

Notes forming part of the group financial statements for the year ended 30 June 2012

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 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements were approved by the Directors on 18 December 2012.

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 35 to 40.

Basis of preparation

The financial statements are presented in pounds sterling. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, as detailed below.

Going concern

The Group's business activities, together with factors which the Directors consider are likely to affect its future development, financial performance and financial position are set out in the Chairman's statement on page 3 and the Operational and Financial review on pages 4 to 6. The principal business risks and uncertainties affecting the Group are set out in the director's report on page 8. In addition, note 18 to the Group financial statements includes information on the Group's policies and processes for managing financial risk, details of its financial instruments and exposures to interest rate, credit and liquidity risk.

As highlighted in noted 18, the Group meets its day to day working capital requirements through revolving credit and investment property facilities provided by the Group's bankers. At 30 June 2012 the Group had drawn £9,523,592 of bank borrowings, net of offset credit balances, against these facilities. On 13 July 2012 the Group successfully completed new banking facilities to support its ongoing trading operations. The new facility is for a maximum of £20,927,649 with a term to 13 July 2015.

Forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of the new facility. In view of this the Directors are satisfied that the Group has adequate resources to continue operating for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Adoption of new and revised standards and interpretations Standards and interpretations effective during the year

The following new and revised standards and interpretations have been adopted in the current financial year. Their adoption has not had any significant impact on these financial statements and has not required any additional disclosures but may affect the accounting for future transactions:

- **IAS 24 Amendment** – Related Party Disclosures (effective for accounting periods beginning on or after 1 January 2011).
- **IFRIC 14 Amendment & IAS 19** – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for accounting periods beginning on or after 1 January 2011).
- **Improvements to IFRSs 2010** (effective for accounting periods beginning on or after 1 January 2011).
- **IFRS 7 Amendment** – Transfers of Financial Assets (effective for accounting periods beginning on or after 1 July 2011).
- **IFRS 1 Amendment** – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (effective for accounting periods beginning on or after 1 July 2011).

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 (and in some cases, had not yet been adopted by the EU):

- **IAS 12 Amendment** – Deferred Tax: Recovery of Underlying Assets (effective for accounting periods beginning on or after 1 January 2012).
- **IAS 1 Amendment** – Presentation of Items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012).
- **IFRS 10** – Consolidated Financial Statements (effective for accounting periods beginning on or after 1 January 2013).
- **IFRS 11** – Joint Arrangements (effective for accounting periods beginning on or after 1 January 2013).

1 Significant accounting policies (continued)

- **IFRS 12** – Disclosure of Interests in Other Entities (effective for accounting periods beginning on or after 1 January 2013).
- **IFRS 13** – Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013).
- **IAS 27** – Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2013).
- **IAS 28** – Investments in Associates and Joint Ventures (effective for accounting periods beginning on or after 1 January 2013).
- **IAS 19** – Employee Benefits (effective for accounting periods beginning on or after 1 January 2013).
- **IFRIC 20** – Stripping Costs in the Production Phase of a Surface Mine (effective for accounting periods beginning on or after 1 January 2013).
- **IFRS 7 Amendments** – Disclosures, Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1 and IFRS 7** – Government Loans (effective for accounting periods beginning on or after 1 January 2013).
- **Improvements to IFRSs** – 2009 to 2011 Cycle (effective for accounting periods beginning on or after 1 January 2013).
- **Amendments to IFRS 10, IFRS 11 and IFRS 12** – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective for accounting periods beginning on or after 1 January 2013).
- **Amendments to IAS 32** – Offsetting Financial Assets and Financial Liabilities (effective for accounting periods beginning on or after 1 January 2014).
- **Amendments to IFRS 10, IFRS 12 and IAS 27** – Investment Entities (effective for accounting periods beginning on or after 1 January 2014).
- **IFRS 9** – Financial Instruments (effective for accounting periods beginning on or after 1 January 2015).

The Group is currently assessing the impact of the standards and interpretations in issue but not yet effective.

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 exercisable or convertible are taken into account. The results of any subsidiaries sold or acquired are included in the Group statement of comprehensive income 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 statement of comprehensive income.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 sale 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.

Revenue recognised on properties sold under shared equity schemes is reduced by the interest income implicit in the transaction.

Profit is recognised on long term work in progress contracts if the final outcome can be assessed with reasonable certainty, by including in the statement of comprehensive income 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.

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 statement of comprehensive income for the period in which they arise.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

1 Significant accounting policies (continued)

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 the statement of comprehensive income. 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:

Freehold buildings	–	2% 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 amount that the Group expects to realise from the sale of inventory in the ordinary course of business, after allowing for the estimated costs of completion and the estimated costs necessary to make the sale. It is assumed that sites will be completed and sold in line with the Group's intended development plans. In the event land or partly completed sites were sold without completing the development the amounts realised would be lower and may be below the carrying value in these accounts.

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 statement of comprehensive income 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.

1 Significant accounting policies (continued)

Retirement benefit costs

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

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. Trade and other receivables

Trade receivables on normal terms do not carry any interest and are stated at their nominal value less any allowance for impairment. The effect of discounting on these financial instruments is 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.

Trade receivables on extended terms granted in respect of sales under shared equity schemes are secured by way of a second legal charge on the respective property and are stated at their fair value based on the discounted present value of the expected future cash inflow. The difference between the initial fair value and the expected future cash inflow is credited over the deferral term to the statement of comprehensive income as finance income, with the financial asset increasing to its full cash settlement value on the anticipated receipt date. Credit risk is accounted for in determining fair values and appropriate discount factors are applied. Gains and losses arising from changes in fair value of the asset over their term are recognised in the statement of comprehensive income as other operating income or charges.

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 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 Groups ordinary and deferred shares are classified as equity instruments.

For the purposes of capital management, the Group considers its capital to comprise its ordinary and deferred 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. Going concern

The Group has prepared forecasts which have been reviewed by the Directors, based on estimates and judgements of the market conditions faced by the Group, including residential and commercial property demand, customer funding availability, selling prices and the levels of finance available. Many factors will influence customer demand including interest rates, the perception of bank funding availability and stability, the availability of further equity or similar, employment prospects and the overall level of economic activity in the UK economy.

The Directors consider that these forecasts demonstrate an adequate level of headroom for the next 12 months. Accordingly the Board has adopted the going concern basis for the preparation of these financial statements. Further details of the Board's assessment are set out on page 16.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

1 Significant accounting policies (continued)

ii. 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. Judgements and estimates have been made by management in relation to both the net realisable value and cost of inventories.

Net realisable value is the net amount that the Group expects to realise from the sale of inventory in the ordinary course of business, i.e. assuming sites are completed and sold in line with the Group's intended development plans. As residential development in particular is speculative by nature, most inventories are not covered by forward sale contracts, hence it is necessary to make judgements about likely future sales values.

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. 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.

iii. 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.

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 which form the basis upon which the Group reports for management and statutory purposes. The Group does not operate outside the United Kingdom. The business segments are as follows:

Residential development	Residential house development mainly in the East Midlands, Lincolnshire and Yorkshire areas.
Commercial development	Business park development concentrated in East Anglia and Hertfordshire.
Property investment	Property investment activities throughout the UK.
Central and other	Represents unallocated Group overheads and consolidation adjustments.

Year ended 30 June 2012

	Residential Development £	Commercial Development £	Property Investment £	Central and Other £	Total £
Income statement					
Revenue					
External revenue	7,322,748	6,470,068	99,151	–	13,891,967
Inter-segment revenue	–	–	43,500	(43,500)	–
	7,322,748	6,470,068	142,651	(43,500)	13,891,967
Segment result					
Segment result before central charges	(65,645)	230,542	644,930	(1,387,613)	(577,786)
Central charges	(86,476)	(91,170)	(34,016)	211,662	–
Segment result after central charges	(152,121)	139,372	610,914	(1,175,951)	(577,786)
Finance income	30,591	22,963	10,862	(33,826)	30,590
Finance expense	(356,107)	(219,700)	(38,772)	161,295	(453,284)
Loss before taxation	(477,637)	(57,365)	583,004	(1,048,482)	(1,000,480)
Taxation	8,557	–	(8,557)	–	–
Loss after taxation	(469,080)	(57,365)	574,447	(1,048,482)	(1,000,480)
Transactions between segments are accounted for at market value.					
Statement of financial position					
Assets					
Segment assets	15,620,547	9,576,830	2,466,939	(5,138,184)	22,526,132
Liabilities					
Segment liabilities	14,849,897	10,835,426	985,324	(14,155,106)	12,515,541
Segment net assets/(liabilities)	770,650	(1,258,596)	1,481,615	9,016,922	10,010,591
Other information					
Capital expenditure	31,619	357	–	125	32,101
Depreciation of property plant and equipment	15,197	3,224	–	1,790	20,211

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

2 Segmental analysis (continued)

Year ended 30 June 2011

	Residential Development £	Commercial Development £	Property Investment £	Central and Other £	Total £
Income statement					
Revenue					
External revenue	6,573,182	533,336	297,334	–	7,403,852
Inter-segment revenue	–	–	43,500	(43,500)	–
	6,573,182	533,336	340,834	(43,500)	7,403,852
Segment result					
Segment result before central charges	(1,094,673)	(597,265)	278,536	(752,804)	(2,166,206)
Central charges	(374,995)	(343,249)	(169,246)	887,490	–
Segment result after central charges	(1,469,668)	(940,514)	109,290	134,686	(2,166,206)
Finance income	26,005	20,389	–	(20,220)	26,174
Finance expense	(413,051)	(222,529)	(109,244)	218,207	(526,617)
Loss before taxation	(1,856,714)	(1,142,654)	46	332,673	(2,666,649)
Taxation	44,860	–	–	–	44,860
Loss after taxation	(1,811,854)	(1,142,654)	46	332,673	(2,621,789)
Transactions between segments are accounted for at market value.					
Statement of financial position					
Assets					
Segment assets	17,907,269	9,782,816	4,914,307	(2,651,134)	29,953,258
Liabilities					
Segment liabilities	16,667,540	10,984,047	4,007,139	(12,576,991)	19,081,735
Segment net assets/(liabilities)	1,239,729	(1,201,231)	907,168	9,925,857	10,871,523
Other information					
Capital expenditure	5,022	824	–	9,392	15,238
Depreciation of property plant and equipment	28,533	8,297	–	2,715	39,545

3 Directors and employees

	2012 £	2011 £
Staff costs, including directors, consist of:		
Wages and salaries	1,778,175	1,776,238
Social security costs	163,999	160,299
Other pension costs	111,444	92,055
	2,053,618	2,028,592
	2012 Number	2011 Number
The average number of employees, including directors, during the year was:		
Administration	20	22
Operations	30	33
	50	55
	2012 £	2011 £
Directors' remuneration consists of:		
Directors' emoluments	565,664	587,069
Directors' pension contributions	56,310	34,930
	621,974	621,999

The total amount payable to the highest paid director in respect of emoluments was £173,092 (2011: £173,677). Company pension contributions of £24,930 (2011: £24,930) were made to a money purchase scheme on their behalf.

Pension contributions to money purchase schemes were made in respect of 2 directors (2011: 2).

4 Operating loss

	2012 £	2011 £
This has been arrived at after charging/(crediting):		
Depreciation	20,211	39,545
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of:		
– the Company's annual accounts	12,000	19,000
– the subsidiaries' annual accounts	29,000	45,000
Fees payable to the Company's auditor for other services:		
– tax compliance	14,000	18,000
– other	3,000	–
Hire of plant and machinery	48,466	33,535
Other operating lease rentals – vehicles	15,426	18,640
– land and buildings	175,974	286,758
Impairment charge, net of reversals, in respect of carrying value of inventories	290,744	591,507
Rent receivable	(388,428)	(659,685)
Loss/(profit) on sale of property, plant and equipment	142	(851)
Profit on disposal of investment property	13,563	–

During the year overhead costs totalling £284,012 (2011: £101,014) were allocated from administrative expenses to work-in-progress.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

5 Finance expense

	2012 £	2011 £
Bank overdrafts and loans repayable within 5 years	453,284	526,617

6 Tax credit

Recognised in the income statement	2012 £	2011 £
<i>Current tax</i>		
UK corporation tax on loss for the year	–	–
Adjustment in respect of prior periods	–	(44,860)
Total tax credit reported in the income statement	–	(44,860)

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

	2012 £	2011 £
Loss before tax	(1,000,480)	(2,666,649)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 25.5% (2011: 27.5%)	(255,122)	(733,328)
Effects of:		
Expenses not deductible for tax purposes	15,579	38,317
Change in fair value of investment properties	(2,478)	(5,952)
Depreciation for the year in excess of capital allowances	4,936	7,528
Utilisation of tax losses brought forward	(45,337)	(54,446)
Unrelieved trading losses for the year carried forward	285,846	810,114
Movement in provision	–	(61,999)
Other	(3,424)	(234)
Adjustment in respect of prior periods	–	(44,860)
Tax credit for the year	–	(44,860)

Subject to the agreement of HM Revenue & Customs, there are trading tax losses of approximately £14.9 million (2011: £13.8 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.

7 Dividends

No interim dividend was paid (2011: Nil p per ordinary share). The Directors do not propose to pay a final dividend for the year (2011: Nil p per ordinary share).

8 Investment properties

	2012 £	2011 £
<i>Fair value</i>		
At beginning of year	3,740,668	3,723,192
Revaluations included in income statement	9,719	17,476
Disposal of investment property	(3,009,626)	–
At end of year	740,761	3,740,668

As at 30 June 2012, the historical cost of investment property owned by the Group was £599,245 (2011: £2,779,931).

The fair values of the Group's investment properties at 30 June 2012 have been arrived at on the basis of open market value by the Directors, who are suitably experienced and having regard to professional advice.

During the year £96,151 (2011: £294,334) 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 £1,116 (2011: £4,163).

9 Property, plant and equipment

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
<i>Cost or valuation</i>					
At 1 July 2011	812,354	182,833	112,851	224,609	1,332,647
Additions	–	–	20,034	12,067	32,101
Disposals	–	–	(24,820)	–	(24,820)
Revaluation	69,600	–	–	–	69,600
At 30 June 2012	881,954	182,833	108,065	236,676	1,409,528
<i>Depreciation</i>					
At 1 July 2011	64,175	180,768	96,650	213,839	555,432
Provided for the year	5,773	750	5,641	8,047	20,211
Disposals	–	–	(11,028)	–	(11,028)
Revaluation	(69,948)	–	–	–	(69,948)
At 30 June 2012	–	181,518	91,263	221,886	494,667
<i>Net book value</i>					
At 30 June 2012	881,954	1,315	16,802	14,790	914,861
At 30 June 2011	748,179	2,065	16,201	10,770	777,215

The fair values of the Group's property occupied for its own purposes at 30 June 2012 has been arrived at on the basis of open market value by the Directors, who are suitably experienced and having regard to professional advice.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

9 Property, plant and equipment (continued)

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
<i>Cost or valuation</i>					
At 1 July 2010	812,354	193,843	104,651	219,061	1,329,909
Additions	–	1,490	8,200	5,548	15,238
Disposals	–	(12,500)	–	–	(12,500)
At 30 June 2011	812,354	182,833	112,851	224,609	1,332,647
<i>Depreciation</i>					
At 1 July 2010	58,402	192,259	86,608	191,118	528,387
Provided for the year	5,773	1,009	10,042	22,721	39,545
Disposals	–	(12,500)	–	–	(12,500)
At 30 June 2011	64,175	180,768	96,650	213,839	555,432
<i>Net book value</i>					
At 30 June 2011	748,179	2,065	16,201	10,770	777,215
At 30 June 2010	753,952	1,584	18,043	27,943	801,522

10 Other receivables

	2012 £	2011 £
Trade receivables	281,668	232,683
Other receivables	87,135	307,246
Prepayments and accrued income	174,166	–
	542,969	539,929

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.

11 Inventories

	2012 £	2011 £
Raw materials and consumables	23,555	23,345
Land held for development	9,712,706	10,925,715
Work in progress	1,901,256	1,191,119
Completed developments and houses for sale	8,239,219	12,450,785
	19,876,736	24,590,964

Inventories with a carrying amount of £19,876,736 (2011: £24,590,964) have been pledged as security for the Group's bank borrowings.

During the year ended 30 June 2012, the Group conducted a further net realisable value review of its inventories. The review compared the estimated net realisable value of each of the Group's development sites with its balance sheet carrying-value. Where the estimated net realisable value of an individual site was less than its carrying-value within the balance sheet, the Group impaired the inventory value of the site. The impairment review resulted in a further impairment charge of £290,744 (2011: £614,151) in the year and a reversal of £Nil (2011: £22,644) on inventories that were written down in previous accounting periods.

The key judgement in estimating the net realisable value of the sites was the estimation of likely sales prices and estimated costs to complete. Sales prices were estimated on a site-by-site basis based upon local market conditions and considered the current prices being achieved upon each site for each product type.

Although the impairment of inventories was based upon the current prices being achieved or anticipated prices by the Group in the difficult conditions within the UK housing market, if the UK housing market were to deteriorate or improve beyond management expectations in the future then further adjustments to the carrying-value of inventories may be required.

Following these impairment charges £5,083,027 (2011: £6,335,468) of inventories are valued at net realisable value rather than at historical cost.

12 Trade and other receivables

	2012 £	2011 £
Trade receivables	71,600	28,105
Amounts recoverable on contracts	60,353	–
Other receivables	–	49,818
Prepayments and accrued income	317,627	225,678
	449,580	303,601

All trade and other receivables are non-interest bearing. Further disclosures relating to financial instruments are set out in note 18.

13 Trade and other payables

	2012 £	2011 £
Trade payables	1,046,467	426,169
Other taxes and social security	163,333	68,352
Other payables	6,727	12,320
Retentions	567,556	431,115
Accruals and deferred income	1,207,866	948,648
	2,991,949	1,886,604

The director's 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.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

14 Borrowings

	2012 £	2011 £
Are repayable as follows:		
In less than one year:		
Bank borrowings	9,523,592	17,195,131

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	2012 £	2011 £
Bank borrowings:					
Revolving credit	GBP	base + 3.25%	2012	2,983,876	1,655,693
Revolving credit	GBP	LIBOR + 2.25%	2012	10,500,000	15,000,000
Investment property facility	GBP	LIBOR + 2.25%	2012	927,620	3,173,529
Less:					
Credit balances				(4,887,904)	(2,634,091)
				9,523,592	17,195,131

15 Provisions

	2012 £	2011 £
Provision for claims		
At beginning of year	–	230,452
Release to income statement in year	–	(9,650)
Utilised in the year	–	(220,802)
At end of year	–	–

16 Share capital

	2012 £	2011 £
<i>Allotted, called up and fully paid</i>		
13,341,455 (2011: 13,341,455) ordinary shares of 1p (2011: 20p) each	133,415	2,668,291
253,487,645 deferred shares of 1p each (2011: not applicable)	2,534,876	–
	2,668,291	2,668,291

On 2 February 2012 each ordinary share of 20p was subdivided into one ordinary share of 1p and nineteen deferred shares of 1p each.

All rights with regard to voting at general meetings of the Company and in relation to dividends attach to the 1p ordinary shares created by this subdivision. The deferred shares do not carry any voting rights or the right to receive dividends or have the right to participate in any return of capital by the Company, such as on liquidation, except after £1,000,000 has been repaid to the holder of each ordinary share. As this situation is extremely unlikely to arise the deferred shares effectively have no value.

The objective of the share subdivision was to attach the current trading value of the Company existing ordinary shares at the date of the subdivision to the new ordinary shares with a lower nominal value, so as to facilitate equity fundraising by the Company.

17 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 in 1998 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 2008.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

18 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 finance the Group's operations and finance its acquisitions. The categories of the Group's financial assets and liabilities are summarised below.

Financial assets classified as loans and receivables

	2012 £	2011 £
Non-current financial assets		
Trade receivables	281,668	232,683
Current financial assets		
Cash and cash equivalents	1,225	881
Trade receivables	71,600	28,105
Amounts recoverable on contracts	60,353	–
Other receivables	–	19,498
Prepayments	8,873	15,901
Total current financial assets	142,051	64,385
Total financial assets	423,719	297,068

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

	2012 £	2011 £
Current financial liabilities		
Loans and borrowings	9,523,592	17,195,131
Trade payables	1,046,467	426,169
Other payables	–	6,000
Retentions	567,556	431,115
Accrued charges	1,188,163	863,733
Total current financial liabilities	12,325,778	18,922,148
Total financial liabilities	12,325,778	18,922,148

Financial assets and liabilities carried at fair value are categorised with the hierarchical classification of IFRS7 Revised (as defined within the standard) as follows:

	2012 Level 3 £	2011 Level 3 £
Financial assets		
Non-current financial assets		
Trade receivables	281,668	232,683

18 Financial instruments (continued)

There are no level 1 or level 2 financial assets or liabilities. The following table sets out the changes in level 3 instruments over the year:

	2012 Level 3 £	2011 Level 3 £
Non-current financial assets – trade receivables		
At beginning of year	232,683	143,418
Additions	18,421	63,500
Gains and losses recognised in profit or loss (finance income)	30,564	25,765
At end of year	281,668	232,683

Level 3 inputs are sensitive to the assumptions made when determining fair value, principally the discount rate used to discount cash flows and the annual rate of change in house prices. However, reasonably possible alternative assumptions would not have a material impact on the carrying value of the asset shown in the statement of financial position.

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, availability of consumer funding and consumer confidence.

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 either the base rate or LIBOR 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 2012, 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 14.

Sensitivity analysis for the year ended 30 June 2012 indicates that a general increase of one percentage point in interest rates applying for the full year would increase the Group's loss after tax by approximately £153,770 (2011: £186,000).

Exchange rate risk

The Group has no exposure to exchange rate risk as 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. However, some credit risk arises through the use of shared equity schemes. To mitigate the risk the Group is selective in deciding which customers can be accepted for the scheme and a second charge is taken over the property concerned.

Credit risk also arises from local authority bonds and advance payments although these are considered to be of low risk.

Notes forming part of the group financial statements continued

for the year ended 30 June 2012

18 Financial instruments (continued)

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. This risk is mitigated by the use of rent deposits and client guarantees where appropriate and possible.

Credit risk analysed by segment is as follows:

	2012 £	2011 £
Residential	295,979	270,362
Commercial	124,639	1,202
Other	3,101	25,504
	423,719	297,068

The Group's credit risk is distributed over a number of parties. The maximum credit risk should any single party fail to perform is £61,991 (2011: £23,236). At 30 June 2012 the Group had £66,130 (2011: £30,094) of receivables past due. The Group has reviewed the items that comprise this balance and believes that these amounts will be recovered, accordingly no provision against impairment is considered necessary.

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 in order that the Group's funding requirements are matched to the banks appetite for lending.

The Group's policy on the payment of trade payables is set out in the director's report on page 9. 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 14.

At 30 June 2012 the Group had revolving credit facilities committed until 31 July 2012, at a competitive rate linked partly to the base rate and partly to LIBOR. Un-drawn committed facilities at the reporting date amount to £16,516,124 (2011: £13,344,307). Subsequent to the year end a new £20,927,649 facility was put in place which lasts for three years to 13 July 2015.

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.

19 Related parties

Artisan (UK) plc ("Artisan") is the intermediate holding company for the Artisan Group. At 30 June 2012 Aspen Finance Limited ("Aspen") owned 69.5% of the share capital of Artisan (UK) plc. Aspen is a private limited company, registered in England and Wales, whose principal activity is to act as a holding company for an investment in Artisan. The financial statements of Aspen are available from the Registrar of Companies, Companies House Crown Way, Cardiff CF14 3UZ.

Aspen is wholly owned by Aspen Group Inc which in turn is owned by the Brownis Trust. The Brownis Trust was declared for the benefit of Mr Stevens, the Non-Executive Chairman of Artisan, and his family. The Board understand that the Brownis Trust is the ultimate controlling party.

During the year Artisan provided accounting support to Aspen in respect of the production of consolidated financial statements for Aspen. A fee of £2,000 is payable for this work (2011: £2,000). £2,000 was owed by Aspen at the year end (2011: £2,000).

Transactions between Artisan 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 on Directors' remuneration is provided in note 3 on page 23.

	2012 £	2011 £
Short-term employee benefits	565,664	587,069
Post-employment benefits	56,310	34,930
	621,974	621,999

20 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 2012, bonds in issue amount to £704,548 (2011: £856,179).

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.

21 Leasing commitments

Commitments under non-cancellable operating leases are as follows:

	2012 Land and buildings £	2012 Other £	2011 Land and buildings £	2011 Other £
Expiring:				
Within one year	–	2,716	148,583	3,836
Between two and five years	34,271	–	10,800	6,543
After five years	453,125	–	496,625	–

Notes forming part of the group financial statements continued for the year ended 30 June 2012

22 Events after the reporting period date

On 13 July 2012 the Group successfully completed new banking facilities to support its ongoing trading operations. The new facility is for £20,927,649 with a term to 13 July 2015. On the same day £1 million of convertible unsecured loan notes were issued to Aspen Finance Limited. Interest is payable on the loan notes at 5% p.a. and they fall due for repayment on 13 July 2015. The loan notes may be converted to equity at any time at Aspen Finance Limited's request at the rate of one ordinary share of 1p for an amount in nominal value of loan notes equal to 14.5p.

On 10 December 2012 Speymill PLC announced that it intended to put its subsidiary, Speymill Contracts Limited, into administration. Speymill Contracts Limited is the current occupier of the Group's investment property. The lessee and guarantor of the lease on the investment property are other companies in the Speymill group and we understand that these companies are continuing to trade and are not directly affected by the proposed administration of Speymill Contracts Limited. As set out on page 6, our bank covenant requires historical interest cover on the investment property of at least 125%.