telfordhomes

ANNUAL REPORT & ACCOUNTS

2010

revenue:
£159.3m
2009: £106.7m

number of open market completions:
389
2009: 350

adjusted gross profit margin*:
16.5%
2009: 20.0%

adjusted operating margin*:
9.2%
2009: 11.3%

'Homebuilder of the Year 2009'

The Mail on Sunday British Homes Awards

profit before tax & exceptional items:
£8.1m
2009: £7.3m

earnings per share:
13.7p
2009: 8.1p

dividend per share:
2.0p
2009: nil

net debt:
£37.2m
2009: £107.2m

3 x 'NHBC Awards 2009'

Recognising excellent build quality

gearing:
58.9%
2009: 206.6%

'Best City Development 2009 for Kira Building'

London Evening Standard Awards

development pipeline:
2,370 properties

2009: 2,635 properties

'Special Commendation for Stadthaus'

Best New Small Development 2009
London Evening Standard Awards

CONTENTS

*Before all interest charges including those expensed within cost of sales of £5.3 million (2009: £3.7 million) and exceptional items.

KNOWLEDGE

Avant-garde

Shoreditch, E1

An iconic development in Shoreditch, close to Brick Lane and a few minutes from the City.

Comprises 257 open market homes, 103 affordable homes and commercial space designed to include retail and offices.


P

chairman's statement

"The Board prepared for the worst leading up to the recession and reacted swiftly to deteriorating macro-economic financial conditions such that the Group has emerged from the recession in a strong position."

David Holland Chairman (Non-Executive)

I am delighted to announce that Telford Homes has exceeded expectations for the year to 31 March 2010, achieving an increase in revenue of nearly 50 per cent and profit before exceptional items and tax of £8.1 million. This success has been achieved with an improved market in East London resulting in sales being secured earlier than expected.

Over the last 18 months, a quarter of the open market homes pre-sold during 2006 and 2007 have not completed in time with the original buyer. Hence, the Group has re-sold the majority of these properties to individual owner occupiers and the rate of new sales since September last year, both to owner occupiers in the UK and to overseas buyers, has been extremely encouraging.

There have been other significant achievements over the last year including:

- The secured grant programme with the Homes and Communities Agency ("HCA") has been increased to £73 million with allocations now secured for all sites where Telford Homes is already committed to the development and where grant is required to ensure that the scheme can be completed.

- A placing of new shares in February 2010 raised £7.2 million, net of expenses, which will enable the Group to develop more homes for open market sale over the next three years.

- Amongst many accolades received this year Telford Homes was named 'Homebuilder of the Year 2009' at the Mail on Sunday British Homes Awards.


Greenwich Creekside, SE8

The Board prepared for the worst leading up to the recession and reacted swiftly to deteriorating macro-economic financial conditions such that the Group has emerged from the recession in a strong position. Although our reduced investment in new opportunities during 2008 and 2009 is likely to reduce profit levels over the next two financial years, the placing funds will help to enhance profits beyond this period. The longer term prospects for Telford Homes remain sound.

Finally, I am pleased to report the re-instatement of a dividend with a total payment for the year of 2 pence of which 0.75 pence has already been paid and a further 1.25 pence is proposed to be paid in July 2010. Despite any short term fluctuations in reported profits the Board intends to maintain a progressive dividend policy over the coming years in keeping with our longer term expectations.

David Holland
Chairman (Non-Executive)
25 May 2010

The Mail ON SUNDAY
BHA British Homes Awards 09
Homebuilder of the Year

chief executive's review

"The future prospects for East London remain encouraging with ongoing regeneration, improving transport links, the Olympics and a fundamental shortage of supply all indicating a favourable long term outlook for Telford Homes."

Andrew Wiseman Chief Executive

Telford Homes can report on an excellent set of financial results for the year to 31 March 2010, a period that has seen a continuation of the economic downturn followed by gradual improvement in the second half of the year. Revenue has increased to £159.3 million from £106.7 million last year with the number of open market property completions increasing to 389 from 350. Despite some pressure on margins from reduced selling prices, profit before tax and exceptional items has increased to £8.1 million from £7.3 million. Exceptional costs, principally write downs to land and work in progress, have remained unchanged from the interim results at £780,000 (2009: £3.0 million). These results are significantly better than original market expectations for the year and support the Board's long term confidence in the business in East London.

Sales and completions

A deterioration in market conditions, particularly in the availability of mortgage finance, and a recession in the wider economy began as the Group was preparing to complete the development of around 600 pre-sold homes over an 18 month period from October 2008 to March 2010. These pre-sold homes represented over £130 million of potential proceeds and the Group worked hard to ensure as many as possible achieved legal completion.

The Board put in place contingency plans to offset the impact of failed contracts but the policy of working with each individual customer on a day-to-day basis was successful and led to most of the contracts completing with the original buyers. In addition, the improving market enabled those homes that failed to complete with the original buyer within acceptable timescales to be sold to new buyers, mainly owner occupiers.

The Group has now completed over 540 of the pre-sold properties including just over 100 re-sold to new customers where the original 10 per cent deposit has been retained by Telford Homes. This success means the Board now believes that any financial risk of significant contract failures has been avoided.

The market in East London has improved over the last six months and a steady rate of new sales has also been achieved on the completed developments at Nayland Court, Romford and the second phase of Queen Mary's Gate, Woodford. Only 14 homes remain for sale at the latter and Nayland Court is now sold out.

OneStratford, E15

Selling prices have declined by up to 15 per cent from their peak in 2007 although this has had limited impact on the total revenue from re-sales given the deposits retained from the original sales. In general, prices achieved on new sales have been ahead of expectations set at the beginning of the year with gradual improvement over the last few months.

Telford Homes will continue to target pre-sales where possible and while demand from off-plan investors in the UK remains severely restricted by the mortgage market, the Group has identified strong pockets of demand from overseas buyers. Developments have been marketed in various Middle Eastern and Asian locations and in the last few months over 100 new sales have been secured overseas across a number of developments. These include Greenwich Creekside where the first completions are due later this year and Matchmakers Wharf, the site of the former Lesney Toys factory just north of the Olympic Park. The remaining homes on these developments are expected to be sold to a mix of investors and owner occupiers through and beyond the construction period. This represents a return to the historic sales model for Telford Homes that preceded the boom in investor demand in 2006 and 2007.

HCA and affordable housing

A significant strength of Telford Homes both during the recession and since has been its status as a grant partner of the HCA. The Group has successfully bid for grant on nine different sites and this has resulted in a total grant package of £73 million for the delivery of 534 affordable homes.

In preparation for the recession, the Board stopped investment in new land opportunities and put some open market developments on hold. Amended planning permissions were secured to turn some sites into 100 per cent affordable housing. With the benefit of grant funding from the HCA, these sites will achieve margins averaging 10 per cent with improved returns on equity due to the grant receipts and monthly payments from housing associations.

Papermill, Walthamstow, E17

Greenwich Creekside Sales Centre, SE8

Typically 60 per cent of the grant allocated to a site has been received at the start of the construction work although this was increased for two of the Group's developments which received 75 per cent up front by commencing construction prior to 31 March 2010. The balance of the grant is received on completion. To date, £47 million of the total grant package has been received. Grant is utilised purely for the construction of the affordable homes for which it has been allocated and a substantial amount of the grant received to date is held within cash on the balance sheet to be used for future construction expenditure across the relevant sites.

In the future, grant rates are likely to decrease and the availability of grant allocations will be at a premium. Telford Homes has secured grant for all of the sites already within the Group's ownership and future opportunities that are reliant on grant funding will only be purchased when the grant position has been agreed. However, the excellent relationship developed with the HCA, including meeting all deadlines and milestones to date, will put the Group in the best possible position to access grant funding in the future.

Partnerships with affordable housing providers have also been fundamental to the business model since the inception of Telford Homes. These relationships enable the Group to secure contracts for the sale of the affordable homes on each site and have been a source of new land opportunities. The Group continues to work closely with many Registered Social Landlords and its partnership with Eastend Homes forms a significant part of the future development pipeline of the business. The British Estate set the model for the partnership with Eastend Homes where land payments made by Telford Homes were reinvested into the third party refurbishment of existing homes on the estate. Construction is now underway on new affordable housing on three other estates and the Group expects to continue exercising options to purchase land to develop open market housing on the same estates over the next few months. The option prices for the open market sites have been set based on current market selling prices.

It remains an important part of the Board's strategy to further partnerships with the HCA and affordable housing providers and in the future one of the advantages of these relationships will be access to land owned by the public sector. As an example, Telford Homes has formed a partnership with London and Quadrant Housing Association to bid for the redevelopment of Blackwall Reach, a region expected to provide up to 2,000 new homes over eight years and owned predominantly by the HCA and the London Borough of Tower Hamlets. The partnership has been shortlisted for the project along with three others.

Stadia Apartments, Leyton, E10

Developing in East London

Telford Homes operates in a marketplace underpinned by the employment areas of Canary Wharf and the City. Ongoing regeneration across several boroughs, improving the quality of the built environment for the benefit of both existing and new residents, means there are many more opportunities arising in the future.

Local knowledge has played a key role in the success of Telford Homes over the last few years and is a competitive advantage, particularly in relationships with local authorities and affordable housing providers, and in the Group's understanding of the local planning process. Amongst other things, this has assisted the Group in achieving a number of planning permissions in the last year including some of the estate regeneration projects in partnership with Eastend Homes.

The 2012 Olympics are a major boost to East London with construction of the Olympic Park in Stratford now taking shape and with many other events due to take place in the local London boroughs. This continues to accelerate the programme of regeneration that was already taking place in the area, including further improvement to public transport in the region. Examples include the extension of the East London line, Stratford International Station, expansion of the Docklands Light Railway and, further into the future, the Crossrail project. These improvements benefit all of East London on a long term basis, and not just the area in the immediate vicinity of the Olympic Park.

Land acquisition

During the recession, the Board took the decision not to invest in new land opportunities and concentrated on optimising the cash return from existing developments as well as agreeing option contracts for future land purchases, particularly with Eastend Homes. As a consequence, the output of completed open market homes is likely to temporarily reduce over the next two years. In addition, the impact of the downturn on expected selling prices means profit margins on some of the developments that will be completed over this period are expected to be lower than usual. To some extent, securing HCA grant over the last 18 months has reduced the impact of the recession on the business but actual reported profits over the next two years will be constrained.

As the economy slowly recovers, the Board remains confident of developing in East London and many new opportunities now exist to add to the Group's development

chief executive's review continued

pipeline and provide a platform for future growth. In February 2010, the Group raised £7.2 million, net of expenses, through a placing of new shares. This equity will enable the business to take some of these opportunities, including developing more homes for open market sale upon sites in its ownership and as part of estate regeneration projects with Eastend Homes. The Board was delighted with the success of the placing which will enable the Group to move forward more quickly than would otherwise have been the case.

Supply and demand

There is an increasing gap between the supply of new homes and the need for new homes. Even where demand is partially constrained by a lack of mortgage finance it is clear that over time, with population and the number of single person households increasing, current levels of construction will not be sufficient. Nationally, the government has assessed that there is a need in the UK for 240,000 new homes per annum over the next 20 years; new housing starts in 2009 were under 100,000. In London, the population in 2008 was 7.6 million but is expected to be 8.9 million by 2031. This translates to 800,000 new households of which 600,000 are expected to be single person. The National Housing Planning Advice Unit has published a report concluding that 46,800 new homes are required per annum in London up to 2031, and yet new housing starts in London were only 10,500 in 2009.

This lack of supply represents an opportunity for Telford Homes to undertake high quality developments in the right locations and to benefit from the continuing need for new homes, both for open market sale and affordable housing, over the next few years.

As at 31 March 2010, the Group's pipeline of open market and affordable properties not yet legally completed was 2,370 (2009: 2,635) including 2,346 with planning permission. This total includes sites under option contracts within the control of the Group.

Showhome at Stadia Apartments, Leyton, E10

chief executive's review continued

Operations

The year to 31 March 2010 has been successful for Telford Homes in many respects and the Board extends its gratitude and congratulations to each and every employee. The standard of design and construction of the Group's developments is excellent and the operational teams continue to ensure that a first class product is delivered to each customer supported by a dedicated Customer Service team. During the year, the Group has received a number of awards including Homebuilder of the Year 2009 at the Mail on Sunday British Homes Awards, Best City Development 2009 from the Evening Standard, an Innovation Award for Building Technology and three NHBC awards recognising build quality.

Current trading and outlook

The market in East London has seen gradual improvement from September 2009 and has remained steady. Since 1 September 2009, the Group has achieved over 300 new sales, just over 90 of which were secured in the new financial year. Since 1 April 2010, 47 open market homes have already been completed and handed over to customers.

The continuing rate of new sales to UK and overseas customers underpins the Board's confidence in committing funds to new development opportunities. Alongside this, the future prospects for East London remain encouraging with ongoing regeneration, improving transport links, the Olympics and a fundamental shortage of supply all indicating a favourable long term outlook for Telford Homes.

Andrew Wiseman
Chief Executive
25 May 2010


SoBow, E3

Matchmakers Wharf, E9

financial review

"The success of the Group in securing completions has allowed substantial debt repayments to be made and along with HCA grant receipts this has led to a reduction in net debt of £70 million."

Jonathan Di-Stefano Financial Director

Controlling cash flows, repaying existing debt and sourcing new finance have all been important targets over the past year. The success of the Group in securing completions has allowed substantial debt repayments to be made and along with HCA grant receipts this has led to a reduction in net debt of £70 million. In addition, the placing in February 2010 raised £7.2 million enabling Telford Homes to take opportunities to commence the construction of an increased number of homes over the next three years.

Operating results

Revenue increased to £159.3 million (2009: £106.7 million) with gross profit before exceptional items of £21.0 million (2009: £17.6 million). Gross profit is stated after expensing loan interest that has been capitalised within inventories of £5.3 million (2009: £3.7 million) and before charging this interest the gross margin in the year was 16.5 per cent compared to 20.0 per cent last year. This reduction is due to undertaking lower risk construction work in developing more affordable housing and reduced selling prices on new sales due to the downturn in the market.

In the new financial year, the overall gross margin is likely to reduce further, reflecting a higher proportion of construction on the lower risk affordable projects together with open market completions on the developments most affected by the recession, including those where the value of land and work in progress has been written down. However, margins are expected to remain at reasonably healthy levels and improve back to normal levels over the following two years.

The operational teams continue to monitor and control development costs with a focus on achieving cost savings wherever possible, while maintaining good relationships with all suppliers. The value of construction work undertaken in the year to 31 March 2010 was £103 million compared to £79 million last year.

The operating margin before exceptional items and interest charged to cost of sales was 9.2 per cent to 31 March 2010, down from 11.3 per cent last year. Administrative expenses have remained under close control with the increase against last year representing a return to modest employee salary increases and bonus payments due to the excellent results in the year to 31 March 2010. Selling expenses have increased to £1.9 million (2009: £1.4 million) in keeping with the level of new sales being secured especially as a result of overseas sales events.

Queen Mary's Gate, South Woodford, E18


Saunders Apartments, Bow, E3

Exceptional items

The exceptional items reported in the year to 31 March 2010 are primarily write downs to the value of land and work in progress and total £0.8 million (2009: £3.0 million). These write downs were all recorded in the first half of the year with improved market conditions ensuring that there were no further impairments to asset values in the second half of the year.

Interest

The total borrowings of the Group have reduced over the course of the year and the interest rates payable on existing facilities are very competitive at LIBOR plus a margin of between 2 and 3 per cent or base rate plus a margin of between 2.5 and 4 per cent. As a result, total interest paid in the year was £3.5 million reduced substantially from £6.4 million last year.

Interest charged to the income statement includes £5.3 million in cost of sales (2009: £3.7 million) and a further £1.7 million of finance costs (2009: £1.2 million) primarily as a result of suspending the capitalisation of interest on certain sites that were not progressing in terms of design or construction.

Dividend

The Board expects to pay a dividend to shareholders every year. Due to the economic uncertainty last year and the risk surrounding the cash inflows from pre-sold properties the Board took the decision not to pay any dividend with a view to re-instating a dividend as soon as it was prudent to do so. Given the results for the year along with enhanced cash balances and reduced borrowings, the Board has decided to propose a final dividend of 1.25 pence which, together with the 0.75 pence interim dividend paid on 15 January 2010, makes a total dividend for the year of 2.0 pence (2009: nil).

The final dividend is expected to be paid on 16 July 2010 to those shareholders on the register at the close of business on 25 June 2010.

Balance sheet

Net assets at 31 March 2010 were £63.1 million increased from £50.3 million last year. A placing of new shares in February 2010 raised £7.2 million, net of expenses, in new equity which has significantly strengthened the balance sheet and given the Group the ability to take opportunities to construct new open market homes subject to bank finance.

financial review continued

Cash balances are particularly high at 31 March 2010 at £33.6 million against £4.9 million last year. This balance includes operational balances of £7.4 million, the placing proceeds of £7.2 million which were received in March, grant monies held for future expenditure of £12.7 million and £6.3 million acquired as part of the acquisition of Clifford Contracting Limited on 23 June 2009.

The acquisition of Clifford Contracting gave Telford Homes access to a form of finance against unsold properties which in turn assisted the Group in securing bank finance by providing additional comfort over the ability to withstand contract failures on pre-sold properties. As a consequence of the improved market and a better than expected rate of sales, the Group redeemed some of the loan notes issued as consideration for the acquisition during April 2010. Together with the redemption premium the total payment was £2.0 million which released an equal amount from the restricted funds held by the now renamed Telford Homes Contracting Limited. This early redemption has saved the Group future interest costs of £80,000. The remaining £4.3 million of loan notes, inclusive of redemption premium, may also be redeemed earlier than the current anticipated date of September 2011, and the Board will continue to assess the need for ongoing finance against unsold properties over the next few months.

Cash management and cash flow forecasting

Despite the high levels of cash currently within the business, control of cash will always be of critical importance and a detailed month by month cash flow forecast is maintained as part of the Group's management information systems. This enables continuous monitoring of the forecast and actual cash flows over a five year period. The forecasts are necessarily subject to a number of assumptions and judgements and these are tested on a reasonable basis by sensitivity analysis. These forecasts are reviewed by the Board in detail on a monthly basis.


Casa, E14

financial review continued

Borrowings

Telford Homes uses loan finance to acquire development land and undertake site construction. Bank facilities are in place with three banks; The Royal Bank of Scotland, Barclays Bank and Allied Irish Bank, and are secured by debentures and by charges over development sites.

Borrowings at 31 March 2010 were £70.8 million (2009: £112.0 million) with net debt reducing from £107.2 million to £37.2 million. This represents a gearing level of just 58.9 per cent, a substantial reduction from 206.6 per cent last year. This reduction is mainly due to achieving completions, but is also due to grant received, new equity raised and control of investment in land and expenditure on work in progress. The Board has determined that long term growth can be achieved at lower levels of gearing than those required in previous years and as such expects this to remain below 150 per cent. This is consistent with finance being made available at lower loan to cost percentages.

The Group's bank facilities ensure that adequate funding is available to cover working capital requirements and the Board considers that existing facilities are sufficient to cover funding requirements in the foreseeable future. In addition, some of the Group's bank facilities are subject to a number of general and financial covenants which are tested periodically by each bank. In all cases, the Board has assessed whether the Group will remain in compliance with the covenants in the short to medium term and are satisfied that there will be no breach of the covenants that cannot be easily rectified.

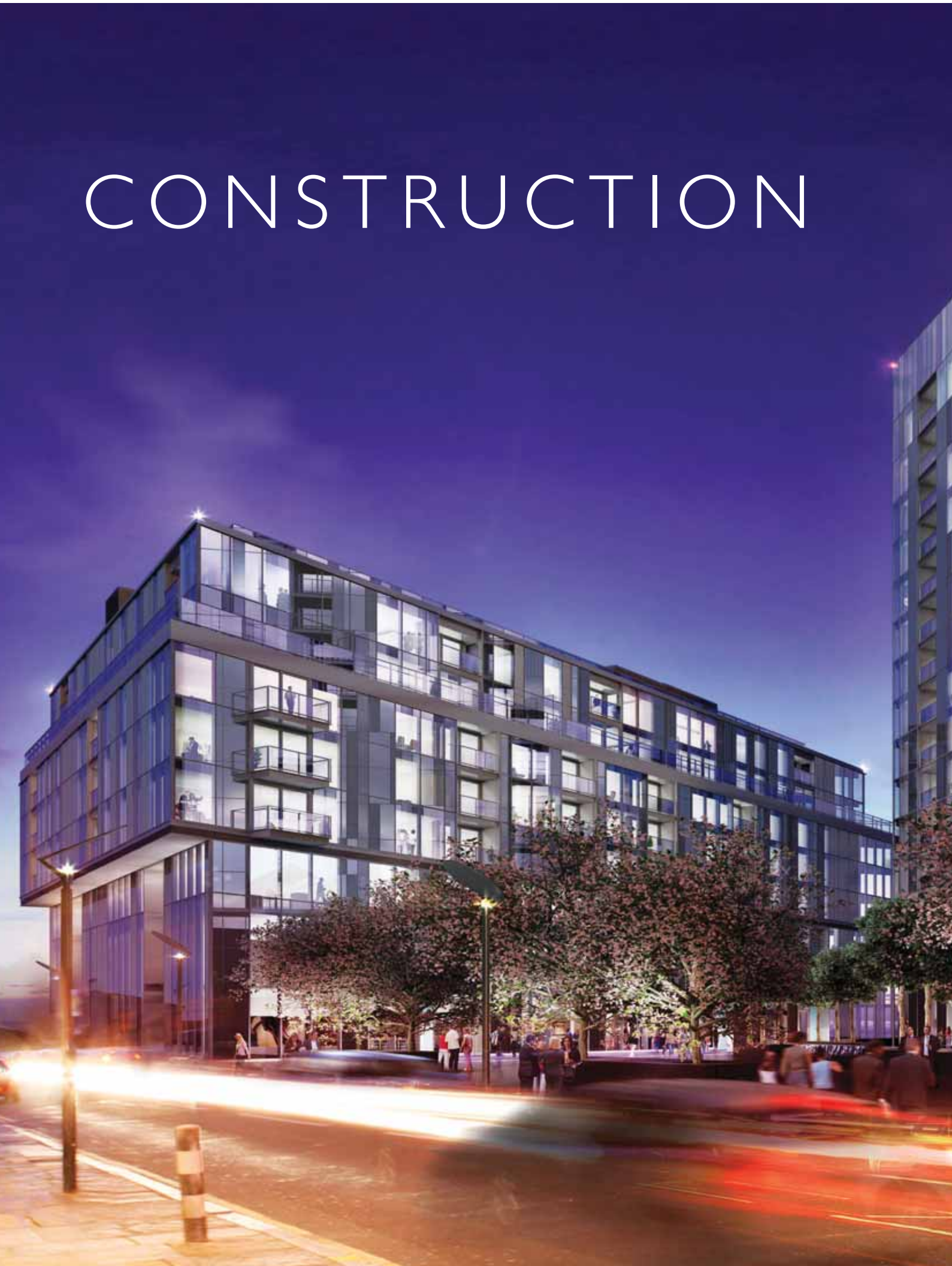
Decorum, Leyton, E10


Kinetica, E8

Despite this, all of the Group's facilities are secured on a site by site basis which has become less popular in terms of securing finance for new developments. As a result, the Board is aiming to refinance existing loans in a new corporate facility with a number of participating banks each taking a share. This corporate facility will be secured against a portfolio of land and development sites thus spreading the risk to each bank and will allow sufficient headroom to finance new opportunities over an extended term. The equity raised earlier this year is seen as a sign of strength by the Group's banks and negotiations for the new facility are progressing well with four high street banks, two of which are new to the Group.

Jonathan Di-Stefano
Financial Director
25 May 2010

CONSTRUCTION



Greenwich Creekside

SE8

A landmark development in West Greenwich, a short walk from the Thames.

Comprises 242 open market homes, 129 affordable homes and commercial space designed to include restaurants, studios and offices.

area of operation

Telford Homes operates predominantly in East London in a marketplace underpinned by the employment areas of Canary Wharf and the City. Ongoing regeneration across several boroughs, improving the quality of the built environment for the benefit of both existing and new residents, means there are many more opportunities to come in the future.

Local knowledge has played a key role in the success of the Group over the last few years and is a competitive advantage particularly in relationships with local authorities and affordable housing providers and in our understanding of the local planning process. Amongst other things, this has assisted the Group in achieving a number of planning permissions in the last year including some of the estate regeneration projects in partnership with Eastend Homes.

The 2012 Olympics are a major boost to East London with construction of the Olympic Park in Stratford now taking shape. This continues to accelerate the programme of regeneration that was already taking place in the area including further improving public transport in the region. Examples include the extension of the East London line, Stratford International Station, expansion of the Docklands Light Railway and, further into the future, the Crossrail project. These improvements benefit all of East London on a long term basis, and not just the area in the immediate vicinity of the Olympic Park.

operations

Structure

At 31 March 2010 the Group had over 2,300 properties in the development pipeline and these properties need to be managed through the planning process, in design and ultimately during construction. In order to control this process Telford Homes is organised into two operating divisions being Alto and Metro.

This structure is necessary in order to manage the delivery of several hundred homes per annum and ensures management control to yield excellent design, high standards of construction and delivery on programme. Each division predominantly specialises in certain sizes of development and styles of construction.

Mark Parker and John Fitzgerald jointly take on the roles and responsibilities of Group Managing Director. Mark Parker is responsible for Metro and John Fitzgerald is responsible for Alto and each division has a management team responsible for day-to-day operations.

Sales and Marketing, Land Acquisition, Partnerships, Customer Service, Finance and Buying are regarded as core central services that deliver economies of scale in a relatively small geographic region by remaining outside of the divisional structure.

Training and apprenticeships

Telford Homes operates in an industry sector where up-to-date qualifications, standards and knowledge are vital to the safe and successful operation of the business. The Group has an established supply-chain of partners that provide all the necessary design and building services to complete each development. The Group has embraced apprenticeships and has established an 'apprentice trainee' strategy that is propagated through its contractor supply-chain by delivering apprenticeships that provide a quality of training sufficient to give each apprentice the opportunity for long term employment. Over the last few years the Group, along with its partners, has assisted over 30 local apprentices to gain a valuable qualification within the construction industry.

The Group also operates a comprehensive Management Trainee programme under which trainees from school or college are employed annually. Trainees are taken on in each of the operational departments and are often based on site. They are enrolled on college courses, funded by Telford Homes, for a minimum of four years with encouragement to progress to complete a construction or surveying degree. A combination of college based training and on the job training alongside experienced staff allows the apprentices and trainees to develop technical as well as personal skills.

The Group puts training at the heart of its operations ensuring its employees maintain their industry knowledge. Training is seen as a necessity and it is important to continually assess training needs whilst anticipating changes in the external environment that will dictate new skills and knowledge that our employees and trainees may need.

The Board views training, particularly through apprenticeships, as an essential investment in the future of the Group and the future of the construction industry. With a constant flow of new apprentices and trainees developing their skills and being promoted, Telford Homes has developed a highly skilled workforce that is constantly benefitting from updated industry knowledge combined with practical on the job training.

key risks and uncertainties

Economic environment

Demand for properties from both investors and owner occupiers is dependent on confidence in both the local housing market and the wider economy. This confidence is heavily influenced by factors such as interest rates, the availability of mortgage finance, rental incomes, unemployment and increasing consumer costs for other goods and services. All of these are outside of the Group's control.

The Group's policy has been to sell early in the development process, wherever possible, to minimise the risk in each site. This policy has been very successful to date and pre-sales are still being secured with both housing associations and overseas buyers. In addition the Sales and Marketing team have detailed knowledge of the local market and are able to formulate the best sales strategy for each development and to work with purchasers and prospective purchasers to ensure that all stages of the process from reservation to legal completion run as smoothly as possible.

Land acquisition

The Group needs new land to maintain a development pipeline to enable the business to continue to operate at a certain capacity. This land needs to be sourced in appropriate locations and where optimum planning consents can be obtained. The appraisal process that determines the price paid for land is critical in maintaining margins and return on equity at acceptable levels.

The Land Acquisition and Partnerships team are responsible for sourcing land and our strong relationships with various land owners including local authorities and affordable housing providers play a key role in our ability to acquire new sites. In particular our existing partnerships with housing transfer organisations are expected to be a significant source of land in the next few years and several sites are already under option contracts to Telford Homes. The appraisal process for new sites includes due diligence by an experienced solicitor and authorisation of all prospective purchases at appropriate levels.

Planning process

The flow of properties through the development pipeline is dependent on achieving suitable planning permission on sites purchased without planning or subject to planning. The process is time consuming and involves an increasing number of supporting reports and detailed consultations with many different bodies. Delays in achieving suitable planning permissions affect the number of properties that can be brought to market and impact on the timing of future cash flows. Failure to achieve a suitable planning permission may lead to cost write offs or reduced margins on individual developments.

Telford Homes has extensive knowledge of local planning requirements, excellent relationships with planning authorities and takes care in the appointment of professional architects, planning consultants and engineers. Early consultations with the planning authorities are a key part of the land acquisition process. While this cannot remove planning risks it mitigates them as much as possible. The Group owns only one site, expected to be a development of 24 homes, that does not have a planning permission. The Board ensures that the Group is not over exposed to planning risks by limiting the total investment in sites without a planning permission at any one time.

Health and Safety

Construction sites are dangerous places and there are many different health and safety risks to consider. The health and safety of everyone associated with Telford Homes, both employees and sub-contractors, is the first priority of the Group.

Investment in training, the promotion of health and safety to all employees and extensive policies and procedures all contribute to a comprehensive approach to health and safety management with the objective of minimising risk and providing a safe working environment.

Construction

The construction process is critical to the efficient and timely delivery of properties to purchasers which affects both cash flow and customer satisfaction. The quality of the construction work and finish in each property affects the reputation of the Group and can impact on repeat purchase and recommendation rates.

Standards of construction and control of the building process on site are of paramount importance to each operating division. Careful planning is required to assess a development programme before construction commences and this is monitored over the course of the building work. The construction teams work very closely with the Customer Service team and their interaction commences at an early stage in the development. The Customer Service team spend a substantial proportion of their time on site carrying out quality control before a purchaser sees the property for the first time.

Availability of materials and labour

The availability of materials and sub-contracted labour for each site can affect both the construction programme and the cost of construction. Build cost inflation will impact directly on the margin achieved on each site where this is in excess of forecasts.

Planning of the construction programme and timely management of the tender process for each sub-contracted trade reduces the risk of delays in the construction programme due to availability of materials and labour. The tender process ensures that competitive rates are achieved on every trade. Telford Homes works in partnership with all of its sub-contractors and makes timely payments to encourage an equal relationship that is beneficial to all parties.

Cash requirements and bank finance

Property development is a capital intensive business with significant initial outlays supported by bank finance and lengthy time periods before the majority of the cash inflows on each project. Forecasting of cash flows is critical to ensure the Group is not operating beyond its financial capacity. Part of this process involves the forecast of bank funding for each development and the availability of sufficient bank finance is therefore also of critical importance.

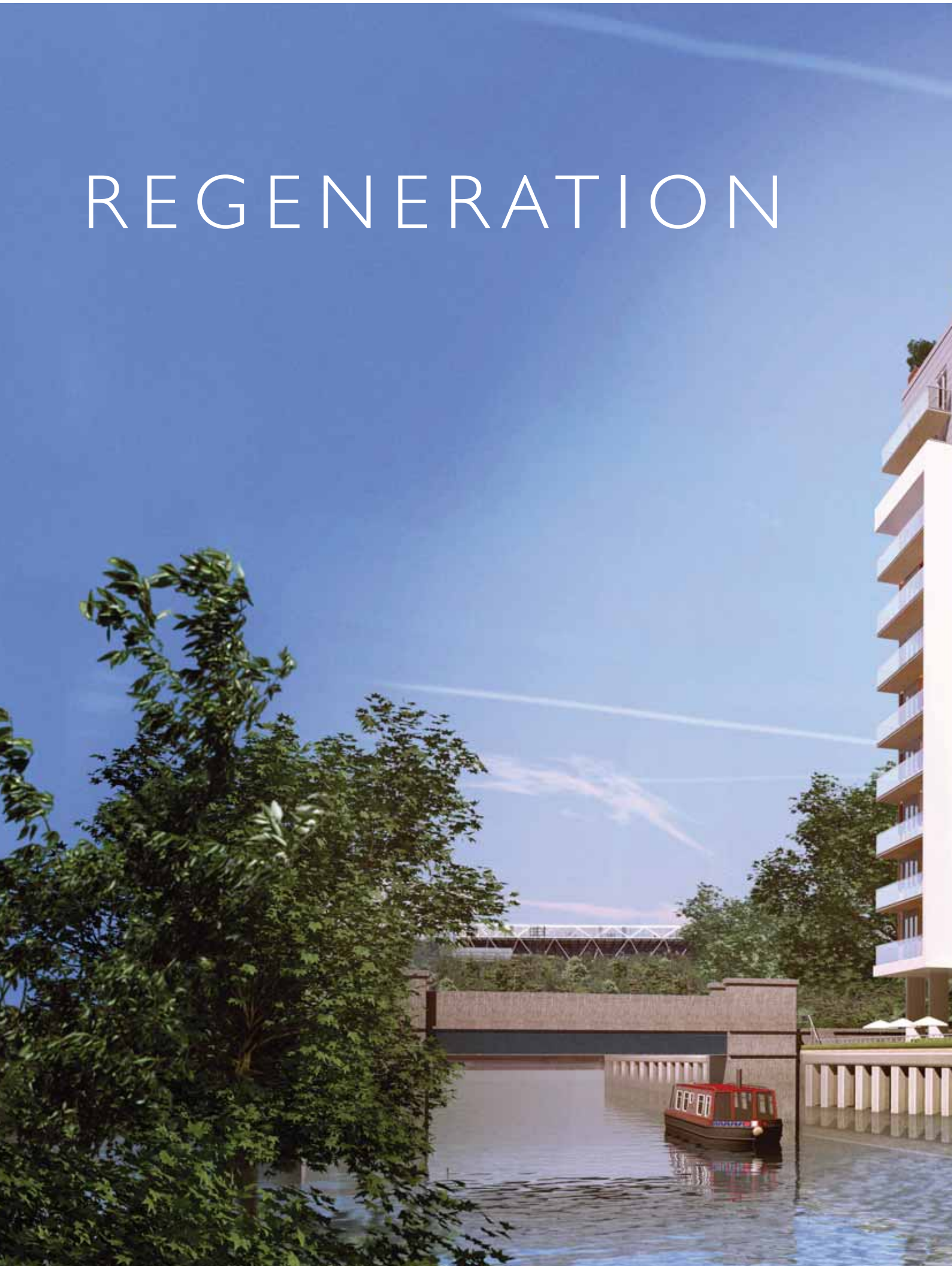
Telford Homes maintains a detailed cash flow forecast as part of its management information systems. This extends five years into the future and is subject to continual re-assessment and sensitivity analysis. The cash flow position is reviewed by the Board and by each of the Group's banking partners on a monthly basis. Telford Homes has excellent relationships with the three banks currently funding the business and has sufficient facilities available to ensure the continuing operation of the business on all sites currently under construction.

Political environment

Changes in laws and regulations can have a direct impact on the efficient running of the Group and the costs incurred on each development. Changes in both local and national government can have a direct bearing on the regulatory environment.

Telford Homes works closely with specialist consultants to ensure that it is up to date with current regulations and aware of any future changes so that operations can be planned accordingly.

REGENERATION



Matchmakers Wharf

E9

A waterside development located a short walk from the 2012 Olympic Park giving access to Stratford International Station and Stratford City.

Comprises 138 open market homes, 71 affordable homes and commercial space designed to include studios, offices and retail.

health and safety

"It has been an excellent year for the Group with a RoSPA Gold award and our Health and Safety Management System being accredited by the BSI."

Steve Nicoll Group Health & Safety Manager

Telford Homes continues to regard 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 invest in the training and development of our people with the continuation of our 'Health and Safety Core' training programme. This programme ensures that all employees, and in particular those deemed as 'safety critical', have the appropriate skills and level of training to be able to discharge their duties diligently.

The Group entered the 'Royal Society for the Prevention of Accidents' (RoSPA) awards again this year. RoSPA is a highly respected national and international health and safety charity that is widely recognised for its impartiality across all industries. I am pleased to report that the Group received 'Gold' for the 'Health and Safety Achievement Award' and 'Silver' for 'Management of Occupational Road Risk'.

In addition, following the stringent accreditation process by the British Standard Institution (BSI), our Occupational Health and Safety Management System was certified to the BS OHSAS 18001:2007 standard. This standard is internationally recognised and promotes a safe and healthy working environment by providing a framework that allows an organisation to consistently identify and control its health and safety risks, reduce the potential for accidents, aid legislative compliance and improve overall performance.

The RoSPA awards and the BSI accreditation highlight not only the standard of our occupational health and safety management system but more importantly the culture of Telford Homes. These achievements recognise the continual improvements being made by the Group and the efforts of all the employees involved.

Our 'Executive Safety Committee' and 'Operational Safety Forum' meet regularly and are instrumental in developing significant changes to the way health and safety is managed in the Group. Our 'supply-chain' procedure remains in place with all of our suppliers now vetted by the health and safety department.

This year we instigated an 'Occupational Health Programme' for those employees at the front end of our operations and likely to be at greatest risk. All of those participating in the programme were declared as 'fit' and were not suffering from any work related health issues.

John Fitzgerald and Mark Parker are responsible for health and safety in each of the operating divisions and John Fitzgerald is the board member with overall responsibility for health and safety.

It has been an excellent year for the Group with a RoSPA Gold award and our Health and Safety Management System being accredited by the BSI. I reported last year that I was confident that we had the right procedures in place and the right people to deliver the results we expected. The achievements in the year support this confidence and looking ahead I will continue to push the business forward in all aspects of health and safety.

Steve Nicoll
Group Health & Safety Manager

environment and sustainability

Telford Homes is committed to designing and constructing developments that both minimise ecological impact and improve energy efficiency. The Group has an environmental policy and we ensure that this is communicated throughout our operations.

Our approach means we re-use and recycle and adopt renewable materials wherever viable and continually look for new ways to meet and exceed environmental expectations in all of our activities.

The majority of our sites benefit from low energy lighting, methods of reducing internal water usage including flow restrictors and dual flushes, recycling facilities, cycle storage and local transport links. In addition there are several initiatives on specific developments including centralised boiler systems, biomass boilers fuelled by wood pellets or bio-diesel, solar thermal tubes and panels, wind turbines, air source heat pumps and 'brown' and 'green' roofs along with bird and bat boxes.

Many of our developments comply with the Code for Sustainable Homes to level 3 and we will always strive to achieve the best possible rating on each development.

One of the most significant contributions that we can make to reduce our impact on the environment is by improving our efficiency on site and reducing the amount of waste that we generate. Where waste is unavoidable, we endeavour to recycle and re-use it in our projects.

These are just a few of the things that Telford Homes is doing in terms of the environment and sustainability and all of these initiatives are having a positive impact now and will continue to do so in the future. In order to continue to build considerately we will research sustainable energy solutions to ensure the best technologies are used and that we are positively contributing towards a greener future.

CASE STUDY

Kinetica, E8 (66 homes)

Some of the things we are doing:

- A centralised boiler system to provide heating and hot water for the residential tower with energy efficient boilers in the remaining homes
- Vertical wind turbines generating renewable electricity for the development
- A 'brown roof' to protect the natural habitat of indigenous wildlife
- A 'green roof' to protect the natural habitat of indigenous flora & fauna
- Energy efficient building envelope with high U-values & air tightness
- Provision of over 70 cycle spaces on the development

CASE STUDY

Matchmakers Wharf, E9 (209 homes)

Some of the things we are doing:

- Communal heating system incorporating a biomass boiler
- Surface water attenuation and a rainwater harvesting system
- Bird & bat boxes
- Extensive liaison with Environment Agency, Environmental Health and British Waterways to maximise the environmental benefits of the development
- Provision of moorings on the canal to promote the use of local waterways
- The provision of affordable workspace for local artists through Acme Studios
- A children's play area on the development

CASE STUDY

Eric & Treby Estate regeneration (179 homes)

This regeneration project incorporates several new housing developments on the estate along with third party refurbishment works to the existing homes. One of the new developments will include a biomass boiler which will also produce heat for some of the existing homes. The result will be a 68% reduction in carbon emissions associated with heat generation.

Additional features of the scheme include:

- Photovoltaic panels to provide sustainable energy back to the national grid
- Green and brown roof technology which will reduce surface water run off and provide new habitats for species under threat
- Bat and Swift boxes to encourage these protected species back to the area
- All timber used will be obtained from a certified sustainable source

RELATIONSHIPS

Papermill (Vellum)

Walthamstow

A modern development of apartments and houses on a landscaped podium with underground parking.

Comprises 66 open market homes marketed as Vellum and 175 affordable homes.

directors and advisors

David Holland Non-Executive Chairman, 69

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 all 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, 53

Andrew Wiseman, together with close colleagues, 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 Plc. Andrew 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 and the latter in December 2001 building on excellent relationships with institutional investors. 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 Planning & Design Director, 48

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. David had been Group Managing Director since the start of the Company's operations in 2001. In 2005 he supervised devolving responsibility for the finished Telford Homes product into two divisions in order to handle the high level of growth in units under construction. David's role is focused on major planning consents, product design and maintaining key partnerships.

Jonathan Di-Stefano MA (Econ), ACA, Financial Director, 35

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 human resources. There has been extensive growth in both areas and Jon has developed a significant finance team. The role Jon has played, in nurturing the trust and support of our banking partners with the constant high quality of his financial reporting and in developing relationships with institutional investors through regular presentations, has proved invaluable to the success of Telford Homes.

James Furlong Land Director, 74

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.

Sheena Ellwood BA (Hons), Dip. Int. Marketing, Sales & Marketing Director, 51

Sheena Ellwood joined Telford Homes Plc as Sales & Marketing Director in January 2003. Prior to this, her experience comes from consumer goods export with the Maxwell Group and Hallmark Corporation (including two years in the USA), followed by eight years as regional Sales & Marketing Director for Wimpey Homes. Sheena has developed an extensive sales & marketing team at Telford Homes and set up a customer service department that plays an important role in building and maintaining relationships with our individual customers, whether owner occupiers, UK or overseas investors.

Robert Clarke FCA, Non-Executive Director, 67

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. 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 Royal Shakespeare Company.

John Fitzgerald ICIOB, Joint Group Managing Director, 39

John Fitzgerald began his career in 1987 with Willmot Dixon Construction followed by Willmot Dixon Housing. He has over 20 years experience in the construction and house building sector and spent the four years prior to joining Telford Homes as Project and Contract Manager with Furlong Homes where he was responsible for some of their more prestigious developments. He joined Telford Homes in February 2003 and was jointly responsible for construction until March 2005 when, following re-structuring, he was appointed divisional managing director of Telford Homes Alto where he has built a very successful team. John was appointed a director on 1 August 2007 and is the director with responsibility for health and safety.

Mark Parker BSc (Hons), MCIOB, Joint Group Managing Director, 47

Mark Parker joined the Wimpey Group as a management trainee in 1981 and spent the following 21 years with various Wimpey divisions culminating in the post of Construction Director for McAlpine Homes East. He spent the next three years as one of the two initial directors of the new North London division of KingsOak Homes. Appointed as Construction Director he was involved in all aspects of the new division, from land acquisition to sales and customer care. Mark joined Telford Homes in February 2005 as divisional managing director of Telford Homes Metro and has been influential in developing strong partnerships with housing associations. Mark was appointed a director on 1 August 2007 and jointly with John Fitzgerald has taken on the duties and responsibilities of Group Managing Director.

Company Secretary:	Sara Debenham
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**, 10 Queen Street Place, London, EC4R 1BE **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 & Nominated Advisor:	**Shore Capital and Corporate Limited**, Bond Street House, 14 Clifford Street, London, W1S 4JU
Registrars:	**Capita Registers**, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0GA
Financial Public Relations:	**Abchurch Communications Limited**, 125 Old Broad Street, London, EC2N 1AR

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) and its 2006 revised version applicable to fully listed companies, in formulating and applying the Group's corporate governance policies. These policies are monitored to ensure that they are appropriate to the Group's circumstances and comply as far as possible with the provisions of the Code given the size of the Group.

Directors

The Company and Group are managed by a board of directors and they have the necessary skills and experience to effectively operate and control the business. There are nine 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 Group 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 Group. 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 the 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 candidate's skills and suitability for the role. New directors are given a full induction to the Group where required so as to ensure they can properly fulfil their role and meet their responsibilities.

All directors are offered appropriate coaching and 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 Group'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 41 to 42.

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 on two occasions. The non-executive directors meet separately with the auditors up to twice a year.

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 Group 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 Group'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 Group's significant risks and that it has been in place for the period ended 31 March 2010 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 Group operating within a clearly defined departmental structure. The Board regularly reviews the internal control procedures in the light of the ongoing assessment of the Group'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 Group's assets are safeguarded and financial information and accounting records can be relied upon. The Board formally monitors monthly progress on each development.

directors' remuneration report

The directors present the remuneration report for the year ended 31 March 2010.

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 Group'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 Group 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 17 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 17 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 personal pension scheme. They are entitled to participate in the SIP.

Service contracts

The executive directors have service contracts that can be terminated on twelve months notice. These provide for termination payments equivalent to twelve 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 31 March 2010 are as follows:

	Salary and fees	Bonus	Benefits in kind	Pension contributions	Total 2010	Total 2009
Andrew Wiseman	156,250	65,000	20,836	15,625	257,711	182,241
Robert Clarke	42,500	-	-	-	42,500	42,000
David Durant	131,250	65,000	13,309	13,125	222,684	156,394
Jonathan Di-Stefano	131,250	65,000	22,900	13,125	232,275	166,275
Sheena Ellwood	131,250	65,000	22,958	13,125	232,333	167,688
John Fitzgerald	131,250	65,000	21,663	13,125	231,038	166,865
James Furlong	78,250	65,000	37,839	-	181,089	138,502
David Holland	55,500	-	-	-	55,500	55,000
Mark Parker	131,250	65,000	24,130	13,125	233,505	169,902
Total	**988,750**	**455,000**	**163,635**	**81,250**	**1,688,635**	**1,244,867**

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 31 March 2010 and the movements during the year then ended were as follows:

	Company scheme	31 March 2009 Number	Granted in year Number	Exercised in year Number	31 March 2010 Number	Exercise price	Dates exercisable
Jonathan Di-Stefano	unapproved	60,000	-	-	60,000	75p	1 Oct 2005 to 1 Oct 2012
	approved	14,051	-	-	14,051	213.5p	14 Feb 2011 to 14 Feb 2018
David Durant	approved	14,051	-	-	14,051	213.5p	14 Feb 2011 to 14 Feb 2018
Sheena Ellwood	unapproved	59,732	-	-	59,732	74.5p	20 Feb 2006 to 20 Feb 2013
	approved	14,051	-	-	14,051	213.5p	14 Feb 2011 to 14 Feb 2018
John Fitzgerald	unapproved	160,000	-	-	160,000	75p	1 Oct 2005 to 1 Oct 2012
	approved	14,051	-	-	14,051	213.5p	14 Feb 2011 to 14 Feb 2018
Mark Parker	unapproved	50,542	-	-	50,542	138.5p	17 May 2008 to 17 May 2015
	approved	21,660	-	-	21,660	138.5p	17 May 2008 to 17 May 2015

In total the share-based payments charge in respect of directors' share options was £6,878 (2009: £7,733).

By order of the Board,

David Holland
Chairman of the Remuneration Committee
25 May 2010

report of the directors

The directors present their report and the audited financial statements for the year ended 31 March 2010.

Review of activities

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

A review of the activities and prospects of the Group is given in the Chairman's statement, the Chief Executive's review and the financial review on pages 5 to 20. The Group 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 pages 1 and 2.

Results and dividends

Profit after income tax for the year ended 31 March 2010 was £5,319,000 (2009: £3,023,000).

The directors recommend a final dividend of 1.25 pence per ordinary share which, together with the interim dividend of 0.75 pence paid on 15 January 2010, makes a total of 2.0 pence for the year (2009: nil).

Going concern

The Group's business activities, together with factors likely to affect its future development and performance are set out in the Chairman's statement and the Chief Executive's review on pages 5 to 13 and the key risks and uncertainties affecting the Group are set out on pages 27 to 28. The financial position of the Group, its cash flows and borrowing facilities are described in the financial review on pages 15 to 20. In addition note 20 to the financial statements includes details of the Group's financial instruments and its exposure to credit risk and liquidity risk.

The directors have assessed the Group's projected business activities and available financial resources together with detailed forecasts for cash flow and relevant sensitivity analysis. The directors believe that the Group is well placed to manage its business risks successfully.

After making appropriate enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Substantial shareholdings

As at 17 May 2010, the Company had been advised of the following notifiable interests in its ordinary share capital:

	Number of shares held	Percentage
Midas Capital Plc	3,280,000	6.59%
Standard Life Investments	2,500,000	5.02%
Telford Homes Trustees Limited	2,278,517	4.58%
Artemis Investment Management Ltd	2,175,000	4.37%
K P Furlong	1,856,000	3.73%
T D Waterhouse Nom. (R Stokes)	1,607,760	3.23%
Rathbone Brothers Plc	1,580,875	3.18%

The shares held by Telford Homes Trustees Limited include shares held on behalf of employees under the Share Incentive Plan (note 17).

Directors

Details of the directors of the Company are shown on pages 37 to 38.

David Holland, James Furlong and John Fitzgerald 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 31 March 2010 and movements in the year:

	At 31 March 2009 Number	Share Incentive Plan Number	Market acquisitions and disposals Number	At 31 March 2010 Number
Andrew Wiseman	2,241,884	5,984	61,875	2,309,743
Robert Clarke	122,533	5,944	40,000	168,477
Jonathan Di-Stefano	343,533	5,944	-	349,477
David Durant	1,137,533	5,984	106,250	1,249,767
Sheena Ellwood	347,801	5,944	-	353,745
John Fitzgerald	204,579	5,377	12,500	222,456
James Furlong	1,256,293	5,984	61,875	1,324,152
David Holland	992,533	5,944	-	998,477
Mark Parker	167,208	5,538	-	172,746

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 17 to the financial statements.

Details of share options held by directors are given in the directors' remuneration report on pages 41 to 42.

Ordinary shares

The Company issued 11,025,000 new ordinary shares during the year and further information is disclosed in note 16.

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 17.

Creditors

It is Group 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 31 March 2010 trade payables represented 15 days purchases (2009: 22 days).

report of the directors continued

Employees

The Group 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 Group made charitable donations of £33,000 (2009: £15,000). 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 15 July 2010 at 12.30pm.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting in accordance with section 489 of the Companies Act 2006.

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; and
- each director has taken steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board,

Sara Debenham
Company Secretary
25 May 2010

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 International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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 Group'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 Group and Parent Company financial statements (the 'financial statements') of Telford Homes Plc for the year ended 31 March 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2010 and of the Group's profit and the Group's and the Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Andrew Latham (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

St Albans

25 May 2010

Notes:

(a) The maintenance and integrity of the Telford Homes Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESULTS

Queen Mary's Gate

South Woodford

An exclusive development in the heart of South Woodford, close to the town centre, Central line station and Epping Forest.

Comprises nearly 500 homes in three development phases with the first two phases complete and the final phase now under construction.

group income statement

31 March 2010

	Note	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Revenue		**159,338**	**106,662**
Cost of sales before exceptional items		(138,291)	(89,044)
Exceptional items		(710)	(2,868)
Gross profit		**20,337**	**14,750**
Administrative expenses		(9,691)	(7,971)
Selling expenses		(1,920)	(1,373)
Exceptional items		(70)	(116)
Operating profit	1	**8,656**	**5,290**
Finance income	3	333	216
Finance costs	3	(1,651)	(1,163)
Profit before income tax		**7,338**	**4,343**
Analysed as:			
Profit before income tax and exceptional items		**8,118**	**7,327**
Exceptional items	1	(780)	(2,984)
		7,338	**4,343**
Income tax expense	4	(2,019)	(1,320)
Profit after income tax		**5,319**	**3,023**
Earnings per share:			
Basic	6	13.7p	8.1p
Diluted	6	13.5p	8.1p

All activities are in respect of continuing operations.

group statement of comprehensive income

31 March 2010

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Movement in excess tax on share options	14	(30)
Other comprehensive income (expense) net of tax	**14**	**(30)**
Profit for the year	5,319	3,023
Total comprehensive income for the year	**5,333**	**2,993**

balance sheet

31 March 2010

	Note	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Non current assets					
Investments	7	-	-	638	4
Property, plant and equipment	8	380	618	380	618
Deferred income tax assets	13	109	13	109	13
		489	631	1,127	635
Current assets					
Inventories	9	120,047	177,941	77,953	142,242
Trade and other receivables	10	7,638	9,098	27,127	15,264
Current income tax assets		-	342	-	525
Cash and cash equivalents	11	33,642	4,865	25,127	4,329
		161,327	192,246	130,207	162,360
Total assets		**161,816**	**192,877**	**131,334**	**162,995**
Current liabilities					
Trade and other payables	14	(27,065)	(30,534)	(23,491)	(28,270)
Borrowings	15	(70,800)	(112,020)	(46,985)	(88,086)
Current income tax liabilities		(871)	-	(968)	-
Hire purchase liabilities	12	-	(18)	-	(18)
Total liabilities		**(98,736)**	**(142,572)**	**(71,444)**	**(116,374)**
Net assets		**63,080**	**50,305**	**59,890**	**46,621**
Capital and reserves					
Issued share capital	16	4,978	3,875	4,978	3,875
Share premium		37,357	30,345	37,357	30,345
Retained earnings		20,745	16,085	17,555	12,401
Total equity		**63,080**	**50,305**	**59,890**	**46,621**

These financial statements were authorised for issue by the board of directors on 25 May 2010 and signed on its behalf by:

Andrew Wiseman
Chief Executive

Jonathan Di-Stefano
Financial Director

Company Number: 4118370

statement of changes in equity

31 March 2010

Group statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008	**3,750**	**29,749**	**15,354**	**48,853**
Profit for the year	-	-	3,023	3,023
Total other comprehensive expense	-	-	(30)	(30)
Dividend on equity shares	-	-	(2,061)	(2,061)
Proceeds of equity share issue	125	596	-	721
Share-based payments	-	-	195	195
Purchase of own shares	-	-	(721)	(721)
Sale of own shares	-	-	194	194
Write down in value of own shares	-	-	131	131
Balance at 31 March 2009	**3,875**	**30,345**	**16,085**	**50,305**
Profit for the year	-	-	5,319	5,319
Total other comprehensive income	-	-	14	14
Dividend on equity shares	-	-	(295)	(295)
Proceeds of equity share issue	1,103	7,343	-	8,446
Costs arising from shares issued	-	(331)	-	(331)
Share-based payments	-	-	283	283
Purchase of own shares	-	-	(312)	(312)
Sale of own shares	-	-	149	149
Write down in value of own shares	-	-	126	126
Option to repurchase own shares (note 21)	-	-	(624)	(624)
Balance at 31 March 2010	**4,978**	**37,357**	**20,745**	**63,080**

Company statement of changes in equity	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008	**3,750**	**29,749**	**11,772**	**45,271**
Profit for the year	-	-	2,921	2,921
Total other comprehensive expense	-	-	(30)	(30)
Dividend on equity shares	-	-	(2,061)	(2,061)
Proceeds of equity share issue	125	596	-	721
Share-based payments	-	-	195	195
Purchase of own shares	-	-	(721)	(721)
Sale of own shares	-	-	194	194
Write down in value of own shares	-	-	131	131
Balance at 31 March 2009	**3,875**	**30,345**	**12,401**	**46,621**
Profit for the year	-	-	5,813	5,813
Total other comprehensive income	-	-	14	14
Dividend on equity shares	-	-	(295)	(295)
Proceeds of equity share issue	1,103	7,343	-	8,446
Costs arising from shares issued	-	(331)	-	(331)
Share-based payments	-	-	283	283
Purchase of own shares	-	-	(312)	(312)
Sale of own shares	-	-	149	149
Write down in value of own shares	-	-	126	126
Option to repurchase own shares (note 21)	-	-	(624)	(624)
Balance at 31 March 2010	**4,978**	**37,357**	**17,555**	**59,890**

cash flow statement

31 March 2010

	Group Year ended 31 March 2010 £000	Group Year ended 31 March 2009 £000	Company Year ended 31 March 2010 £000	Company Year ended 31 March 2009 £000
Cash flow from operating activities				
Operating profit	8,656	5,290	9,003	4,641
Depreciation	288	387	288	387
Write down in value of own shares	126	131	126	131
Share-based payments	283	195	283	195
Profit on sale of tangible assets	-	(39)	-	(39)
Decrease in inventories	59,565	6,427	65,704	11,218
Decrease (increase) in receivables	1,460	3,533	(11,863)	4,092
Decrease in payables	(3,308)	(21,050)	(4,767)	(21,358)
	67,070	(5,126)	58,774	(733)
Interest paid	(3,483)	(6,425)	(2,725)	(5,139)
Income tax (paid) received	(888)	2,915	(770)	3,228
Cash flow from operating activities	**62,699**	**(8,636)**	**55,279**	**(2,644)**
Cash flow from investing activities				
Acquisition of subsidiary	-	-	(634)	-
Purchase of tangible assets	(50)	(99)	(50)	(99)
Proceeds from sale of tangible assets	-	40	-	40
Interest received	333	216	290	202
Cash flow from investing activities	**283**	**157**	**(394)**	**143**
Cash flow from financing activities				
Proceeds from issuance of ordinary share capital	8,446	721	8,446	721
Costs arising from shares issued	(331)	-	(331)	-
Purchase of own shares	(312)	(721)	(312)	(721)
Sale of own shares	149	194	149	194
Increase in bank loans	33,272	52,774	25,440	46,494
Repayment of bank loans	(75,116)	(42,178)	(67,166)	(40,178)
Dividend paid	(295)	(2,061)	(295)	(2,061)
Capital element of hire purchase payments	(18)	(83)	(18)	(83)
Cash flow from financing activities	**(34,205)**	**8,646**	**(34,087)**	**4,366**
Net increase in cash and cash equivalents	**28,777**	**167**	**20,798**	**1,865**
Cash and cash equivalents brought forward	4,865	4,698	4,329	2,464
Cash and cash equivalents carried forward	**33,642**	**4,865**	**25,127**	**4,329**

statement of accounting policies

31 March 2010

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates. The most significant estimates made by the directors in these financial statements are set out in 'Critical accounting judgements and key sources of estimation uncertainty'.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the Group's share of jointly controlled entities up to 31 March 2010. The results of subsidiaries acquired or disposed of during the year are included in the financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Exemptions

The directors have taken advantage of the exemption available under Section 480 of the Companies Act 2006 and have not presented an income statement for the Company alone.

Jointly controlled entities

A jointly controlled entity is an entity in which the Group holds an interest with one or more other parties where a contractual arrangement has established joint control over the entity. Jointly controlled entities are accounted for using proportional consolidation.

Segmental reporting

The Group has only one business segment being housebuilding and one geographical segment being the United Kingdom. Financial analysis is presented on this basis to the chief operating decision makers for the Group these being the board of directors.

Revenue and profit recognition

Properties for open market sale

Revenue and profit is recognised at the point of legal completion of each property.

Commission received on property sales made on behalf of third parties is recorded within revenue, with all costs associated with the sale of those properties recognised within selling expenses.

Construction contracts

Contracts are treated as construction contracts when they have been specifically negotiated for the construction of a development or a number of properties. These contracts are primarily for the construction of affordable homes. Revenue is only recognised on a construction contract where the outcome can be estimated reliably. Revenue and costs are recognised by reference to the stage of completion of contract activity at the balance sheet date. This is normally measured by an assessment of work performed to date.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Grant income

Grants received from the Homes and Communities Agency are recognised as revenue in the income statement to match with the related costs that they are intended to compensate.

Selling expenses

Selling expenses are charged to the income statement as incurred.

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received.

Borrowing costs directly attributable to the development of properties that take a substantial period of time to get ready for sale, are capitalised within inventories. Capitalisation of borrowing costs commences from the date of initial expenditure on a given development and continues until the properties are ready for sale.

The capitalisation of borrowing costs is suspended where land assets are being held for strategic purposes or where there are prolonged periods when development activity on a site is interrupted. Capitalisation is not normally suspended during a period when substantial technical and administrative work is being carried out.

All other borrowing costs are charged to the income statement using the effective interest method.

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Finance leases and hire purchase contracts

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases and hire purchase contracts are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease and depreciated over the shorter of their expected useful lives and the lease term. The corresponding liability is included in the balance sheet as a finance lease or hire purchase obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

statement of accounting policies

31 March 2010

Operating leases

Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

Pension costs

Contributions paid to group personal pension schemes (defined contribution), in respect of employees, are charged to the income statement as incurred.

Property, plant and equipment

Property, plant and equipment is 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

Investments

Interests in subsidiary undertakings are valued at cost less impairment.

Inventories

Development properties are included in inventories 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, direct labour costs and borrowing costs. Net realisable value has been assessed for all developments and during the year this assessment led to a write down in the value of land and work in progress as disclosed in note 1. Included within development properties are freehold interests held in completed developments. These are held for future sale.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument.

Trade receivables and other receivables

Trade receivables on normal terms do not carry any interest and are stated at their nominal value reduced by appropriate allowances for estimated unrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents are defined as cash balances in hand and in the bank (including short-term cash deposits) which mature within three months or less from the date of acquisition.

Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received.

Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value.

Land creditors

When land is purchased on extended payment terms, the Group initially records it at its fair value with a land creditor recorded for any outstanding monies based on this fair value assessment. Fair value is determined by using the effective interest method. The difference between the nominal value and the initial fair value is amortised over the period of the extended credit term and charged to finance costs, increasing the value of the land creditor so that at the date of maturity, the land creditor equals the payment required.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Current assets and liabilities

Assets that are expected to be realised in, or are intended for sale or consumption in, the Group's normal operating cycle are treated as current even to the extent these are expected to be realised after twelve months from the balance sheet date. Liabilities that are expected to be settled in the Group's normal operating cycle are treated as current even though these may be due for settlement after twelve months from the balance sheet date.

Contingent liabilities

Disclosures are made for each class of contingent liabilities at the balance sheet date detailing, where practicable, an estimate of its financial effect and an indication of uncertainties associated with the timing or amount of the outflow, unless the possibility of a financial outflow is remote.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the profits for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are tax deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary 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 at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only 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 future reversal of the underlying timing differences can be deducted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

statement of accounting policies

31 March 2010

Share-based payments

In accordance with IFRS 2, the fair value of equity settled share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured as at the date the options are granted using the Black-Scholes-Merton pricing model and is charged equally over the vesting period. The amount recognised as an expense is adjusted each reporting period to reflect the actual number of options that are expected to vest.

With respect to share-based payments, a deferred tax asset is recognised on the relevant tax base. The tax base is then compared to the cumulative share-based payment expense recognised in the income statement. Deferred tax arising on the excess of the tax base over the cumulative share-based payment expense recognised in the income statement has been recognised directly in equity.

Own shares

Shares held by employee benefit trusts in order to satisfy awards under the Group's share plans are included net within equity until such time as the shares are vested to the relevant employees.

Critical accounting judgements and key sources of estimation uncertainty

Construction contract revenue and profit recognition

Contract revenue is recognised from the date of exchange of construction contracts at a rate equivalent to the value of work undertaken in respect of land development. Contract profit on construction contracts is recognised in proportion to revenue only to the extent that the total eventual profit on the contract can be foreseen with reasonable certainty.

Assessing the percentage complete on each contract involves estimation of total expected costs to be incurred until the end of the contract. Recognition of profit also involves estimation of the total expected revenues from each contract and therefore the expected profit margin that will be achieved. Judgement is required to assess whether the total eventual profit on each contract can be foreseen with reasonable certainty.

Carrying value of land and work in progress

Inventories include land and work in progress in respect of development sites. In some cases land is held awaiting a planning consent. On each development judgement is required to assess whether the cost of land and any associated work in progress is in excess of its net realisable value.

Recent accounting developments

During the year amendments to IAS 1, IAS 32, IAS 39, IFRS 2, IFRS 7 and IFRS 8 have become effective or have been adopted by the Group. In addition IFRIC 13, IFRIC 14 and IFRIC 16 have become effective for the Group. Adoption of the new and revised standards and interpretations has not had any significant impact on the amounts reported in these financial statements but has resulted in additional disclosure requirements in some areas.

At the date of the authorisation of these financial statements, there are a number of standards, amendments and interpretations that have been published but are not yet effective.

The standards, amendments and interpretations that may impact upon the Group are:

Annual improvements 2009 and Annual improvements 2010 are a collection of amendments to a number of standards as part of the IASB programme of making non-urgent but necessary amendments to IFRSs. The Group is currently assessing the applicability of these annual improvements, although at present it does not believe that they will have a material effect on the Group. Annual improvements 2009 apply to the Group from 1 April 2010 and Annual improvements 2010 apply to the Group from 1 April 2011.

The following standards, amendments and interpretations are not expected to have any material impact on the financial statements of the Group:

IFRS 1 (Amendment) 'First-time adoption' applies to the Group from the annual period commencing 1 April 2010. The amendment will not impact the Group as the Group already applies IFRS.

IFRS 3 (Amendment) 'Business combinations' applies to the Group from the annual period commencing 1 April 2010. This standard includes some significant changes to how the acquisition method is applied to business combinations.

IAS 27 (Amendment) 'Consolidated and separate financial statements' applies to the Group from the annual period commencing 1 April 2010. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control.

IAS 39 (Amendment) 'Financial instruments: Recognition and measurement - Eligible hedged items' applies to the Group from the annual period commencing 1 April 2010.

IFRIC 17 'Distributions of non-cash assets to owners' applicable to the Group from the annual period commencing 1 April 2010.

IFRIC 18 'Transfer of assets from customers' applicable to the Group from the annual period commencing 1 April 2010.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' applicable to the Group from the annual period commencing 1 April 2010.

notes to the financial statements

31 March 2010

1 Operating profit

		Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Operating profit is stated after charging (crediting):			
Depreciation	- owned assets	249	302
	- hire purchase assets	39	85
Operating lease rentals	- property	163	163
	- motor vehicles	328	387
Profit on sale of tangible assets		-	(39)
Exceptional items		780	2,984

The exceptional items for the year ended 31 March 2010 of £780,000 (2009: £2,984,000) include £710,000 (2009: £2,868,000) where the net realisable value of land and work in progress on certain developments has been assessed to be lower than the costs originally recorded in inventories as a result of the deterioration in market conditions and £70,000 (2009: £116,000) of redundancy costs.

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
The following has been charged in respect of auditors' remuneration:		
Audit and related services (PricewaterhouseCoopers LLP)		
Statutory audit of the Parent Company and Group financial statements	64	65
Other services including non-audit services (PricewaterhouseCoopers LLP)		
The audit of joint arrangement and subsidiary accounts pursuant to legislation	16	8
Other services relating to taxation	45	52
All other services	16	27

Amounts payable to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Grant income

The Group has a total grant allocation from the Homes and Communities Agency of £72.9 million. Grant income is recognised as revenue in the income statement on a percentage of completion basis to match with the costs it is intended to compensate. The total grant allocation is made up of individual site by site allocations the receipt of which is dependent upon constructing the planned affordable housing on each site. The Group had received a total of £41.8 million by 31 March 2010.

2 Employee benefit expense

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

	Year ended 31 March 2010 Number	Year ended 31 March 2009 Number
Construction	86	100
Administration	65	73
	151	**173**

The employment costs of all employees included above were:	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Wages and salaries	8,513	7,945
Social security costs	967	870
Other pension costs - group personal pension arrangements	370	395
	9,850	**9,210**

The Company operates a group personal pension scheme for its employees. At 31 March 2010 payments of £41,000 were due to the scheme (2009: £43,000).

Six current directors are accruing benefits under group personal pension arrangements (2009: Six).

Key management remuneration

Key management personnel, as defined under IAS 24 (Related Party Disclosures), have been identified as the directors as all key decisions are reserved for the Board.

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Wages and salaries (including bonuses)	1,607	1,165
Social security costs	163	109
Other pension costs	81	79
Share-based payments	7	8
	1,858	**1,361**

Detailed disclosures of directors' individual remuneration, pension entitlement and share options for those directors who served in the year are given in the directors' remuneration report on pages 41 to 42.

3 Finance income and costs

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Finance income		
Interest income on short-term bank deposits	333	216
Finance costs		
Interest payable on bank loans and overdrafts	(1,651)	(1,159)
Hire purchase finance charges	-	(4)
	(1,651)	(1,163)
Net finance costs	**(1,318)**	**(947)**

4 Taxation

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
United Kingdom corporation tax at a rate of 28% (2009: 28%)	2,070	1,313
Adjustment in respect of prior periods	31	54
Total current taxation	2,101	1,367
Deferred taxation (note 13)	(82)	(47)
Income tax expense	**2,019**	**1,320**

In addition to the amount credited to the income statement, deferred tax of £14,000 relating to share-based payments was credited directly to equity (2009: £30,000 charged).

Reconciliation of effective tax rate

The tax assessed for the year is lower (2009: higher) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

Profit before income tax	7,338	4,343
Profit on ordinary activities before taxation at the standard rate of corporation tax in the UK of 28% (2009: 28%)	2,055	1,216
Effects of:		
Adjustment in respect of prior periods	31	54
Expenses not deductible for tax purposes	41	123
Tax relief on land remediation costs	(108)	(73)
Income tax expense	**2,019**	**1,320**

5 Dividend paid

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Prior year final dividend paid in July 2009 of nil (July 2008: 5.5p)	-	2,061
Interim dividend in January 2010 of 0.75p (January 2009: nil)	295	-
	295	**2,061**

The final dividend proposed for the year ended 31 March 2010 is 1.25p per ordinary share. This dividend was declared after 31 March 2010 and as such the liability of £622,000 has not been recognised at that date.

6 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. 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 31 March 2010	Year ended 31 March 2009
Weighted average number of shares in issue	38,804,588	37,381,374
Dilution - effect of share schemes	689,918	-
Diluted weighted average number of shares in issue	39,494,506	37,381,374
Profit on ordinary activities after taxation	£5,319,000	£3,023,000
Earnings per share:		
Basic	13.7p	8.1p
Diluted	13.5p	8.1p

7 Investments

Investments in subsidiary undertakings	2010 £000	2009 £000
Cost		
At 1 April	3	-
Additions	634	3
At 31 March	**637**	**3**

Investments in jointly controlled entities	2010 £000	2009 £000
Cost		
At 1 April	1	1
Additions	-	-
At 31 March	**1**	**1**

Investments in subsidiary undertakings

The subsidiary undertakings which principally affect profits and net assets of the Group comprise:

	Share of ordinary capital held by the Group	Country of registration	Accounting date	Principal activity
Telford Homes (Romford) Limited	100%	England	31 March	Property development
Telford Homes (Properties) Limited	100%	England	31 March	Property development
Telford Homes (Investments) Limited	100%	England	31 March	Property development
Telford Homes Contracting Limited	100%	England	31 March	Contracting

During the year the Group acquired 100% of the issued share capital of Telford Homes Contracting Limited (formerly Clifford Contracting Limited). See note 21 for further details.

A full list of subsidiary undertakings is available on request from the Group's registered office.

Investments in jointly controlled entities

The Group's investments in jointly controlled entities comprise:

	Share of ordinary capital held by the Group	Country of registration	Accounting date	Principal activity
Telford Homes (Stratford) Limited	50%	Scotland	31 March	Property development
Telford Homes (Creekside) Limited	50%	Scotland	31 March	Property development
Bishopsgate Apartments LLP	50%	England	31 March	Property development

Investments in jointly controlled entities are accounted for using proportional consolidation.

The Group's share of the assets and liabilities and the income and expenses of jointly controlled entities is as follows:

	31 March 2010 £000	31 March 2009 £000
Current assets	43,123	37,376
Current liabilities	(39,682)	(33,651)
Net assets of jointly controlled entities	**3,441**	**3,725**

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Income	4,889	6,003
Expenses	(5,171)	(5,860)
Share of results of jointly controlled entities	**(282)**	**143**

8 Property, plant and equipment

Group and Company	Leasehold improvements £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1 April 2008	262	1,156	405	1,823
Additions	-	99	-	99
Disposals	-	(141)	(147)	(288)
At 31 March 2009	262	1,114	258	1,634
Additions	-	48	2	50
Disposals	-	(13)	-	(13)
At 31 March 2010	**262**	**1,149**	**260**	**1,671**
Depreciation				
At 1 April 2008	58	577	281	916
Charge	26	276	85	387
Disposals	-	(140)	(147)	(287)
At 31 March 2009	84	713	219	1,016
Charge	26	223	39	288
Disposals	-	(13)	-	(13)
At 31 March 2010	**110**	**923**	**258**	**1,291**
Net book value				
At 31 March 2009	178	401	39	618
At 31 March 2010	**152**	**226**	**2**	**380**

Motor vehicles with a net book value of £nil are held under hire purchase arrangements (2009: £39,000). Depreciation of £39,000 was charged during the year on these assets (2009: £85,000).

Authorised future capital expenditure that was contracted, but not provided for, in these financial statements amounted to £nil (2009: £nil).

9 Inventories

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Development properties	120,047	177,941	77,953	142,242

All inventories are considered to be current in nature. The operating cycle is such that a proportion of inventories will not be realised within twelve months. It is not possible to determine with accuracy when specific inventory will be realised as this will be subject to a number of issues such as consumer demand and planning permission delays.

Included within development properties for the Group and Company are freehold interests held for future sale of £5,012,000 (2009: £3,676,000).

The value of inventories expensed in cost of sales in 2010 was £136,906,000 (2009: £88,111,000). Costs capitalised during the year include interest of £1,671,000 (2009: £5,255,000), which is capitalised based on the cost of the site specific borrowings.

During the year the Group conducted a review of the net realisable value of its inventories in light of the deterioration in the UK housing market. Where the estimated net realisable value was less than its carrying value within the balance sheet the Group has written down the value of inventories. The total amount recognised as an expense was £953,000 (2009: £2,868,000).

10 Trade and other receivables

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Current receivables				
Amounts recoverable on contracts	3,892	7,701	3,892	4,671
Amounts owed by Group undertakings	-	-	7,210	826
Amounts owed by jointly controlled entities	1,601	351	14,801	8,735
Trade receivables	71	76	71	76
Other receivables	637	428	576	414
Prepayments and accrued income	1,437	542	577	542
	7,638	**9,098**	**27,127**	**15,264**

Amounts recoverable on contracts

Contract revenue of £61,194,000 (2009: £22,237,000) has been recognised by the Group in the year.

In relation to contracts in progress at the balance sheet date:

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Contracts where costs incurred plus recognised profits exceed payments to date included in receivables	3,892	7,701	3,892	4,671
Contracts where payments to date exceed costs incurred plus recognised profits included in payables	(9,804)	(3,425)	(7,447)	(905)
	(5,912)	4,276	(3,555)	3,766
Total costs incurred plus recognised profit on contracts	126,647	78,438	108,888	65,490
Payments to date	(132,559)	(74,162)	(112,443)	(61,724)
	(5,912)	**4,276**	**(3,555)**	**3,766**

At 31 March 2010 retentions held by customers for contract work performed by the Group amounted to £1,954,000 (2009: £1,126,000).

11 Cash and cash equivalents

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Cash at bank and in hand	33,642	4,865	25,127	4,329

12 Hire purchase liabilities

Group and Company	31 March 2010 £000	31 March 2009 £000
Gross hire purchase liabilities:		
Due within one year	-	19
Due in more than one year and less than five years	-	-
	-	19
Less future interest	-	(1)
Net hire purchase liabilities	**-**	**18**
Net hire purchase liabilities are repayable as follows:		
Due within one year	-	18
Due in more than one year and less than five years	-	-
	-	**18**

13 Deferred income tax

Group and Company	31 March 2010 £000	31 March 2009 £000
Deferred tax assets	157	69
Deferred tax liabilities	(48)	(56)
Deferred tax assets	**109**	**13**

As permitted by IAS 12 (Income Taxes), certain deferred tax assets and liabilities have been offset as they arise in the same tax jurisdiction and are settled on a net basis.

The movement on the deferred income tax account is as follows:

	31 March 2010 £000	31 March 2009 £000
Brought forward	13	(4)
Credited to the income statement	82	47
Credited (charged) directly to equity	14	(30)
	109	**13**

The movement in deferred tax assets and liabilities during the year is as follows:

	Capital allowances £000	Share-based transactions £000	Land remediation timing differences £000	Total £000
At 1 April 2008	59	17	(80)	(4)
Credited (charged) to the income statement	10	(36)	73	47
Charged directly to equity	-	(30)	-	(30)
At 31 March 2009	69	(49)	(7)	13
Credited to the income statement	43	34	5	82
Credited directly to equity	-	14	-	14
At 31 March 2010	**112**	**(1)**	**(2)**	**109**

The aggregate deferred tax credited directly to equity amounts to £14,000 (2009: £nil).

14 Trade and other payables

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Trade payables	5,835	8,573	5,114	8,573
Amounts due to jointly controlled entities	-	6	1,963	1,953
Amounts recoverable on contracts	9,804	3,425	7,447	905
Deposits received in advance	3,729	10,792	2,906	10,575
Social security and other taxes	553	309	553	309
Accrued expenses	7,056	4,833	5,420	3,359
Land creditors	88	2,596	88	2,596
	27,065	**30,534**	**23,491**	**28,270**

15 Borrowings

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Borrowings	**70,800**	**112,020**	**46,985**	**88,086**

Further information on borrowings is given in note 20.

Included within borrowings at 31 March 2010 is a redemption premium payable as a result of the acquistion of Clifford Contracting Limited (see note 21 for more details).

16 Share capital

Group and Company	31 March 2010 £000	31 March 2009 £000
Authorised		
100,000,000 ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
49,775,000 ordinary shares of 10p each (2009: 38,750,000)	4,978	3,875

On 23 June 2009, 1,130,089 ordinary shares were issued at 56p as a result of the acquisition of Clifford Contracting Limited (note 21).

On 21 September 2009, 519,911 ordinary shares were issued at 60p to Telford Homes Trustees Limited to satisfy the requirements of the Share Incentive Plan (note 17).

On 8 March 2010, 9,375,000 ordinary shares were issued at 80p as a result of a share placing.

Ordinary shares may be issued in the future to satisfy the exercise of outstanding share options (note 17).

Details of own shares held within employee benefit trusts are disclosed in note 17.

All shares rank equally in respect of shareholder rights.

17 Employee Share Schemes

Telford Homes Plc Employee Share Option Scheme

The Group operates both an approved share option scheme and an unapproved share option scheme. Awards under each scheme are made periodically to new employees. All schemes are equity-settled and options can normally be exercised three years after the grant date.

A charge is made to the income statement 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 equity is made directly to the profit and loss reserve. In accordance with IFRS 2 (Share-based payments), only costs relating to options issued after 7 November 2002 have been charged to the income statement.

The Group 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:

	2010	2009
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	105%	46%
Dividend yield	2%	5%
Risk free interest rate	1%	5%
Weighted average share price at date of grant	64p	110p
Weighted average exercise price	64p	110p
Weighted average fair value per option	£0.41	£0.32

Expected volatility was determined by considering the volatility levels historically for the Group. Volatility in more recent years is considered to have more relevance than earlier years for the period reviewed.

The charge calculated for the year ended 31 March 2010 is £283,000 (2009: £195,000).

A reconciliation of option movements during each period is shown below:

	Number 000s 2010	Weighted average exercise price 2010	Number 000s 2009	Weighted average exercise price 2009
Outstanding at 1 April	2,244	161p	2,147	173p
Granted in the year	1,838	64p	409	110p
Forfeited in the year	(1,678)	179p	(312)	185p
Exercised in the year	-	-	-	-
Outstanding at 31 March	**2,404**	**74p**	**2,244**	**161p**
Exercisable at 31 March	**402**	**85p**	**833**	**119p**

The aggregate fair value of options granted in the year was £754,000 (2009: £122,000).

No share options were exercised in the year ended 31 March 2010 or the year ended 31 March 2009.

During the year 1,598,369 of the options that have been forfeited were replaced with 1,662,000 new options with an incremental fair value of £412,945.

At 31 March 2010 outstanding options granted over 10p ordinary shares were as follows:

Share option scheme	Option price	Number	Date exercisable
Group approved	138.5p	21,660	17 May 2008 to 17 May 2015
	213.5p	70,255	14 Feb 2011 to 14 Feb 2018
	110p	109,088	12 June 2011 to 12 June 2018
	64p	1,822,000	20 July 2012 to 20 July 2019
Group 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

17 Employee Share Schemes (continued)

Telford Homes Plc Share Incentive Plan

During the year ended 31 March 2004 Telford Homes Plc set up a Share Incentive Plan (SIP) for the benefit of all of the employees of the Group. 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 Group 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 Group 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 Group and is managed by a corporate trustee, Telford Homes Trustees Limited. The costs associated with the trust are paid for by the Group and the Group 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 31 March 2010 is £126,000 (2009: £131,000).

During the year ended 31 March 2010 the trust acquired 519,911 shares at 60p in September 2009. At 31 March 2010 the trust remains interested in 110,450 shares (2009: 27,242) which have not been allocated to employees and a further 867,533 (2009: 731,913) that have been allocated to employees as Matching shares but have not yet vested. Shares in which the trust remains interested do not rank for dividends and all shares that have not yet vested do not count in the calculation of the weighted average numbers of shares used to calculate earnings per share.

Shares held by the SIP are recognised as a deduction from shareholders' funds. The value of these shares at 31 March 2010 was £737,223 (2009: £700,126). Movements in the profit and loss reserve relating to the SIP are shown in the statement of changes in equity.

Telford Homes Plc 2006 Deferred Payment Share Purchase Plan

During the year ended 31 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 Group 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 Group 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 9 November 2006. On this date the Group 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 in the statement of changes in equity.

In December 2007 selected employees were offered, and subscribed for, a total of 160,000 shares at the market value of 244p. These shares were issued on 14 December 2007. On this date the Group provided a loan to the trustee of £390,400 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 December 2017 and has been recognised as a deduction from shareholders' funds in the statement of changes in equity.

18 Commitments and contingent liabilities

Commitments

At 31 March, the Group and Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property leases		Other leases	
	2010	2009	2010	2009
	£000	£000	£000	£000
Within one year	184	184	235	300
Between one and five years	737	737	116	215
Over five years	107	292	-	-
	1,028	1,213	351	515

Operating lease payments represent rentals payable by the Company for its office premises and motor vehicles.

Contingent liabilities

On 23 August 2005 the Company entered an agreement to purchase the site of the former halls of residence of Queen Mary and Westfield College in South Woodford. At 31 March 2010 £26.8 million (2009: £22.9 million) had been paid for the site. A further liability of £0.1million (2009: £nil) has been accrued in relation to properties sold where contracts have been exchanged by 31 March 2010. Further payments are contingent on future sales at the development and are estimated to be approximately £11 million (2009: £15 million).

19 Related party transactions

The Board and certain members of senior management are related parties within the definition of IAS 24 (Related Party Disclosures).

In July 2006 David Holland purchased an apartment from the Group at the OneStratford development. Subsequently contracts were exchanged on 11 December 2006 for a parking space at the same development. The property legally completed on 17 June 2009 and the combined purchase price of £262,500 has been received in full. The purchase was approved at a previous Extraordinary General Meeting.

There have been no other transactions between key management personnel and the Group apart from that referred to above.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. The amounts outstanding from subsidiaries to the Company at 31 March 2010 totalled £7,210,000 (2009: £826,000).

The Company has invoiced jointly controlled entities £20,970,000 in the year to 31 March 2010 for construction services (2009: £14,334,000). The Company has been invoiced £6,115,000 in the year to 31 March 2010 by subsidiaries for construction services (2009: £nil).

The amounts outstanding from jointly controlled entities to the Company at 31 March 2010 totalled £3,224,000 (2009: £702,000) in respect of construction services. Amounts owed by the Company to jointly controlled entities at 31 March 2010 totalled £nil (2009: £12,000). In addition a net total of £9,614,000 was owed to the Company at 31 March 2010 from jointly controlled entities in respect of shareholder loans (2009: £6,092,000).

After proportional consolidation of the jointly controlled entities the Group has amounts outstanding from jointly controlled entities totalling £1,601,000 at 31 March 2010 (2009: £351,000) and amounts owed to jointly controlled entities of £nil (2009: £6,000).

20 Financial instruments

Categories of financial assets and financial liabilities are as follows:

	Group 31 March 2010 £000	Group 31 March 2009 £000	Company 31 March 2010 £000	Company 31 March 2009 £000
Financial assets				
Loans and receivables:				
Trade receivables	71	76	71	76
Other receivables	637	428	576	414
Cash and cash equivalents	33,642	4,865	25,127	4,329
	34,350	**5,369**	**25,774**	**4,819**
Financial liabilities				
Amortised cost:				
Trade payables	5,835	8,573	5,114	8,573
Land creditors	88	2,596	88	2,596
Borrowings	70,800	112,020	46,985	88,086
Hire purchase liabilities	-	18	-	18
	76,723	**123,207**	**52,187**	**99,273**

The Group does not enter into any derivative transactions and has no direct exposure to exchange rate movements as its trade takes place entirely within the United Kingdom.

Trade and other receivables, trade payables and hire purchase liabilities

The fair value of trade and other receivables, trade payables and hire purchase liabilities at 31 March 2010 is equal to the carrying value stated in the balance sheet at that date. Included within trade and other receivables are amounts currently overdue of £23,000 which are fully provided against. Hire purchase liabilities include £nil (2009: £nil) due after more than one year. All other trade and other receivables and trade payables are due within one year.

Land creditors

Land purchases made on deferred payment terms are recorded at fair value using the effective interest method in accordance with IAS 39 (Financial instruments - recognition and measurement). The difference between the fair value and nominal value is amortised over the deferment period as financing costs, increasing the land creditor to its full cash settlement value on the payment date. The interest rate used in the year to 31 March 2010 was 3% (2009: 3% - 6%). All land creditors are due within one year.

Borrowings

The Group uses loan finance, all of which is denominated in sterling, to acquire development land and undertake site construction. Existing loans and loan facilities are in place with three banks and are secured by a debenture over the assets of the Group and by charges over the development sites owned by the Group.

At 31 March 2010 the Group had unutilised overdraft facilities of £3.0 million (2009: £3.0 million).

The Group has site specific loan facilities with Allied Irish Bank totalling £17.5 million in respect of certain development sites. At 31 March 2010 the Group had utilised £13.4 million of these facilities leaving an unutilised balance of £4.1 million. The facilities expire on different dates depending on the specific circumstances of each development and are normally repayable on completion of each development from the sales proceeds received. Of the utilised loans of £13.4 million, £0.5 million is due for repayment within one year and £12.9 million is due for repayment after more than one year and less than two years.

In addition the Group's jointly controlled entity, Bishopsgate Apartments LLP, has a loan facility with Allied Irish Bank of £17.5 million in respect of the purchase of development land in Bethnal Green Road. At 31 March 2010 Bishopsgate Apartments LLP had utilised all £17.5 million of this facility. The Group has recorded its 50% share of the loan in its balance sheet at 31 March 2010. The facility is on a rolling one year term and the bank served a notice on 13 April 2010 to require repayment within one year and therefore repayment is due on or before 13 April 2011.

The Group has site specific loan facilities with The Royal Bank of Scotland totalling £23.4 million in respect of certain development sites. At 31 March 2010 the Group had utilised £19.3 million of these facilities leaving an unutilised balance of £4.1 million. The facilities expire on different dates depending on the specific circumstances of each development and are normally repayable on completion of each development from the sales proceeds received. Of the utilised loans of £19.3 million, £4.2 million is due for repayment within one year, £9.4 million is due for repayment after more than one year and less than two years and £5.7 million is due for repayment after more than two years and less than five years.

In addition the Group's jointly controlled entity, Telford Homes (Creekside) Limited, has a loan facility with The Royal Bank of Scotland of £51.3 million in respect of the purchase of development land and construction in Greenwich. At 31 March 2010 Telford Homes (Creekside) Limited had utilised £29.4 million of this facility leaving an unutilised balance of £21.9 million. The Group has recorded its 50% share of the loan in its balance sheet at 31 March 2010. This facility is due for repayment in December 2011.

The Group has site specific loan facilities with Barclays Bank totalling £9.5 million in respect of certain development sites. At 31 March 2010 the Group had utilised £8.3 million of these facilities leaving an unutilised balance of £1.2 million. The facilities are due for repayment between June 2010 and September 2010.

Interest is charged on all of the Group's facilities at either base rate plus a margin of between 2.5% and 4.0% or LIBOR plus a margin of between 2.0% and 3.0%.

As a result of the acquisition of Clifford Contracting Limited (note 21), the Group also has a loan outstanding at 31 March 2010 from the vendors of the company; Puma VCT I, Puma VCT II, Puma VCT III and Puma VCT IV. The principal loan balance outstanding is £5.7 million plus a redemption premium of £0.6 million. This total liability is repayable on or before 23 June 2014. The interest rate on the principal loan balance is 8.88%.

20 Financial instruments (continued)

Market risk

The Group is exposed to the financial risk of changes in interest rates both in terms of changes in the base rate and LIBOR and in terms of individual banks attitude to market risk and their application of either base rate or LIBOR to new facilities and the margin applied to each new facility.

In order to assess the risk interest costs are forecast on a monthly basis over a five year period using estimates of likely changes in rates and actual costs are compared to this forecast. Volatility of interest costs remained at an acceptable level in the year ended 31 March 2010 as LIBOR remains at a historically low level. Interest on all facilities currently held is charged at floating interest rates and the Group assesses the requirement for fixing interest rates on a regular basis.

The effect on the income statement of a 1% rise and a 1% fall in interest rates has been calculated to assess interest rate sensitivity. Based on average monthly borrowings in the year, a 1% rise in interest rates would have a negative effect of £845,000 before tax (2009: £1,252,000), a 1% fall in interest rates gives the same but opposite effect.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and meet its liabilities as they fall due whilst maintaining an appropriate capital structure to reduce the costs of capital. The Group considers its capital to be all of the components of net assets.

The Group ensures that there are appropriate controls over the purchase of land and levels of work in progress in the business in order to appropriately manage its capital. In addition, the other methods by which the Group can manage its short-term and long-term capital structure include adjusting the level of ordinary dividends paid to shareholders, issuing new share capital and arranging debt.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Trade and other receivables includes amounts recoverable on contracts which are due from housing associations and balances due from other Group undertakings. The Group considers the credit quality of the various debtors to be good in respect of the amounts outstanding and therefore credit risk is considered to be low.

Surplus cash is held in secure bank deposit accounts with Allied Irish Bank, The Royal Bank of Scotland, Barclays Bank and Investec Bank plc.

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows over a five year period and performing sensitivity analysis on these forecasts. The forecasts are necessarily subject to a number of assumptions and judgements and these are tested on a reasonable basis by the sensitivity analysis. These forecasts and the related sensitivity analysis are reviewed by the directors in detail on a monthly basis. In addition all of the forecasts and supporting calculations are made available to each bank funding the Group on a monthly basis. The current forecasts show positive cash balances beyond the next twelve months even where this is subjected to sensitivity testing and at no time is the Group forecasting to make use of its overdraft facilities.

The Group utilises bank facilities to ensure that adequate funding is available to cover working capital requirements and the directors consider that existing facilities are sufficient to cover funding requirements in the foreseeable future both where these have already been utilised and where they are currently unutilised. Where facilities are due to expire within one year this is due to the timing of the relevant developments and therefore the expected repayment dates. In all of these cases the directors are satisfied that the loans are expected to be repaid by the date the facility expires.

Some of the Group's bank facilities are subject to a number of general and financial covenants which are tested periodically by each bank. In all cases the directors have assessed whether the Group will remain in compliance with the covenants for at least twelve months after signing the financial statements and are satisfied that there will be no breach of the covenants that cannot be easily rectified. In isolated cases it is possible that on professional valuation of the gross development value of certain sites, should these be required by the relevant bank, there may be a breach of current loan to gross development value covenants as this would be subject to a third party opinion of current market values at any time. The directors have assessed situations where this may occur on a prudent basis and concluded that, whilst it is considered extremely unlikely that any loan repayments will be required given recent discussions with each bank, necessary loan repayments to correct any such breach could be accommodated by forecast future cash resources.

The maturity profile of the anticipated future cash flows based on the earliest date on which the Group can be required to pay financial liabilities on an undiscounted basis (including future interest payments using the latest applicable rates) is as follows:

	Trade payables £000	Land creditors £000	Borrowings £000	Hire purchase liabilities £000	Total £000
Within one year	5,835	88	13,280	-	19,203
More than one year and less than two years	-	-	47,674	-	47,674
More than two years and less than five years	-	-	13,485	-	13,485
31 March 2010	**5,835**	**88**	**74,439**	**-**	**80,362**

	Trade payables £000	Land creditors £000	Borrowings £000	Hire purchase liabilities £000	Total £000
Within one year	8,573	2,596	43,956	18	55,143
More than one year and less than two years	-	-	41,567	-	41,567
More than two years and less than five years	-	-	30,673	-	30,673
31 March 2009	**8,573**	**2,596**	**116,196**	**18**	**127,383**

21 Acquisition

On 23 June 2009 the Group acquired 100% of the issued share capital of Clifford Contracting Limited (CCL), a contracting business supplying services to residential developers. The transaction has been accounted for using the purchase method of accounting.

The net assets acquired consist only of cash and cash equivalents of £6,328,500 (book value and fair value) and the total consideration paid by the Group for the issued share capital of CCL was £6,328,500, comprising £5,695,650 in loan notes and the allotment and issue of 1,130,089 new ordinary shares, fully paid, in the share capital of Telford Homes Plc. The fair value of the shares issued was £632,850 which was determined using the average of the middle market quotations for an ordinary share in Telford Homes Plc for each of the five business days preceding the acquisition. The net cash outflow arising on the acquisition was £nil.

The loan notes are repayable on 23 June 2014 or at any time at the Group's option. On repayment of the loan notes the Group must settle a redemption premium of £632,850 payable pro-rata to the repayment of the loan notes. In order to offset this additional liability Telford Homes Plc holds a call option enabling the Group to repurchase the 1,130,089 consideration shares for an aggregate consideration of £1 upon repayment in full of the loan notes. The redemption premium will be reduced by the value of any dividends paid to the holders of the consideration shares prior to the Group exercising the call option.

The accounting treatment adopted in the Group accounts is to recognise the redemption premium payable in the future as an additional liability alongside the loan notes within borrowings. The fair value of the consideration shares has been recorded in equity between issued share capital and the share premium reserve. The effect of the call option to repurchase the consideration shares is a reduction in the retained earnings reserve equivalent to £632,850, the fair value of the consideration shares. Dividends have been paid to the holders of the consideration shares during the year reducing the redemption premium payable and increasing retained earnings by £8,476. The net movement in retained earnings during the year as a result of the transaction is therefore £624,374.

The Group changed the name of CCL to Telford Homes Contracting Limited (THCL) on 8 July 2009.

THCL contributed finance income of £36,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of the company had been completed on the first day of the financial year the revenue of the Group would have been unchanged and Group profit before tax would have been unchanged.

development guide

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