Telford Homes Plc

Annual report and accounts

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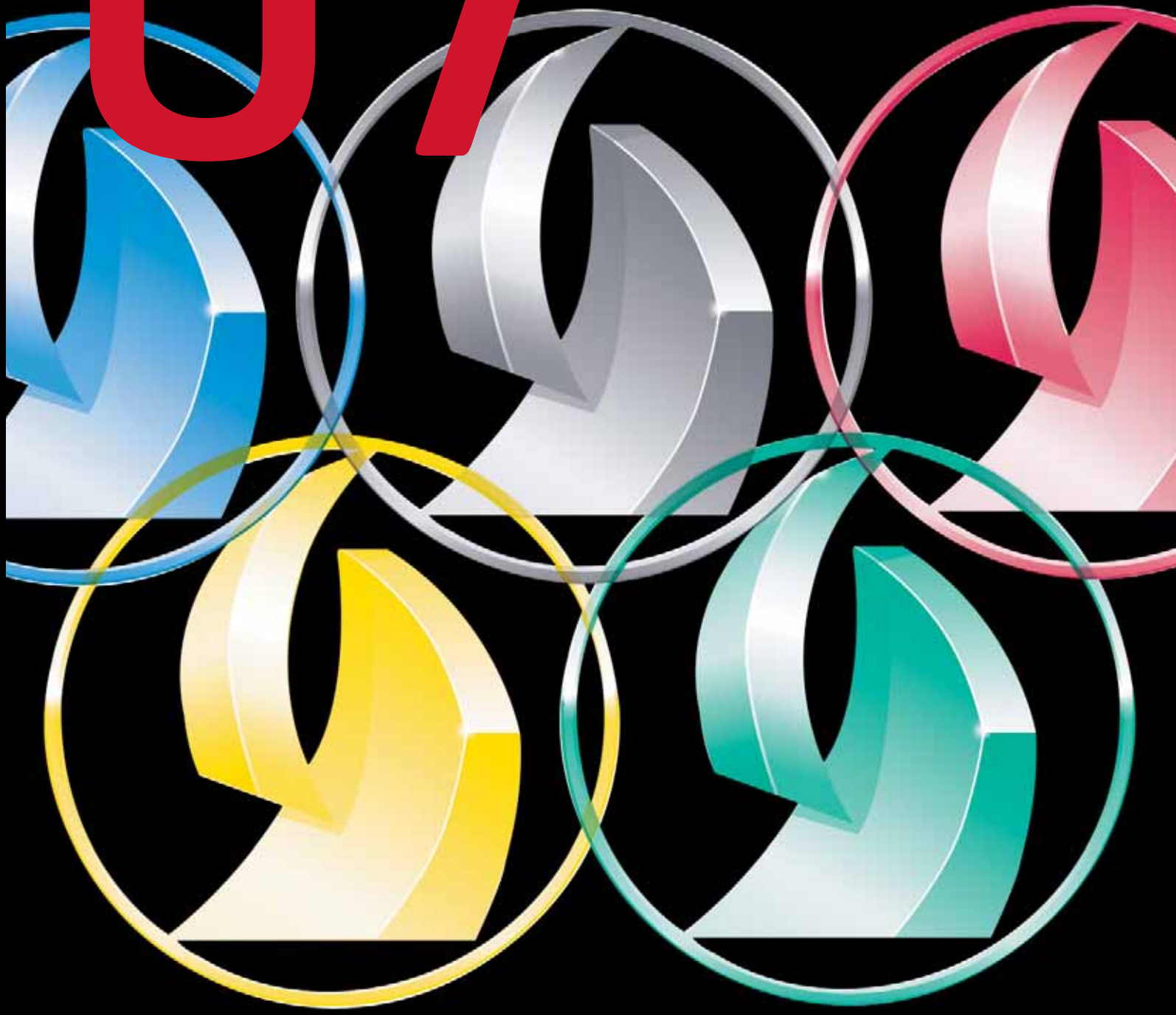


telfordhomes

Telford Homes Plc Annual report and accounts 2007

Financial highlights 2007

	2007	2006
Turnover	£104.4 million	£79.3 million
Gross profit margin	22.4%	23.0%
Operating margin	16.0%	16.2%
Profit before tax	£13.5 million	£10.0 million
Dividend per share	8.9p	7.0p
Earnings per share	30.3p	23.8p
Pre-tax return on average equity	31.2%	35.5%
Gearing	102%	193%
Uncovered gearing	18%	60%
Development pipeline	2,221 properties	1,659 properties
Gross profit expected in pipeline	£100 million	£71 million

"Telford Homes, by the development of magnificent new buildings and community spaces, is part of an extraordinary transformation taking place in East London."

Andrew Wiseman, Chief Executive

Contents

KNOWLEDGE

"Our knowledge and expertise enable us to consistently meet our targets"

Chairman's statement

David Holland
Chairman (Non-Executive)

"Telford Homes has taken a substantial step forward during the last 12 months. Another year of strong financial performance has been complemented by the share placing raising net funds of £14.4 million during 2006. This additional equity gives us the opportunity to accelerate our growth in East London, a region with an exciting future."

Equity raised
£14.4million

Sales performance in the year has been strong and although we are mindful of rising interest rates this has not had an effect on the confidence of our customers. Demand is in excess of supply in East London and this, together with the quality of our product, has been a factor in the success of our recent sales launches.

Our development pipeline is very healthy at over 2,200 homes. This does not include over 1,000 homes not yet under contract that we expect to deliver through our development partnership with Eastend Homes. Last year I reported that we had been chosen as their partner on the British Estate in Mile End and, following a thorough planning process which has helped set the precedent for future estate regeneration in East London, development is now underway. We have been appointed as their partner on a further five estates which we expect to develop over the next five years.

The share placing in October last year was extremely successful with demand for our shares being far greater than we expected. This is a sign of the confidence that the directors have in the future of Telford Homes and the positive messages we were able to relay when presenting to institutions. I am delighted that a number of new shareholders have been added to our register during the year and I hope that they are looking forward to the next few years as much as I am.

David Holland
Chairman (Non-Executive)
21st May 2007

Equinox, Island Gardens, E14

Queen Mary's Villas, South Woodford

Chief Executive's review

Andrew Wiseman
Chief Executive

"Once again I can report on a year in which we have exceeded our initial expectations. Turnover has grown by 32% to £104.4 million and profit before tax is up 35% to £13.5 million.

Earnings per share have increased by 27% to 30.3p despite the dilutive effect of the share placing and the directors are proposing a final dividend of 4.9p, making a total of 8.9p for the year."

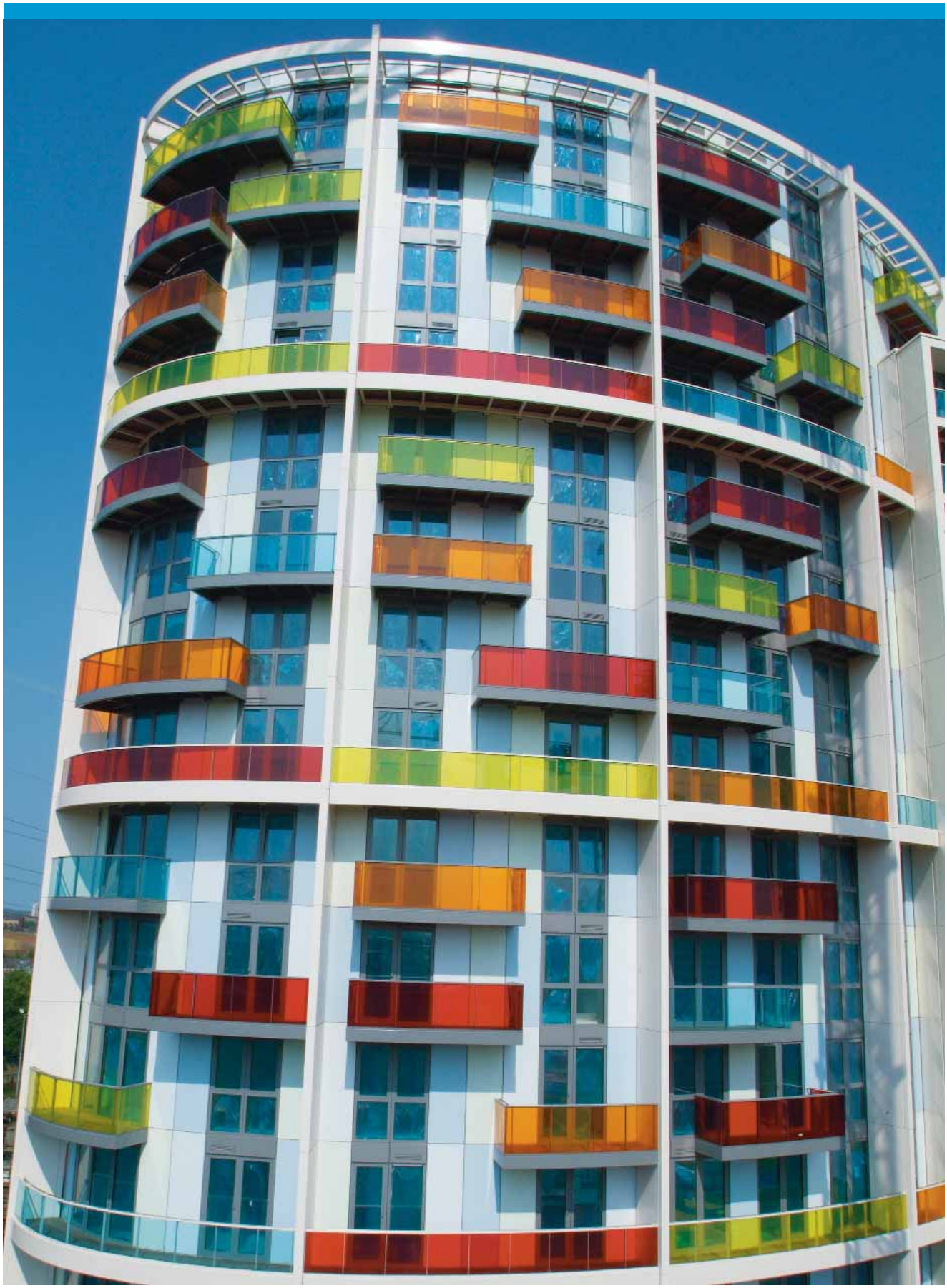
Turnover
£104.4million

Property sales and affordable housing

Contracts were exchanged on 478 private homes, 84 affordable homes and two commercial units making a total of 564 properties in the year. Included within this figure are 16 homes being constructed under joint ventures where we recognise half of the turnover and profit from the development.

The number of private homes sold has increased by 45% this year with the average selling price of those homes also increasing to £258,000 from £245,000. Prices have continued to move ahead in East London and, where the market allows, we have maintained our policy of selling properties at an early stage in the development process. This secures future cash flows and enables us to invest further in our development pipeline. We have been able to secure increased bank finance as a direct result of the volume of early sales on some sites which offsets the risk of increased gearing.

Earlier this year we sold all 179 private homes at OneStratford our development in High Street, Stratford before construction had commenced. More recently we have sold all of the 53 private homes at Metro East, E3 and the 144 private homes at SoBow, E3 and work is only just underway at both sites. Both of these developments went on sale in 2007 and the success we have achieved is an indication of the continuing strength of the market, particularly in East London. Of the 197 private homes across these two sites 81 contracts were exchanged in the year to March with the remainder being exchanged in the new financial year and all have been sold to investors.



Icona, Stratford under construction

Chief Executive's review

Queen Mary's Gate, South Woodford is a different marketing proposition with sales to date being largely to the owner-occupier market. Despite this the rate of sales has been impressive with handovers not due to commence until November this year. To date we have sold 123 of the 184 private homes in the first construction phase.

Increase in profit before tax
35%

The number of affordable properties sold this year is lower than last year due solely to the timing of some significant contracts. In March 2006 we exchanged contracts to deliver all of the affordable homes at OneStratford and Queen Mary's Gate with those 232 exchanges being recognised last year but the majority of the profits flowing into 2007 and beyond. Partnerships with affordable housing providers remain integral to our business and typically 35% of any development is sold for affordable housing.

Our accounting policy is to recognise turnover and profit from the point of exchange of contracts on a percentage complete basis. This means that in addition to profit recognised from contracts exchanged in the year we also have profit continuing to be realised from ongoing construction at developments where the exchanges have been reported in previous years. Our results this year include profits from, amongst others, Tequila Wharf, E14 where sales commenced in 2004 and the development was completed at the end of 2006 and Icona, Stratford where sales commenced in 2005 and development will continue into 2008.

Contracts exchanged
564

Operating performance

The operational heart of our business has once again delivered outstanding quality of final product, on programme and within budget. Both Telford Homes Metro and Telford Homes Alto continue to experience substantial change in the scope of their operations and new staff have been recruited to ensure we have the capacity to cope with expansion. In recognition of our operational performance we have won a number of awards in the year for design, construction and marketing.

Properties handed over
477

During the year ended 31st March 2007 we handed over a total of 477 properties to our customers, achieving excellent standards in Customer Service. We are rated highly amongst our peers in independent surveys and our attention to detail in the handover process, together with our approach in dealing directly with tenants where properties have been rented out, is a significant factor in our level of sales to previous customers.

Health and Safety is always at the forefront of our business and this year we have recruited a Group Health and Safety Manager who is assisting David Durant, our Group Managing Director, and the divisional Managing Directors in developing and monitoring our policies and procedures.

CGI of Kira Building at Merchants' Quarter, British Estate

(Left to right) **Neil Brooks** Partnerships Manager, **Mike North** Senior Land Buyer, **Nick Drew** Partnerships Director

Site acquisitions

This year we have substantially increased our development pipeline purchasing, or agreeing to purchase, a number of new development sites. This has been accelerated by the £14.4 million net funds raised in a placing at the end of 2006. Mike North has joined our land team alongside Jim Furlong and Nick Drew our Partnerships Director and Mike has already been responsible for some significant site acquisitions.

Some of the land acquired benefited from detailed planning permission such that development could commence almost immediately. SoBow, E3 was purchased from one of our affordable housing partners with the benefit of a resolution to grant planning permission for 201 homes. Development is now underway and will be completed in 2009. We have recently purchased a site at Leyton Orient Football Club where redevelopment adjacent to the North and South stands incorporates a planning permission for 62 homes.

A number of land acquisitions were subject to receipt of satisfactory planning permission. These include land within the British Estate, E3 which received a resolution to grant planning permission to provide 161 new private homes in January 2007. Since the share placing we have also contracted to purchase a major site in Greenwich in a joint venture with The Royal Bank of Scotland. The contract is subject to receipt of planning permission for 372 homes which is expected in the next few months. This will be our second joint venture with The Royal Bank of Scotland and our success together at Icona, Stratford has led us to continue our partnership on this exciting scheme.

We have also added to our medium to longer term development pipeline with the acquisition of sites that we will progress through the planning process. The former Lesney Toys factory in Homerton Road, Hackney is expected to achieve planning permission for over 200 homes and commercial space, including affordable art studios. In addition the Hannaford and Marshall site in Bethnal Green Road near Liverpool Street station has been acquired in a joint venture with Genesis Housing Group and is expected to achieve planning permission for more than 300 homes and commercial space.

Chief Executive's review

Queen Mary's Gate Sales Centre, South Woodford

CGI of Queen Mary's Gate

Planning

The planning process is more complicated than ever before with an increasing number of external consultants' reports being required for each application. A key competitive advantage comes from knowing your way through the process and our knowledge of the local planning environment in East London puts us in a strong position, while not removing all of the hurdles that can be placed in our path.

Properties in the development pipeline
2,221

Development pipeline

Our development pipeline, being properties that will produce profit in future years not including those built for joint venture partners, consists of 1,279 properties with planning permission and 942 subject to the planning process. This is a total of 2,221 properties which are expected to provide turnover in excess of £500 million and gross profit of over £100 million, more than four years supply at current levels of profit. Of this forecast gross profit in the pipeline over £24 million has been secured by contracts already exchanged and this will be recognised as construction proceeds on developments over the next two to three years. Gross profit in the year ended 31st March 2007 was £23.4 million.

Turnover in the development pipeline
£500million

Our partnership with Eastend Homes has added the homes on the British Estate to our pipeline. During the year we have been chosen as the development partner to Eastend Homes on a number of other well located estates in Tower Hamlets. We have secured this partnership due to the quality of the Telford Homes brand which incorporates a straight-forward and honest approach. We are now progressing master plans for the regeneration of these estates and we expect to achieve planning permissions and then commence construction on all of them over the next two years. The British Estate has set the model for this partnership with land payments made by Telford Homes being reinvested into the third party refurbishment of existing homes on the estate.

People

Several senior members of staff have been recruited as we continue to plan for the future and ensure that our internal infrastructure is always one step ahead of our growth plans.

We finished the year with over 120 employees and our strength in every area is evident from our performance over the last 12 months. I would like to thank each and every one of our employees for their efforts this year.

Strategy

Each year the directors review the strategy of Telford Homes to ensure that we are creating maximum value for shareholders and taking advantage of all the opportunities that come our way while minimising risks in the business.

There are so many opportunities in East London, and our knowledge of this market place is so strong, that we will largely remain focused on this region. We expect to continue to pre-sell a proportion of our developments, depending on their location, in order to secure future cash flows and minimise the funding risks.

In doing this we will maintain organic growth at a controlled rate in order to capitalise on the imbalance between supply and demand for properties in our area of operation. This was part of the reasoning for the share placing last year and will be our main driver in the future while the market remains stable. Interest rates will be a key factor in the stability or otherwise of the market and the mechanics of supply and demand will also play a significant role in the coming years.

Current trading and outlook

Our recent sales launches are an indication that the market in East London remains strong despite rising interest rates. We were extremely pleased with the results of these sales events and the upcoming launch of Merchants' Quarter, the marketing name for the British Estate, has received a high level of interest.

To date, due to contracts exchanged since 31st March 2007 and properties sold, subject to contract, we have a total of 185 private homes and 25 affordable homes contributing to our results for 2008. The demand for homes in East London, the strength of our development pipeline and our ongoing partnerships with affordable housing providers lead me to expect 2008 to be another year of record results and another step forward in the development of Telford Homes.

Andrew Wiseman
Chief Executive
21st May 2007

Financial review

Jonathan Di-Stefano
Financial Director

"Another year of record turnover and profits has been underpinned by increasing the capital available to the Company through a share placing and managing those funds to maximise return on equity while adding a balanced portfolio of sites to our development pipeline."

Gross margin
22.4%

Operating results

Turnover increased to £104.4 million from £79.3 million last year. An analysis of properties sold in the year is given in the Chief Executive's review.

Gross profit has increased to £23.4 million with the margin falling to 22.4% from 23.0% last year. Each new site is appraised to achieve a gross margin of at least 20% unless high returns on equity can be secured in exchange for lower margins. Queen Mary's Gate in South Woodford was purchased for consideration of 35% of all private sales proceeds achieved from the development. The total expected payments are now in excess of £35 million with only £10 million paid to date, resulting in a high rate of return on equity. The profit margin on our share of sales proceeds is in excess of 20% as this represents our risk in the development. However the reported margin is 13% when taking the proceeds being paid directly to the vendor into account, still in line with our original expectations for the site. The gross margin in 2007 excluding Queen Mary's Gate is 23.5% and this development will continue to depress the reported margin over the next few years.

Our forecasting and control of development costs has been excellent over the last 12 months with fewer movements being reported in monthly cost control meetings. Build costs in the year were £50 million and the operational teams are clearly well set to manage this level of expenditure.

The operating margin has fallen to 16.0% from 16.2% with overheads reducing as a percentage of turnover to 6.4% from 6.8% last year. Overheads have remained under careful control while also allowing us to put the appropriate infrastructure in place prior to each growth phase and ensuring our employees are rewarded for their contribution to the success of the Company.

Interest

Interest paid in the year was £4.0 million up from £3.1 million last year. This was mainly due to the increase in activity during the year along with rising interest rates.

Interest received in the year was £0.8 million up from £0.2 million last year as a result of higher cash balances during the year, particularly after the share placing.

Carr Street, E14

Financial review

Estilo, N1

The continuing increases in the base rate are a cause for concern for the business as a whole although any negative effects are yet to materialise. In terms of finance costs we monitor this carefully and forecast future rate rises on a prudent basis. Interest cover was 5.2 times in 2007 which remains well within acceptable limits.

Profit before tax
£13.5million

Profit before tax has increased to £13.5 million from £10.0 million last year.

Taxation

The effective tax charge for the year is 26.3% down from 29.7% last year. This change is due to a prior year over provision of £178,000 and a significant tax deduction this year in relation to the exercise of share options which reduces the tax charge by £309,000.

Dividends

A final dividend of 4.9p per ordinary share has been proposed. Together with the interim dividend of 4.0p paid in January 2007 this makes a total dividend for the year of 8.9p which is covered 3.4 times by earnings per share. The total dividend last year was 7.0p.

Total dividend per share
8.9p

The final dividend is expected to be paid on 13th July 2007 to shareholders on the register on 22nd June 2007.

Earnings per share

Earnings per share increased to 30.3p from 23.8p and the weighted average number of shares in issue was 32.8 million. The 5.8 million shares issued as a result of the share placing diluted earnings for five months. The funds raised will make a more significant contribution to profits in 2008 and to a greater extent in 2009 and 2010.

Earnings per share
30.3p

Balance sheet

Net assets have increased to £54.5 million from £32.2 million with part of the change due to the £14.4 million raised in the share placing last year. The number of shares in issue is now almost 37 million. Net assets per share at 31st March were 148p up from 108p last year.

The placing funds have all been allocated to new land opportunities within six months of the money being received and while cash held at the end of March was £17.6 million, the majority of this balance will be utilised by future construction and the purchase of new development sites that are already under contract. Some of the sites purchased will take a few years to flow completely into turnover and profit as a number are subject to planning or have been acquired without planning permission.

Pre-tax return on equity in the year ended 31st March 2007 was still healthy at 31.2%, falling from 35.5% last year due primarily to the effect of the additional equity raised in the year.

Finance

Our current bank facilities are a revolving loan facility with Allied Irish Bank of £50 million and site specific funding from The Royal Bank of

Tequila Wharf, E14

90 degrees, E1

Scotland amounting to £128 million. Total facilities are therefore £178 million with actual drawn loans at 31st March 2007 being £73.2 million.

In April 2007 we agreed an outline facility with Barclays Bank on one new development and we expect to gradually introduce Barclays to the business to give us another route to funds and to assist us in securing competitive debt finance. Gearing at 31st March 2007 was 102% reduced from 193% last year. This reduction is a direct result of the cash balances held at the end of the year. We are comfortable with higher levels of gearing as we continue to monitor the certainty of future cash inflows against exposure to debt. Our business model of selling properties at an early stage of construction reduces the risk of carrying debt as the sales revenue on a given development, secured by exchanging contracts, will be used to repay loans specific to that development.

Internally we calculate 'uncovered gearing' which excludes debt matched by the value of contracts exchanged on a given development. This is becoming an increasingly important performance indicator in the business, particularly in reporting to banks. The board has determined that levels of uncovered gearing are acceptable up to 100%. Uncovered gearing at 31st March 2007 was 18% reduced from 60% last year.

Uncovered gearing
18%

Cash flow

We maintain a detailed cash flow forecast as part of our management information systems. This extends for a number of years into the future and is subject to continual re-assessment. The cash flow position is reported to the board and our banking partners on a monthly basis.

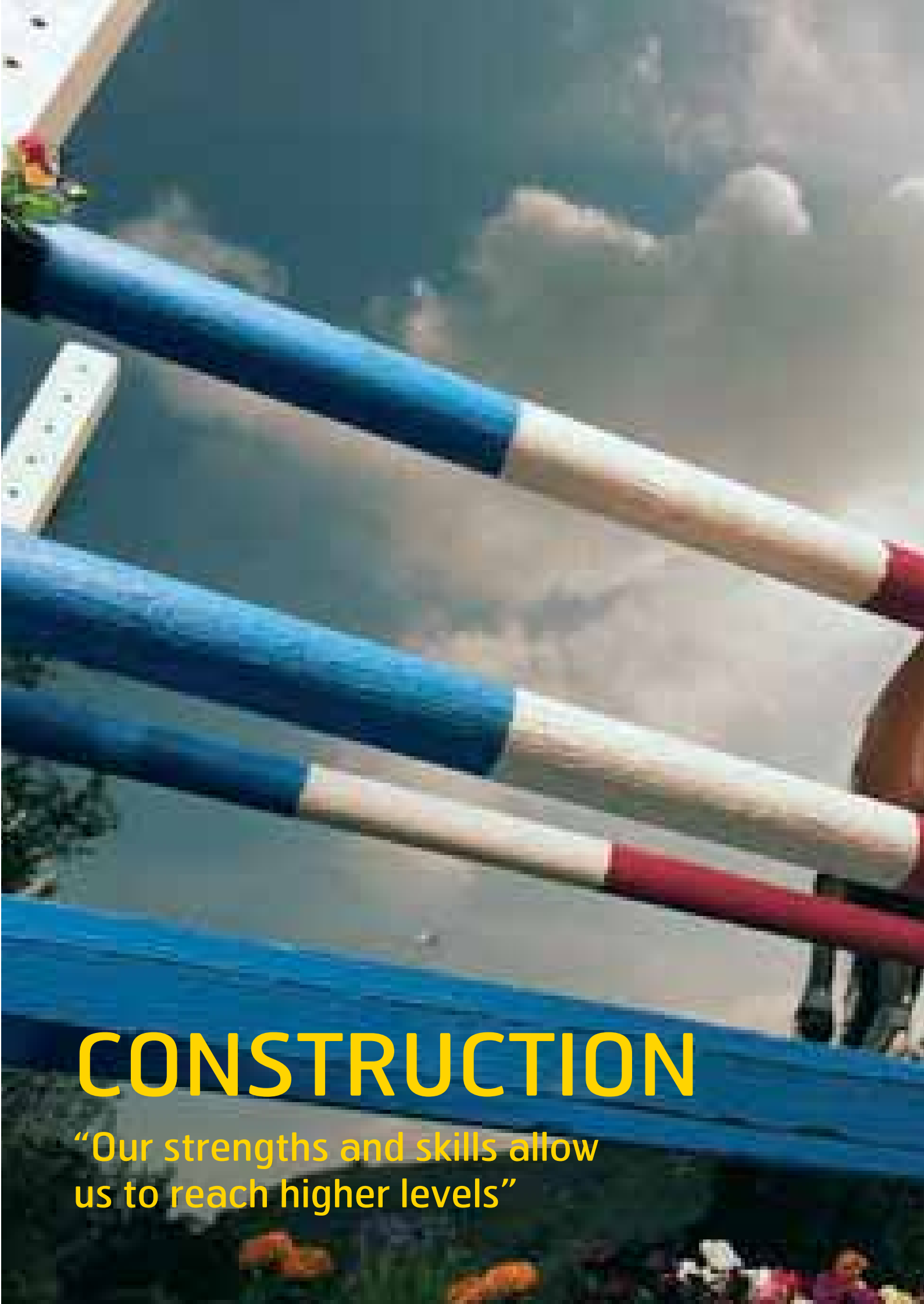
Share price

The share price on 31st March 2007 was 421.5p (31st March 2006 – 187.5p), with a high in the year of 422.5p and a low of 187.5p.

International Financial Reporting Standards

Telford Homes will adopt International Financial Reporting Standards (IFRS) for the year ended 31st March 2008. We have already explored all current international standards that may have an impact on the accounting policies employed by the Company. There are no material issues expected to arise from the standards already in place other than presentational changes. International standards are evolving over time and new standards will be appraised as and when they are issued. We have already started the process of converting the 2007 results into the international format, including all of the disclosure changes that will be required. These can then be used as comparatives for the first full year of adoption in 2008.

Jonathan Di-Stefano
Financial Director
21st May 2007



CONSTRUCTION

"Our strengths and skills allow us to reach higher levels"

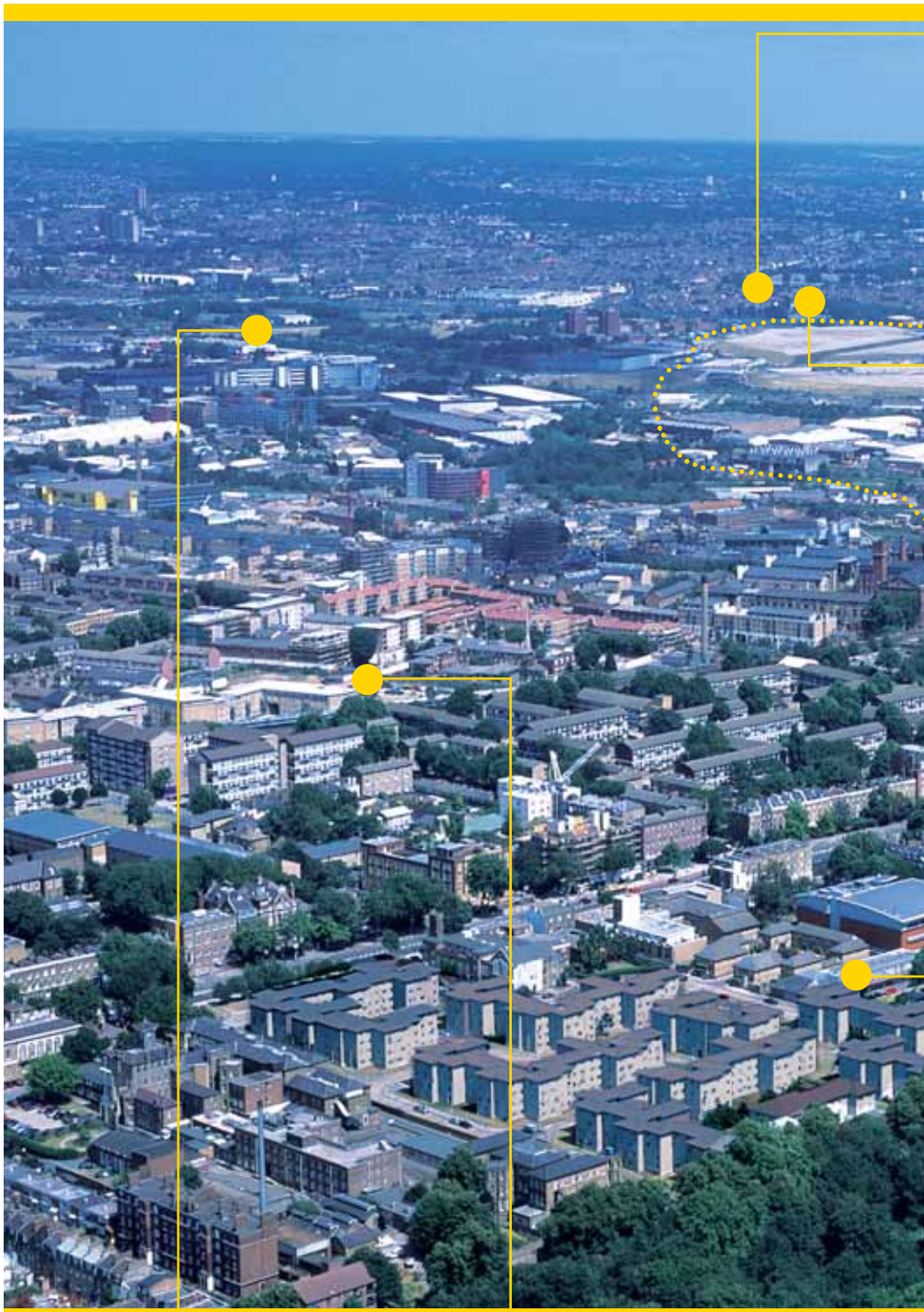
Area of operation

Telford Homes is all about East London. The business has been built up in this area over the last six years and ongoing regeneration means there are many more development opportunities to come in the future.

Local knowledge has played a key role in helping the Company to grow and it remains a competitive advantage particularly in relationships with councils and affordable housing organisations and in our understanding of the local planning process.

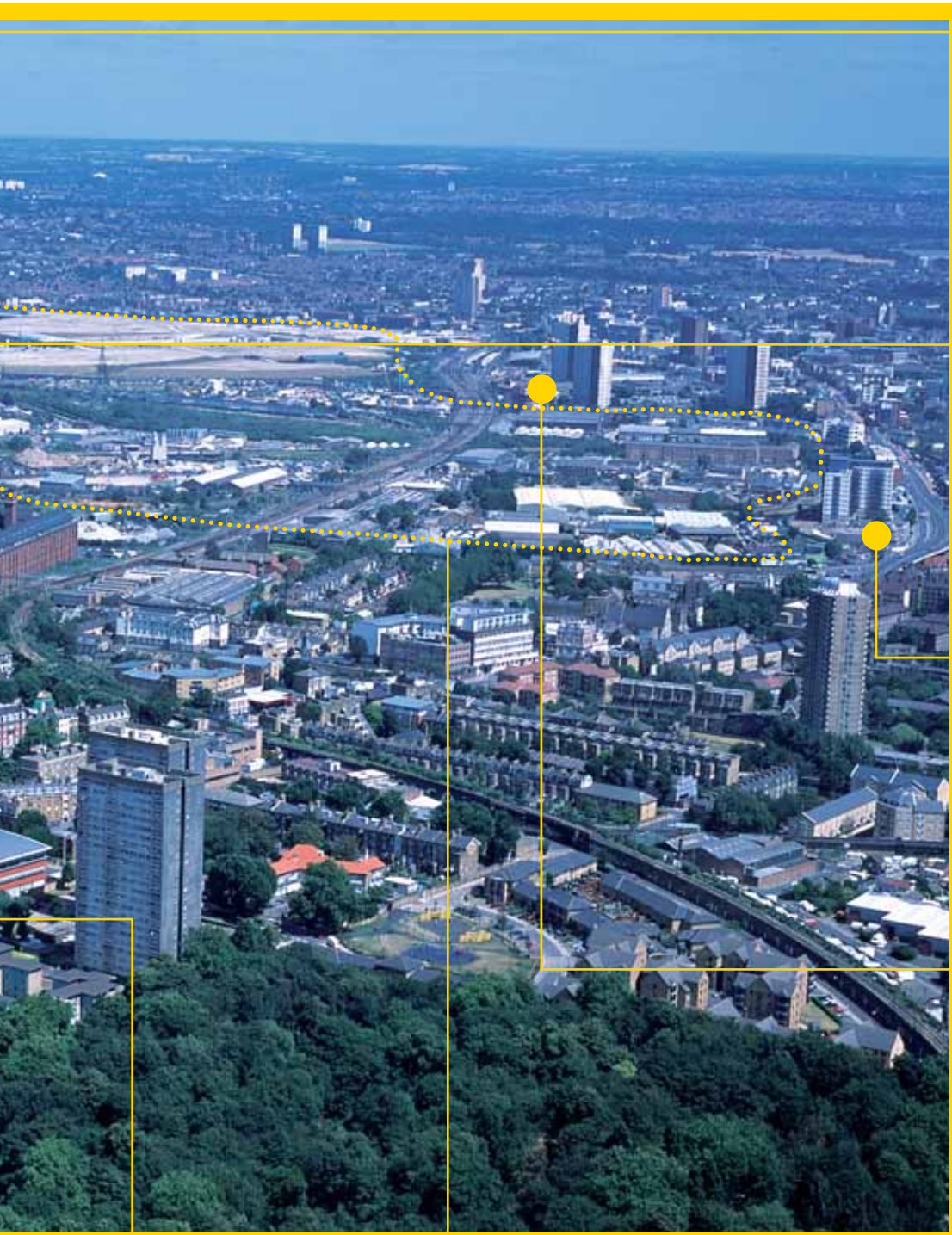
The 2012 Olympics being awarded to London has been a major boost to East London with the Olympic Park being constructed in Stratford and with many other events due to take place in the local London boroughs. This has accelerated the programme of regeneration that was already taking place and has had a beneficial impact on the property market.

East London, together with the rest of the Thames Gateway, has become a major growth region in the country and this will be the case for many years to come. While the opportunities to utilise our competitive advantage remain we will continue to play a significant role in the regeneration of the area.



Lesney Toys

SoBow



Decorum

Stadia, Leyton Orient FC

OneStratford

Icona

Merchants' Quarter, British Estate

2012 Olympic Park

(Note – development positions and Olympic Park boundary are approximate locations)

Telford Homes Alto

John Fitzgerald
Managing Director

"Our strength is our employees and we now have a nucleus of key staff that are passionate about the business and will assist in our plans for growth over the next few years."

Units in production today
1,048

Over the last 12 months Telford Homes Alto has kept up with the pace of change within Telford Homes, researching and using modern methods of construction for improved quality, speed and efficiency. Several major developments were completed during the year including Equinox at Island Gardens, Tequila Wharf, E14 and Estilo, N1. Quality of construction has been excellent and this has been evidenced by customer feedback during a very busy period of property handovers.

Queen Mary's Gate in South Woodford is the biggest development that Telford Homes has ever undertaken and both design and construction are proceeding well and to programme. This site has been well set up to deal with the volume of employees and subcontractors that are required over the next few years. The tower at Icona in Stratford is now prominent on the East London skyline and OneStratford is rapidly rising from the ground a short distance away.

A number of planning permissions are being sought requiring careful management to make the process as smooth as possible. Our partnership with Genesis Housing Group will result in a landmark development in Bethnal Green Road close to Liverpool Street station and we are delighted to be working with them on the scheme.

James Gaffney, Construction Director and Chris Dreher, Commercial Director have both been instrumental in the operational performance of the division and also in the recruitment of new staff to add expertise within each department. A trainee programme has been set up with a regular cycle of trainees being recruited each year. This will contribute to the long term future of the Company as well as the construction industry as a whole. The Alto team is now well placed to deal with an increasing workload and will be able to take on significant new schemes in the coming months.

"Exciting times are ahead of us. We have built a team to deal with the future and I know we are capable of achieving at the highest level."
John Fitzgerald

(Left to right) **James Gaffney** Construction Director, **John Fitzgerald** Managing Director, **Chris Dreher** Commercial Director
(Outside Elmhurst, the listed building at the entrance to Queen Mary's Gate)

Queen Mary's Gate under construction

Telford Homes Metro

Mark Parker
Managing Director

"Metro Division has seen turnover and profit grow in line with the number of sites and units under construction. Average site size has increased to 46 units from 24 last year and is expected to grow further by 2008."

Increase in average units per site next year
46%

Telford Homes Metro has grown substantially since the Company formed two operational divisions in 2004. During the year to March 2007 the division completed and handed over eight new developments and has many more in the pipeline. A significant part of this pipeline will come through the partnership with Eastend Homes which the Metro team have had a key role in. Alongside Eastend Homes the division has worked with a number of housing associations in the year including Asra, Circle Anglia, Old Ford, Bethnal Green and Victoria Park, East Thames, Poplar HARCA and Metropolitan. Furthering these partnerships is critical in the future of Telford Homes and excellent relationships have been forged which will benefit all parties over the next few years.

During the year Paul Copsey has been recruited as the Commercial Director of Telford Homes Metro which completes the management team. Control and management of build costs has been very good this year and this appointment will add further strength to the commercial team as the business grows.

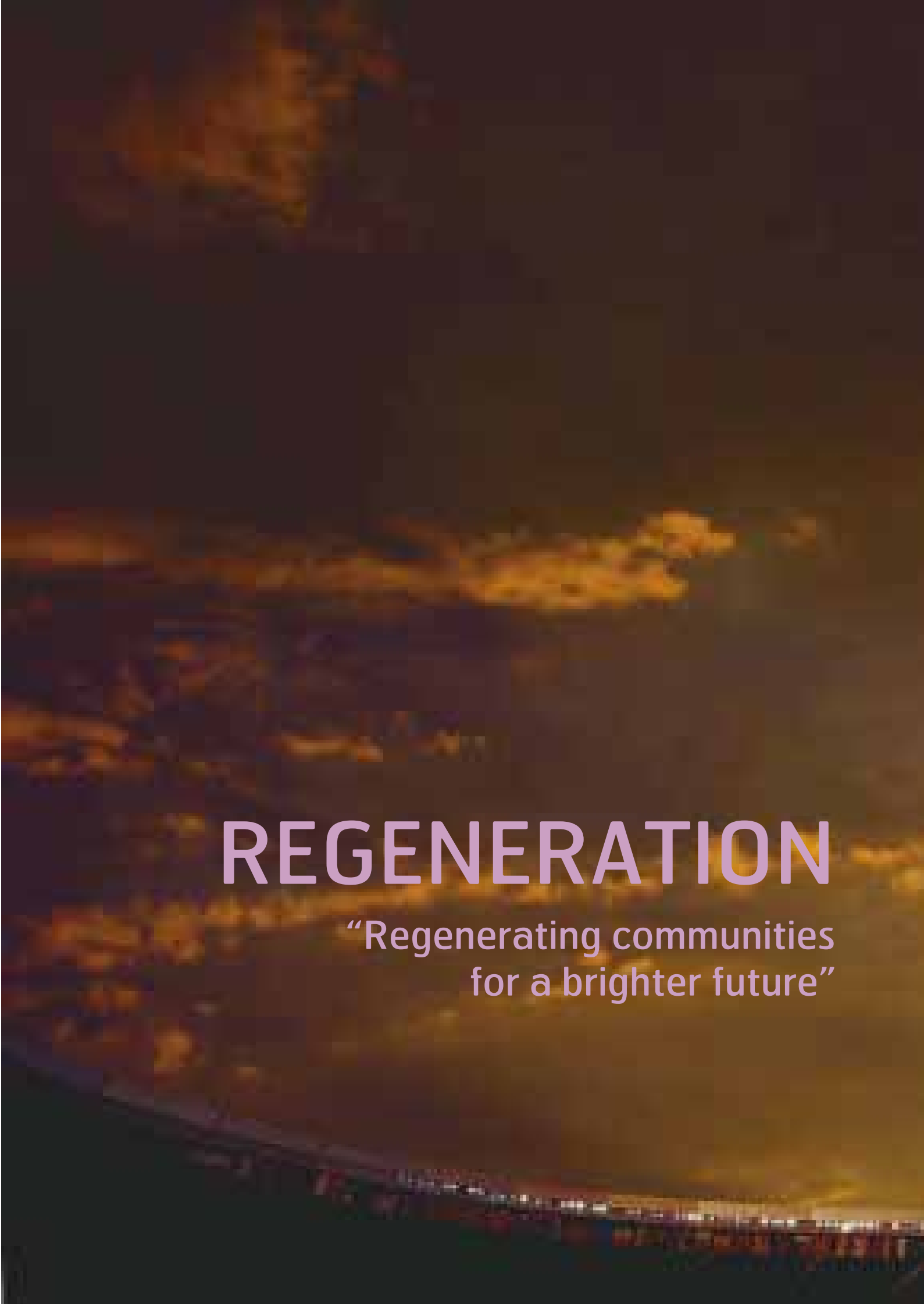
Construction standards have been maintained at the high level expected in Telford Homes. This is the heart of our business and the quality of our finished product has assisted our high standards of customer service. Paul O'Connell was awarded the silver medal in the 'Building Manager of the Year' awards for our Cubix development at Brock Place, E3.

Innovative design solutions have been required to ensure we can maximise the use of each site and promote environmentally friendly construction wherever possible. This has included a 'brown roof' at Sienna in Barking and the use of ground source heat pumps.

"We our proud of our achievements to date and every member of the Metro team has contributed to the quality of our finished product. I am looking forward to new challenges in the year ahead as we continue to grow."
Mark Parker

(Left to right) **Jeremy Brett** Construction Director, **Mark Duffield** Technical Director, **Paul Copsey** Commercial Director, **Mark Parker** Managing Director (Outside Carr Street)

Cosmopolitan, Enfield under construction



REGENERATION

"Regenerating communities
for a brighter future"

Health and Safety

Steve Nicoll
Group Health and Safety Manager

"It is the policy of Telford Homes Plc that our operations are conducted in such a way as to safeguard the health, safety and welfare of all our people and all other persons who may be affected by our activities."

The Company regards the promotion of health and safety as a critical objective of all employees at every level. Every employee is issued with health and safety instructions that endeavour to identify all the risks and dangers that are likely to be encountered in the course of their work and set out precautionary measures. We continue to invest in the training and development of our people to not only meet but exceed industry requirements.

As the Company grows, recruitment of key staff will be crucial in sustaining and improving health and safety standards. A significant part of this was the recruitment during the year of Steve Nicoll as Group Health and Safety Manager. This appointment will help to ensure that health and safety remains the first concern of the Company as the business develops.

Our Accident Frequency Rate (AFR) is at an all time low and below the industry average. The number of man-hours worked on site in a given 12 month period has continued to grow and is now over 1 million hours per year. The increase in activity is being effectively managed by our construction teams without putting health and safety at risk.

We continue to identify new ways of working to reduce wasteful practices and processes. One example of this is the 'bathroom pods' being installed on a number of our developments. These inherently labour intensive rooms are manufactured off site, before being delivered and installed, following the principles set out in the Construction Design and Management Regulations 2007 by designing out risk wherever possible.

"One of the main reasons for joining Telford Homes was the passion I witnessed in everyone I met. A few months on I have not seen anybody within the Company that does not share in the aspirations of the business. This is reinforced on site by the commitment and integrity of the site teams in undertaking their duties in a professional manner. My main goal is to further develop and monitor policies and procedures in the light of the continuing growth of the Company. I am looking forward to the challenges and feel privileged to be part of the Telford Homes team."
Steve Nicoll

This year we have formed an 'Executive Safety Committee' and an 'Operational Safety Forum' as part of the overall strategy for managing change as the business grows and develops. It has been recognised that our approach to health and safety will be developed through these groups by encouraging an inclusive culture throughout the business and delivering integrated solutions.

Mark Parker and John Fitzgerald continue to be responsible for health and safety in each of the operating divisions with the assistance of Steve Nicoll. David Durant, Group Managing Director, is the board member with overall responsibility for health and safety.

OneStratford under construction

Environment and Sustainability

Telford Homes is committed to supporting the environment and minimising any harmful impact our business activities have upon it. The Company has an environmental policy and we ensure that this is communicated throughout our operations including appropriate subcontractors and suppliers.

The key aims of the policy are:

- Integration of environmental responsibilities into the organisation.
- Ensuring that all operations take account of the Environmental Protection Act.
- Undertaking regular reviews of our working practices to minimise pollution and waste.
- Ensuring that contractors involved in the removal of waste are registered carriers.
- Assessment of any environmental impact when performing risk assessments for the control of substances hazardous to health.
- A commitment to achieving high levels of energy efficiency and water management in all of our operations.

There are many examples of this policy in action in our business:

- On almost all of our sites we undertake extensive remediation works in existing residential areas to remove pollutants and material harmful to the environment.
- Recycling of waste is undertaken wherever possible including the use of crush concrete from demolished buildings for ground works on the same developments and the recycling of plasterboard and other materials.
- In our internal specification we provide low energy light fittings, dual-flush toilets, aerators on taps and flow restrictors on showers to save water.
- Recent schemes have aimed for 10% of all energy to come from a sustainable source which can include the use of biomass boilers for central heating and hot water and these are fuelled by wood pellets from managed forests.
- Timber from sustainable sources is now used exclusively on all developments.
- We are exploring the possibility of a timber panel solution for one of our developments which will have a much lower carbon footprint than traditional methods of construction.
- Methods of harnessing natural energy such as solar panels and ground source heat pumps are being incorporated into a number of developments.
- The external structures of our buildings are designed with enhanced thermal properties to reduce their carbon footprint, including high-performance glazing systems and where appropriate mechanical ventilation systems, incorporating heat recovery systems to complement natural air circulation.
- We use tyre rubber as a sound deadening membrane in a number of our developments thereby recycling waste materials and reducing noise pollution.
- We have designed underground refuse facilities at recent sites which are self contained and environmentally friendly and on larger developments we are introducing recycling facilities alongside the normal refuse bins.
- We are increasing our use of pre-fabricated external walls and bathroom pods and these reduce waste as they are manufactured off-site.
- Many of our developments are 'car free' and these are usually located near public transport links and have provision for bicycles to be stored.
- Ecological reports have helped us to assess the ways in which existing species can be nurtured once a development is complete. Bat boxes and brown roofs have been positive additions to recent developments to enhance the built environment for urban wildlife.

As a result of such activities a number of Telford Homes' properties have been rated as 'very good' in their EcoHomes assessments. In order to build considerately for the future, we continue to research sustainable energy solutions to ensure the best technologies are being used across the Company and that we are contributing positively towards a greener future.

In addition to our commitment to the environment we consider our social responsibility in a wider sense to be of vital importance in the areas in which we operate.

The regeneration of East London is an ongoing project in which we are playing a major role. This process is increasing the quality of life for local people both by improving neighbourhoods and through the provision of new but affordable housing with our housing association partners. We have excellent relationships with local councils and housing associations and we are extremely supportive of the need to provide affordable housing for shared ownership and for rent.

Throughout the year we have worked alongside the local authorities to encourage employment of local labour on our projects.

During the year we carried out several pre-planning public consultations to discuss local issues and concerns. This encourages public participation and allows us to incorporate relevant issues within our planning applications. This was particularly important at the British Estate, E3 where local opinion was key to some of the decisions taken in respect of the development.

The Sienna Building, Barking which features a 'brown roof' to provide a nesting location for birds

Customer Service

Anthony Atkinson
Customer Service Director

"Telford Homes is increasingly well known in the London property arena for its exceptional product finish, combined with high quality customer service which is provided to owner-occupiers, investor buyers and their tenants alike."

Our Customer Service remit includes:

- Thorough quality control inspections in the final weeks of construction.
- 'Snagging' every unit across all developments to achieve finishing consistency.
- Pre-Completion Inspections with customers.
- Thorough demonstration on handover for trouble-free ownership.
- Inductions for new tenants (showing how to use the home prevents most running-in problems).
- An emergency back-up service for the times when our offices are closed and help is needed.
- Communication of build progress, completion dates and running-in advice.
- Listening to feedback for future improvements.

The Customer Service team spend up to 80% of their time on site, carrying out quality control in the final two weeks of construction, which gives the team the opportunity to view each property as if through the eyes of the customer. At this stage, the standard of finish is checked to ensure it exceeds NHBC guidelines, and only then is each customer invited to undertake their Pre-Completion Inspection and see a full working demonstration in their apartment: for example, kitchen appliances, central heating boiler, programmers and alarm. This induction service is also available for tenants who may subsequently move in, where the home has been purchased for letting purposes. At the final handover, the customer is invited to inspect their property fully again and raise any issues they may have, which will be addressed promptly.

Outside of our normal office hours, there is a back-up 24/7, 365 days a year emergency service, which gives peace of mind for owners and tenants alike. Our high standards of finish, coupled with a ten year NHBC warranty and the out of hours service, result in maximum benefit and minimum effort for all our customers.

Overall, Telford Homes' product and service package excellence has brought us a high level of repeat purchase and recommendation from satisfied customers. In our last 2006 quarterly survey, 94% of purchasers said they would recommend Telford Homes to others.

Customer Service Team (Left to right) **Chris Gurney, Anthony Atkinson, Leigh Flynn, Jim Walker, Debbie Ewers, Peter Gathercole, Nigel Hammond**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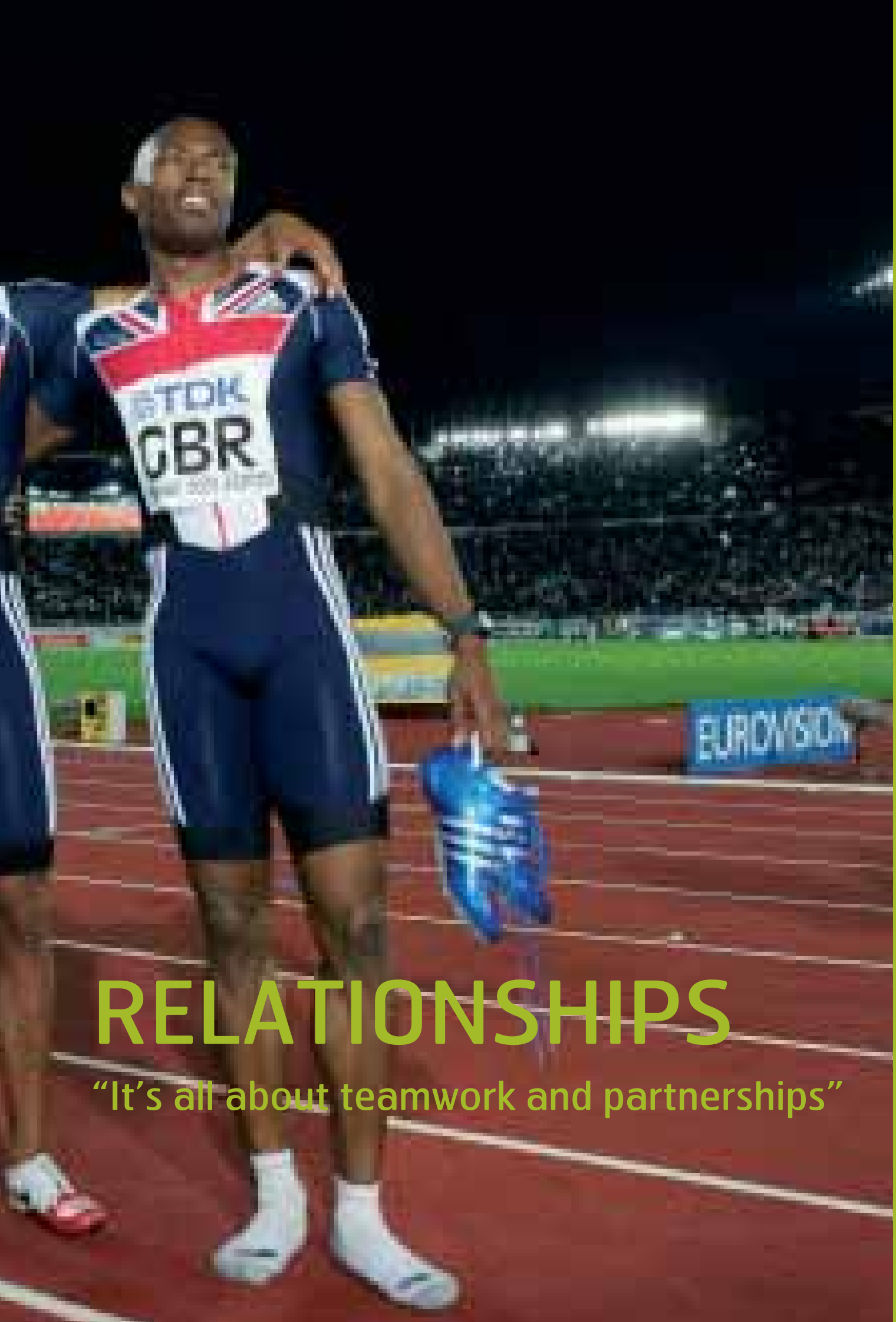


RELATIONSHIPS

"It's all about teamwork and partnerships"

Directors and Advisors

David Holland Non-Executive Chairman, 66

David Holland has over 40 years experience in the development and house building sector having joined George Wimpey Plc in 1966. On his retirement he held the position of Group Managing Director with responsibility for worldwide housing and land development. In 1997 David held the annual position of President of the House Builders Federation. David is currently Chairman of Orchid Developments Group Ltd and non-executive director of the Harpenden Building Society. David was appointed non-executive Chairman of Telford Homes Plc in December 2001 and advises on development issues and matters of strategic planning. He chairs the remuneration committee and is a member of the audit committee.

Andrew Wiseman BA (Hons), FCMA, Chief Executive, 50

Andrew Wiseman, together with fellow directors, founded Telford Homes Plc in December 2000 following ten years with Furlong Homes Plc initially as Financial Director then as Chief Executive for the final three years. Prior to 1990 his experience had been gained in various sectors, including seven years with B.A.T Industries. Andrew has spear-headed the successful flotation of both Furlong Homes Plc and Telford Homes Plc on AIM, the former on the launch of AIM in 1995, the latter in December 2001, one year after the Company's formation building on excellent relationships with institutional investors. Under his stewardship pre-tax profit has grown from £1.33 million in March 2002 to £13.5 million in March 2007. Andrew has been especially involved in the cementing of relationships between Telford Homes Plc and affordable housing providers which have been central to the growth of the Company.

David Durant Group Managing Director, 45

David Durant is a co-founder of Telford Homes Plc and has over 20 years experience in the construction and house building sectors including 14 years at Furlong Homes where he was Group Technical Director from 1997 to 2000. His remit covers all aspects of design and construction. In 2004 he supervised devolving responsibility for the finished Telford Homes product into two divisions, Telford Homes Alto and Telford Homes Metro, with their different, but complementary, specialisations in order to handle the high level of growth in units under construction. David is the director with board responsibility for health and safety issues.

Jonathan Di-Stefano MA (Econ), ACA, Financial Director, 32

Jon Di-Stefano joined Telford Homes Plc as Financial Director in October 2002. He had one year with Mothercare following five years with Arthur Andersen. Apart from financial matters Jon also has board responsibility for personnel issues. The growth in both areas, given that annual turnover has grown from £25 million to £104 million in the four years to March 2007 and staff numbers have more than trebled, has led Jon to develop his finance team. Jon has played an invaluable role developing relationships with both our banking partners and institutional investors, through regular presentations.

James Furlong Land Director, 71

Jim Furlong has over 40 years experience in all aspects of the construction and building industry through his involvement in roofing, civil engineering, construction and house building companies which all bore the 'Furlong' name. Prior to joining Telford Homes as Land Director Jim was a driving force within Furlong Homes, where he was Chairman with specific responsibility for land acquisition. Jim's wide experience of land acquisition played a central role in the initial growth of Telford Homes and he has overseen a significant strengthening of the land buying department in the last 12 months.

Sheena Ellwood BA (Hons), Dip. Int. Marketing, Sales and Marketing Director, 48

Sheena Ellwood joined Telford Homes Plc as Sales and Marketing Director in January 2003. Prior to this, her experience includes consumer goods export and eight years as regional Sales and Marketing Director for Wimpey Homes. Sheena's contribution to the growth of Telford Homes Plc can be measured by the rise in the number of private sale contracts exchanged, increasing from 112 four years ago to 478 homes in the year to March 2007. Sheena has developed an extensive sales and marketing team at Telford Homes Plc, and set-up a customer service department that plays an important role in building relationships with individual customers and investors in our properties.

Robert Clarke FCA, Non-Executive Director, 64

Robert Clarke was a partner in Binder Hamlyn and subsequently Arthur Andersen until his retirement in 2000. He is currently Deputy Chairman of RO Group and non-executive director of Pegasus Retirement Homes Plc. Robert joined Telford Homes Plc as a non-executive director at the time of the AIM flotation in December 2001 and he has been influential in the fields of corporate governance and strategic direction. Robert is chairman of the audit committee and a member of the remuneration committee. He is also a member of the audit committee of the Church Commissioners and of the Royal Shakespeare Company.

Company Secretary
Margaret Turner

Registered Number
4118370

Registered Office
First Floor, Stuart House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire, EN8 7TF

Auditors
PricewaterhouseCoopers LLP, 10 Bricket Road, St Albans, Hertfordshire, AL1 3JX

Bankers
Allied Irish Bank, The Manor House, High Street, Wanstead, London, E11 2RL
The Royal Bank of Scotland, 1st Floor, Conqueror House, Vision Park, Chivers Way, Cambridge, CB4 9BY
Barclays Bank, Corporate Banking Centre, PO Box 729, Eagle Point, 1 Capability Green, Luton, LU1 3US

Solicitors
S J Berwin, 222 Gray's Inn Road, London, WC1X 8XF
Coldham Shield & Mace, 123 Station Road, Chingford, London, E4 6AG

Nominated Broker
Shore Capital Stockbrokers Limited, Bond Street House, 14 Clifford Street, London, W1S 4JU

Financial and Nominated Advisor
Shore Capital and Corporate Limited, Bond Street House, 14 Clifford Street, London, W1S 4JU

Policy on corporate governance

Application of principles

Although not formally required to do so, the directors have sought to embrace the principles contained in the Combined Code (2003) (the Code) applicable to fully listed companies, in formulating and applying the Company's corporate governance policies. These policies are monitored to ensure that they are appropriate to the Company's circumstances and comply as far as possible with the provisions of the Code given the size of the Company.

Directors

The Company is managed by a board of directors and they have the necessary skills and experience to effectively operate and control the business. There are seven directors in total of whom two are non-executive directors. David Holland and Robert Clarke, the non-executive directors, are considered independent and they comprise both the audit and remuneration committees. The board meets once a month and the directors make every effort to attend all board meetings.

The board is responsible for taking all major strategic decisions and also addressing any significant operational matters. In addition the board reviews the risk profile of the Company and ensures that an adequate system of internal control is in place. Management information systems are in place to enable the directors to make informed decisions to properly discharge their duties.

The roles of the Chairman and the Chief Executive are separate. The Chairman is responsible for running the board and he meets regularly and separately with the Chief Executive and the other non-executive director to discuss matters for the board.

As the business has developed, the composition of the board has been under constant review to ensure that it remains appropriate to the managerial requirements of the Company. One third of the directors retire annually in rotation in accordance with the Company's articles of association. This enables the shareholders to decide on the election of their Company's board.

The board takes decisions regarding the appointment of new directors as a whole and this is only done following a thorough assessment of a potential candidates skills and suitability for the role. New directors are given a full induction to the Company where required so as to ensure they can properly fulfil their role and meet their responsibilities.

All directors are offered appropriate training to develop their knowledge and ensure they remain up to date in relevant matters for which they have responsibility as a member of the board.

The Chairman's statement and Chief Executive's review included in this annual report give the board's current assessment of the Company's prospects. The directors are responsible for preparing the financial statements as set out in the statement of directors' responsibilities. The responsibilities of the auditors are set out in their report.

Remuneration committee

Details concerning the composition and meetings of the remuneration committee are contained in the directors' remuneration report on pages 39 to 40.

Audit committee

During the period the audit committee, which is chaired by Robert Clarke an independent non-executive director, has met three times with the external auditors being in attendance.

The committee has a responsibility for reviewing the financial statements provided to shareholders. In addition the committee reviews the business and financial risks and internal controls as described below.

The duties of the committee also include ensuring that the auditors provide a cost effective service to the Company and remain objective and independent and to consider from time to time the need for an internal audit function.

Relations with shareholders

The Company has institutional shareholders and is, where practicable, willing to enter into a dialogue with them. The Chief Executive and the Financial Director meet regularly with institutional investors within the confines of relevant legislation and guidance.

The board invites communication from its private investors and encourages participation by them at the Annual General Meeting (AGM). All board members present at the AGM are available to answer questions from shareholders. Notice of the AGM in excess of 21 clear days is given and the business of the meeting is conducted with separate resolutions, voted on initially by a show of hands and with the result of the voting being clearly indicated.

Internal control

The board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to mitigate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks, and that it has been in place for the period ended 31st March 2007 and up to the date of approval of the annual report and accounts, and that it is regularly reviewed by the board.

The internal control procedures are delegated to executive directors and senior management in the Company operating within a clearly defined departmental structure. The board regularly reviews the internal control procedures in the light of the ongoing assessment of the Company's significant risks.

On a monthly basis management accounts, including a comprehensive cash flow forecast, are reviewed by the board in order to provide effective monitoring of financial performance. At the same time the board considers other significant strategic, organisational and compliance issues to ensure that the Company's assets are safeguarded and financial information and accounting records can be relied upon. The board formally monitors monthly progress on each development.

Going concern

The directors consider that the funds available to the Company are sufficient for its operation for the foreseeable future.

Directors' remuneration report

The directors present the remuneration report for the year ended 31st March 2007.

Composition of the remuneration committee

The remuneration committee comprises the independent non-executive directors, David Holland and Robert Clarke. The committee makes recommendations to the board on executive directors' service agreements and remuneration. In doing so it has undertaken relevant research to ensure that remuneration levels are competitive with the industry average. The committee met twice during the year.

Remuneration policy

It is the Company's policy to provide remuneration packages sufficient to attract, retain and motivate directors of the quality required. To add further incentive the directors have adopted two bonus schemes, one applicable to all staff and a scheme for executive directors and senior management. Both schemes are dependent on the Company meeting certain financial performance targets. The maximum amount that can be earned under the executive bonus scheme is 100% of basic salary.

The Company operates a Share Incentive Plan (SIP) in which all employees are entitled to participate. The SIP exists in order to increase employee ownership of shares and further details are given in note 18 to the financial statements.

During 2006 the Company set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of selected senior employees. Further details are given in note 18 to the financial statements. The remuneration committee is responsible for approving any offers of shares made under the DPSPP.

The board as a whole determines the remuneration of the non-executive directors after considering external market research. They do not participate in the bonus schemes or in the group personal pension scheme. They are entitled to participate in the SIP.

Service contracts

The executive directors have service contracts that can be terminated on 12 months notice. These provide for termination payments equivalent to 12 months basic salary and contractual benefits.

The non-executive directors have letters of appointment that can be terminated on three months notice.

Directors' emoluments

The directors' emoluments for the year ended 31st March 2007 are as follows:

	Salary and fees £	Bonus £	Benefits in kind £	Pension contributions £	Total 2007 £	Total 2006 £
Andrew Wiseman	115,000	60,000	21,568	11,500	208,068	176,056
David Durant	115,000	60,000	11,596	11,500	198,096	172,320
Robert Clarke	31,500	-	-	-	31,500	30,000
Jonathan Di-Stefano	96,500	60,000	13,643	9,650	179,793	146,136
Sheena Ellwood	96,500	60,000	15,295	9,650	181,445	149,368
James Furlong	96,500	60,000	35,902	-	192,402	160,919
David Holland	42,000	-	-	-	42,000	40,000
Total	**593,000**	**300,000**	**98,004**	**42,300**	**1,033,304**	**874,799**

Directors' interests in shares and share options

Directors' interests in shares are disclosed in the report of the directors.

The share options held by the directors at 31st March 2007 and the movements during the year then ended were as follows:

	Company scheme	31st March 2006 Number	Granted in year Number	Exercised in year Number	31st March 2007 Number	Exercise price	Dates exercisable
Jonathan Di-Stefano	unapproved	60,000	-	-	60,000	75p	1 Oct 2005 to 1 Oct 2012
Sheena Ellwood	approved	40,268	-	(40,268)	-	74.5p	20 Feb 2006 to 20 Feb 2013
	unapproved	59,732	-	-	59,732	74.5p	20 Feb 2006 to 20 Feb 2013

On 20th June 2006 40,268 shares were issued as a result of Sheena Ellwood exercising share options at an exercise price of 74.5p. On that date the market value of the shares was 223p resulting in a gain of £59,798.

On 22nd September 2006 Jonathan Di-Stefano and Sheena Ellwood each subscribed for 75,000 shares under the terms of the DPSPP at the market value on that date of 260p.

By order of the board,

David Holland
Chairman of the Remuneration Committee
21st May 2007

Report of the directors

The directors present their report and the audited financial statements for the year ended 31st March 2007.

Review of activities

The principal activity of the Company is that of property development.

A review of the activities and prospects of the Company is given in the Chairman's statement, the Chief Executive's review and the financial review on pages 5 to 16. The Company is required to prepare a business review incorporating comments on key performance indicators and this is covered in the review of activities and prospects.

The primary key performance indicators are disclosed on page 1.

Results and dividends

Profit after taxation for the year ended 31st March 2007 was £9,948,000 (2006 - £7,001,000).

The directors recommend a final dividend of 4.9p per ordinary share which, together with the interim dividend of 4.0p paid on 15th January 2007, makes a total of 8.9p for the year (2006 – 7.0p).

Substantial shareholdings

As at 14th May 2007, the Company had been advised of the following notifiable interests in its ordinary share capital:

	Number held	Percentage
J P Morgan Fleming Mercantile Inv Trust Plc	3,863,294	10.46%
The Independent Investment Trust	1,400,000	3.79%
K P Furlong	1,496,000	4.05%
T D Waterhouse Nominees (R Stokes)	1,607,760	4.35%
D G Furlong	1,300,000	3.52%
Pershing Nominees (M Trim)	1,185,000	3.21%
M K B Turner	1,107,579	3.00%

Directors

Details of the directors of the Company are shown on pages 35 to 36. David Holland and James Furlong retire by rotation at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

The directors of the Company are listed below together with their interest in the shares of the Company at 31st March 2007 and movements in the year:

	At 31st March 2006 Number	Exercise of share options Number	Share Incentive Plan Number	Deferred Payment Share Purchase Plan Number	Market acquisitions and disposals Number	At 31st March 2007 Number
Andrew Wiseman	2,173,553	-	1,786	-	10,000	2,185,339
David Durant	1,047,460	-	1,786	-	-	1,049,246
James Furlong	1,040,220	-	1,786	-	37,000	1,079,006
David Holland	947,460	-	1,786	-	10,000	959,246
Robert Clarke	97,460	-	1,786	-	10,000	109,246
Sheena Ellwood	217,460	40,268	1,786	75,000	-	334,514
Jonathan Di-Stefano	253,460	-	1,786	75,000	-	330,246

These interests include shares purchased under the Telford Homes Share Incentive Plan (SIP) which all employees, including directors, are eligible to participate in. All shares purchased under the SIP are matched by shares provided by the Company on a one for one basis. These 'Matching' shares are also included in the interests stated but must remain in the SIP for a period of not less than three years otherwise they are forfeited. Further details on the SIP are included in note 18 to the financial statements.

Details of share options held by directors are given in the directors' remuneration report on pages 39 to 40.

Investment in own shares

The Company's investment in own shares relates solely to the Share Incentive Plan and further details of the total holding and movements in the holding are disclosed in note 18.

Creditors

It is Company policy to settle all debts with its creditors on a timely basis. Subcontractors are paid upon agreement of the value of works completed based on their applications for payment and the terms agreed. In general, other suppliers are paid during the month following the month of receipt of the invoice unless other terms have been specifically agreed.

At 31st March 2007 trade creditors represented 12 days purchases (2006 – 13 days).

Employees

The Company places considerable value on the involvement of its employees and keeps them informed of all relevant matters on a regular basis. Telford Homes is an equal opportunities employer and all applications for employment are considered fully on the basis of suitability for the job.

Charitable donations

The Company made charitable donations of £14,100 (2006 - £9,600). These donations were made to a number of different charities supporting a broad range of good causes.

Annual General Meeting

The Annual General Meeting will be held at the registered office at First Floor, Stuart House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire on the 5th July 2007 at 12.30pm.

Auditors

The directors considered the appointment of auditors during 2006 and, following a competitive tender, decided to appoint PricewaterhouseCoopers LLP. Accordingly Moore Stephens LLP have resigned as auditors of Telford Homes Plc.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Each of the directors at the time this report was approved has confirmed the following:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- each director has taken steps, including appropriate enquiries of fellow directors, in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

By order of the board,

Margaret Turner
Company Secretary
21st May 2007

Statement of directors' responsibilities

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year as explained in the statement of accounting policies;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors' report

Independent auditors' report to the members of Telford Homes Plc

We have audited the financial statements of Telford Homes Plc for the year ended 31st March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the report of the directors is consistent with the financial statements. The information given in the report of the directors includes that specific information presented in the Chief Executive's review and the financial review that is cross referred from the review of activities section of the report of the directors.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the report of the directors, the Chairman's statement, the Chief Executive's review, the financial review, the policy on corporate governance and the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

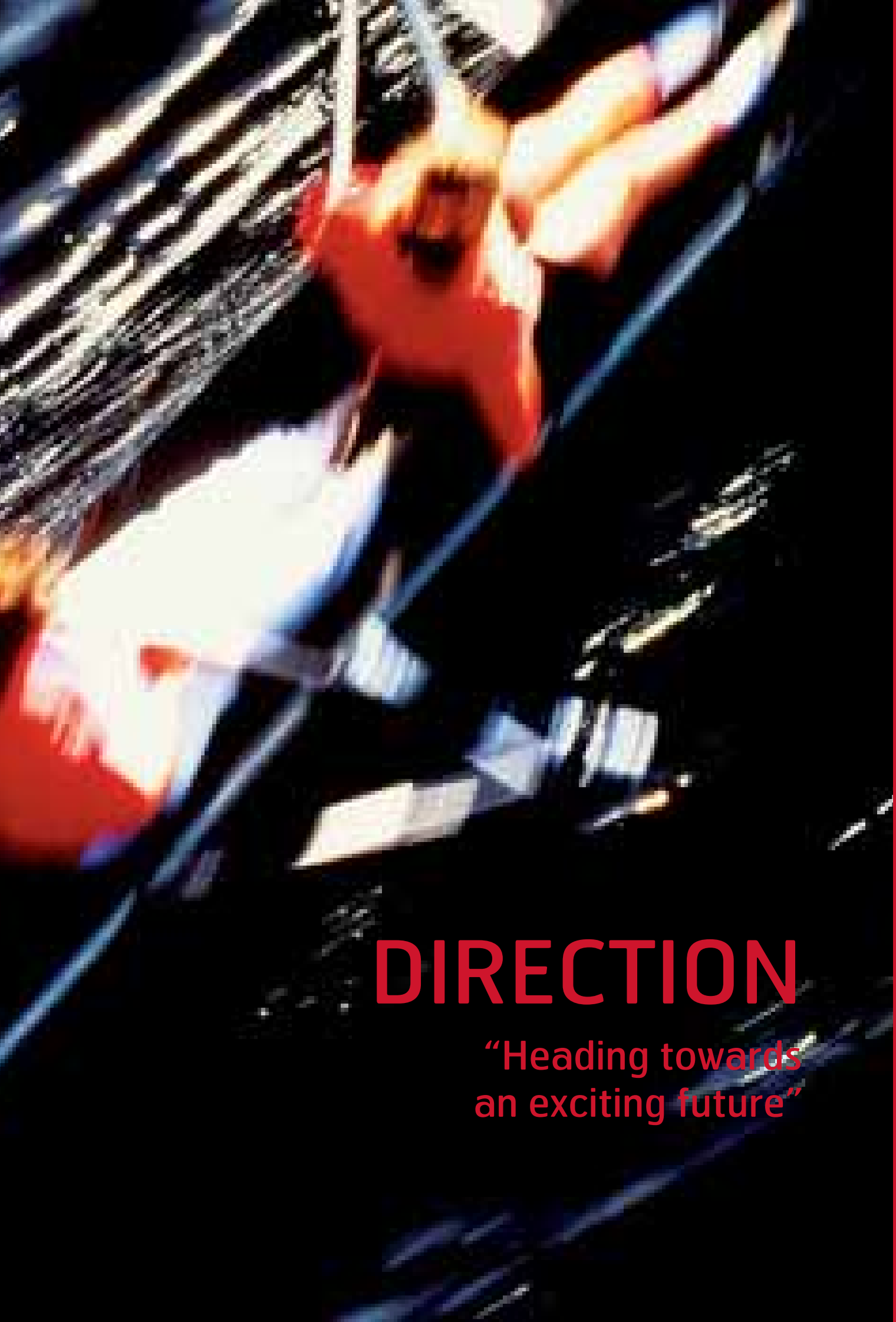
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st March 2007 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the report of the directors is consistent with the financial statements.

PricewaterhouseCoopers LLP,
Chartered Accountants and Registered Auditors, St Albans.
21st May 2007



DIRECTION

"Heading towards an exciting future"

Profit and loss account 31st March 2007

	Note	Year ended 31st March 2007 £000	Year ended 31st March 2006 restated (note 18) £000
Turnover		**104,407**	**79,280**
Cost of sales		(81,040)	(61,060)
Gross profit		**23,367**	**18,220**
Administrative expenses		(6,676)	(5,373)
Operating profit	1	**16,691**	**12,847**
Interest receivable		794	201
Interest payable and similar charges	4	(3,980)	(3,083)
Profit on ordinary activities before taxation		**13,505**	**9,965**
Taxation on profit on ordinary activities	5	(3,557)	(2,964)
Profit on ordinary activities after taxation		**9,948**	**7,001**
Dividends paid	6	(2,867)	(1,809)
Retained profit for the year		**7,081**	**5,192**
Earnings per share:			
Basic	7	30.3p	23.8p
Diluted	7	29.4p	23.3p

All activities are in respect of continuing operations.

Statement of total recognised gains and losses 31st March 2007

	Year ended 31st March 2007 £000	Year ended 31st March 2006 £000
Retained profit for the year	**7,081**	**5,192**
Prior year adjustment (note 18)	(71)	
Total gains and losses recognised since the last annual report	**7,010**	

Balance sheet 31st March 2007

	Note	31st March 2007 £000	31st March 2006 restated (note 18) £000
Fixed assets			
Tangible assets	8	851	871
Current assets			
Stocks and work in progress	10	70,174	45,547
Debtors	11	56,128	59,454
Cash at bank and in hand		17,617	7,211
		143,919	112,212
Creditors - amounts falling due within one year	12	(90,079)	(80,711)
Net current assets		**53,840**	**31,501**
Total assets less current liabilities		**54,691**	**32,372**
Creditors - amounts falling due after more than one year	13	(96)	(75)
Provision for liabilities	14	(71)	(136)
Net assets		**54,524**	**32,161**
Financed by:			
Capital and reserves			
Called up share capital	15	3,694	2,981
Share premium	16	28,641	12,656
Profit and loss account	16	22,189	16,524
Equity shareholders' funds	17	**54,524**	**32,161**

These financial statements were approved by the board on 21st May 2007 and signed on its behalf by:

Andrew Wiseman
Chief Executive

Jonathan Di-Stefano
Financial Director

Cash flow statement 31st March 2007

	Note	Year ended 31st March 2007 £000	Year ended 31st March 2006 restated (note 18) £000
Cash flow from operating activities	21	**860**	**(25,940)**
Returns on investments and servicing of finance			
Interest received		794	201
Interest paid		(3,885)	(3,072)
Hire purchase interest		(15)	(11)
		(3,106)	(2,882)
Taxation		(3,554)	(2,264)
Capital expenditure			
Purchase of tangible fixed assets		(182)	(589)
Sale of tangible fixed assets		38	351
Equity dividends paid		(2,867)	(1,809)
Cash outflow before financing		(8,811)	(33,133)
Financing			
Issue of ordinary share capital		15,895	425
Expenses of share issue		(627)	-
Purchase of own shares		(365)	-
Sale of own shares		180	128
Increase in bank loans		4,257	35,837
Capital element of hire purchase payments		(123)	(113)
		19,217	36,277
Increase in cash		**10,406**	**3,144**
Reconciliation of net cash flow to movement in net debt			
Increase in cash		10,406	3,144
Increase in bank loans		(4,257)	(35,837)
Capital element of hire purchase payments		123	113
Decrease (increase) in debt arising from cash flow		6,272	(32,580)
Inception of hire purchase agreements		(162)	(133)
Movement in net debt in the year		6,110	(32,713)
Net debt brought forward		(61,912)	(29,199)
Net debt carried forward	22	**(55,802)**	**(61,912)**

The prior year balances have been reanalysed for comparative purposes.

Statement of accounting policies 31st March 2007

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year except as noted below.

Changes in accounting policy

The Company has adopted Financial Reporting Standard 20 'Share-based payment' for the year ended 31st March 2007. As a result of this, a charge is made to the profit and loss account to reflect the calculated fair value of employee share options over and above the exercise price paid by employees (note 18). This charge is calculated at the date of grant of the options and is charged equally over the vesting period. The corresponding adjustment to reserves is made directly to the profit and loss reserve.

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Turnover and profit recognition

Turnover is recognised from the date of exchange of contracts for the sale of properties at a rate equivalent to the value of work undertaken in respect of land development. The value of turnover less deposits and completion monies received is included as amounts recoverable on contracts within debtors. All turnover is generated in the United Kingdom. Commission received on property sales made on behalf of third parties is recorded within turnover, with all costs associated with the sale of those properties recognised within cost of sales.

Profit on developments is recognised over the life of each development in proportion to turnover only to the extent that the total eventual profit on the development can be foreseen with reasonable certainty. Until there is reasonable certainty over the final outcome of a development the profit is restricted to the non-refundable deposits received. Losses are provided for as soon as foreseen.

Joint arrangements

The Company has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Company includes its share of the assets, liabilities, profits and cash flows in such joint arrangements, measured in accordance with the terms of the arrangement and pro-rata to the Company's interest in the arrangement, in its financial statements.

Development properties

Development properties are included in stocks and work in progress and are stated at the lower of cost and net realisable value. Cost comprises costs of acquisition and development, including directly attributable fees and expenses but not loan interest. Included within development properties are freehold interests held in completed developments. These are recognised at a multiple of annual rental income.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis at rates calculated to write down the cost, less estimated residual value, of each asset over its expected useful life as follows:

Leasehold improvements	- shorter of term of lease and 10 years
Plant and machinery	- 2 to 5 years
Motor vehicles	- 3 years

Taxation

Corporation tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Finance leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over the shorter of their expected useful lives and the lease term. The capital elements of the future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Operating leases

Operating lease rentals are charged to the profit and loss account as incurred.

Pension costs

Contributions paid to group personal pension schemes (defined contribution), in respect of employees, are charged to the profit and loss account as incurred.

1 Operating profit

		Year ended 31st March 2007 £000	Year ended 31st March 2006 £000
Operating profit is stated after charging (crediting):			
Depreciation	- owned assets	204	163
	- hire purchase assets	156	149
Operating lease rentals	- property	162	149
	- motor vehicles	175	156
	- plant and machinery	3	3
Profit on sale of tangible fixed assets		(34)	(37)
In addition the following has been charged in respect of auditors' remuneration:			
Audit and related services (PricewaterhouseCoopers LLP)			
Statutory audit of the financial statements		57	-
Other services including non-audit services (PricewaterhouseCoopers LLP)			
The audit of subsidiary and joint arrangement accounts pursuant to legislation		5	-
Other services provided pursuant to such legislation		-	-
Other services relating to taxation		13	-
All other services		22	-
Audit and related services (Moore Stephens LLP)			
Statutory audit of the financial statements		-	30
Other services including non-audit services (Moore Stephens LLP)			
The audit of subsidiary and joint arrangement accounts pursuant to legislation		8	3
Other services provided pursuant to such legislation		5	5
Other services relating to taxation		14	16
All other services		-	-

PricewaterhouseCoopers LLP were appointed as the Company's auditors during the year.

2 Directors' remuneration

The total remuneration payable to the directors in the year was £1,033,304 (2006 - £874,799).

The remuneration payable to the highest paid director was £208,068 (2006 - £176,056). This includes payments to a personal pension arrangement of £11,500 (2006 - £9,762).

Further details of directors' remuneration including other benefits and share options is given in the directors' remuneration report on pages 39 to 40.

Four current directors are accruing benefits under group personal pension arrangements (2006 - Four).

3 Staff costs

The average monthly number of persons employed by the Company including executive directors, during the year analysed by activity was as follows:

	Year ended 31st March 2007 Number	Year ended 31st March 2006 Number
Construction	67	54
Administration	50	43
	117	97

The employment costs of all employees included above were:	Year ended 31st March 2007 £000	Year ended 31st March 2006 £000
Wages and salaries	6,278	4,801
Social security costs	686	550
Other pension costs - group personal pension arrangements	252	185
	7,216	5,536

The Company operates a group personal pension scheme for its employees. At 31st March 2007 payments of £32,000 were due to the scheme (2006 - £1,000).

4 Interest payable and similar charges

	Year ended 31st March 2007 £000	Year ended 31st March 2006 £000
Interest payable on bank loans and overdrafts	3,965	3,072
Hire purchase finance charges	15	11
	3,980	3,083

5 Taxation

	Year ended 31st March 2007 £000	Year ended 31st March 2006 restated (note 18) £000
United Kingdom corporation tax at a rate of 30.0% (2006 - 30.0%)	3,800	3,007
Adjustment in respect of prior periods	(178)	(168)
Total current taxation	3,622	2,839
Deferred taxation (note 14)	(65)	125
Taxation on profit on ordinary activities	3,557	2,964
Tax reconciliation		
Profit on ordinary activities before taxation	13,505	9,965
Profit on ordinary activities before taxation at standard rate of corporation tax in the UK of 30% (2006 - 30%)	4,052	2,990
Effects of:		
Adjustment in respect of prior periods	(178)	(168)
Expenses not deductible for tax purposes	28	17
Depreciation in excess of capital allowances	13	-
Deductions in respect of employee share schemes	(309)	-
Other timing differences	16	-
Total current taxation	3,622	2,839

Factors affecting future tax charges

On 21st March 2007 it was announced that the corporation tax rate will reduce from 30% to 28% with effect from 1st April 2008. The legislation to enact this change was not in place at the balance sheet date and so this change is not recognised for deferred tax purposes. The impact of the change on the calculation of deferred tax is not considered to be material.

6 Dividends paid

	Year ended 31st March 2007 £000	Year ended 31st March 2006 £000
Final dividend paid in July 2006 of 4.6p (July 2005 - 3.7p)	1,391	1,093
Interim dividend paid in January 2007 of 4.0p (January 2006 - 2.4p)	1,476	716
	2,867	1,809

The final dividend proposed for the year ended 31st March 2007 is 4.9p per ordinary share. This dividend was declared after 31st March 2007 and as such the liability of £1,808,000 has not been recognised at that date.

7 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the Share Incentive Plan (note 18), which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Earnings per share have been calculated using the following figures:

	Year ended 31st March 2007	Year ended 31st March 2006 restated (note 18)
Weighted average number of shares in issue	32,781,546	29,356,371
Dilution - effect of share schemes	1,054,146	727,290
Diluted weighted average number of shares in issue	33,835,692	30,083,661
Profit on ordinary activities after taxation	£9,948,000	£7,001,000
Earnings per share:		
Basic	30.3p	23.8p
Diluted	29.4p	23.3p

8 Tangible fixed assets

	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1st April 2006	256	805	427	1,488
Additions	5	137	202	344
Disposals	-	-	(133)	(133)
At 31st March 2007	261	942	496	1,699
Depreciation				
At 1st April 2006	6	394	217	617
Charge	25	179	156	360
Disposals	-	-	(129)	(129)
At 31st March 2007	31	573	244	848
Net book value				
At 1st April 2006	250	411	210	871
At 31st March 2007	230	369	252	851

Motor vehicles with a net book value of £252,000 are held under hire purchase arrangements (2006 - £210,000). Depreciation of £156,000 was charged during the year on these assets (2006 - £149,000).

9 Investments

Investment in subsidiary undertaking

At 31st March 2007 the Company held 100% of the issued share capital of Island Gardens Limited, a company registered in England and Wales, which had been incorporated to assist the Company in carrying out a joint activity. Island Gardens Limited is a dormant company with share capital of £2. Telford Homes Plc does not prepare consolidated financial statements as Island Gardens Limited is immaterial to the operations of the group.

Joint arrangements

At 31st March 2007 the Company held 50% of the issued share capital of Telford Homes (Stratford) Limited, a company registered in Scotland, which has been incorporated to assist the Company in carrying out a joint activity.

At 31st March 2007 the Company held 50% of the issued share capital of Telford Homes (Creekside) Limited, a company registered in Scotland, which has been incorporated to assist the Company in carrying out a joint activity.

At 31st March 2007 the Company held 50% of the issued share capital of Bishopsgate Apartments LLP, a limited liability partnership registered in England, which has been incorporated to assist the Company in carrying out a joint activity.

10 Stocks and work in progress	31st March 2007 £000	31st March 2006 £000
Development properties	70,174	45,547

11 Debtors	31st March 2007 £000	31st March 2006 £000
Amounts recoverable on contracts	54,179	57,243
Trade debtors	81	70
Other debtors	1,479	1,758
Prepayments and accrued income	389	383
	56,128	59,454

Amounts recoverable on contracts include sales proceeds secured on exchanges of contracts, less deposits received, adjusted for percentage completion on each development. This total includes a net amount of £21,009,000 (2006 - £8,204,000) which will be received on legal completions expected after more than one year.

12 Creditors – amounts falling due within one year	31st March 2007 £000	31st March 2006 £000
Bank loans	73,210	68,953
Hire purchase liabilities	113	95
Trade creditors	5,555	4,444
Land creditors	-	661
Corporation tax	1,655	1,590
Other taxation and social security	244	198
Other creditors	3	92
Accruals and deferred income	9,299	4,678
	90,079	80,711

The bank loans represent credit line facilities, with two banks, secured by a debenture over the assets of the Company and by charges over the development sites owned by the Company. Interest is payable at rates up to 1.75% over base rate. Details of facilities are given in note 23.

13 Creditors – amounts falling due after more than one year	31st March 2007 £000	31st March 2006 £000
Hire purchase liabilities 1-2 years	78	53
Hire purchase liabilities 2-5 years	18	22
	96	75

14 Provision for liabilities

	31st March 2007 £000	31st March 2006 restated (note 18) £000
The provision for deferred tax comprises:		
(Decelerated) accelerated capital allowances	(51)	8
Share-based payments	(46)	(31)
Land remediation timing difference	120	159
Other short term timing differences	48	-
Provision for deferred tax	71	136

A reconciliation of movements in the deferred tax provision is as follows:	£000
At 1st April 2006 as previously reported	167
Adjustment for adoption of FRS 20 'Share-based payment' (note 18)	(31)
At 1st April 2006 restated	136
Credited to the profit and loss account	(65)
At 31st March 2007	71

15 Share capital

	31st March 2007 £000	31st March 2006 £000
Authorised		
100,000,000 ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
36,940,475 ordinary shares of 10p each (2006 - 29,807,472)	3,694	2,981

On 23rd May 2006, 180,000 ordinary shares were issued at 197p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (note 18).
On 12th June 2006, 40,000 ordinary shares were issued at 75p as a result of share options being exercised.
On 12th June 2006, 281,876 ordinary shares were issued at 74.5p as a result of share options being exercised.
On 8th August 2006, 33,707 ordinary shares were issued at 89p as a result of share options being exercised.
On 23rd October 2006, 5,769,230 ordinary shares were issued at 260p as a result of a share placing.
On 9th November 2006, 202,242 ordinary shares were issued at 89p as a result of share options being exercised.
On 9th November 2006, 75,948 ordinary shares were issued at 118.5p as a result of share options being exercised.
On 9th November 2006, 550,000 ordinary shares were issued at 260p to Abacus Corporate Trustee Limited to satisfy the requirements of the Deferred Payment Share Purchase Plan (note 18).

Ordinary shares may be issued in the future to satisfy the exercise of outstanding share options (note 18).
All shares rank equally in respect of shareholder rights.

16 Reserves	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1st April 2006 as previously reported	2,981	12,656	16,493	32,130
Adjustment for adoption of FRS 20 'Share-based payment'	-	-	31	31
At 1st April 2006 restated	2,981	12,656	16,524	32,161
Shares issued under the Deferred Payment Share Purchase Plan (note 18)	55	1,375	(1,430)	-
Other issues of shares during the year	658	15,237	-	15,895
Costs arising from shares issued	-	(627)	-	(627)
Share-based payments	-	-	90	90
Purchase of own shares	-	-	(365)	(365)
Sale of own shares	-	-	180	180
Write down in value of own shares	-	-	109	109
Retained profit for the year	-	-	7,081	7,081
At 31st March 2007	3,694	28,641	22,189	54,524

The change in accounting policy as a result of the adoption of FRS 20 (note 18) is reflected in the restated figures as at 1st April 2006.

Details of own shares held under the Share Incentive Plan are disclosed in note 18.

The profit and loss account for the year ended 31st March 2006 is restated in accordance with FRS 20 as follows:

	£000
At 1st April 2005 as previously reported	11,056
Adjustment for adoption of FRS 20 'Share-based payment'	13
At 1st April 2005 restated	11,069
Share-based payments	59
Sale of own shares	128
Write down in value of own shares	76
Retained profit for the year	5,192
Profit and loss account restated	16,524

17 Equity shareholders' funds	£000
Profit for the year	9,948
Dividends paid	(2,867)
	7,081
Issues of shares during the year	15,895
Costs arising from shares issued	(627)
Share-based payments	90
Purchase of own shares	(365)
Sale of own shares	180
Write down in value of own shares	109
	22,363
At 1st April 2006 restated (note 16)	32,161
At 31st March 2007	54,524

18 Employee Share Schemes

Telford Homes Plc Employee Share Option Scheme

The Company operates both an approved share option scheme and an unapproved share option scheme. Awards under each scheme are made periodically to new employees.

The Company has adopted Financial Reporting Standard 20 'Share-based payment' for the year ended 31st March 2007. As a result of this, a charge is made to the profit and loss account to reflect the calculated fair value of employee share options over and above the exercise price paid by employees. This charge is calculated at the date of grant of the options and is charged equally over the vesting period. The corresponding adjustment to reserves is made directly to the profit and loss reserve.

The Company has used the Black-Scholes-Merton formula to calculate the fair value of outstanding options. Individual calculations have been performed for groups of share options with differing exercise prices and dates. The assumptions applied to the Black-Scholes-Merton formula for share options issued and the fair value per option are as follows:

	2007	2006
Expected life of options based on options exercised to date	4 years	4 years
Volatility of share price based on three year share price history	20%	20%
Dividend yield	2% - 4%	4%
Risk free interest rate	4.75% - 5%	4.75%
Share price at date of grant	205p - 337p	138.5p - 167p
Exercise price	205p - 337p	138.5p - 167p
Fair value per option	£0.30 - £0.66	£0.20 - £0.24

18 Employee Share Schemes (continued)

The charge calculated up to 31st March 2005 is £43,000 with a corresponding deferred tax asset at that date of £13,000. The profit and loss reserve is therefore restated by the deferred tax credit of £13,000 from £11,056,000 to £11,069,000.

The charge calculated for the year ended 31st March 2006 is £59,000 with a corresponding deferred tax asset of £18,000 recognised in the year. The profit and loss reserve is therefore restated by cumulative deferred tax credits of £31,000 from £16,493,000 to £16,524,000.

The charge calculated for the year ended 31st March 2007 is £90,000 with a corresponding deferred tax asset of £27,000 recognised in the year.

A reconciliation of option movements over the year ended 31st March 2007 is shown below:

	Number 000's	Weighted average exercise price
Outstanding at 1st April 2006	1,952	115p
Granted in the year	211	256p
Forfeited in the year	(41)	146p
Exercised in the year	(634)	85p
Outstanding at 31st March 2007	1,488	147p
Exercisable at 31st March 2007	456	92p

The weighted average fair value of options granted in the year was £95,000 (2006 - £134,000).

The share price at the point of exercise of share options during the year ranged from 223p to 310.5p.

At 31st March 2007 outstanding options granted over 10p ordinary shares were as follows:

Share option scheme	Option price	Number	Dates exercisable
Company approved	143.5p	125,430	24 Mar 2007 to 24 Mar 2014
	143.5p	167,240	5 Aug 2007 to 5 Aug 2014
	144.5p	83,044	6 Jan 2008 to 6 Jan 2015
	138.5p	108,300	17 May 2008 to 17 May 2015
	153.5p	254,059	10 Nov 2008 to 10 Nov 2015
	167p	107,784	27 Feb 2009 to 27 Feb 2016
	205p	102,438	15 June 2009 to 15 June 2016
	287p	73,164	11 Oct 2009 to 11 Oct 2016
	337p	35,608	26 Jan 2010 to 26 Jan 2017
Company unapproved	60.5p	50,414	5 Mar 2005 to 5 Mar 2012
	75p	220,000	1 Oct 2005 to 1 Oct 2012
	74.5p	59,732	20 Feb 2006 to 20 Feb 2013
	138.5p	50,542	17 May 2008 to 17 May 2015
	167p	50,000	27 Feb 2009 to 27 Feb 2016

Telford Homes Plc Share Incentive Plan

During the year ended 31st March 2004 Telford Homes Plc set up a Share Incentive Plan (SIP) for the benefit of all of the employees of the Company. This SIP has been approved by the Inland Revenue and confers certain tax advantages for participating employees.

The SIP provides for employees to purchase shares up to a value of £1,500 in each tax year. These shares are known as 'Partnership shares'. Partnership shares are matched on a one for one basis by 'Matching shares' provided by the Company subject to the shares remaining in the SIP for a period not less than three years. Dividends are paid on both Partnership and Matching shares and these are allocated to employees as 'Dividend shares'.

The Company has set up a trust to administer the SIP and to hold shares on behalf of individual employees. This trust is an entirely separate entity to the Company and is managed by a corporate trustee, Telford Homes Trustees Limited. The costs associated with the trust are paid for by the Company and the Company finances all share purchases.

The trust has distributed shares as Partnership shares and Dividend shares to employees participating in the scheme. These shares remain in the trust until such time as an employee withdraws from the SIP. Further shares have been allocated to employees as Matching shares and the cost of these shares is being written off over the three year holding period. The charge in the year ended 31st March 2007 is £109,000 (2006 - £76,000).

During the year ended 31st March 2007 the trust acquired 180,000 shares at 197p in May 2006 and a further 3,372 shares at 310p in November 2006. At 31st March 2007 the trust remains interested in 41,180 shares (2006 - nil) which have not been allocated to employees. The dividends on shares in which the trust has an interest are waived.

Shares held by the SIP are recognised as a deduction from shareholders funds. The value of these shares at 31st March 2007 was £203,000 (2006 - £127,000). Movements in the profit and loss reserve relating to the SIP are shown in note 16.

Telford Homes Plc 2006 Deferred Payment Share Purchase Plan

During the year ended 31st March 2007 Telford Homes Plc set up a Deferred Payment Share Purchase Plan (DPSPP) for the benefit of selected senior employees. An employee benefit trust (the Telford Homes Plc 2006 Employee Benefit Trust) was set up with Abacus Corporate Trustee Limited acting as trustee.

Participants in the DPSPP are offered a loan by the trustee to enable them to subscribe for a specified number of shares in the Company at market value. This loan is interest free, repayable on or before the repayment date, which is normally ten years from the date of the loan or on leaving employment or disposing of the shares. The loan has a limited recourse such that repayment is limited to the value of the shares on the repayment date. The Company will lend the trustee sufficient funds to enable the trustee to provide the loans to individual participants. All shares acquired under the DPSPP will be subject to a three year vesting period and are held by the trustee for the benefit of the participants. Offers to participants will be made periodically at the discretion of the directors of Telford Homes Plc.

In September 2006 selected employees were offered, and subscribed for, a total of 550,000 shares at the market value of 260p. These shares were issued on 9th November 2006. On this date the Company provided a loan to the trustee of £1,430,000 to enable the trustee to provide a loan to each of the participants. This loan is repayable at the earlier of the sale of the vested shares and November 2016 and has been recognised as a deduction from shareholders' funds (note 16).

19 Related party transactions

David Holland purchased an apartment from the Company at the OneStratford development in July 2006. Contracts were exchanged on 26th July 2006 at a price of £245,000. This purchase was approved by shareholders at the Extraordinary General Meeting held on 23rd October 2006. Subsequently contracts were exchanged on 11th December 2006 for a parking space at the same development at a price of £17,500. The Company has received deposits to the value of £26,250 with the balance due on legal completion. The directors are of the opinion that the sales were made at open market prices.

In March 2006 Andrew Wiseman purchased an apartment from the Company at the Equinox, Island Gardens development. The purchase price was £264,600 and completion monies of £237,600 have been received during the year, settling payment in full. This purchase was approved at a previous Annual General Meeting.

In March 2005 James Furlong purchased an apartment and a parking space from the Company at the Tequila Wharf development. The combined purchase price was £330,750 and completion monies of £297,675 have been received during the year, settling payment in full. These purchases were approved at a previous Annual General Meeting.

20 Commitments

The Company had no capital commitments at either 31st March 2007 or 31st March 2006.

Current annual commitments under operating leases are as follows:

	Property leases		Other leases	
	2007 £000	2006 £000	2007 £000	2006 £000
Leases which expire:				
Within one year	-	-	17	18
Between one and five years	-	-	111	119
Over five years	184	184	-	-
	184	184	128	137

On 23rd August 2005 the Company completed the purchase of the site of the former halls of residence of Queen Mary and Westfield College in South Woodford. The site was acquired for consideration of 35% of all private sales proceeds achieved from future development. The private sales proceeds are expected to be in excess of £100 million. An advance of £10 million has been paid to date and the remainder will be settled directly from the private sales proceeds over the next few years. A further liability of £1.4 million (2006 - nil) has been accrued in relation to properties sold where contracts have been exchanged by 31st March 2007.

21 Reconciliation of operating profit to cash flow from operating activities

	Year ended 31st March 2007 £000	Year ended 31st March 2006 restated (note 18) £000
Operating profit	16,691	12,847
Depreciation	360	312
Write down in value of own shares	109	76
Share-based payments	90	59
Profit on sale of tangible fixed assets	(34)	(37)
Increase in stocks and work in progress	(24,627)	(16,971)
Decrease (increase) in debtors	3,323	(19,402)
Increase (decrease) in creditors	4,948	(2,824)
Cash flow from operating activities	860	(25,940)

The prior year balances have been reanalysed for comparative purposes.

22 Analysis of change in net debt

	At 1st April 2006 £000	Cash flows £000	Non-cash changes £000	At 31st March 2007 £000
Cash at bank and in hand	7,211	10,406	-	17,617
Bank loans	(68,953)	(4,257)	-	(73,210)
Hire purchase liabilities due within one year	(95)	123	(141)	(113)
Hire purchase liabilities due after more than one year	(75)	-	(21)	(96)
	(61,912)	6,272	(162)	(55,802)

Non-cash changes comprise inception of finance leases and transfers between hire purchase liabilities due within one year and hire purchase liabilities due after more than one year.

23 Derivatives and other financial instruments

The Company's financial instruments comprise loan and overdraft facilities and various items such as trade debtors and creditors that arise from its operations. The Company uses loan finance, all of which is denominated in sterling, to acquire development land and undertake site construction. It does not enter into any derivative transactions and has no exposure to exchange rate movements as its trade takes place entirely within the United Kingdom.

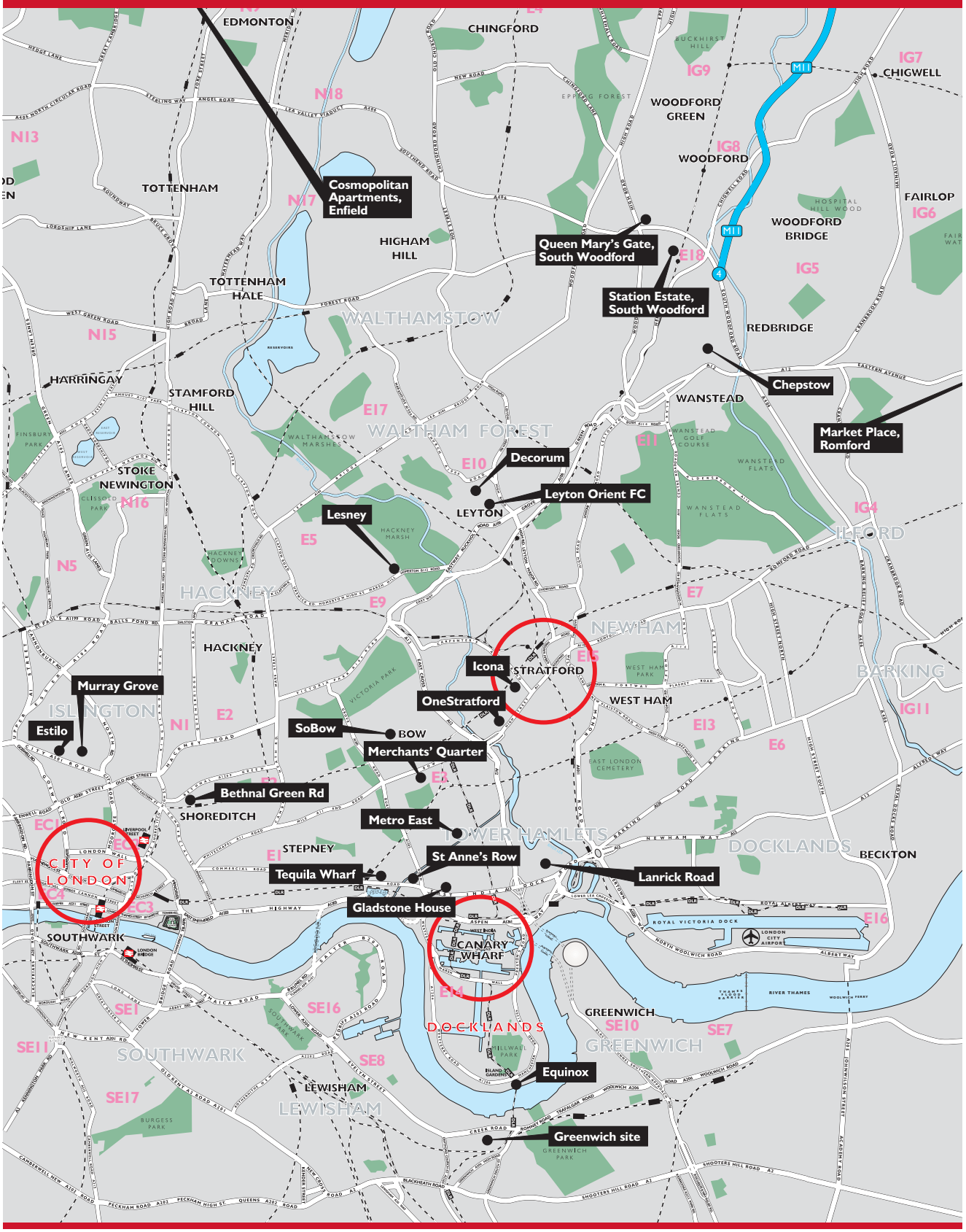
At 31st March 2007 the Company had unutilised overdraft facilities of £2.5 million at 1.5% above base rate (2006 - £2.5 million). The facilities are due for review before April 2008.

In addition the Company has a credit line facility with Allied Irish Bank in respect of site development loans of £50 million, including joint arrangement funding, with interest charged at rates of up to 1.75% above base rate. A total of £25.2 million was unutilised at 31st March 2007. This facility is due for review by April 2008. The Company has a further facility with The Royal Bank of Scotland of £128 million at similar rates, specific to certain sites and including joint arrangement funding, due for review by April 2008. A total of £79.6 million was unutilised at 31st March 2007.

Apart from hire purchase liabilities all of the Company's financial liabilities fall due within one year.

The fair value of the Company's financial assets and liabilities at 31st March 2007 is equal to the carrying value stated in the balance sheet at that date.

Current and future developments showing proximity to three key areas of growth and employment – The City, Canary Wharf and Stratford



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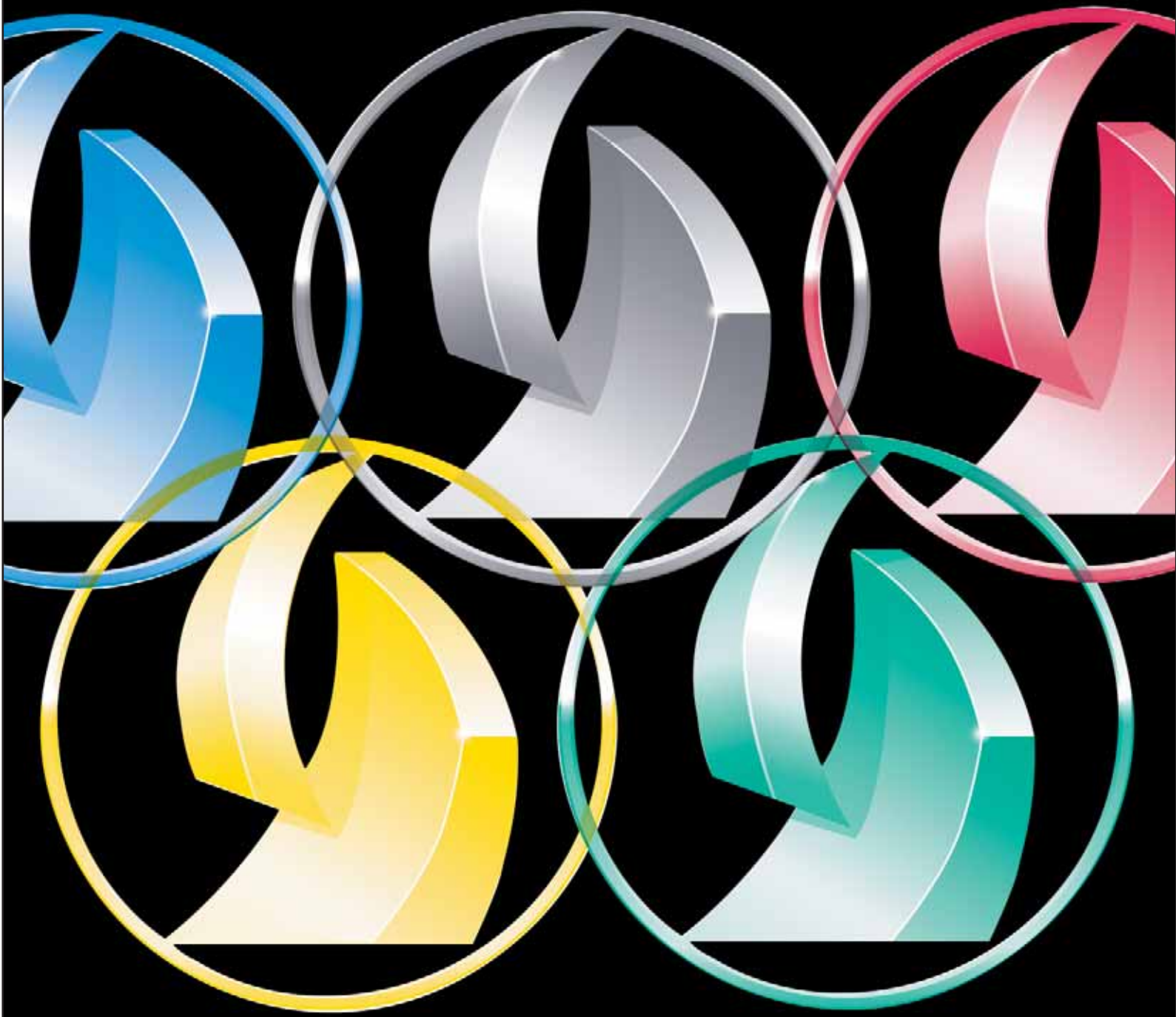

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