Telford Homes Plc

Interim report and accounts

07

telfordhomes

Highlights

for the six months ended 30th September 2007

Turnover for the six months up **56%** to **£82.1** million (H1 2006: £52.6 million)

Profit before tax increased by **32%** to **£9.5** million (H1 2006: £7.2 million)

Strong sales across a number of developments are in line with expectations

Recent launch of Stadthaus, N1 extremely successful with all **19** private homes sold to individual professional investors

Contracts exchanged on 363 private homes at an average price of **£257,000** (31st March 2007: £258,000) along with 62 affordable homes and five commercial units

Increased interim dividend of **4.5** pence per share (H1 2006: 4.0 pence per share)

Continuing to sell early in the development process with contracts exchanged for the sale of **85%** of the **1,650** properties currently under construction

Robust development pipeline of **2,074** properties which will be enhanced through strong partnerships with housing transfer organisations over the next few years

Growth continues to be supported with a third operating division being formed

"Despite the current uncertainty surrounding the national housing market, the prospects in East London remain sound. Regeneration of the area is ongoing, supported by the Olympic development and the desire for an 'Olympic legacy' to endure after the games themselves. The Company's beneficial partnerships with affordable housing providers and housing transfer organisations further strengthen its position in East London and underpin the future of Telford Homes."

Andrew Wiseman, Chief Executive

Chief Executive's statement

Andrew Wiseman
Chief Executive

Overview

In the six months ended 30th September 2007 turnover has increased by 56% to £82.1 million with profit before tax increasing by 32% to £9.5 million. Strong sales across a number of developments have contributed to another period of growth, in line with our expectations.

Although current market sentiment means that we are working harder for individual sales, our most recent development launch has been extremely successful. On 8th November 2007 all 19 open market private apartments at Stadthaus, Murray Grove, N1 were sold, subject to contract, to individual professional investors at asking prices averaging almost £350,000 within two hours of release.

Despite the current uncertainty surrounding the national housing market, the prospects in East London remain sound. Regeneration of the area is ongoing, supported by the Olympic development and the desire for an 'Olympic legacy' to endure after the games themselves. Demand continues to exceed supply with projected demographics for the region suggesting that this will continue. The Company's beneficial partnerships with affordable housing providers and housing transfer organisations further strengthen its position in East London and underpin the future of Telford Homes.

Financial results

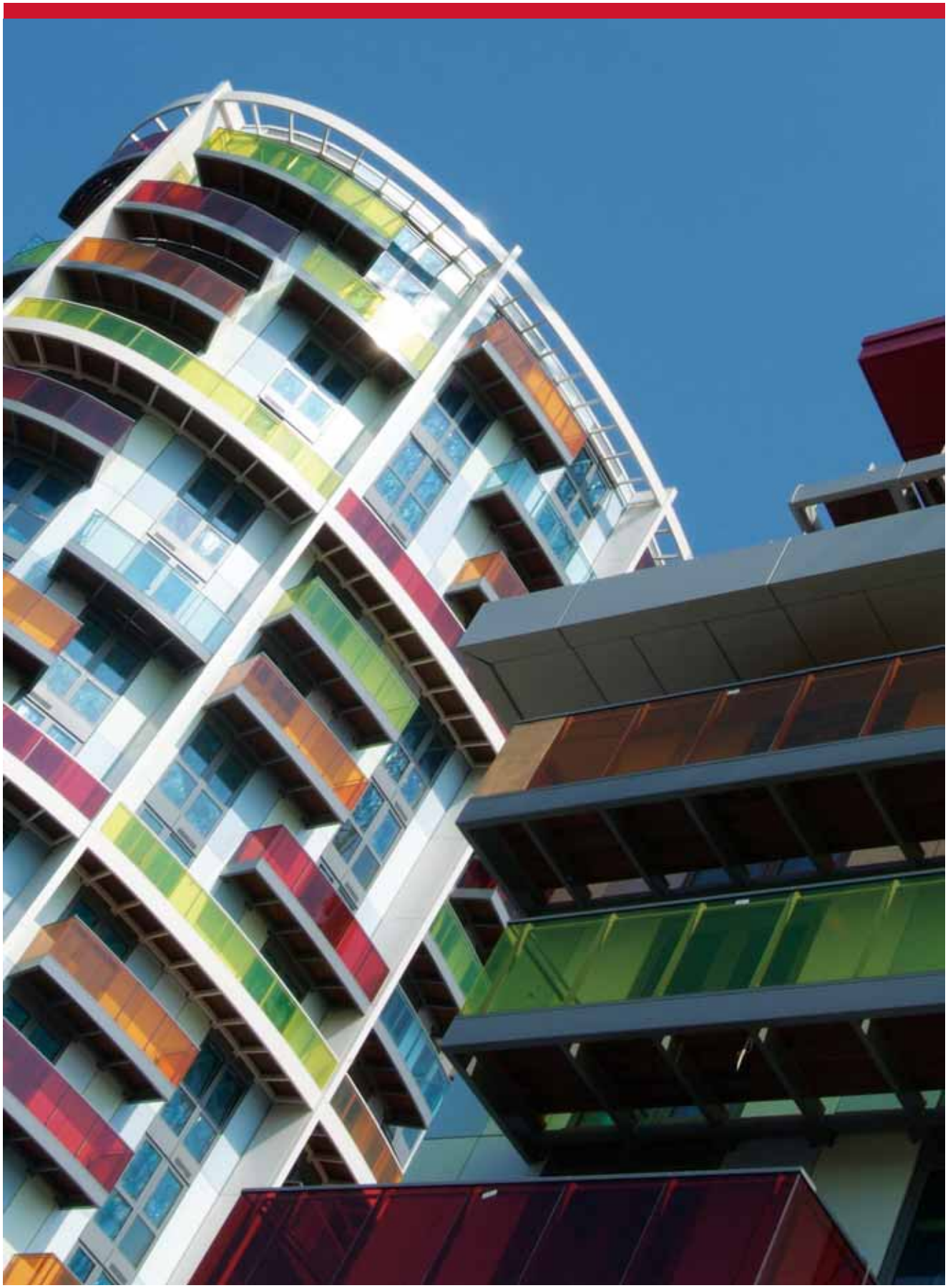
Contracts were exchanged on 363 open market private homes, 62 affordable homes and five commercial units, making a total of 430 properties in the period. The average selling price of the open market private homes has remained steady at £257,000 against £258,000 for the year to 31st March 2007. Changes in the mix of properties sold in each period have offset modest price inflation during the first six months of the year.

The Company's strategy of selling properties at an early stage in the development process has continued to drive the business forward and gives security over future cash flows. There are 1,650 properties currently under construction and 85% are sold with contracts exchanged. Our accounting policy is to recognise turnover and profit from the point of exchange of contracts on a percentage complete basis. This means that in addition to profit recognised from contracts exchanged in the period we also have profit continuing to be realised from ongoing construction at developments where the exchanges have been reported in previous years.

The gross margin in the six months was 20.0%, against 22.4% for the full year to 31st March 2007. At Queen Mary's Gate, South Woodford the original land owner is being paid directly from sales proceeds resulting in a high return on equity balanced by a reduced margin. The underlying gross margin excluding this site is 22.0% down from 23.5%. Our target gross margin is 20% and we would expect long term margins to be around this level. Reported operating margin in the six months was 15.2%, down from 16.0% for the full year to 31st March 2007, with overheads falling as a percentage of revenue.

The Board has declared an increased interim dividend of 4.5 pence which is expected to be paid on 14th January 2008 to those shareholders on the register at the close of business on 21st December 2007. The dividend for the first six months of last year was 4.0 pence.

The interim results to 30th September 2007 are the first set of accounts that the Company has prepared under International Financial Reporting Standards (IFRS). There have been no significant changes in accounting required as a result of the Company adopting IFRS and further details are given in note 6 to these accounts.



Icona, Stratford (under construction)

Chief Executive's statement

Planning process

The planning process continues to be one of the biggest challenges facing the Company and the industry as a whole. Our relationships with local councils and their planning departments put us in a good position but increasing bureaucracy and on occasion the need to satisfy several different bodies with competing views have led to delays in the development of some sites.

Despite these problems we are pleased to have received a resolution to grant planning permission for 372 homes at our major development at Creekside Village, Greenwich. This project is a joint venture with The Royal Bank of Scotland and construction is expected to commence in January 2008.

Development pipeline

During the last six months we have acquired a number of sites to add to our development pipeline, which have been offset by properties sold in the period. The equity placing in 2006 has enabled the Company to extend its medium to long term pipeline.

The most significant acquisition in the period is a site with planning permission for 241 homes in Sutherland Road, Walthamstow. Telford Homes is purchasing the freehold of 66 open market private homes with the remaining homes being delivered through a build contract with the current site owners, East Thames Housing Group. This contract means that we have been able to secure a substantial proportion of the future revenue from the site, with stage payments being made over the course of construction.

Our development pipeline, being properties that are expected to generate profit in future years not including those built for joint venture partners, consists of 1,462 properties with planning permission and 612 subject to the planning process. This is a total of 2,074 properties which are expected to provide turnover in excess of £480 million and gross profit of over £95 million. Of this projected gross profit in the pipeline, over £22 million has been secured by contracts already exchanged and this will be recognised as construction proceeds on developments over the next two to three years.

Partnerships

We have previously reported that the Company has been chosen as the development partner to Eastend Homes on a number of estates in Tower Hamlets. Eastend Homes is a housing transfer organisation and together we are already developing on the British Estate, E3. This estate has set the model for our partnership with land payments made by Telford Homes being reinvested into the third party refurbishment of existing homes on the estate. Under the development name of Merchants' Quarter we have already exchanged contracts on all 161 open market private homes on this estate and construction is underway. We are continuing to progress master plans for the regeneration of seven other estates with Eastend Homes.

In addition to this partnership we have agreed a development framework with Poplar HARCA, another housing transfer organisation with whom we have previously completed a number of developments. This is expected to lead to the construction of over 300 new homes across several sites in

CGI of Kira Building at Merchants' Quarter, British Estate

Concept CGI of part of Sutherland Road development, Walthamstow (Vellum)

the next few years. We are also negotiating to enter a joint venture with Family Mosaic, one of our housing association partners, to deliver over 100 new homes across five sites. These sites, together with the future estates with Eastend Homes, are expected to add over 1,500 homes to our development pipeline. Partnerships of this nature will be significant to the future of Telford Homes.

We announced on 9th October 2007 that the Company has been chosen as a pre-qualified partner for the Housing Corporation. We have now submitted our first bid for a grant on one of our future developments and we expect to make further bids in the future. This status reflects Telford Homes' long term commitment to public sector partnerships and gives us greater flexibility and control in the financing of affordable housing.

Organisation and people

From 1st January 2008 there will be three operating divisions dealing with the delivery of all properties going through the planning process and those currently in detailed design or under construction. The new division, Strada, will increase our operational capacity as the Company continues to grow.

Once again we have taken on a number of new people across every area of the business and our employees remain one of the key strengths of Telford Homes. Their ability to adapt to growth and change has been fantastic and I thank each of them for their continued efforts.

Our high standards in construction have been recognised again during the last six months with two of our site managers winning prestigious 'Pride in the Job' awards from the NHBC. In addition the Company's commitment to employee share ownership was recognised by a commendation at the 2007 'ifs ProShare' awards. Involving employees in the ownership of Telford Homes has been crucial in retaining people at all levels and giving them an incentive to drive the business forward.

Chief Executive's statement

CGI of Stadthaus, N1

CGI of Queen Mary's Gate, South Woodford

Finance

Telford Homes continues to receive strong support from all of its banking partners and Barclays Bank has funded its first Telford Homes development during the six months to 30th September 2007.

Gearing at 30th September 2007 was 173%, compared to 102% at 31st March 2007 with the increase due to completion on sites purchased with the placing funds raised at the end of 2006. We will continue to monitor the certainty of future cash inflows against exposure to debt and our internal measure of uncovered gearing excludes debt matched by the value of contracts exchanged on a given development. This was 56% at 30th September 2007 compared to 18% at 31st March 2007 and is well within acceptable limits.

Current trading and outlook

We are delighted with the outcome of the sales launch at Stadthaus, N1 with all of the open market private homes being reserved within two hours by individual professional investors. These sales are now proceeding to contract and are an indication that demand is still strong for the right product in the right location. Build completion at this development is expected in early 2009.

Sales at Queen Mary's Gate, our only major sales outlet, have been slower in the last few weeks as the current market sentiment has resulted in caution from prospective purchasers. The period leading up to Christmas is traditionally quiet and market conditions over the next few months will determine how quickly sales at this development pick up in 2008. Handovers of the first phase should commence later in December going through to April 2008 and on this phase we have already exchanged contracts on 166 of the 184 open market private homes.

Overall the six months to 30th September 2007 have been extremely successful and, with results weighted towards the first half together with profit flowing from ongoing construction, the Company remains on track to meet market expectations for the year to 31st March 2008.

Andrew Wiseman
Chief Executive
3rd December 2007

Income statement 30th September 2007

	Note	6 months ended 30th September 2007 £000	6 months ended 30th September 2006 £000	Year ended 31st March 2007 restated (note 6) £000
Revenue		**82,062**	**52,558**	**104,383**
Cost of sales		(65,644)	(40,585)	(81,001)
Gross profit		**16,418**	**11,973**	**23,382**
Administrative expenses		(3,928)	(3,003)	(6,676)
Operating profit		**12,490**	**8,970**	**16,706**
Finance income		291	164	794
Finance costs		(3,255)	(1,920)	(3,985)
Profit before income tax		**9,526**	**7,214**	**13,515**
Income tax expense	3	(2,774)	(2,164)	(3,557)
Profit from continuing operations after tax		**6,752**	**5,050**	**9,958**
Earnings per share:				
Basic	5	18.3p	16.9p	30.4p
Diluted	5	18.0p	16.4p	29.4p

All activities are in respect of continuing operations.

Statement of recognised income and expense 30th September 2007

	6 months ended 30th September 2007 £000	6 months ended 30th September 2006 £000	Year ended 31st March 2007 £000
Movement in excess tax on share options	(23)	72	(27)
Net (expense) income recognised directly into equity	**(23)**	**72**	**(27)**
Profit for the period	6,752	5,050	9,958
Total recognised income and expense for the period	**6,729**	**5,122**	**9,931**

Balance sheet 30th September 2007

	30th September 2007 £000	30th September 2006 restated (note 6) £000	31st March 2007 restated (note 6) £000
Non current assets			
Tangible and intangible assets	733	899	851
Deferred income tax assets	207	273	226
	940	1,172	1,077
Current assets			
Inventories	69,722	42,340	70,135
Trade and other receivables	117,997	44,228	56,104
Cash and cash equivalents	1,094	8,190	17,617
	188,813	94,758	143,856
Total assets	**189,753**	**95,930**	**144,933**
Non current liabilities			
Hire purchase liabilities	(53)	(136)	(96)
	(53)	(136)	(96)
Current liabilities			
Trade and other payables	(21,464)	(10,003)	(15,028)
Current income tax liabilities	(2,778)	(2,146)	(1,655)
Borrowings	(105,186)	(46,787)	(73,210)
Hire purchase liabilities	(97)	(116)	(113)
	(129,525)	(59,052)	(90,006)
Total liabilities	**(129,578)**	**(59,188)**	**(90,102)**
Net assets	**60,175**	**36,742**	**54,831**
Capital and reserves			
Issued share capital	3,715	3,034	3,694
Share premium	29,094	13,228	28,641
Retained earnings	27,366	20,480	22,496
Total equity	**60,175**	**36,742**	**54,831**

Cash flow statement 30th September 2007

	6 months ended 30th September 2007 £000	6 months ended 30th September 2006 restated (note 6) £000	Year ended 31st March 2007 restated (note 6) £000
Cash flow from operating activities			
Operating profit	12,490	8,970	16,706
Depreciation	182	178	360
Write down in value of own shares	52	52	109
Share-based payments	48	43	90
Profit on sale of tangible assets	(9)	(25)	(34)
Decrease (increase) in inventories	413	3,207	(24,588)
(Increase) decrease in debtors	(61,893)	15,226	3,347
Increase (decrease) in creditors	6,391	(70)	4,870
	(42,326)	27,581	860
Interest paid	(3,204)	(1,914)	(3,885)
Income taxes paid	(1,655)	(1,621)	(3,554)
Cash flow from operating activities	**(47,185)**	**24,046**	**(6,579)**
Cash flow from investing activities			
Purchase of tangible assets	(64)	(65)	(182)
Proceeds from sale of tangible assets	9	28	38
Interest received	291	164	794
Cash flow from investing activities	**236**	**127**	**650**
Cash flow from financing activities			
Proceeds from issuance of ordinary share capital	474	625	15,895
Expenses of share issue	-	-	(627)
Purchase of own shares	(332)	(355)	(365)
Sale of own shares	189	161	180
Increase (decrease) in bank loans	31,976	(22,166)	4,257
Dividend paid	(1,816)	(1,391)	(2,867)
Capital element of hire purchase payments	(59)	(62)	(123)
Hire purchase interest	(6)	(6)	(15)
Cash flow from financing activities	**30,426**	**(23,194)**	**16,335**
Net (decrease) increase in cash and cash equivalents	**(16,523)**	**979**	**10,406**
Cash and cash equivalents brought forward	17,617	7,211	7,211
Cash and cash equivalents carried forward	**1,094**	**8,190**	**17,617**

Statement of changes in equity 30th September 2007

6 months ended 30th September 2007	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Restated balance at 1st April 2007 (note 6)	**3,694**	**28,641**	**22,496**	**54,831**
Profit for the period	-	-	6,752	6,752
Dividend on equity shares	-	-	(1,816)	(1,816)
Net expense recognised directly in equity	-	-	(23)	(23)
Proceeds of equity share issue	21	453	-	474
Share-based payments	-	-	48	48
Purchase of own shares	-	-	(332)	(332)
Sale of own shares	-	-	189	189
Write down in value of own shares	-	-	52	52
Balance at 30th September 2007	**3,715**	**29,094**	**27,366**	**60,175**

6 months ended 30th September 2006				
Restated balance at 1st April 2006 (note 6)	**2,981**	**12,656**	**16,848**	**32,485**
Profit for the period	-	-	5,050	5,050
Dividend on equity shares	-	-	(1,391)	(1,391)
Net income recognised directly in equity	-	-	72	72
Proceeds of equity share issue	53	572	-	625
Share-based payments	-	-	43	43
Purchase of own shares	-	-	(355)	(355)
Sale of own shares	-	-	161	161
Write down in value of own shares	-	-	52	52
Balance at 30th September 2006	**3,034**	**13,228**	**20,480**	**36,742**

Year ended 31st March 2007				
Restated balance at 1st April 2006 (note 6)	**2,981**	**12,656**	**16,848**	**32,485**
Profit for the year	-	-	9,958	9,958
Dividend on equity shares	-	-	(2,867)	(2,867)
Net expense recognised directly in equity	-	-	(27)	(27)
Shares issued under Deferred Payment Share Purchase Plan	55	1,375	(1,430)	-
Proceeds of equity share issue	658	15,237	-	15,895
Costs arising from shares issued	-	(627)	-	(627)
Share-based payments	-	-	90	90
Purchase of own shares	-	-	(365)	(365)
Sale of own shares	-	-	180	180
Write down in value of own shares	-	-	109	109
Balance at 31st March 2007	**3,694**	**28,641**	**22,496**	**54,831**

1 Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual financial statements, for the year ending 31st March 2008, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU.

The interim accounts have been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are expected to be endorsed by the EU and effective at 31st March 2008, the first annual reporting date at which the Company is required to use adopted IFRS.

The interim accounts do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the six months ended 30th September 2007 and 30th September 2006 are unaudited. The figures for the year ended 31st March 2007 are also unaudited but have been derived from the Company's statutory accounts for the year ended 31st March 2007 as adjusted to comply with IFRS expected to be effective at 31st March 2008. The Company's statutory accounts for the year ended 31st March 2007, which were prepared in accordance with UK Generally Accepted Accounting Practices (UK GAAP), have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods. No adjustments have been made for any changes in estimates made at the time of approval of the UK GAAP financial statements on which the preliminary IFRS financial statements are based, as required by IFRS 1.

2 Accounting policies

The accounting policies set out below have been applied consistently for all periods presented in these interim accounts and in preparing an opening IFRS balance sheet at 1st April 2006 for the purpose of the transition to IFRS.

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable International Accounting Standards.

Revenue and profit recognition

Revenue is recognised from the date of exchange of contracts for the sale of properties at a rate equivalent to the value of work undertaken in respect of land development. The value of revenue less deposits and completion monies received is included as amounts recoverable on contracts within trade receivables. All revenue is generated in the United Kingdom. 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 cost of sales.

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

Joint arrangements

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

Development properties

Development properties are included in 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 but not loan interest. Included within development properties are freehold interests held in completed developments. These are recognised at a multiple of annual rental income.

Land purchased on extended payment terms

When land is purchased on extended payment terms, the Company 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.

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

Taxation

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

Deferred tax is recognised in respect of all 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. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Finance leases and hire purchase contracts

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

2 Accounting policies (continued)

Operating leases

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

Pension costs

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

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 to reflect the actual number of options that 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 through the statement of recognised income and expense.

3 Taxation

Taxation has been calculated on the profit for the six months ended 30th September 2007 at the estimated effective tax rate of 29.2%.

4 Dividends

The interim dividend declared for the six months ended 30th September 2007 is 4.5 pence per ordinary share and is expected to be paid on 14th January 2008 to those shareholders on the register at the close of business on 21st December 2007. This dividend was declared after 30th September 2007.

The interim dividend paid for the six months ended 30th September 2006 was 4.0 pence per ordinary share and the final dividend paid for the year ended 31st March 2007 was 4.9 pence making a total of 8.9 pence per ordinary share.

5 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 period, excluding those held in the Share Incentive Plan, which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Earnings per share have been calculated using the following figures:

	6 months ended 30th September 2007	6 months ended 30th September 2006	Year ended 31st March 2007 restated (note 6)
Weighted average number of shares in issue	36,836,908	29,842,792	32,781,546
Dilution - effect of share schemes	672,963	970,043	1,054,146
Diluted weighted average number of shares in issue	37,509,871	30,812,835	33,835,692
Profit after tax	£6,752,000	£5,050,000	£9,958,000
Earnings per share:			
Basic	18.3p	16.9p	30.4p
Diluted	18.0p	16.4p	29.4p

6 Transition to IFRS

As stated in note 1 these are the Company's first interim accounts prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in issue that are expected to be endorsed by the EU and effective at 31st March 2008, the Company's first annual reporting date at which it is required to use adopted IFRS. The accounting policies in note 2 have been applied in preparing the interim accounts for the six months ended 30th September 2007, the comparative information for the six months ended 30th September 2006 and the year ended 31st March 2007 and the opening IFRS balance sheet at 1st April 2006. In preparing the opening balance sheet and comparative information for the six months ended 30th September 2006 and for the year ended 31st March 2007 the Company has restated the figures previously prepared in accordance with UK GAAP.

An explanation of each IFRS that has resulted in a restatement of the figures prepared under UK GAAP is given below. This is followed by reconciliations between UK GAAP and IFRS covering the income statement and balance sheet for the year ended 31st March 2007 and the six months ended 30th September 2006 and the balance sheet at 31st March 2006.

IAS 12 Income taxes

IAS 12 requires that the expected value of future tax deductions relating to the exercise of share options is recognised as a deferred tax asset over the vesting period of the options. Under UK GAAP deferred tax was recognised only to the extent that a charge for share-based payments was recorded in the profit and loss account. Under IAS 12 any deferred tax over and above that on the share-based payment charge is recognised directly in the statement of recognised income and expense. Adoption of IAS 12 results in an additional deferred tax asset of £324,000 at 31st March 2006, £396,000 at 30th September 2006 and £297,000 at 31st March 2007 with the movement in this additional asset being recognised in the statement of recognised income and expense.

6 Transition to IFRS (continued)

IAS 39 Financial instruments – recognition and measurement

IAS 39 requires that financial assets and liabilities are recognised initially at their fair value. For land purchased on extended payment terms the Company will initially record it at its fair value with a land creditor recorded for any outstanding monies based on this fair value assessment. Previously land purchased on extended payment terms was recognised at the cost determined in the purchase contract. The difference between the ultimate cost of the land and the initial fair value will be amortised over the period of the extended payment term and charged to finance costs increasing the value of the land creditor such that at the date of maturity the land creditor equals the payment required.

No restatement was required to the opening balance sheet at 1st April 2006, the income statement for the six months ended 30th September 2006 or the balance sheet at 30th September 2006. Under UK GAAP the balance sheet at 31st March 2007 included a liability of £1.4 million in relation to land purchased at Queen Mary's Gate, South Woodford on extended payment terms. Adjusting this to fair value reduced the liability by £78,000 and reduced inventories by the same amount. The interest charge in the year to 31st March 2007 has increased by £5,000 as a result of amortising the difference between the ultimate cost of the land and the fair value over the period of the extended payment term. In addition the recognition of profit at the development has changed to reflect the reduction in the recognised cost of the land resulting in a reduction in revenue of £24,000 and a reduction in trade receivables of the same amount and a reduction in cost of sales of £39,000 and an increase in inventories of the same amount.

Income statement reconciliation for the year ended 31st March 2007

	Previously reported under UK GAAP £000	IAS 12 Income taxes £000	IAS 39 Financial instruments £000	Effect of transition to IFRS £000	Restated under IFRS £000
Revenue	**104,407**	**–**	**(24)**	**(24)**	**104,383**
Cost of sales	(81,040)	–	39	39	(81,001)
Gross profit	**23,367**	**–**	**15**	**15**	**23,382**
Administrative expenses	(6,676)	–	–	–	(6,676)
Operating profit	**16,691**	**–**	**15**	**15**	**16,706**
Finance income	794	–	–	–	794
Finance costs	(3,980)	–	(5)	(5)	(3,985)
Profit before income tax	**13,505**	**–**	**10**	**10**	**13,515**
Income tax expense	(3,557)	–	–	–	(3,557)
Profit from continuing operations after tax	**9,948**	**–**	**10**	**10**	**9,958**

Balance sheet reconciliation as at 31st March 2007

	Previously reported under UK GAAP £000	IAS 12 Income taxes £000	IAS 39 Financial instruments £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non current assets					
Tangible and intangible assets	851	-	-	-	851
Deferred income tax assets	-	226	-	226	226
	851	226	-	226	1,077
Current assets					
Inventories	70,174	-	(39)	(39)	70,135
Trade and other receivables	56,128	-	(24)	(24)	56,104
Cash and cash equivalents	17,617	-	-	-	17,617
	143,919	-	(63)	(63)	143,856
Total assets	**144,770**	**226**	**(63)**	**163**	**144,933**
Non current liabilities					
Deferred income tax liabilities	(71)	71	-	71	-
Hire purchase liabilities	(96)	-	-	-	(96)
	(167)	71	-	71	(96)
Current liabilities					
Trade and other payables	(15,101)	-	73	73	(15,028)
Current income tax liabilities	(1,655)	-	-	-	(1,655)
Borrowings	(73,210)	-	-	-	(73,210)
Hire purchase liabilities	(113)	-	-	-	(113)
	(90,079)	-	73	73	(90,006)
Total liabilities	**(90,246)**	**71**	**73**	**144**	**(90,102)**
Net assets	**54,524**	**297**	**10**	**307**	**54,831**
Capital and reserves					
Issued share capital	3,694	-	-	-	3,694
Share premium	28,641	-	-	-	28,641
Retained earnings	22,189	297	10	307	22,496
Total equity	**54,524**	**297**	**10**	**307**	**54,831**

6 Transition to IFRS (continued)

Income statement reconciliation for the six months ended 30th September 2006

	Previously reported under UK GAAP £000	IAS 12 Income taxes £000	IAS 39 Financial instruments £000	Effect of transition to IFRS £000	Restated under IFRS £000
Revenue	**52,558**	**–**	**–**	**–**	**52,558**
Cost of sales	(40,585)	-	-	-	(40,585)
Gross profit	**11,973**	**–**	**–**	**–**	**11,973**
Administrative expenses	(3,003)	-	-	-	(3,003)
Operating profit	**8,970**	**–**	**–**	**–**	**8,970**
Finance income	164	-	-	-	164
Finance costs	(1,920)	-	-	-	(1,920)
Profit before income tax	**7,214**	**–**	**–**	**–**	**7,214**
Income tax expense	(2,164)	-	-	-	(2,164)
Profit from continuing operations after tax	**5,050**	**–**	**–**	**–**	**5,050**

Balance sheet reconciliation as at 30th September 2006

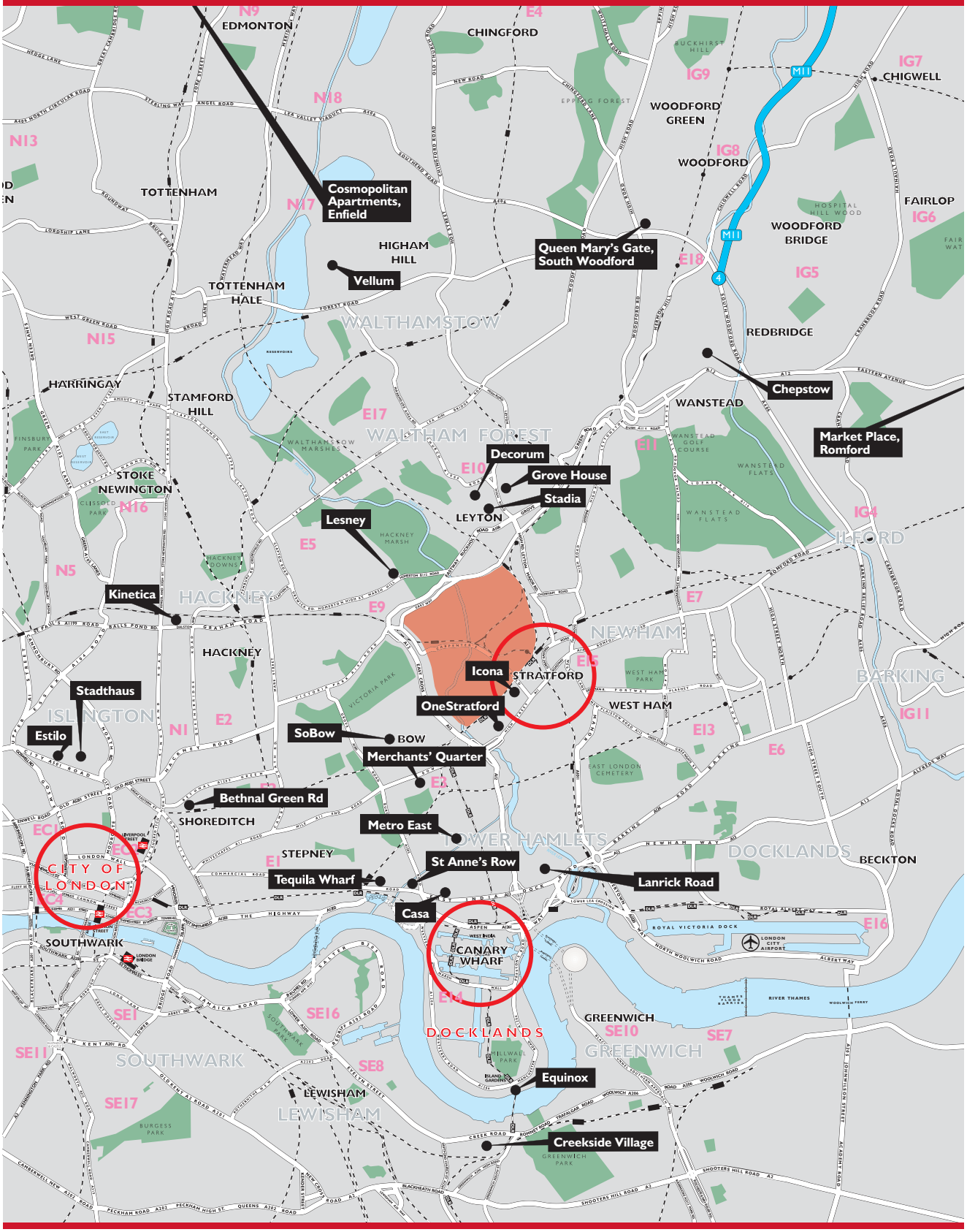
	Previously reported under UK GAAP £000	IAS 12 Income taxes £000	IAS 39 Financial instruments £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non current assets					
Tangible and intangible assets	899	-	-	-	899
Deferred income tax assets	-	273	-	273	273
	899	273	-	273	1,172
Current assets					
Inventories	42,340	-	-	-	42,340
Trade and other receivables	44,228	-	-	-	44,228
Cash and cash equivalents	8,190	-	-	-	8,190
	94,758	-	-	-	94,758
Total assets	**95,657**	**273**	**-**	**273**	**95,930**
Non current liabilities					
Deferred income tax liabilities	(123)	123	-	123	-
Hire purchase liabilities	(136)	-	-	-	(136)
	(259)	123	-	123	(136)
Current liabilities					
Trade and other payables	(10,003)	-	-	-	(10,003)
Current income tax liabilities	(2,146)	-	-	-	(2,146)
Borrowings	(46,787)	-	-	-	(46,787)
Hire purchase liabilities	(116)	-	-	-	(116)
	(59,052)	-	-	-	(59,052)
Total liabilities	**(59,311)**	**123**	**-**	**123**	**(59,188)**
Net assets	**36,346**	**396**	**-**	**396**	**36,742**
Capital and reserves					
Issued share capital	3,034	-	-	-	3,034
Share premium	13,228	-	-	-	13,228
Retained earnings	20,084	396	-	396	20,480
Total equity	**36,346**	**396**	**-**	**396**	**36,742**

6 Transition to IFRS (continued)

Balance sheet reconciliation as at 31st March 2006

	Previously reported under UK GAAP £000	IAS 12 Income taxes £000	IAS 39 Financial instruments £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non current assets					
Tangible and intangible assets	871	-	-	-	871
Deferred income tax assets	-	188	-	188	188
	871	188	-	188	1,059
Current assets					
Inventories	45,547	-	-	-	45,547
Trade and other receivables	59,454	-	-	-	59,454
Cash and cash equivalents	7,211	-	-	-	7,211
	112,212	-	-	-	112,212
Total assets	**113,083**	**188**	**-**	**188**	**113,271**
Non current liabilities					
Deferred income tax liabilities	(136)	136	-	136	-
Hire purchase liabilities	(75)	-	-	-	(75)
	(211)	136	-	136	(75)
Current liabilities					
Trade and other payables	(10,073)	-	-	-	(10,073)
Current income tax liabilities	(1,590)	-	-	-	(1,590)
Borrowings	(68,953)	-	-	-	(68,953)
Hire purchase liabilities	(95)	-	-	-	(95)
	(80,711)	-	-	-	(80,711)
Total liabilities	**(80,922)**	**136**	**-**	**136**	**(80,786)**
Net assets	**32,161**	**324**	**-**	**324**	**32,485**
Capital and reserves					
Issued share capital	2,981	-	-	-	2,981
Share premium	12,656	-	-	-	12,656
Retained earnings	16,524	324	-	324	16,848
Total equity	**32,161**	**324**	**-**	**324**	**32,485**

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



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