Operational and financial review

Results

The results for the year summarised by division are as follows:

	Residential £m	Commercial £m	Investment £m	Central & Other £m	Total £m
Revenue					
2012	**7.3**	**6.5**	**0.1**	**–**	**13.9**
2011	6.6	0.5	0.3	–	7.4
Operating profit/(loss) before group management charges					
2012	**(0.1)**	**0.2**	**0.7**	**(1.4)**	**(0.6)**
2011	(1.1)	(0.6)	0.3	(0.8)	(2.2)

Residential Division

The residential division has continued to experience low volumes of transactions, albeit there has been an improvement in volumes with 45 completions in the year (2011: 37). The continued low level of activity reflects consumer confidence, the difficulty potential purchasers are experiencing in obtaining mortgage finance and, in particular, the higher levels of deposit now required. Demand varies with product type. Demand for bungalows has remained robust, 4 bedroom properties have slackened of late and with the exception of detached properties 3 bedroom properties have been more difficult to sell. This tends to reflect the availability of our customers' equity positions.

Sales incentives continue to be an important factor in securing sales of new homes. For our smaller homes the shared equity schemes that we operate are the most important sales incentive. Rippon Homes had applied to the Government's FirstBuy scheme and was successful in being allocated up to 20 units under the scheme which runs to 31 March 2013. This is a scheme where assistance is given to the purchaser of a new home in the form of an equity loan of up to 20% of the full price of the property, with up to 10% being provided by Rippon Homes and 10% by the Homes and Communities Agency. The purchaser is required to have a 5% deposit, meaning that they only need take a mortgage for 75% of the price of the property. Rippon Homes had 5 completions under this scheme during the year. We plan to apply for an additional allocation under the new FirstBuy scheme which is due to start in April 2013.

In addition Rippon Homes continues to offer its own shared equity scheme which has an alternative structure in support of the preferred FirstBuy scheme although since the introduction of FirstBuy we have only achieved 1 completion in the year (2011: 4 units).

Rippon Homes also continues to offer its part exchange scheme to purchasers of larger properties. All part exchange deals are closely managed to minimise the dealing risk. At the year end we had reduced our stock holding to 6 part exchange properties (2011: 12 units).

Following renewal of our banking facilities we have stepped up our efforts to acquire new development sites. Since the year end we have exchanged on the purchase of two new bungalow sites and are in the process of making offers on a number of additional sites. We have also brought the first phase of our Portland Street site in Mansfield into production; this land has been owned for a number of years and will provide 31 units of varying house types.

Commercial Division

The increase in turnover for the Group in the year is largely attributable to a significant improvement in trading for the commercial property division. The commercial division has always been a lower volume; higher value orientated operation and one large contract can have a very significant impact on the results for the year. This has been the case in the last year where the division has returned to profit compared to a significant loss in the prior year.

The result for the year is principally attributable to a pre-let secured on a 2,880m^2 office building constructed on land owned by the Group at its Opus Business Park in Peterborough. The property was pre-let to Kelway (UK) Ltd, a nationwide IT supplier with offices across the UK and beyond. Prior to completion of the property the freehold investment was sold to a local investor, with the resulting funds used to pay down debt and provide working capital for continuing operations.

The project was very successful on many levels. It delivered to the client a modern cost effective design and energy efficient building, both on time and within budget. This was all the more commendable given the tight timescales involved; the property was completed by mid June 2012 despite the initial planning application only having been submitted in August 2011. The building was the first commercial building in the UK to achieve a BREEAM excellent rating under the criteria set out in the BREEAM New Constriction technical manual 2011. The property has subsequently been the subject of a design award from Peterborough City Council for the strong visual statement that it makes and its sustainable transport provision.

Demand for the division's stock units remains low. However, we did achieve the sale of three further stock units during the year, the largest of which was let and then sold to an investor. Margins on stock units tend to be low unless we can secure a tenant with a good covenant on an institutional lease which will facilitate the sale of the freehold investment. Our current experience of the investor market is that demand continues to be patchy and selective.

With little or no new speculative stock having been built over the past few years, we expect to see a shortfall in the availability of new high grade commercial property as the economic outlook improves and demand increases.

No speculative commercial development is planned. There has been ongoing interest in further pre-let and pre-sales and these opportunities continue to be pursued. Inevitably many deals fall away before they can be contracted but as these deals are for larger properties than we have traditionally constructed, if we are successful in securing them, then they can have a transformational impact on our results. We are also looking at other project management and trading opportunities where we can use our in-house expertise and resources to generate additional revenue streams for the Group. Our in house construction expertise has been a significant factor in our ability to negotiate and undertake projects.

Investment Properties

In August 2011 the Group sold the larger of its two investment properties located on the Colmworth Business Park in St Neots, Cambridgeshire. This property had been constructed by the Group in 2007 and had been let to Black Teknigas & Electro Controls Ltd and Watts Industries B.V. on a 15 year lease. The Group realised a small surplus on the disposal over book value. The proceeds of sale were used to repay approximately £2.25m of the investment property loan facility and the balance was used to provide increased working capital of approximately £1.0m. Though we have sold the Black Teknigas property we retained the right to construct a contracted extension to the property for the tenant and new landlord on good commercial terms.

The remaining investment property, Vantage House, continues to be occupied by a tenant and Artisan as its head office. The directors do not believe that the market value of the property has changed over the past year.

Land Stocks

The elapsed process of obtaining renewed bank facilities on acceptable terms delayed the acquisition of new development land during the year. On the residential side of the business two small bungalow sites were purchased from existing working capital, the first of which provided seven completions in the year. We did not purchase any commercial land as we concentrated on opportunities to develop our existing stock.

Land stock owned by Rippon Homes at the year end amounted to 166 plots (2011: 198). All of these plots have the benefit of detailed planning permission. In addition Rippon Homes continues to hold several small pieces of land where there is a chance that planning permission could be achieved at some point in the future.

Land stocks owned by Artisan (UK) Developments at the year end amounted to 12,560 m^2 (2011: 15,340 m^2). All of this land has planning permission, most of it detailed. In addition there are stock units totalling 1,888 m^2 (2011: 2,870 m^2). The Group continues to attempt to secure control over development land as an alternative to outright purchase, as control is key in securing pre-lets and pre-sales.

As noted last year, the Group has held approximately 42 acres of land at Wingerworth in Derbyshire for many years. This land is currently let for horsiculture use and is located just outside the current local development framework. With the assistance of professional planning consultants a planning application for 51 homes occupying a part of the site was presented at the North East Derbyshire District Council planning committee meeting held on 23 October 2012. The planning application was rejected, the principal reason being that the development would be beyond the defined Settlement Developments Limits for Wingerworth and would

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lead to an intrusion into the countryside. The Group is actively considering its options for an appeal.

Debt and Banking
The Group had borrowings net of offset cash balances of £9.5m at 30 June 2012 (2011: £17.2m). The £7.7m reduction in borrowing has been funded by £4.7m of cash generated from operating activities (principally from the sale of sock) and £3.3m from investing activities (principally from the sale of one of the Group's investment properties). This has reduced the Group's gearing to 95.1% at the year end (2011: 158.2%).

The Group's development facility had been due to expire on 1 July 2011 but was extended to allow time for renegotiation of the terms of a new bank facility. An extended period of time for negotiations proved necessary as the bank sought to significantly change the structure and operation of the facilities that it provided. A new facility for £20,927,649 was completed in July 2012 and lasts to 13 July 2015. The facility is subdivided into three tranches with different terms applying to each tranche.

The tranches are:

- Tranche A being the active rolling credit facility for current and new property and development activity at a margin of 3% over LIBOR.
- Tranche B approximately £1.9m, being the element of value loaned by our bank that is over their required LTV ratio compared with the valuation independently prepared for the bank. This has a total margin of 9%, 6% of which is rolled up.
- The investment property loan of £0.927m.

The principal covenants are:

- loan to value must not exceed 65% of the most recent valuation for development property (applies to tranche A of the facility only) and 72.5% of the most recent valuation for investment property.
- historical interest cover on the investment property loan (being rent as a percentage of finance costs) is, at all times, at least 125%.

At the same time that the new bank facility was agreed £1m 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.

The significant bank and adviser fees incurred in securing the facility have been accrued and are being written off over the period of the facility.

The Board is confident that the new bank facility coupled with the loan note will support the Group's ongoing trading operations for the foreseeable future.

Inventories
Inventories continued to reduce in the year from £24.6m to £19.9m reflecting the ongoing sale of stock with limited replacement with new land. There has been a deliberate strategy to dispose of the older, low margin stock to create funds available for purchase of new land at better margins. Following renewal of the banking facilities the Group is actively seeking new residential sites in order to replace completed sites, increase its number of sales outlets and ultimately to rebuild sales volumes.

Property, Plant and Equipment
The office occupied by Rippon Homes was valued in the year by external valuers. In accordance with the Group's accounting policy for property occupied by the Group for its own purposes it has been included in these accounts at fair value. The resulting increase in value of £0.1m has been included under other comprehensive income in the Group statement of comprehensive income.

Share Capital
Following shareholder approval at the last Annual General Meeting, the Company's ordinary shares of 20p were subdivided into one ordinary share of 1p each and nineteen deferred shares of 1p each to facilitate the issue of further ordinary shares at 14.5p, should Aspen Finance Limited exercise its conversion rights under the convertible loan note issued to it after the year end.

Chris Musselle
Chief Executive
Date 18 December 2012