

**Telford Homes Plc**

(‘Telford Homes’ or the ‘Group’)

**Interim results for the six months ended 30 September 2011**

Telford Homes Plc (AIM:TEF), the residential developer in East London today announces its interim results for the six months ended 30 September 2011.

**Highlights**

- Revenue for the six months ended 30 September 2011 was £58.6 million (H1 2010: £58.2 million) including 125 open market completions (H1 2010: 133)
- Strong sales achieved with contracts exchanged on 288 open market properties in the first six months of the year, a 30% increase compared to the same period last year
- Gross profit margin before exceptional items and interest increased to 18.2% (year ended 31 March 2011: 15.1%)
- Operating margin before exceptional items and interest increased to 6.6% (year ended 31 March 2011: 5.2%)
- Profit before tax and exceptional items of £1.5 million in line with expectations and consistent with prior half year
- Interim dividend up by 20% to 1.5 pence per share (H1 2010: 1.25 pence)
- Over 70% reduction in the number of unsold finished open market homes since 1 April 2011
- Terms agreed on over £30 million of land purchases since 1 April 2011 with cash resources and bank funding to make further land acquisitions
- On target to achieve full year profits similar to the previous year and a significant increase expected in the year to 31 March 2013

Jon Di-Stefano, Chief Executive of Telford Homes, commented: “Telford Homes has increased the number of open market properties sold in the first half of the year by 30% with many of these sales securing profits to be recognised in the future. Profit margins are improving and land is being acquired utilising the bank facility signed earlier this year. The London market has remained strong and East London will continue to benefit from regeneration and transport improvements with the Olympics providing an increased focus on the region in 2012. The Group remains on target to

achieve full year profits in line with market expectations with a significant increase anticipated in the year to 31 March 2013.”

**- Ends -**

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Copies of this announcement are available from the Group at First Floor, Stuart House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire EN8 7TF and on our website [www.telfordhomes.plc.uk](http://www.telfordhomes.plc.uk).

## **CHIEF EXECUTIVE'S STATEMENT**

In the six months to 30 September 2011 Telford Homes has been successful in securing sales to both UK and overseas buyers despite restricted mortgage finance and an unsettled economic climate. The Board is focused on increasing profit margins and delivering higher levels of net profit and the Group is actively acquiring land to add to the development pipeline.

### **Results for the six months ended 30 September 2011**

Revenue for the six months ended 30 September 2011 was marginally higher than the same period last year at £58.6 million (H1 2010: £58.2 million) with a total of 125 open market homes legally completed (H1 2010: 133 homes). The average selling price of these open market homes increased to £269,000 (year ended 31 March 2011: £261,000) due partly to the mix of developments completed in each period but also to the robustness of the London property market.

Gross profit before exceptional items was 26 per cent higher than last year at £9.3 million (H1 2010: £7.4 million). This is stated after expensing loan interest, which had been capitalised within inventories, of £1.3 million (H1 2010: £1.4 million). Gross profit margin before exceptional items and interest for the period to 30 September 2011 was 18.2 per cent which is significantly improved compared to 15.1 per cent for the year to 31 March 2011.

The increase in gross profit margin was driven by a combination of slightly higher prices for open market homes and construction cost savings achieved across a number of developments in the last six months. In addition, the Group's reliance on a greater proportion of affordable housing over the last two years is now being reduced in favour of open market homes which typically generate a higher profit margin.

Higher administrative expenses in the period are mainly due to rising employee numbers including the recruitment of an in-house legal department and the indirect costs associated with increased construction activity, which in turn will increase the output of completed homes in the future. In addition selling expenses have risen primarily as a result of overseas marketing activity and the Group's success in pre-selling some of the homes now under construction. Despite this, the operating

margin before exceptional items and interest increased to 6.6 per cent compared to 5.2 per cent for the year to 31 March 2011.

Net finance costs of £1.1 million are higher than the previous half year due to bank charges and non-utilisation fees associated with the three and a half year loan facility signed on 31 March 2011. As a result, profit before tax and exceptional items is as expected, and consistent with the prior half year at £1.5 million.

During 2008 and 2009 the Group did not acquire new land which reduced potential output for the calendar years 2010 and 2011 and therefore the number of open market homes available for sale and legal completion. In addition profit margins have been reduced by an increase in the proportion of lower risk affordable housing being delivered and the completion of open market developments purchased prior to the recession.

From early 2012 the vast majority of developments with lower margins will have been completed and the Group expects to move back to normal operating levels both in terms of output and profit margins over the next two years. Pre-sales are being secured on higher margin developments and the business is returning to a more traditional mix of open market versus affordable homes, generally two thirds open market to one third affordable.

### **Dividend**

The Board continues to maintain a progressive dividend policy in keeping with longer term earnings expectations and is pleased to declare a 20 per cent increase in the interim dividend which will be 1.5 pence per share (H1 2010: 1.25 pence). The interim dividend is expected to be paid on 13 January 2012 to those shareholders on the register at the close of business on 16 December 2011.

### **Sales**

The Group has achieved strong sales in the first six months of the financial year exchanging contracts on 288 open market properties, a 30 per cent increase compared to the equivalent period last year. Since 30 September, a further 58 sales have been secured by exchange of contracts. There were 373 pre-sold open market homes under construction at 30 September 2011 of which over 300 are due for completion after 31 March 2012.

The restricted availability of mortgages for new-build apartments and especially for buyers requiring a higher loan to value is still constraining effective demand, however the Group is continuing to achieve a healthy rate of sales due to the on going shortage of supply of new homes, high demand from prospective tenants and the resilience of the London property market. The recent announcement of a new Government backed 95 per cent loan to value mortgage scheme for buyers of new homes who cannot afford more than a five per cent deposit is a positive move and should enable many potential purchasers, including first time buyers, to enter the market.

Off-plan investor demand, particularly from overseas, across a number of developments has been a key component in the Group's success since 1 April 2011 coupled with a steady rate of sales to owner-occupiers. The launch of Avant-garde, E1 was the most significant contributor in the first half of the year with an excellent 186 sales achieved in total, 124 of which were secured across three overseas marketing events with a further 62 sales to London buyers. These homes are not expected to complete until the year ending 31 March 2014.

The Group launched a further five new developments in the first half of the year, offering a total of 75 open market homes. These sites were individually assessed and launched in the most suitable market either in the UK, overseas, or both depending on the product on offer and the specific location of each development. To date 51 of the homes have been sold.

There has been a continued reduction in the number of unsold finished open market homes with only 38 remaining across three developments. This represents a 73 per cent reduction since 1 April 2011. The Group has also exchanged contracts for the sale of £2.8 million of commercial space since the start of the financial year.

### **Land buying**

The Group has been pursuing new land opportunities since securing a £70 million bank facility in March 2011 which extends to 30 September 2014. This facility had headroom of £39 million at 30 September 2011 and cash balances were £14.6 million, a large proportion of which will be invested in further land acquisitions to add to the development pipeline. Since the start of the financial year, the Group has purchased, or agreed terms to purchase, eight sites with a combined value in excess of £30 million to develop over 600 units.

The majority of the sites being purchased have a full planning consent or are subject to achieving a satisfactory consent and all of them are on 'brownfield' land. The Group will purchase smaller sites without planning but only where the risk of not achieving a consent is assessed to be low. Despite excellent relationships with all of the boroughs in East London the planning environment has been and remains challenging and the Government's attempts to improve this process through the 'National Planning Policy Framework' are welcome.

The focus of the Group's land buying remains predominantly in East London but is increasingly concentrated on the areas in and around the City and Canary Wharf where demand is stronger and less reliant on mortgage-constrained buyers. These areas will also benefit from the investment in infrastructure for the Olympics and the new Westfield shopping centre. In addition to this core area the Board has widened its focus into adjoining areas of North and Central London where higher priced properties are in demand both from investors and owner-occupiers.

### **Development pipeline**

The development pipeline at 30 September 2011 stands at 1,891 properties, all of which have a detailed planning consent (31 March 2011: 1,904 properties). This total includes sites under option contracts within the control of the Group but does not include sites where terms have been agreed subject to exchange of contracts. There are 1,523 properties under construction with development of the remaining 368 properties expected to commence within the next year. Over 55 per cent of the units under construction had been secured by contracts exchanged either for open market sale or for affordable housing at 30 September 2011.

### **Partnerships and affordable housing**

Telford Homes is a grant partner of the Homes and Communities Agency and to date has received £58.3 million out of a total grant allocation for 2008-2011 of £72.9 million. The vast majority of the remaining grant will be received by March 2012 as affordable homes are completed in accordance with their construction programmes.

The size of the grant programme was unprecedented for Telford Homes due to the Group developing more affordable housing over the last few years. New sites are being acquired with a normal mix of open market and affordable housing such that grant funding is not required in most cases. Despite this the Group has received a

small grant allocation in the 2011–2015 programme which will be used to undertake future estate regeneration schemes.

### **Cash and borrowings**

Total borrowings at 30 September 2011 were £60.2 million (31 March 2011: £64.9 million) and the Group has funding available to develop out all existing sites and to invest in new site acquisitions.

In addition to the £70 million corporate facility signed in March 2011, a £43.1 million loan facility was signed in July 2011 with HSBC to fund the development of Avant-garde, E1, which is a joint venture with The William Pears Group. The facility was partially used to refinance the existing £15 million loan with Allied Irish Bank with the remainder available to fund development costs.

At 30 September 2011 net debt was £45.7 million (31 March 2011: £46.0 million) and gearing remained historically low at 69.8% (31 March 2011: 71.2%) although this is expected to increase in the future with land and development expenditure funded by 60 per cent debt and 40 per cent equity.

### **Outlook**

The London market has remained strong despite economic uncertainty and the Group's core area of East London will continue to benefit from regeneration and transport improvements with the Olympics providing an increased focus on the region in 2012. A strong balance sheet and a reputable brand put Telford Homes in an excellent position to take advantage of site acquisition opportunities as they arise and to generate higher profits and continue to improve margins over the next few years.

The Group remains on target to achieve full year profits in line with market expectations and at a similar level to the previous financial year but with a significant increase anticipated in the year to 31 March 2013.

**Jon Di-Stefano**

**Chief Executive**

30 November 2011

**GROUP INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	Note	Unaudited 6 months ended 30 September 2011 £000	Unaudited 6 months ended 30 September 2010 £000	Audited Year ended 31 March 2011 £000
<b>Revenue</b>		<b>58,603</b>	<b>58,170</b>	<b>121,071</b>
Cost of sales before exceptional item		(49,291)	(50,720)	(105,709)
Exceptional item	3	-	511	511
<b>Gross profit</b>		<b>9,312</b>	<b>7,961</b>	<b>15,873</b>
Administrative expenses		(4,780)	(4,156)	(9,255)
Selling expenses		(2,022)	(1,383)	(2,725)
<b>Operating profit</b>		<b>2,510</b>	<b>2,422</b>	<b>3,893</b>
Finance income		78	149	249
Finance costs		(1,134)	(567)	(1,108)
<b>Profit before income tax</b>		<b>1,454</b>	<b>2,004</b>	<b>3,034</b>
<b>Analysed as:</b>				
<b>Profit before income tax and exceptional item</b>		<b>1,454</b>	<b>1,493</b>	<b>2,523</b>
Exceptional item	3	-	511	511
		<b>1,454</b>	<b>2,004</b>	<b>3,034</b>
Income tax expense	4	(420)	(422)	(742)
<b>Profit after income tax</b>		<b>1,034</b>	<b>1,582</b>	<b>2,292</b>
<b>Earnings per share:</b>				
Basic	6	2.1p	3.3p	4.8p
Diluted	6	2.1p	3.3p	4.7p

All activities are in respect of continuing operations.



**GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	Unaudited 6 months ended 30 September 2011 £000	Unaudited 6 months ended 30 September 2010 £000	Audited Year ended 31 March 2011 £000
Movement in excess tax on share options	(2)	(9)	(12)
<b>Other comprehensive expense net of tax</b>	<b>(2)</b>	<b>(9)</b>	<b>(12)</b>
Profit for the period	1,034	1,582	2,292
<b>Total comprehensive income for the period</b>	<b>1,032</b>	<b>1,573</b>	<b>2,280</b>

**GROUP BALANCE SHEET  
AT 30 SEPTEMBER 2011**

	Unaudited 30 September 2011 £000	Unaudited 30 September 2010 £000	Audited 31 March 2011 £000
<b>Non current assets</b>			
Property, plant and equipment	421	394	358
Deferred income tax assets	-	29	50
	421	423	408
<b>Current assets</b>			
Inventories	129,294	139,217	125,181
Trade and other receivables	14,850	9,469	14,211
Income tax receivable	108	-	-
Cash and cash equivalents	14,557	21,987	18,837
	158,809	170,673	158,229
<b>Total assets</b>	<b>159,230</b>	<b>171,096</b>	<b>158,637</b>
<b>Non current liabilities</b>			
Hire purchase liabilities	(11)	(27)	(19)
Deferred income tax liabilities	(12)	-	-
	(23)	(27)	(19)
<b>Current liabilities</b>			
Trade and other payables	(32,604)	(30,719)	(28,554)
Borrowings	(60,210)	(75,585)	(64,877)
Current income tax liabilities	(900)	(320)	(431)
Hire purchase liabilities	(16)	(15)	(16)
	(93,730)	(106,639)	(93,878)
<b>Total liabilities</b>	<b>(93,753)</b>	<b>(106,666)</b>	<b>(93,897)</b>
<b>Net assets</b>	<b>65,477</b>	<b>64,430</b>	<b>64,740</b>
<b>Capital and reserves</b>			
Issued share capital	4,900	4,865	4,900
Share premium	37,075	36,837	37,075
Retained earnings	23,502	22,728	22,765
<b>Total equity</b>	<b>65,477</b>	<b>64,430</b>	<b>64,740</b>

**GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011 (UNAUDITED)**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
<b>Balance at 1 April 2011</b>	<b>4,900</b>	<b>37,075</b>	<b>22,765</b>	<b>64,740</b>
Profit for the period	-	-	1,034	1,034
Total other comprehensive expense	-	-	(2)	(2)
Dividend on equity shares	-	-	(611)	(611)
Share-based payments	-	-	83	83
Sale of own shares	-	-	174	174
Purchase of own shares	-	-	(5)	(5)
Write down in value of own shares	-	-	64	64
<b>Balance at 30 September 2011</b>	<b>4,900</b>	<b>37,075</b>	<b>23,502</b>	<b>65,477</b>

**GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010 (UNAUDITED)**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
<b>Balance at 1 April 2010</b>	<b>4,978</b>	<b>37,357</b>	<b>20,745</b>	<b>63,080</b>
Profit for the period	-	-	1,582	1,582
Total other comprehensive expense	-	-	(9)	(9)
Dividend on equity shares	-	-	(621)	(621)
Share-based payments	-	-	147	147
Sale of own shares	-	-	166	166
Write down in value of own shares	-	-	71	71
Dividend paid on consideration shares	-	-	14	14
Cancellation of own shares	(113)	(520)	633	-
<b>Balance at 30 September 2010</b>	<b>4,865</b>	<b>36,837</b>	<b>22,728</b>	<b>64,430</b>

**GROUP STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 MARCH 2011 (AUDITED)**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
<b>Balance at 1 April 2010</b>	<b>4,978</b>	<b>37,357</b>	<b>20,745</b>	<b>63,080</b>
Profit for the year	-	-	2,292	2,292
Total other comprehensive expense	-	-	(12)	(12)
Dividend on equity shares	-	-	(1,227)	(1,227)
Proceeds of equity share issues	35	238	-	273
Share-based payments	-	-	264	264
Purchase of own shares	-	-	(273)	(273)
Sale of own shares	-	-	191	191
Write down in value of own shares	-	-	138	138
Dividend paid on consideration shares	-	-	14	14
Cancellation of own shares	(113)	(520)	633	-
<b>Balance at 31 March 2011</b>	<b>4,900</b>	<b>37,075</b>	<b>22,765</b>	<b>64,740</b>

**GROUP CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011**

	Unaudited 6 months ended 30 September 2011 £000	Unaudited 6 months ended 30 September 2010 £000	Audited Year ended 31 March 2011 £000
<b>Cash flow from operating activities</b>			
Operating profit	2,510	2,422	3,893
Depreciation	91	89	175
Write down in value of own shares	64	71	138
Share-based payments	83	147	264
Profit on sale of tangible fixed assets	(14)	(49)	(49)
Increase in inventories	(2,856)	(18,512)	(3,580)
Increase in receivables	(639)	(1,831)	(6,573)
Increase in payables	4,022	3,462	1,510
	3,261	(14,201)	(4,222)
Interest paid	(2,363)	(1,033)	(2,683)
Income tax paid	-	(902)	(1,135)
<b>Cash flow from operating activities</b>	<b>898</b>	<b>(16,136)</b>	<b>(8,040)</b>
<b>Cash flow from investing activities</b>			
Purchase of tangible assets	(154)	(59)	(109)
Proceeds from sale of tangible assets	14	52	52
Interest received	78	149	249
<b>Cash flow from investing activities</b>	<b>(62)</b>	<b>142</b>	<b>192</b>
<b>Cash flow from financing activities</b>			
Proceeds from issuance of ordinary share capital	-	-	273
Purchase of own shares	(5)	-	(273)
Sale of own shares	174	166	191
Increase in bank loans	25,431	28,624	64,438
Repayment of bank loans	(30,099)	(23,825)	(70,347)
Dividend paid	(611)	(621)	(1,227)
Capital element of hire purchase payments	(6)	(5)	(12)
<b>Cash flow from financing activities</b>	<b>(5,116)</b>	<b>4,339</b>	<b>(6,957)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,280)</b>	<b>(11,655)</b>	<b>(14,805)</b>
Cash and cash equivalents brought forward	18,837	33,642	33,642
<b>Cash and cash equivalents carried forward</b>	<b>14,557</b>	<b>21,987</b>	<b>18,837</b>

## **NOTES**

### **1 Basis of preparation**

The interim accounts have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) in issue that are either endorsed by the EU and effective at 31 March 2012 or are expected to be endorsed and effective at 31 March 2012.

The interim accounts do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The figures for the half years ended 30 September 2011 and 30 September 2010 are unaudited. The interim accounts were approved by the directors on 30 November 2011 and have been reviewed by the auditors whose review report is unqualified and will be included in the interim report distributed to shareholders.

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 remains well placed to manage its business risks successfully. After making appropriate enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the interim accounts.

The Group's statutory accounts for the year ended 31 March 2011 were approved by the Board of directors on 31 May 2011, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under Section 498 of the Companies Act 2006.

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 results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty were principally the same as those applied to the Group's financial statements as at 31 March 2011.

### **2 Accounting policies**

#### **Accounting convention**

The interim accounts have been prepared under the historical cost convention and on a basis consistent with the accounting policies in the financial statements for the year ended 31 March 2011. A new accounting policy has been adopted as set out below:

#### **Interest rate cap assets**

Interest rate caps are individually valued at each period end and adjusted to ensure that they are held at fair value. Any change in the fair value is charged or credited to the income statement immediately.

### 3 Exceptional item

The exceptional item for the six months ended 30 September 2010 of £0.5 million represented a 'bargain gain' arising as a result of the purchase of the remaining 50% of the ordinary shares in Telford Homes (Creekside) Limited.

### 4 Taxation

Taxation has been calculated on the profit for the six months ended 30 September 2011 at the estimated effective tax rate of 24.8% before movements in deferred taxation (September 2010: 18.3%). The 'bargain gain' arising on the acquisition of 50% of the issued share capital of Telford Homes (Creekside) Limited in the six months ended 30 September 2010, included as an exceptional item, was not subject to taxation.

### 5 Dividends

The interim dividend declared for the six months ended 30 September 2011 is 1.5 pence per ordinary share and is expected to be paid on 13 January 2012 to those shareholders on the register at the close of business on 16 December 2011. This dividend was declared after 30 September 2011.

The interim dividend paid for the six months ended 30 September 2010 was 1.25 pence per ordinary share and the final dividend paid for the year ended 31 March 2011 was 1.25 pence per ordinary share.

### 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, 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:

	<b>6 months ended 30 September 2011</b>	<b>6 months ended 30 September 2010</b>	<b>Year ended 31 March 2011</b>
Weighted average number of shares in issue	48,369,691	47,791,838	47,886,813
Dilution - effect of share schemes	43,392	713,025	675,778
Diluted weighted average number of shares in issue	48,413,083	48,504,863	48,562,591
Profit on ordinary activities after taxation	£1,034,000	£1,582,000	£2,292,000
<b>Earnings per share:</b>			
Basic	2.1p	3.3p	4.8p
Diluted	2.1p	3.3p	4.7p

## **7 Interim report**

Copies of this announcement are available from the Group at First Floor, Stuart House, Queensgate, Britannia Road, Waltham Cross, Hertfordshire EN8 7TF. The Group's interim report for the six months ended 30 September 2011 will be posted to shareholders shortly and will be available on our website at [www.telfordhomes.plc.uk](http://www.telfordhomes.plc.uk).

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