

Operational and financial review

Residential Division

Whilst Rippon Homes found the year ended 30 June 2008 a difficult year, 2009 proved even more challenging and potential sales reservations have been hard to find. The difficulties in completing mortgage financing and the very cautious approach of valuers has reduced the number of firm reservations and sales achievable. Sales of 41 units at an average value of £189,650 (2008: 80 units at an average value of £186,300) is reflective of the current market conditions across the housebuilding sector. The increase in average price reflects the product offer mix and would have been further improved but for the treatment of shared equity sales as referred to below. Rippon Homes have where possible ensured that four bedroom properties have been offered and sales of these products have been achieved as customers have been able to use equity in their existing properties to meet the restricted mortgage provision.

Rippon Homes has continued to use a wide variety of sales incentives. Much of the promotion has focused on the availability of homes at prices discounted from list price and the availability of part exchange properties. The ability to deal in part exchange properties has been very useful in maintaining sales. Part exchange stocks have been carefully managed to avoid creating an overstock of these properties. At the year end Rippon Homes had a stock of 14 units, which was below the management allowance for part exchange stocks. However as there is a time lag between agreeing a part exchange deal on a new house and the eventual sale, in a falling market this has incurred losses. We have also an exceptional provision against the closing stock at 30 June 2009 of £175,000

We have also started selling houses on a shared equity basis to assist customers who cannot raise the equity required to secure a mortgage. By 30 June 2009 we had completed 2 units on this basis and more will follow in the next financial year. The accounting treatment requires that the estimated implied interest cost of deferring part of the sale value is deducted from turnover. In the current year this is not material, but does depress the turnover figure and reduce the average sale value. If 100% of the sale value was recognised, turnover would increase by £30,500 and the average sale value would be £190,400. Rippon Homes has the benefit of a second charge on the property until the deferred share of the property is settled, ordinarily in up to 10 years.

Finished good stocks increased over the first part of the financial year whilst units in build were brought to completion or near completion.

Production is now on a limited basis and being managed in response to sales. Finished good stocks are now declining and are expected to continue to be reduced over the coming year. However it is a finely balanced management decision, as Rippon Homes requires sufficient units in production to ensure that there is a balanced portfolio available for future sales. In the current market it is unlikely that sales can be achieved on units that are not either nearing completion or complete.

Commercial Division

The commercial division has suffered from the realities of the current market. The turnover achieved has largely been on the strength of previously agreed forward sales. However, towards the end of the financial year there has been increased interest in our stock units resulting in two freehold sales of previously let units in June. We achieved a further sale of an office unit immediately after the year end. Sales interest is continuing into the current financial year. Although we are achieving lower sale prices and shorter let terms than ideal, the financial performance of the sites indicates that no carrying value provisions are appropriate.

New build is currently suspended and will only be re-started once the Board sees more progress in realising existing stock or on the strength of a forward sale or let contract. The construction team has been very significantly reduced and the remaining staff are not only dealing with the ongoing maintenance issues and technical support for sales enquiries, but investigating changes to our standard product to better meet the evolving environmental requirements of customers and regulators.

The commercial business sold 11,700ft² of commercial property (2008: 98,000ft²), consisting of 11,700ft² of completed stock units (2008: 18,000ft²) and nil ft² of forward sales contracted and in build (2008: 80,000ft²). In 2009 revenue was also derived from forward sales contracted in the previous year.

Investment Properties

As stated in the Chairman's statement, the investment properties continue to be occupied by the tenants and Artisan itself. The property investment market has reflected the current economic conditions and seen an increase in investment yields. Therefore, as at the half year, the Board has considered the carrying value of the properties and after informal consultation with valuers, we have decided to reduce the carrying value by a further £300,000 at the

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year end culminating in a total charge to income of £750,000 for the year to 30 June 2009 (2008: surplus £1,207,000).

Whilst we are concentrating on maintaining cash balances through the Group, we have not invested in any further long term investment properties. Any lettings achieved by the trading divisions have been regarded as short term steps prior to achieving a sale of the investment.

Land stocks

We have not made any further land purchases other than the completion of the purchase of the second half of Rippon Homes' Debdale Lane site at the beginning of the financial year. Our management teams have concentrated on seeking option or deferred purchase schemes. A number of these are in progress.

The land stock of owned or secured plots at Rippon Homes is 260 plots (2008: 378). Part of the reduction arises from a site of 52 units that is contracted but subject to agreement on valuation. It is not clear whether or not this site will now proceed and is therefore excluded from the plot number declared for 30 June 2009.

The Commercial operation currently holds land, owned or secured of 18,500m² (2008: 25,300m²). 6,500m² of the reduction relates to a contracted site that management decided during the year not to purchase. Control of land is a key requirement of generating forward sales and lets and it is the intention of management to secure forward sales as an integral part of achieving future growth.

Results

	Residential £m	Commercial £m	Investment £m	Central £m	Total £m
Revenue					
2009	7.8	2.9	0.3	(0.1)	10.9
2008	15.1	10.7	0.2	(2.6)	23.4
Operating (loss)/profit before group management charges and exceptional items					
2009	1.4	–	(0.5)	(3.4)	(2.5)
2008	0.3	1.7	1.5	(1.3)	2.2

The divisional analysis of operating (loss)/profit is before Group management charges and exceptional costs. The central column deducts from turnover the inter segment trading.

The tax credit for the year is £27,000 resulting in an effective tax rate of 0.3% (2008: 18.5%). The reduction to standard rate is primarily a result of unrelieved trading losses carried forward for which no deferred tax asset has been recognised and a lack of tax relief on the goodwill impairment.

The exceptional items may be analysed as follows:

	2009 £m	2008 £m
Goodwill impairment	2.5	–
Staff reduction costs	0.1	0.1
Land contract withdrawal	0.1	–
Residential land provisions	1.4	0.3
Part exchange stock write downs	0.2	–
Total	4.3	0.4

The net assets have reduced from £21.4m to £15.3m as a result of the trading losses for the year and exceptional items including goodwill impairment.

Share capital has increased in the year as a result of the conversion of the convertible loan note of £1.75m issued to Aspen Finance Limited in August 2008. 5,128,205 new shares were issued at a conversion price of 34.125p which reflected the market price of the Company's shares at the date of issue of the loan note. The share

price was 39.50p at the date of conversion, and this is the fair value of the conversion for the purposes of the financial reporting standards.

Debt and Banking

The Group has net borrowings of £20.8m (2008: £19.7m). The Group has drawn bank debt of £29.9m (2008: £32.6m) resulting in substantial cash balances which, although reduced, provide funds for continuing trading and debt reduction. Trading conditions resulted in the Group breaching its EBIT to interest covenant at 31 December 2008. Since then the banking facilities have been renegotiated and new terms agreed in respect of the development facilities. The development facility was extended to 1 July 2011. The terms of the investment property loan are also expected to be varied after the year end as our bank seeks to reduce the level of debt provided by varying the loan to value terms and also seeks to increase its margins.

Our revised development bank facility is split between a LIBOR based facility and a base rate based facility. The base rate interest margin was adjustable to reflect the LIBOR based cost of funding, but this element of the facility allows positive bank balances in the Group to be offset against drawdown funds for the purposes of interest calculation allowing for an effective management of funding. The renegotiated margins at the year end are Base Rate plus 3.25% and LIBOR plus 2.25% for the respective sub-divisions of the development loan. We have agreed with our bank that the Interest to EBIT covenant is replaced by a cash covenant; a more appropriate control in these difficult markets. The cash covenant requires Artisan to maintain, on a rolling quarterly basis, a minimum 1 to 1 ratio in respect of cash receipts to payments (excluding loan repayments). The gearing ratio is now 135.6%, (2008: 91.9%).

On 1 August 2008 the Group issued a convertible loan note to Aspen Finance Limited raising £1.75m before costs. As disclosed in this report and accounts Michael W Stevens has a beneficial interest in the shares held by Aspen Finance Limited. As has been already stated, this loan note was converted into share capital in June 2009.

As a result of converting the Loan Notes, Aspen acquired 30% or more of the voting rights in relation to the Company, which obliged Aspen Finance Limited to make a mandatory offer to other shareholders to acquire their shares in accordance with Rule 9 of the Takeover Code.

Work in Progress

Work-in-progress has reduced from £39.1m to £33.7m, reflecting the exceptional provisions and a build slow down in both divisions compared with sales. The key management issue is to maintain sufficient but not excessive stocks of product available for purchase. The nature of the residential market is that most customers are able to choose from available competing product, and therefore a reasonable and varied selection of product across sites is required. This is also true of many commercial customers, particularly for our smaller premises.

It is the sales to customers at short notice where we are seeing some renewed enthusiasm rather than in the forward sale market and we have finished product available to meet customer demands which is providing cash receipts to fund ongoing costs.

Chris Musselle
Chief Executive
6 October 2009