Notes forming part of the Group financial statements
for the year ended 30 June 2008

1 Significant accounting policies
Artisan (UK) plc (the "Company") is a company incorporated as a public limited company under the Companies Act 1985 and domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements were approved by the directors on 15 October 2008.

Statement of compliance
The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as endorsed for use in the EU (Endorsed IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 43 to 48.

Basis of preparation
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements with the exception of certain policies subject to the transitional arrangements of Endorsed IFRS, as detailed below.

The financial statements are presented in pounds sterling.

Adoption of new and revised standards and interpretations
Standards and interpretations effective during the year
In the current year the Group adopted IFRS 7 Financial Instruments: Disclosures which is effective for accounting periods beginning on or after 1 January 2007, and the related amendments to IAS 1 Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures in the financial statements concerning the Group's financial instruments and management of capital (see note 22). The adoption has no impact on the profit or net assets for either the current or comparative period for the Group.

Five interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; IFRIC 10 "Interim Reporting and Impairment"; and IFRIC 11 "IFRS 2 Group and Treasury Share Transactions". The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards and interpretations in issue but not yet effective
At the date of issue of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- **IFRS 8** Operating Segments (effective for accounting periods beginning on or after 1 January 2009).
- **IAS 1 Amendment** – Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- **IAS 23 Amendment** – Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009).
- **IFRS 2 Amendment** – Share Based Payments: vesting conditions and cancellations (effective for accounting periods beginning on or after 1 January 2009).
- **IAS 32 Amendment** relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- **IFRS 1 Amendment** – First time adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 January 2009).
- **IAS 27 Amendment** – Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009).
- **IFRS 3 Amendment** – Business Combinations (effective for accounting periods beginning on or after 1 July 2009).
- **IFRIC 12** Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008).
- **IFRIC 13** Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008).
- **IFRIC 14**, IAS 19 The Limit on a Defined Benefit Asset – Minimum Funding Requirements and their interaction (effective for accounting periods beginning on or after 1 January 2008).

The adoption of IFRS 8 is anticipated only to change certain disclosures made in the financial statements. IFRS 8 requires segmental information to be reported in financial statements based on how that information is reported internally which, for the Group, is not expected to be materially different to the current segmental disclosures.

IAS 23 Borrowing Costs currently permits two approaches to accounting for borrowing costs. The benchmark treatment is to charge them as an expense in the year in which they are incurred, with a permitted alternative treatment being to add borrowing costs to the carrying value of a qualifying asset. The revision to IAS 23 requires interest to be capitalised in certain circumstances. The impact for the Group will be to defer the expensing of borrowing costs in line with the sale of finished stocks and work in progress rather than writing them off as incurred. The Group expects to adopt this revision when it comes into effect for the year ending 30 June 2010.

1 Significant accounting policies (continued)
The Group is currently assessing the impact of the remaining standards and interpretations but does not expect that their adoption will have a material impact on the consolidated results or financial position of the Group.

Basis of consolidation
The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control potential voting rights that presently are exerciseable or convertible are taken into account. The results of any subsidiaries sold or acquired are included in the Group income statement up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

The consolidated financial statements incorporate the results of business combinations using the purchase method other than as disclosed below. On acquisition of a subsidiary, all of the subsidiary's separable, identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, that arise after the Group has gained control of the subsidiary are charged to the post acquisition income statement.

The Group elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that took place before the date of transition to IFRS and, therefore, business combinations effected before 1 April 2005, including those that were accounted for using the merger method of accounting under UK accounting standards have not been restated. As a result, the opening balance sheet includes £2,454,760 in respect of goodwill arising from past business combinations accounted for using the acquisition method under UK GAAP and a merger reserve of £515,569 following the creation of Artisan (UK) plc from the de-merger of Dean Corporation plc and the simultaneous acquisition of Artisan (UK) Developments Limited by the Group.

Revenue recognition
Revenue is stated exclusive of VAT and represents the value of work done and properties sold, excluding part exchange properties, the profit or loss on which is included within cost of sales. Revenue consists of sales of trading and development properties, together with gross rental income receivable on investment properties. Revenue does not include the sales of investment properties, for which the profits or losses on sale are shown separately, and rents receivable on development properties, which are shown as other operating income.

In respect of sales of property, revenue and profit are recognised upon legal completion of the legal transfer of title to the customer. Profit or loss is calculated with reference to each site or phase within a site.

Profit is recognised on long term work in progress contracts if the final outcome can be assessed with reasonable certainty, by including in the income statement revenue and related costs as contract activity progresses. Revenue is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract. Losses are recognised as soon as they are foreseen.

Goodwill
Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the separable identifiable net assets acquired. Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset.

In accordance with the transitional rules of IFRS 1, goodwill arising before 1 April 2005 has been frozen at its net book value as at that date. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment, with any impairment losses being recognised immediately in the income statement.

Investment properties
Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Property occupied by the Group for its own purposes is included in property, plant and equipment and stated at fair value. Changes in fair value are accounted for as set out in the accounting policy "Property, plant and equipment".

Property, plant and equipment
Property, plant and equipment is stated at cost less depreciation with the exception of owner occupied property which is stated at fair value with changes in fair value recognised directly in equity. Depreciation on other property, plant and equipment is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life. It is calculated at the following rates:

Notes forming part of the Group financial statements continued
for the year ended 30 June 2008

1 Significant accounting policies (continued)

Freehold buildings	–	2% per annum on the straight line basis
Leasehold improvements	–	25% per annum on the straight line basis
Motor vehicles	–	20-25% per annum on the straight line or reducing balance basis
Fixtures and fittings	–	15-25% per annum on the straight line or reducing balance basis
Plant and machinery	–	15-25% per annum on the straight line or reducing balance basis

Freehold land is not depreciated. Residual value and expected useful life are re-assessed annually.

Inventories
Inventories are valued at the lower of cost and net realisable value. Work in progress includes materials and labour costs and an appropriate proportion of overheads incurred on developments in progress or awaiting sale at the balance sheet date.

Land held for building is stated at the lower of cost and net realisable value. Cost comprises land cost and direct materials and labour. Net realisable value is the actual or estimated net selling price.

Leases
Leases where the lessor retains substantially all of the risks and benefits of ownership are classified as operating leases. Operating lease rental charges are charged to the income statement on a straight-line basis over the term of each lease. Lease incentives are charged to operating profit on a straight line basis over the full term of the lease.

Taxation
Income tax comprises current and deferred tax.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible differences can be utilised.

Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that at the time of the transaction, affects neither taxable profit nor the accounting profit. Deferred tax is calculated at the rates of taxation enacted or substantively enacted at the balance sheet date.

Dividends
Dividends are recorded in the year in which they become legally payable.

Sales and marketing costs
Costs relating to sales and marketing activities are written off as incurred.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Operating profit
Operating profit is stated after crediting all items of operating income, after charging all items of operating expenditure, and also after crediting or charging all changes in value of investment properties. It is stated before crediting or charging financial income or expenditure.

Borrowings
Borrowings are recognised initially at fair value and subsequently at amortised cost. Borrowing costs are charged as an expense over the period for which they are attributable.

Retirement benefit costs
The Group operates defined contribution pension schemes for employees. Contributions are charged to the income statement in the year in which they become payable.

Share-based payment
Charges for employee services received in exchange for share-based payment have been made for all options granted after 7 November 2002 and not vested by 1 April 2005 in accordance with IFRS 2 and IFRS 1.

1 Significant accounting policies (continued)

Calculation of the fair value of share options at the date of grant is undertaken using an appropriate method of calculation and charged to the income statement over the vesting period. Market vesting conditions are factored into the calculation of the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market condition. The fair value of the options currently in existence has been calculated using the Monte Carlo simulation model, based upon publicly available market data at the point of grant.

Financial assets

The Group's financial assets fall into the categories discussed below, with the allocation depending to an extent on the purpose for which the asset was acquired. Unless otherwise indicated, the carrying amounts of the Group's financial assets are a reasonable approximation of their fair values.

i. Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (eg trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The effect of discounting on these financial instruments in not considered to be material.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

ii. Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Financial liabilities

The Group financial liabilities consist only of financial liabilities measured at amortised cost and consist of the following:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

  Owing to the short term nature of these liabilities, there are no significant difference between the carrying amounts of these liabilities and their fair values.

- Bank borrowings, which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

For the purposes capital management, the Group considers its capital to comprise its ordinary share capital, share premium and retained earnings less the own share reserve. Neither the merger reserve, capital redemption reserve nor the revaluation reserve is considered as capital. There have been no changes in what the Group considers to be capital since the previous period.

The Group is not subject to any externally imposed capital requirements, other than the Companies Act requirement for public limited companies to have £50,000 of capital at nominal value.

Accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates.

Key sources of estimation and uncertainty:

i. Carrying value of land and work in progress and estimation of costs to complete

The Group holds inventories stated at the lower of cost and net realisable value. Such inventories include land, work in progress and completed units. As residential development in particular is speculative by nature, most inventories are not covered by forward sale contracts. Furthermore due to the nature of the Group's activity, and in particular the size and length of the development cycle, the Group has to allocate site wide developments costs between units being built or completed in the current year and those for future years. In doing this it also has to forecast the costs to complete on such developments.

Notes forming part of the Group financial statements continued
for the year ended 30 June 2008

1 Significant accounting policies (continued)

The Group also has to consider the proportion of overheads that it is appropriate to allocate to inventories.

In making such assessments and allocations, there is a degree of inherent estimation uncertainty. The Group has established internal controls designed to effectively assess and review inventory carrying values and ensure the appropriateness of the estimates made.

ii. Part exchange properties

The carrying values of part exchange properties are assessed based on external valuations completed on the properties. These valuations are based on the prevailing market conditions in the second hand housing market and to the extent that housing market price levels change, the values of the part exchange properties may vary. Part exchange property values at the end of the financial period were based on recent valuations and realistic market expectations.

iii. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Further details of impairment are set out in note 9.

iv. Provisions and contingencies

When evaluating the impact of potential liabilities from claims against the Group, the Directors take professional advice, as appropriate, to assist them in arriving at their estimation of the liability taking into account the probability of the success of any claims.

2 Segmental analysis

The Group operates through its three principal business segments: Residential Development, Commercial Development and Property Investment. These segments form the basis of the primary segmental reporting information set out below:

Year ended 30 June 2008

Income statement	Residential Development £	Commercial Development £	Property Investment £	Eliminations £	Total £
Revenue					
External revenue	14,905,807	8,380,617	126,527	–	23,412,951
Inter-segment revenue	228,000	2,326,741	24,551	(2,579,292)	–
	15,133,807	10,707,358	151,078	(2,579,292)	23,412,951
Segment result					
Segment result before central charges	(29,760)	1,761,505	1,458,971	(253,151)	2,937,565
Central charges	(606,098)	(406,046)	(99,133)	–	(1,111,277)
Segment result after central charges	(635,858)	1,355,459	1,359,838	(253,151)	1,826,288
Unallocated corporate expenses					(566,612)
Unallocated corporate income					639,671
Finance expense					(1,323,007)
Finance income					13,893
Profit before taxation					590,233
Tax credit					109,022
Profit after taxation					699,255

2 Segmental analysis (continued)

Year ended 30 June 2008 (continued)

Other information	Residential Development £	Commercial Development £	Property Investment £	Eliminations £	Total £
Capital expenditure	**17,114**	**25,915**	**–**	**–**	**43,029**
Unallocated corporate capital expenditure					**1,358**
Total capital expenditure					**44,387**
Depreciation of property plant and equipment	**54,429**	**13,199**	**–**	**–**	**67,628**
Unallocated corporate depreciation of property, plant and equipment					**2,281**
Total depreciation of property, plant and equipment					**69,909**
Balance Sheet					
Assets					
Segment assets	**37,424,217**	**10,919,174**	**5,456,301**	**(13,074,653)**	**40,725,039**
Unallocated corporate assets					**7,548,355**
Consolidated total assets					**48,273,394**
Liabilities					
Segment liabilities	**4,694,884**	**1,606,660**	**126,395**	**(7)**	**6,427,932**
Unallocated corporate liabilities					**705,413**
Net borrowings					**19,704,561**
Consolidated total liabilities					**26,837,906**

The Group does not operate outside the United Kingdom and hence no geographical segmental analysis is required.

15 months ended 30 June 2007

Income statement	Residential Development £	Commercial Development £	Property Investment £	Eliminations £	Total £
Revenue					
External revenue	26,961,175	14,070,981	–	–	41,032,156
Inter-segment revenue	–	1,512,276	–	(1,512,276)	–
	26,961,175	15,583,257	–	(1,512,276)	41,032,156
Segment result					
Segment result before central charges	2,575,694	2,421,118	261,580	(278,852)	4,979,540
Central charges	(823,592)	(571,331)	(53,858)	–	(1,448,781)
Segment result after central charges	1,752,102	1,849,787	207,722	(278,852)	3,530,759
Unallocated corporate expenses					(693,648)
Unallocated corporate income					860,611
Finance expense					(933,642)
Finance income					18,829
Profit before taxation					2,782,909
Tax expense					(671,032)
Profit after taxation					2,111,877

Notes forming part of the Group financial statements continued
for the year ended 30 June 2008

2 Segmental analysis (continued)
15 months ended 30 June 2007 (continued)

Other information	Residential Development £	Commercial Development £	Property Investment £	Eliminations £	Total £
Capital expenditure	115,897	26,200	–	–	142,097
Unallocated corporate capital expenditure					3,753
Total capital expenditure					145,850
Depreciation of property plant and equipment	46,917	7,977	–	–	54,894
Unallocated corporate depreciation of property, plant and equipment					4,704
Total depreciation of property, plant and equipment					59,598
Balance sheet					
Assets					
Segment assets	36,992,095	9,979,405	1,533,070	(13,333,388)	35,171,182
Unallocated corporate assets					5,508,262
Consolidated total assets					40,679,444
Liabilities					
Segment liabilities	5,032,517	3,096,404	3,001	(8)	8,131,914
Unallocated corporate liabilities					934,400
Net borrowings					10,752,945
Consolidated total liabilities					19,819,259

3 Employees

	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Staff costs, including directors, consist of:		
Wages and salaries	**3,782,825**	4,577,688
Social security costs	**356,332**	454,070
Equity settled share-based payments	**22,572**	51,957
Other pension costs	**104,346**	116,619
	4,266,075	5,200,334

Details of remuneration, pension entitlement and interest in share options for each director are set out in the Report on Directors' Remuneration on pages 16 to 18.

	Year ended 30 June 2008 Number	15 months ended 30 June 2007 Number
The average number of employees, including directors, during the year was:		
Administration	**34**	35
Operations	**78**	85
	112	120

4 Operating profit

		Year ended 30 June 2008 £	15 months ended 30 June 2007 £
This has been arrived at after charging/(crediting):			
Depreciation		**69,909**	59,598
Auditors' remuneration:			
Fees payable to the Company's auditor for the audit of:			
	– the Company's annual accounts	**20,000**	17,000
	– the subsidiaries' annual accounts	**63,000**	78,000
Fees payable to the Company's auditor for other services:			
	– tax compliance	**29,000**	32,000
	– tax advisory	**1,750**	5,500
	– other services not covered above	**–**	14,500
Hire of plant and machinery		**73,911**	77,526
Other operating lease rentals	– vehicles	**64,027**	103,113
	– land and buildings	**343,453**	352,344
Impairment in carrying value of inventories		**272,247**	–
Rent receivable		**(456,935)**	(400,264)
Profit on sale of investment property		**(145,537)**	–
Exceptional recovery of costs in respect of the sale of group undertakings in previous periods		**–**	(10,000)
Profit on sale of property, plant and equipment		**(1,281)**	(3,190)
Equity settled share-based payments		**22,572**	51,957

During the year overhead costs totalling £780,792 (15 months ended 30 June 2007 – £1,504,527) were allocated from administrative expenses to work-in-progress.

5 Finance expense

	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Bank overdrafts and loans repayable within 5 years	**1,320,974**	929,407
Other interest	**2,033**	4,235
	1,323,007	933,642

Notes forming part of the Group financial statements continued

for the year ended 30 June 2008

6 Tax (credit)/expense

Recognised in the income statement	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Current tax		
UK corporation tax on profits for the year	**(108,039)**	525,110
Adjustment in respect of prior periods	**(983)**	(25,258)
Total current tax	**(109,022)**	499,852
Deferred tax expense		
Reversal of temporary differences	**–**	171,180
Total tax (credit)/expense reported in the income statement	**(109,022)**	671,032

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Profit before tax	**590,233**	2,782,909
Profit on ordinary activities at the standard rate of corporation tax in the UK of 29.5% (2007 – 30%)	**174,119**	834,873
Effects of:		
Expenses not deductible for tax purposes	**30,581**	45,274
Non-taxable income	**(330,372)**	(957)
Depreciation for the year in excess of capital allowances	**4,832**	(1,907)
Utilisation of tax losses brought forward	**(196,964)**	(148,191)
Unrelieved trading losses for the year carried forward	**187,703**	–
Claim for land remediation tax relief	**(27,570)**	(24,791)
Small companies rate relief	**–**	(5,011)
Adjustment in respect of previous periods	**(983)**	(25,258)
Other	**49,632**	(3,000)
Tax (credit)/charge for the year	**(109,022)**	671,032

Subject to the agreement of HM Revenue & Customs, there are trading tax losses of approximately £3.9 million (30 June 2007 – £3.3 million) available for set off against future years profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

No deferred tax liability has been recognised in respect of valuation gains on investment properties during the year due to the availability of substantial capital losses within the Group against which capital gains on disposal could be offset.

7 Dividends

Amounts paid to equity holders in the year:

	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Final dividend for the period ended 30 June 2007 of 1.5p (year ended 31 March 2006 – Nil p) per share	**122,980**	–
Interim dividend for the year ended 30 June 2008 of 1.2p (15 months ended 30 June 2007 – 1.2p) per share	**98,384**	98,384
	221,364	98,384

The Directors have proposed a final dividend for the year of 0.75p (2007: 1.5p) per ordinary share amounting to £61,490 (2007: £122,980). This dividend has not been accrued at the balance sheet date.

8 Earnings per share

The basic earnings per share is calculated by dividing the profit after taxation by the weighted average number of shares in issue.

	Year ended 30 June 2008 Number	15 months ended 30 June 2007 Number
The weighted average number of shares were:		
Basic weighted average number of shares	**8,213,250**	8,213,242

There were no dilutive potential ordinary shares in 2008 or 2007. Options outstanding in the year are set out in note 21.

9 Intangible non-current assets

	£
Goodwill	
Carrying value	
At 1 July 2007 and 30 June 2008	**2,454,760**
Carrying value	
At 1 April 2006 and 30 June 2007	2,454,760

Goodwill relates to the acquisition of Rippon Homes Limited in 2000. This balance had been subject to an annual impairment review and continues to be maintained at the 31 March 2005 carrying value, being the value at the date of transition to IFRS.

Impairment reviews are carried out using value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Rippon. The growth rates are based on management's strategic plan for the business and reflect significant further investment in the land bank.

The Group prepares cash flow forecasts derived from the most recent financial budget approved by management for the coming year and extrapolates cash flows for the following four years, thereafter year five cash flows are assumed to grow at 2.5 per cent (2007: nil per cent) per annum in perpetuity. The rate used to discount the forecast cash flows is 8.9 per cent (2007: 9.5 per cent).

Notes forming part of the Group financial statements continued

for the year ended 30 June 2008

10 Investment properties

	Year ended 30 June 2008 £	15 months ended 30 June 2007 £
Fair value		
At beginning of period	**1,515,897**	–
Additions – transfer from trading stock	**–**	804,218
– capital expenditure	**2,238,753**	449,995
Transfer to property, plant and equipment in respect of owner occupied property	**(468,910)**	–
Disposals	**(345,001)**	–
	2,940,739	1,254,213
Revaluations included in income statement	**1,207,111**	261,684
At end of year	**4,147,850**	1,515,897

As at 30 June 2008, the historical cost of investment property owned by the Group was £2,779,931 (2007 £1,254,213).

The fair values of the Group's investment properties at 30 June 2008 have been arrived at on the basis of open market value by the directors, who are suitably experienced, having regard to professional advice and sales evidence during the year.

During the year £123,777 (15 months ended 30 June 2007 – £nil) was recognised in the income statement as revenue in respect of rental income from investment properties. Direct operating expenses arising from investment properties amounted to £2,200 (15 months ended 30 June 2007 – £nil)

11 Property, plant and equipment

	Freehold land and buildings £	Leasehold improvements £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost or valuation						
At 1 July 2007	315,400	1,714	192,326	131,405	260,013	900,858
Additions	–	–	340	8,000	36,047	44,387
Transfer from investment properties in respect of owner occupied property	468,910	–	–	–	–	468,910
Disposals	–	(1,714)	–	(21,098)	(82,019)	(104,831)
Revaluation surplus	74,840	–	–	–	–	74,840
At 30 June 2008	**859,150**	**–**	**192,666**	**118,307**	**214,041**	**1,384,164**
Depreciation						
At 1 July 2007	41,083	1,573	179,869	63,494	177,781	463,800
Provided for the year	5,773	32	5,659	26,249	32,196	69,909
Eliminated on disposals	–	(1,605)	–	(21,098)	(81,881)	(104,584)
At 30 June 2008	**46,856**	**–**	**185,528**	**68,645**	**128,096**	**429,125**
Net book value						
At 30 June 2008	**812,294**	**–**	**7,138**	**49,662**	**85,945**	**955,039**
At 30 June 2007	274,317	141	12,457	67,911	82,232	437,058

11 Property, plant and equipment (continued)

	Freehold land and buildings £	Leasehold improvements £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost						
At 1 April 2006	315,400	1,714	176,236	115,128	184,034	792,512
Additions	–	–	16,540	49,359	79,951	145,850
Disposals	–	–	(450)	(33,082)	(3,972)	(37,504)
At 30 June 2007	**315,400**	**1,714**	**192,326**	**131,405**	**260,013**	**900,858**
Depreciation						
At 1 April 2006	33,867	1,477	175,154	73,412	155,823	439,733
Provided for the period	7,216	96	5,165	23,164	23,957	59,598
Eliminated on disposals	–	–	(450)	(33,082)	(1,999)	(35,531)
At 30 June 2007	**41,083**	**1,573**	**179,869**	**63,494**	**177,781**	**463,800**
Net book value						
At 30 June 2007	**274,317**	**141**	**12,457**	**67,911**	**82,232**	**437,058**
At 31 March 2006	281,533	237	1,082	41,716	28,211	352,779

12 Other receivables

	2008 £	2007 £
Other receivables	**394,634**	–

Other receivables represent the value of unamortised lease incentives and letting fees on investment properties. The director's believe there is no material difference between the carrying value and fair value of other receivables.

13 Inventories

	2008 £	2007 £
Raw materials and consumables	**30,435**	23,870
Land held for development	**12,867,252**	13,416,722
Work in progress	**8,516,965**	11,416,222
Completed developments and houses for sale	**17,686,775**	9,935,747
	39,101,427	34,792,561

Inventories with a carrying amount of £39,101,427 (30 June 2007 – £34,792,561) have been pledged as security for the Group's bank borrowings.

14 Trade and other receivables

	2008 £	2007 £
Trade receivables	**243,622**	118,946
Amounts recoverable on contracts	**179,238**	661,321
Other receivables	**243,861**	263,942
Prepayments and accrued income	**451,733**	433,833
	1,118,454	1,478,042

All trade and other receivables are non-interest bearing. Further disclosures relating to financial instruments are set out in note 22.

Notes forming part of the Group financial statements continued

for the year ended 30 June 2008

15 Non-current liabilities

	2008 £	2007 £
Bank loans (secured – see note 17)	**19,704,561**	10,752,945

16 Trade and other payables

	2008 £	2007 £
Trade payables	**2,249,673**	1,835,845
Other taxes and social security	**137,655**	173,224
Other payables	**107,223**	227,347
Retentions	**876,488**	773,445
Accruals and deferred income	**3,318,234**	5,088,854
	6,689,273	8,098,715

The directors consider that the carrying value of trade and other payables included within current liabilities approximate to fair value as a result of the short maturity period of the amounts held at the year end.

17 Borrowings

	2008 £	2007 £
Are repayable as follows:		
In more than one year but not more than two years:		
Bank borrowings	**15,242,061**	10,752,945
After two years but within five years		
Bank borrowings	**4,462,500**	–
	19,704,561	10,752,945

The bank loans are secured by a fixed and floating charge over the assets of the Group. Set-off is available to the bank between the company and its group company members by virtue of the bank holding a debenture from each company together with a cross corporate guarantee.

The directors consider that the carrying value of borrowings equate to fair value because interest on borrowings is charged at floating rates of interest. The interest rate profile of the borrowings is as follows:

	Currency	Nominal interest rate	Year of maturity	2008 £	2007 £
Bank borrowings					
Revolving credit	GBP	base + 1.40%	2009	**15,242,061**	10,752,945
Investment property facility	GBP	base + 1.25%	2012	**4,462,500**	–
				19,704,561	10,752,945

18 Provisions

	2008 £	2007 £
Provision for claims		
At beginning of year	**444,072**	447,745
Utilised during the year	**–**	(3,673)
At end of year	**444,072**	444,072

Provisions for claims represent residual costs in connection with the sale of Bickerton Construction Limited, including those relating to an indemnity provided. The provision made is the directors' best estimate of the Group liabilities having taken legal advice.

19 Share capital

	2008 £	2007 £
Authorised		
25,000,000 (30 June 2007 – 25,000,000) ordinary shares of 20p (30 June 2007 – 20p) each	**5,000,000**	5,000,000
Allotted, called up and fully paid		
8,213,250 (30 June 2007 – 8,213,250) ordinary shares of 20p (30 June 2007 – 20p) each	**1,642,650**	1,642,650

20 Reserves

The following describes the nature and purpose of each reserve within equity:

Share premium account – the share premium account arose on the issue of shares by the Company at a premium to their nominal value.

Merger reserve – the merger reserve arose following the creation of Artisan (UK) plc from the de-merger of Dean Corporation plc and the simultaneous acquisition of Artisan (UK) Developments Limited by the Group.

Capital redemption reserve – the capital redemption reserve arises upon the purchase and cancellation by the Company from time to time of shares in the Company.

Revaluation reserve – the revaluation reserve arises from the revaluation of owner occupied property from cost to fair value.

Retained earnings – the retained earnings represent profits made by the Group that have not been distributed to shareholders.

Own shares – the own shares reserve represents the cost of fractional entitlement shares purchased pursuant to the Capital Reorganisation approved at a general meeting of the Company held on 19 January 2007.

Notes forming part of the Group financial statements continued
for the year ended 30 June 2008

21 Share-based payments

Equity-settled share option schemes

The Group has Approved and Unapproved Executive Share Option schemes in place for the Executive Directors of Artisan (UK) plc and other senior management of the trading companies within the Group. Options are exerciseable at a price calculated as the average closing share price of the Company in the week prior to the date of grant and exercise is conditional upon the closing mid-market price of the Company's shares exceeding a threshold price for a specified period prior to the date of exercise. The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant in the case of the Approved Scheme and 6 years for the Unapproved Scheme then the options expire. Options are generally forfeited if the director or employee leaves the Group.

Options granted, exercised and lapsed under the employee share option scheme were as follows:

	1 July 2007	Granted in period	Surrendered in period	**30 June 2008**	Exercise price range
Approved scheme	68,750	–	–	**68,750**	£1.20
Unapproved scheme	250,000	–	–	**250,000**	£1.20–£6.40

The options outstanding at 30 June 2008 had a weighted average exercise price of £1.95 (2007: £1.95) and a weighted average remaining contractual life of 3.4 years (2007: 4.4 years).

The fair value of the options currently in existence has been calculated using the Monte Carlo simulation model and the following assumptions:

	Approved Scheme 2004 award	Unapproved Scheme 2004 award	Unapproved Scheme 2005 award	Unapproved Scheme 2006 award
Date of grant	1-Apr-04	1-Apr-04	18-Jul-05	24-Jul-06
Share price at grant	100.0p	100.0p	156.0p	150.0p
Exercise price	120.0p	120.0p	152.0p	150.0p
Expected term	5 years	3 years	3 years	3 years
Expected volatility	80%	80%	51.5%	43%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	4.70%	4.60%	4.10%	4.76%
Value per option	64.0p	46.2p	55.2p	40.4p

The expected volatility is based on a forward weighted average historical volatility of the Company's share price over a period commensurate with the expected term but adjusted for any extraordinary one off events that distort the underlying trend. The risk free rate is based on the implied yield of zero coupon government bonds. The expected terms are based on management's best estimate taking into account historical behaviour and the underlying terms of the schemes.

The total charge for the year relating to equity settled share-based payments was £22,572 (2007 – £51,957).

Further details on share option schemes are provided in the Report on Directors' Remuneration on pages 16 to 18.

22 Financial instruments

Financial risk management

The Group's financial instruments comprise bank loans, cash and various items such as trade receivables and trade payables that arise directly from its operations. Cash and bank loans are used to raise finance for the Group's operations and acquisitions. The categories of the Group's financial assets and liabilities are summarised below.

Financial assets classified as loans and receivables

	2008 £	2007 £
Current financial assets		
Cash and cash equivalents	**1,497**	1,126
Trade receivables	**243,622**	118,946
Amounts recoverable on contracts	**179,238**	661,321
Other receivables	**243,861**	263,942
Prepayments	**111,370**	134,488
Total current financial assets	**779,588**	1,179,823

There is no material difference between the carrying value and fair value of the Group's aggregate financial assets.

Financial liabilities measured at amortised cost

	2008 £	2007 £
Non-current financial liabilities		
Loans and borrowings	**19,704,561**	10,752,945
Current financial liabilities		
Trade payables	**2,249,673**	1,803,492
Other payables	**107,223**	327,143
Retentions	**876,488**	773,445
Accrued charges	**3,233,319**	5,021,411
Provisions	**444,072**	444,072
Total current financial liabilities	**6,910,775**	8,369,563
Total financial liabilities	**26,615,336**	19,122,508

The Group has exposure to the following risks from the use of its financial instruments:

- Market risk
- Credit risk
- Liquidity risk

Market risk

Market risk represents the potential for changes in interest rates and foreign exchange rates to affect the Group's profit and the value of its financial instruments. It also includes the effect of the level of UK house prices and commercial property values which are in turn affected by factors such as employment levels, interest rates, the supply of suitable land and consumer confidence.

Notes forming part of the Group financial statements continued

for the year ended 30 June 2008

22 Financial instruments (continued)

Interest rate risk

Exposure to interest rate risk arises in the normal course of the Group's business as all of the Group's borrowings are at variable rates of interest, based on the base rate plus a lending margin. This margin may vary from time to time as the result of the Group's Banker's own risk assessment in the light of varying levels of profitability and cash flows generated by the Group. The Board consider on an ongoing basis whether any form of hedging is appropriate in relation to interest rate risk, in the light of likely cash flows and indebtedness, interest rate movements and other macro economic factors looking ahead. At 30 June 2008, the Group had no hedging arrangements in place.

The interest rate profile of the Group's interest bearing financial instruments is set out in note 17.

Sensitivity analysis for the year ended 30 June 2008 indicates that a general increase of one percentage point in interest rates applying for the full year would reduce the Group's profit after tax by approximately £193,000 (15 months ended 30 June 2007: £144,000).

Exchange rate risk

The Group has no significant exposure to exchange rate risk as virtually all financial assets and liabilities are denominated in sterling.

Credit risk

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

The Group has a minimal exposure to credit risk from trade receivables on the residential side of the business given the nature and legal framework of the UK housing industry. In the vast majority of cases the full cash receipt for each sale occurs on legal completion, which is also the point of revenue recognition under the Group's accounting policies. Credit risk also arises from local authority bonds and advance payments although these are considered to be of low risk.

On the commercial side of the business the Group is exposed to credit risk from credit sales on forward sale build contracts where the customer has purchased land and entered into a contract for the development of a building. It is the Group's policy, implemented locally, to assess the credit risk of major customers before entering into such contracts. The risk is managed by receiving staged payments as the development progresses.

On the property investment side of the business the Group is exposed to credit risk relating to the payment of rents. Tenant's covenants are considered carefully before entering into lease agreements.

Credit risk analysed by segment is as follows:

	2008 £	2007 £
Residential	**366,948**	477,210
Commercial	**339,450**	678,796
Property investment	**72,498**	–
Central	**692**	23,817
	779,588	1,179,823

The Group's credit risk is distributed over a number of parties. The maximum credit risk should any single party fail to perform is £246,529 (2007: £444,715). At 30 June 2008 the Group had £102,082 (30 June 2007: £37,182) of receivables past due. The Group has reviewed the items that comprise this balance, and believes that these amounts will be recovered.

22 Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Group will have insufficient resources to meet its financial obligations as they fall due. The Group's strategy to manage liquidity risk is to ensure that the Group has sufficient liquid funds to meet all its potential liabilities as they fall due.

Projections are prepared on a regular basis to ensure that covenant compliance and medium to longer-term liquidity is maintained. Longer-term projections are also used to identify strategic funding requirements.

As the Group's liquidity is largely derived from the revolving credit facility and the investment property loan, the continued willingness and ability of the Group's bankers to provide these facilities is crucial to the Group's continued ability to trade. The Group manages this risk by maintaining a regular dialogue with the Group's bankers and providing reliable and early information to the bank on the Group's trading progress and cash flow requirements.

The Group's policy on the payment of trade payables is set out in the Directors' Report on page 12. Trade and other payables and retentions fall due for payment within one year. Details of the maturity and security of loans and borrowings are disclosed in note 17.

At the balance sheet date the Group had revolving credit facilities committed until July 2009, at a competitive rate linked to the base rate. Un-drawn committed facilities at the reporting date amount to £11,889,919 (2007: £5,941,689). Subsequent to the year end the revolving credit facilities were renegotiated resulting in a new facility expiring on 1 July 2010.

Capital management

The Group aims to maintain a balance between debt and equity that will both maximise shareholder return and keep financial risk to an acceptable level. It also aims to maintain sufficient capital to facilitate future growth.

23 Related parties

Artisan (UK) plc is the parent company and ultimate controlling party of the Group.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 16 to 18.

	2008 £	2007 £
Short-term employee benefits	**606,159**	610,505
Post-employment benefits	**26,145**	18,825
Equity settled share-based payments	**22,572**	41,462
	654,876	670,792

24 Contingent liabilities and commitments

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees. As at 30 June 2008, bonds in issue amount to £1,326,375 (30 June 2007 £1,052,777).

On occasion the Group receives claims in the normal course of its business. Where appropriate, when evaluating the impact of potential liabilities arising from such claims, the Directors take professional advice to assist them in arriving at their estimation of the liability taking into account the probability of the success of any claims.

At the year end the Directors are unaware of any material liability that is not provided within the financial statements.

Notes forming part of the Group financial statements continued

for the year ended 30 June 2008

25 Leasing commitments

Commitments under non-cancellable operating leases are as follows:

	2008 Land and buildings £	**2008 Other £**	2007 Land and buildings £	2007 Other £
Expiring:				
Within one year	**5,350**	**37,173**	2,359	16,743
Between two and five years	**12,038**	**59,101**	32,775	75,670
After five years	**2,127,467**	**–**	2,035,736	–

26 Events after the balance sheet date

On 1 August 2008 the Company issued £1.75m of convertible loan notes to Aspen Finance Limited. For further details refer to page 12 of these financial statements.