taxes paid		(1,741)	(4,361)
Interest paid		(1,310)	(788)
Net cash (outflow) / inflow from operating activities		**(27,868)**	**21,940**
Investing activities			
Interest received		-	6
Purchase of property, plant and equipment	**8**	-	(70)
Net (payments to) / receipts from joint ventures	**9**	(3,932)	1,346
Net cash (outflow) / inflow from investing activities		**(3,932)**	**1,282**
Financing activities			
Proceeds from borrowings		21,663	-
Repayment of borrowings		-	(7,982)
Dividends paid	**6**	(3,953)	(5,313)
Net cash inflow / (outflow) from financing activities		**17,710**	**(13,295)**
Net (decrease) / increase in cash and cash equivalents		(14,090)	9,927
Cash and cash equivalents at 1 January	**23**	10,514	587
Cash and cash equivalents at 31 December	**23**	**(3,576)**	**10,514**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2016	**40,000**	**25,823**	**65,823**
Total comprehensive income	-	10,023	10,023
Dividends paid (Note 6)	-	(5,313)	(5,313)
At 31 December 2016 (Note 17)	**40,000**	**30,533**	**70,533**
Total comprehensive income	-	6,293	6,293
Dividends paid (Note 6)	-	(3,953)	(3,953)
At 31 December 2017 (Note 17)	**40,000**	**32,873**	**72,873**

MUSE DEVELOPMENTS LIMITED

COMPANY BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Assets			
Goodwill	7	7,292	7,292
Property, plant & equipment	8	79	147
Investments in joint ventures	9	5	664
Investments in subsidiaries	10	21,695	22,109
Non-current assets		**29,071**	**30,212**
Inventories	12	37,635	41,206
Trade and other receivables	13	68,140	38,129
Current tax assets		875	659
Cash and cash equivalents	23	-	3,654
Current assets		**106,650**	**83,648**
Total assets		**135,721**	**113,860**
Liabilities			
Trade and other payables	14	(72,340)	(66,660)
Current tax liabilities		(151)	-
Current provisions for liabilities	16	(80)	(80)
Overdraft	23	(12,699)	-
Current liabilities		**(85,270)**	**(66,740)**
Net current assets		**21,380**	**16,908**
Deferred tax liabilities	15	(1,114)	(974)
Non-current liabilities		**(1,114)**	**(974)**
Total liabilities		**(86,384)**	**(67,714)**
Net assets		**49,337**	**46,146**
Equity			
Share capital	17	40,000	40,000
Retained earnings		9,337	6,146
Total equity		**49,337**	**46,146**

The Company reported a profit for the financial year ended 31 December 2017 of £7,144,000 (2016: £4,339,000).

The financial statements of Muse Developments Limited, registered number 02717800, were approved by the Board of Directors on 16 April 2018.

D Hoyle
Director

MUSE DEVELOPMENTS LIMITED

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Profit for the year		**7,144**	**4,339**
Adjusted for:			
Dividend income		(6,400)	(6,100)
Income tax expense		542	207
Interest receivable		(328)	(466)
Interest payable		351	148
Operating profit / (loss)		**1,309**	**(1,872)**
Adjusted for:			
Depreciation	**8**	68	67
Decrease in provisions	**16**	-	(714)
Operating inflow / (outflow) before movements in working capital		**1,377**	**(2,519)**
Decrease in inventories	**12**	3,571	5,714
(Increase) / decrease in receivables	**13**	(22,869)	13,379
Increase / (decrease) in payables	**14**	5,831	(5,455)
Movements in working capital		**(13,467)**	**13,638**
Income taxes paid		(618)	(2,112)
Interest paid		(351)	(146)
Net cash (outflow) / inflow from operating activities		**(13,059)**	**8,861**
Investing activities			
Interest received		-	457
Purchase of property, plant and equipment	**8**	-	(70)
Receipts from repayment of investments in joint ventures	**9**	1,170	36
Increase in investment in joint ventures	**9**	(511)	-
Net cash inflow from investing activities		**659**	**423**
Financing activities			
Dividends paid	**6**	(3,953)	(5,313)
Net cash outflow from financing activities		**(3,953)**	**(5,313)**
Net (decrease) / increase in cash and cash equivalents		(16,353)	3,971
Cash and cash equivalents at 1 January	**23**	3,654	(317)
Cash and cash equivalents at 31 December	**23**	**(12,699)**	**3,654**

MUSE DEVELOPMENTS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2016	**40,000**	**7,120**	**47,120**
Total comprehensive income	-	4,339	4,339
Dividends paid (Note 6)	-	(5,313)	(5,313)
At 31 December 2016	**40,000**	**6,146**	**46,146**
Total comprehensive income	-	7,144	7,144
Dividends paid (Note 6)	-	(3,953)	(3,953)
31 December 2017	**40,000**	**9,337**	**49,337**

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 4. 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 amounts or disclosures reported in these financial statements.

- IAS 7 (amended) 'Statement of Cash Flows'. Clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities
- IAS 12 (amended) 'Income Taxes'. Clarifies that the carrying amount of an asset does not limit the estimation of probable future taxable profits, estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences, and an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

(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 by the Group

At the date of publishing these financial statements the following new and revised standards and interpretations were in issue but were not yet effective (and in some cases had not yet been adopted by the EU). None of these new and revised standards and interpretations have been adopted early by the Group:

- Annual improvements 2014-2016 cycle
- Annual improvements 2015-2017 cycle
- IFRIC 23 (amended) 'Uncertainty over Income Tax Treatments'
- IAS 28 (amended) 'Investments in Associates and Joint Ventures'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

The directors 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, except as follows:

IFRS 15 'Revenue from Contracts with Customers'

The Group will adopt this accounting standard on 1 January 2018. The directors have identified the following difference between current accounting standards and IFRS 15:

	Description
Recognition of revenue for forward-sold, pre-let developments	*Current treatment* Revenue is recognised at the point in time that the risks and rewards transfer to the customer. For forward-sold, pre-let developments this is typically at practical completion as the customer cannot specify or change the major structural elements of the design. *Future treatment* Revenue will be recognised as the Group fulfils the performance obligations in the contract. For forward-sold, pre-let developments this will be over time where the Group is not able to readily direct the asset for an alternative use and has an enforceable right to payment as work progresses. It is estimated that revenue of c£16m which had not yet been recognised prior to 31 December 2017 would have been recognised earlier. This difference will give rise to an increase (net of deferred tax) in opening reserves at 1 January 2018 of £0.4m.

(e) Adoption of new and revised standards (continued)

IFRS 16 'Leases'

The Group will adopt this accounting standard early on 1 January 2018. This will require the Group to recognise a right of use asset and a lease liability. The gross asset and liability are estimated at £0.4m to £0.6m at 1 January 2018. The income statement will no longer include an operating lease expense but will include depreciation of the right of use asset and an interest charge on the lease liability.

The accounting policies as set out below have been applied consistently to all periods presented in these consolidated financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report. The Group is expected to trade profitably for the foreseeable future. The Group participates in the Morgan Sindall Group's centralised treasury arrangements and shares banking arrangements, including the provision of cross guarantees, with its ultimate parent Morgan Sindall Group plc and fellow subsidiaries.

The directors, having assessed the responses of the directors of Morgan Sindall Group plc to their enquiries, and having received confirmation regarding its continued support, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Morgan Sindall Group to continue as a going concern or its ability to continue to trade with the current banking arrangements.

On the basis of their assessment of the Company and the Group's financial position and of the enquiries made of the directors of Morgan Sindall Group plc, the company's directors have a reasonable expectation that the Company and Group will be able to continue in operational existence for a minimum of 12 months from the date of signing these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual 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.

(a) Subsidiaries (continued)

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.

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) Contract accounting

Revenue comprises the fair value of construction carried out in the year, based on an internal assessment of work carried out. Once the outcome of a construction contract can be estimated reliably, profit is recognised in the income statement on a stage of contract completion basis by reference to either costs incurred to date and total forecast costs on the contract as a whole or certified value. Losses expected in bringing a contract to completion are recognised immediately in the income statement as soon as they are forecast. Where the outcome of variations is uncertain, the Group only recognises revenue and associated profit where it is probable that the client will approve the variation. Where the outcome of claims is uncertain, the Group only recognises revenue when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Amounts due from construction contract customers, which are included within receivables, represent revenue, less progress payments received. Where progress payments exceed revenue and other contract balances, the excess is shown as amounts due to construction contract customers within current liabilities.

(b) Sale of development properties

Revenue from the sale of development properties is measured at the fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, there is no continuing management involvement with the properties and the amount of revenue can be estimated reliably.

The timing of the transfer of risks and rewards varies depending on the individual terms of the contract of sale. Where the terms of the contract of sale are such that it is classified as an agreement for the rendering of services, revenue is recognised by reference to the stage of completion of the development. Where the terms of the contract of sale are such that it is classified as an agreement for the sale of goods, revenue is recognised at the point where the transfer of control and the significant risks and rewards of ownership occurs. This can occur at a single point in time or continuously through the course of the development and is dependent on the specific characteristics of each development.

Government grants

Funding received in respect of developer grants, where funding is awarded to encourage the building and renovation of sites, is recognised as revenue on a stage of completion basis over the life of the project to which the funding relates. 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, and are netted against any related inventory.

Operating leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the leases.

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.

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.

Trade receivables
Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method with an appropriate allowance for estimated irrecoverable amounts recognised in the income statement when there is objective evidence that the asset is impaired.

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

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.

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, apart from those involving estimations (which are dealt with separately below), 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:

- 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

	2017 £'000	2016 £'000
Operating profit is stated after charging / (crediting):		
Depreciation of property plant and equipment:		
- owned assets	68	67
Government grants	(2,399)	(10,342)
Auditor's remuneration (see below)	79	74
Operating lease rentals:		
- plant and machinery	13	29
- land and buildings	382	-

	2017 £'000	2016 £'000
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	60	48
Fees payable to the Company's auditor for the audit of annual financial statements of subsidiary companies pursuant to legislation	17	21
	77	**69**
Group share of fees payable to the Company's auditor for the audit of annual financial statements of joint venture companies pursuant to legislation	2	5
Total auditor's remuneration	**79**	**74**

Non-audit fees during the year were £18,000 (2016: £nil).

3. Staff costs

	2017 £'000	2016 £'000
Wages and salaries	6,133	6,701
Social security costs	812	879
Pension costs	379	373
	7,324	**7,953**

	No.	No.
The average number of employees (including executive directors) during the year was:	71	70

3. Staff costs (continued)

	2017 £'000	2016 £'000
Directors' remuneration		
Emoluments	1,879	3,298
Company contribution to money purchase pension scheme	10	10
Number of directors who are members of money purchase pension schemes	1	1
Number of directors who exercised options over shares in the ultimate Group	-	3
Remuneration of the highest paid director		
Emoluments	640	1,242

Two directors of the Company received no emoluments (2016: same) in their capacity as directors of this Company. These individuals are remunerated by another company in the Morgan Sindall Group.

4. Net finance expense

	2017 £'000	2016 £'000
Other interest receivable	-	20
Total interest receivable	**-**	**20**
Loan interest payable	(1,898)	(1,188)
Other interest payable	(151)	(341)
Total interest payable	**(2,049)**	**(1,529)**
Net finance expense	**(2,049)**	**(1,509)**

5. Tax

	2017 £'000	2016 £'000
UK corporation tax charge on profit for the year	1,374	2,274
Adjustment in respect of previous years	12	72
Total current tax	**1,386**	**2,346**
Origination and reversal of timing differences	161	76
Adjustment in respect of previous years	79	(579)
Total deferred tax (Note 15)	**240**	**(503)**
Total tax expense	**1,626**	**1,843**

Corporation tax is calculated at 19.25% (2016: 20%) 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.

	2017 £'000	2016 £'000
Profit before tax	7,919	11,866
Tax on profit at corporation tax rate	**1,524**	**2,373**
Factors affecting the charge for the year:		
Share of results of joint ventures	4	(27)
Expenses not deductible in determining taxable profit	29	84
Change in tax rates	-	(120)
Adjustments to tax charge in respect of previous years	91	(507)
Other adjustments	(22)	40
Total tax expense	**1,626**	**1,843**

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

6. Dividends

Amounts recognised as distributions to equity holders in the year:

	2017 £'000	2016 £'000
Interim dividend for the year ended 31 December 2017 of 9.88p per share (2016: 13.28p per share)	3,953	5,313

The directors do not recommend the payment of a final dividend (2016: £nil).

7. Goodwill

Cost & Net Book Value	Group Goodwill £'000	Company Goodwill £'000
As at 1 January 2016 and 1 January 2017 and 31 December 2017	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).

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 2.3% (2016: 2.3%). 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 13.5% (2016: 13.5%). In carrying out this exercise, no impairment of goodwill has been identified.

8. Property, plant and equipment

Group and company	Plant, equipment, fixtures & fittings £'000
Cost	
As at 1 January 2016	1,277
Additions	70
As at 31 December 2016	**1,347**
Additions	-
As at 31 December 2017	**1,347**
Depreciation	
As at 1 January 2016	(1,133)
Charge for the year	(67)
As at 31 December 2016	**(1,200)**
Charge for the year	(68)
As at 31 December 2017	**(1,268)**
Net Book Value	
As at 31 December 2017	**79**
As at 31 December 2016	147

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%

9. *Investments in joint ventures (continued)*

Name of company	Proportion of ordinary shares held	Proportion of voting power held
Ashton Moss Developments Limited	50%	50%
Hulme High Street Limited [d]	80.1%	80.1%
Hulme Management Company Limited [d] [3]	33.3%	33.3%

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] One Eleven, Edmund Street, Birmingham, West Midlands B3 2HJ
[b] One Coleman Street, London EC2R 5AA
[c] Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington WA5 3LP
[d] Booths Park, Chelford Road, Knutsford, Cheshire WA16 8QZ

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.

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.

9. Investments in joint ventures (continued)

Investments in equity accounted joint ventures are as follows:

	2017		2016	
	Group	**Company**	**Group**	**Company**
	£'000	**£'000**	**£'000**	**£'000**
As at 1 January	34,705	664	30,186	700
Share of net (loss)/profit	(341)	-	5,898	-
Increase in investment	10,814	511	1,824	-
Investment repayment	(6,882)	(1,170)	(3,203)	(36)
As at 31 December	**38,296**	**5**	**34,705**	**664**

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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-current assets	-	-	-	-	1,305	1,341
Current assets	95,533	63,300	49,867	71,451	7,274	11,699
Current liabilities	(32,949)	(19,568)	(21,343)	(18,589)	(1,703)	(6,239)
Non-current liabilities	-	-	(12,921)	(19,725)	-	-
Net assets	**62,584**	**43,732**	**15,603**	**33,137**	**6,876**	**6,801**
Proportion of the Group's ownership interest	31,292	21,865	3,620	3,976		
Other Adjustments[1]	(1)	(562)	(50)	5,163		
Carrying amount of the Group's interest in the joint venture	**31,291**	**21,303**	**3,570**	**9,139**	**3,435**	**4,263**
Revenue	20,778	20,968	58,506	142,744	23	13,088
Expenses	(21,426)	(18,220)	(57,794)	(129,872)	(43)	(11,185)
Net (loss)/profit	**(648)**	**2,748**	**712**	**12,872**	**(20)**	**1,903**

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

9. Investments in joint ventures (continued)

Additional financial information on material joint ventures is given below:

	Waterside Places LP		English Cities Fund	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Cash and cash equivalents	6,832	724	3,977	15,129
Current loans	24,449	7,805	-	-
Non-current loans	-	-	(12,813)	(19,725)
Interest income	11	13	43	37
Interest expense	(1,198)	(444)	(1,554)	(3,158)

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%
Rail Link Europe Limited [(a)]	80%	80%
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%
Northshore Management Company Limited [(3)(4)]	50%	100%
North Shore Development Partnership Limited	100%	100%
Lewisham Gateway Developments (Holdings) Limited	100%	100%

10. Investments in subsidiary undertakings (continued)

Name of company	Proportion of ordinary shares held	Proportion of voting power held
Lewisham Gateway Developments Limited [(4)]	100%	100%
Lewisham Gateway (Plot A & B) Management Company Limited [(3)(4)]	62.4%	100%
Lewisham Gateway Estate Management Company Limited [(3)(4)]	81.2%	100%
Sovereign Leeds Limited	100%	100%
Chatham Place Building 1 (Commercial) Limited [(4)]	100%	100%
Chatham Place (Phase 1) Estate Manco Limited [(b)]	100%	100%
Chatham Square Limited	100%	100%
Cheadle Royal Management Company Limited [(b)(2)]	28%	100%
Muse Chester Limited	100%	100%
Muse (Brixton) Limited	100%	100%
Brook House (Brixton) Management Company Limited [(3)]	100%	100%
Ivor House (Brixton) Management Company Limited [(3)]	100%	100%
Muse Developments (Northwich) Limited	100%	100%
Muse Properties Limited	100%	100%
Muse Aberdeen Limited	100%	100%

The ordinary shares held by Muse Developments Limited in Rail Link Europe Limited confer the right to 100% of the subsidiary's results and net assets. No minority interests are thus included within the financial statements of Muse Developments Limited.

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)] Booths Park, Chelford Road, Knutsford, Cheshire WA16 8QZ
[(b)] Eversheds House, 70 Great Bridgewater Street, Manchester M1 5ES

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

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

	£'000
As at 1 January 2017	**22,109**
Impairment	(414)
As at 31 December 2017	**21,695**

10. Investments in subsidiary undertakings (continued)

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
Chatham Place (Building 1) Limited	06050459
EPL Contractor (Plot F East) Limited	04620368
EPL Contractor (Plot F West) Limited	04620390
Sovereign Leeds Limited	07309922
Warp 4 General Partner Limited	04398621

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

	2017	**2016**
	£'000	**£'000**
At 1 January	127	299
Repayments	(39)	(176)
Net change in fair value recognised in the income statement	-	4
At 31 December	**88**	**127**

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

	2017		**2016**	
	Group	**Company**	**Group**	**Company**
	£'000	**£'000**	**£'000**	**£'000**
Work in progress	110,880	37,635	88,137	41,206

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

13. Trade and other receivables

	2017		2016	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade receivables (Note 23)	11,909	9,934	14,014	13,457
Amounts due from construction contract customers	2,777	2,777	-	-
Amounts owed by Group undertakings	3,360	3,360	-	-
Amounts owed by joint ventures	31	31	17	17
Amounts owed by subsidiaries	-	50,961	-	24,420
Prepayments	181	181	232	232
Other receivables	1,359	896	602	3
Trade and other receivables	**19,617**	**68,140**	**14,865**	**38,129**

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

14. Trade and other payables

	2017		2016	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade payables	13,329	5,853	12,065	4,430
Amounts owed to Group undertakings	24,501	24,486	19,687	19,573
Amounts owed to joint ventures	131	308	153	153
Amounts owed to subsidiaries	-	16,540	-	9,692
Other taxation and social security	8,495	8,394	5,062	5,691
Accrued expenses	27,088	16,662	36,527	27,081
Deferred income	3,382	-	3,082	-
Other payables	-	97	7,349	40
Trade and other payables	**76,926**	**72,340**	**83,925**	**66,660**

Other payables include £nil (2016: £7.3m) in relation to the discounted deferred consideration due on the acquisition of an additional interest in Waterside Places.

Government grants of £nil have been received during 2017 (2016: £0.1m) and an amount of £2.4m has been credited to the Statement of Comprehensive Income during the year (2016: £10.3m).

An amount of £0.7m (2016: £3.1m) 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.

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

15. Deferred tax

Deferred tax is provided by the Group as follows:

	Capital Allowances £'000	Short term timing differences £'000	Goodwill £'000	Total £'000
At 1 January 2016	**20**	**(1,145)**	**(1,034)**	**(2,159)**
(Charged)/credited to the income statement	(19)	463	59	503
At 31 December 2016	**1**	**(682)**	**(975)**	**(1,656)**
Credited/(charged) to the income statement	17	(96)	(161)	(240)
At 31 December 2017	**18**	**(778)**	**(1,136)**	**(1,896)**

Deferred tax is provided by the company as follows:

	Capital Allowances £'000	Short term timing differences £'000	Goodwill £'000	Total £'000
At 1 January 2016	**20**	-	**(1,034)**	**(1,014)**
(Charged)/ credited to the income statement	(19)	-	59	40
At 31 December 2016	**1**	-	**(975)**	**(974)**
Credited/(charged) to the income statement	17	-	(157)	(140)
At 31 December 2017	**18**	-	**(1,132)**	**(1,114)**

16. Provisions for liabilities

Group and Company	2017 Property £'000	2016 Property £'000
At 1 January	80	794
Utilised	-	(714)
At 31 December	**80**	**80**

Provisions relate to the costs of remedial works where amounts are likely to be payable over a period up to 31 December 2018.

17. Called-up share capital

	2017 £'000	2016 £'000
40,000,000 ordinary shares of £1 each	40,000	40,000

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 2017 was £nil (2016: £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

The Group has future commitments to purchase land and buildings with a combined purchase price of £nil (2016: £2.5m).

As at 31 December 2017, the Group has a commitment to invest further funding of up to £12.0m in Warp 4 Limited Partnership (2016: £21.7m). This commitment is guaranteed by the Company's ultimate parent, Morgan Sindall Group plc.

21. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017		2016	
	Land & Buildings		Land & Buildings	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Within one year	370	370	11	11
Within two to five years	212	212	5	5
	582	**582**	**16**	**16**

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 13 and 14 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.

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:

	2017 Amounts owed by / (to) related parties £'000	2016 Amounts owed by / (to) related parties £'000
Intercity Developments Limited	(153)	(153)
St Andrews Brae Developments Limited	(150)	-
Waterside Places Limited	-	6
Wapping Wharf (Alpha) LLP	25	11
Bromley Park Limited	1	-
Total	**(277)**	**(136)**
Within amounts owed by joint ventures (note 13)	31	17
Within amounts owed to joint ventures (note 14)	(308)	(153)
Total	**(277)**	**(136)**

During the year ECF (General Partner) Limited was charged £2,329,284 in respect of development management fees by the company (2016: £3,545,286). During the year the company charged £nil in respect of management fees (2016: £20,000) to St Andrews Brae Developments Limited. During the year the company charged £35,494 (2016: £2,257) of costs to Wapping Wharf (Alpha) LLP.

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 debt

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 less non-recourse project financing as shown below:

	2017		2016	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash and cash equivalents	(3,576)	(12,699)	10,514	3,654
Non-recourse project finance due within one year	(26,486)	-	(4,823)	-
Net cash	**(30,062)**	**(12,699)**	**5,691**	**3,654**

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% 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:

	2017		2016	
	Gross trade receivables £'000	Provision for impairment £'000	Gross trade receivables £'000	Provision for impairment £'000
Not past due	4,143	-	5,831	-
Past due 1 to 30 days	4,164	-	7,124	-
Past due 31 to 120 days	2,371	-	694	-
Past due 121 to 365 days	740	-	132	-
Past due greater than 1 year	541	(50)	248	(15)
	11,959	**(50)**	**14,029**	**(15)**

23. Financial instruments (continued)
Credit risk (continued)

Included in the Group's trade receivable balance are debtors with a carrying amount of £7.8m (2016: £8.2m) 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:

	2017		2016	
	Gross trade receivables £'000	Provision for impairment £'000	Gross trade receivables £'000	Provision for impairment £'000
Not past due	2,168	-	5,274	-
Past due 1 to 30 days	4,164	-	7,124	-
Past due 31 to 120 days	2,371	-	694	-
Past due 121 to 365 days	740	-	132	-
Past due greater than 1 year	541	(50)	248	(15)
	9,984	**(50)**	**13,472**	**(15)**

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 £22.7m (2016: £23.6m), which included an overdrawn amount of £3.6m at 31 December 2017 (2016: cash of £10.5m). 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 £221.2m at 31 December 2017 (2016: £228.5m), the Morgan Sindall Group has £180m of committed undrawn loan facilities (£30m maturing in March 2022 and £150m maturing in May 2022).

23. Financial instruments (continued)

Liquidity risk (continued)

The Group had £26.5m (2016: £4.8m) of additional project finance borrowing drawn down to fund specific projects. These project finance borrowings are without recourse to the remainder of the Group's assets.

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 expiring in 2022 and beyond, 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.