

ARTESIAN DEVELOPER plc

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DIRECTORS AND ADVISERS

Directors	M.R. Breen A.P. Cunningham
Non-Executive Director	N.J.L. Welch
Joint Secretaries	A.P. Cunningham D.J.T. MacDonald
Registered Office	40, Queen Anne Street, London, W1G 9EL
Auditors	PricewaterhouseCoopers, No. 1 London Bridge, London, SE1 9QL
Transfer Office	60, Webbs Road, London, SW11 6SE
Registered in England	Number 2793529



ARTESIAN DEVELOPER plc**CHAIRMAN'S STATEMENT**

Please find enclosed the directors' report and audited financial statements for the year ended 31 March 2001 and the notice of the Annual General Meeting to be held on 17 September 2001.

The key points in this year's report and accounts:

- Net asset value per share is now £1.49 (2000: £1.41)
- Net assets have increased to £6.16m from £5.92m (adjusted for the 2000 buy back)
- Pre-tax gains £289,000 (2000: £700,000)

Although we are only reporting pre-tax gains of £289,000 and an increase in NAV of £250,000 your board believes that Artesian Property Partnership (APP) and your Company have had another successful year. Development activity within APP has increased dramatically. The current APP development programme now comprises more than 125,000 sq. ft of residential and commercial space with an anticipated completed value of more than £67m. Of this figure, Harlequin Court accounts for more than 40%, with total anticipated resales of over £28m. Contracts have already been exchanged for the sale of flats totalling £19.3m, with a further phase of sales about to be released. We currently anticipate completion of the construction contract by spring 2002 and this should enable us to reflect the sales from this development in this financial year. We also expect to complete the sales of the flats at APP's development in St James's Square during the current financial year, another project which we would expect to make a significant contribution to profitability.

The accounts this year reflect the adoption of a new accounting policy, FRS19 which relates to taxation. Full details of the impact of FRS19 are contained in note 1 to the accounts. The effect of this new accounting standard is perverse. The Company's accounts no longer contain a provision for the tax charge that would be incurred on the realisation of gains represented by the revaluation reserve, tax which almost certainly will be payable. We are required to make provision for additional tax arising by reason of the loss of capital allowances claimed previously, a situation which is most unlikely to arise. Although the net effect of FRS19 in the current year is nominal, in future years the effect may be to misstate the realisable net asset value of the Company. In those circumstances the share sale facility would be based on a recalculated net asset value which would disapply FRS19 as this would maintain consistency with previous years and prevent the share sale facility being priced on a misstated realisable net asset value.

We are also pleased to advise shareholders that Artesian Developments plc and Artesian Developments II plc (the Developments Companies) have been invited to become partners in APP. To avoid any potential conflict (because both the APP companies and the Developments Companies share common executive boards) the interests of the Developments Companies have been represented by their non-executive directors, who have approved the method of calculating the partnership shares of the enlarged partnership on behalf of the Developments Companies.

The basis upon which the Developments Companies have been invited to join is similar to the basis adopted when Artesian Property Partnership was formed. Each of the Developments Companies would have a stake in the enlarged partnership equivalent to the percentage borne by its NAV to the aggregate of the NAV of the existing partner companies plus the NAV of the new partners. As a consequence the value of the shares of the existing partners in APP are not in any way diluted, APP will simply have more partners and the NAV of APP will be increased. Shareholders should, however, be aware that in calculating the revised partnership shares for the enlarged partnership an adjustment has been made in favour of the existing partner companies in respect of a fair proportion of the profits anticipated to be derived from APP developments in the course of construction at 31 March 2001.

ARTESIAN DEVELOPER plc**CHAIRMAN'S STATEMENT**

(continued)

Last summer we received Offers to Sell 503,803 shares and Applications to Purchase 141,100 shares. Having satisfied the applications to purchase in full, all of the shares offered for sale were purchased by Artesian Buy Back Limited. Pursuant to the Resolution passed at the Company's AGM on 19 March 2001 the Company purchased 362,703 shares from Artesian Buy Back Limited which were then cancelled.

Once again shareholders will have the opportunity to offer their shares for sale at a discount of 15% to the audited NAV per share. Shareholders who wish to buy further shares will also have the opportunity to acquire shares at the discounted price (plus approximately 1% to cover broker's commission and stamp duty). **Application forms and a letter setting out details of the arrangements are enclosed with this report. If you do not wish to sell all or part of your shareholding, or do not wish to purchase further shares, you do not need to take any action in response to that letter.**

Shareholders intending to offer to buy or sell shares should read the accompanying letter, the Offer to Sell and the Application to Purchase forms most carefully. Whilst the directors will endeavour to answer any questions shareholders might have regarding the Company or the procedures to be followed, we are unable to advise shareholders as to the action they should take and for such advice shareholders should therefore refer to their own professional or financial advisers.

Your board remains confident in the future of the Artesian companies' ability to deliver good growth on a year on year basis. We hope that you share our confidence and will recognise the significant expansion of our development activities and the potential that the companies' development programme represents.



MARK BREEN
Chairman
26 July 2001

60, Webbs Road,
London, SW11 6SE

ARTESIAN DEVELOPER plc

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The company carries out a wide range of property related activities, including investment, development and trading, and during the year acquired an estate agency business.

RESULTS FOR THE YEAR

The profit for the year before taxation was £191,799 (2000: £441,859) from which has been deducted a corporation tax charge of £40,846 (2000: recovery of £20,077 as restated) to give a profit for the year on ordinary activities after taxation of £150,953 (2000: £461,936 as restated). The revaluation surplus on investment properties before taxation was £96,801 (2000: £258,043). The total recognised gains were £247,754 (2000: £719,979 as restated).

In order to share opportunities and financial resource, especially where the scale of investment is significant, the company, with effect from 1 April 1998, became a partner in the Artesian Property Partnership ("APP"), which has as its partners seven Artesian former Business Expansion Scheme companies. The results reflect the company's 16.39% (2000: 16.45%) share of the results of APP. The basis of preparation of the financial statements is set out in note 1, and financial information relating to APP is set out in note 2.

A review of the development of the business of the company during the year and its year end financial position is contained in the chairman's statement.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The directors have concluded that, in accordance with Financial Reporting Standard 9 "Associates, joint ventures and other joint arrangements", the company's share of APP should be reported as a "joint arrangement". This requires the company to report in its own financial statements its share of the profit and loss account, balance sheet and cash flows of APP. Financial statements of APP have been prepared and audited at 31 March 2001, from which the profit and loss account and balance sheet are set out in note 2.

The share of APP's consolidated results that has been recognised by the company is 16.39% (2000: 16.45%). That share is calculated by reference to the net asset values of all the partners of APP at 1 April 2000, reduced by the costs to the company of the 2000 buy back of its shares, as adjusted for the effect of certain costs and expenses borne directly by the company. The share attributable to the company in the future may vary in line with any fluctuation in the proportion of entitlement that the company may undergo following future amounts returned to shareholders in the company and to the other partners.

The financial statements have been prepared in accordance with Financial Reporting Standard 19 ("FRS 19"), and comparative numbers for the year to 31 March 2000 have been restated to comply with FRS 19. An explanation of the adoption of FRS 19 is set out in "Changes in presentation of financial statements" in Note 1 to the Accounts.

FIXED ASSETS

The movements in fixed assets are shown in notes 8 to 11 to the financial statements. Investment properties, excluding assets in the course of construction, are included at their open market value.

ARTESIAN DEVELOPER plc

REPORT OF THE DIRECTORS

(continued)

CHARITABLE DONATIONS

During the year the company made charitable donations of £515 (2000: £191).

DIRECTORS AND THEIR INTERESTS

The directors during the year and their interests in the shares of the company were as follows:-

	No. of 50p shares as at 31.3.2001 and 31.3.2000	
	Ordinary shares	Founders' shares
M.R. Breen	5,002	25
A.P. Cunningham	2	15
N.J.L. Welch	—	—

M.R. Breen retires as director by rotation but being eligible offers himself for re-election as a director of the company.

DIRECTORS' RESPONSIBILITIES

The directors are required by U.K. company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2001. The directors also confirm that applicable accounting standards have been followed, and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PURCHASE OF OWN SHARES

During the year, the company purchased 362,703 of its ordinary shares of 50p each, which represented 8.05% of the called up share capital. The purchase price was £1.20 per share, and the total consideration together with costs was £442,523. The purchase was made following approval from the shareholders in order to provide a limited exit route to shareholders who had subscribed for shares under the Business Expansion Scheme.

This year, subject to shareholders' approval, the company is proposing to subscribe up to £610,000 in ordinary shares in Artesian Buy Back 2001 Limited which may purchase shares in the company at a price of £1.26. No provision has been made in the financial statements for these amounts.

POST BALANCE SHEET EVENT

Subsequent to the year end, APP acquired the whole of the issued share capital of The Royal Park Hotel Limited, which had previously been owned jointly by Artesian Developments plc and Artesian Developments II plc, of which companies MR Breen and AP Cunningham are directors. It is intended to refurbish the hotel, which is situated near Paddington Station, London, as a four star townhouse hotel.

ARTESIAN DEVELOPER plc

REPORT OF THE DIRECTORS

(continued)

CREDITOR PAYMENT POLICY

While no formal code is adopted, the company's current policy concerning the payment of its trade creditors is, where possible, to settle the terms of payment when agreeing the terms of each transaction, ensure that suppliers are aware of the terms of payment, and pay in accordance with its contractual and other obligations. The company's average creditor payment period at 31 March 2001 was 15 days (2000: 37 days).

AUDITORS

The term of office of the auditors, PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, will expire at the forthcoming annual general meeting. The auditors, being eligible, have indicated their willingness to accept re-appointment.

By order of the Board

D.J.T. MacDonald
Joint Secretary
26 July 2001
40, Queen Anne Street,
London, W1G 9EL



ARTESIAN DEVELOPER plc

REPORT OF THE AUDITORS TO THE MEMBERS OF ARTESIAN DEVELOPER plc

We have audited the financial statements on pages 8 to 31.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the annual report including, as described on page 5, for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

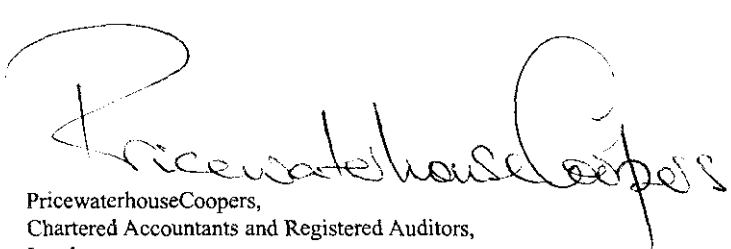
BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the company at 31 March 2001 and of the profit and cash flows of the company for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.


PricewaterhouseCoopers,
Chartered Accountants and Registered Auditors,
London.

26 July 2001

ARTESIAN DEVELOPER plc**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001**

	Note	2001 £	2000 (as restated) £
Turnover	1 and 2		
Continuing operations		1,258,821	683,358
Acquisitions		473,503	—
		<u>1,732,324</u>	<u>683,358</u>
 Cost of sales		 (976,222)	 (279,973)
 Gross profit		 756,102	 403,385
 Net operating expenses		 (670,947)	 (320,724)
 Operating profit			
Continuing operations		91,915	82,661
Acquisitions		(6,760)	—
		<u>85,155</u>	<u>82,661</u>
 Profit on sale of investments		 162,119	 431,194
 Investment income	3	 13,650	 34,667
 Interest payable and similar charges	4	 (69,125)	 (106,663)
 Profit on ordinary activities before taxation	5	 191,799	 441,859
 Tax on profit on ordinary activities	7	 (40,846)	 20,077
 Retained profit	20	 <u>150,953</u>	 <u>461,936</u>

ARTESIAN DEVELOPER plc

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2001

	Note	2001 £	2000 (as restated) £
Retained profit for the financial year		150,953	461,936
Other recognised gains during the year:			
Unrealised surplus on revaluation of investment properties	10	96,801	258,043
Total recognised gains relating to the year		<u>247,754</u>	<u>719,979</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2001

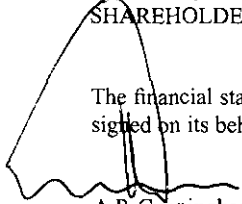
	Note	2001 £	2000 (as restated) £
Reported profit on ordinary activities before taxation		191,799	441,859
Realisation of surplus on revaluation of investment properties	10	62,844	190,769
Historical cost profit on ordinary activities before taxation		<u>254,643</u>	<u>632,628</u>
Historical cost profit for the year retained after taxation		<u>213,797</u>	<u>652,705</u>

ARTESIAN DEVELOPER plc

BALANCE SHEET AT 31 MARCH 2001

	Note	2001 £	2000 (as restated) £
FIXED ASSETS			
Intangible assets	8	606,873	—
Tangible assets	9	311,223	158,509
Investment properties	10	5,628,242	6,425,632
Investments	11	2,479	19,490
		<u>6,548,817</u>	<u>6,603,631</u>
CURRENT ASSETS			
Stock properties	12	2,856,991	464,660
Debtors	13	620,695	1,743,302
Investments	14	819,417	822,500
Cash at bank and in hand	23	122,999	253,114
		<u>4,420,102</u>	<u>3,283,576</u>
CREDITORS: amounts falling due within one year	15	<u>(879,641)</u>	<u>(1,334,316)</u>
NET CURRENT ASSETS		<u>3,540,461</u>	<u>1,949,260</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		10,089,278	8,552,891
CREDITORS: amounts falling due after more than one year	16	<u>(3,862,803)</u>	<u>(2,138,500)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(61,348)</u>	<u>(54,495)</u>
NET ASSETS		<u>6,165,127</u>	<u>6,359,896</u>
CAPITAL AND RESERVES			
Called up share capital	18	2,070,237	2,251,588
Share premium account	19	1,796,601	1,977,952
Capital redemption reserve	19	902,169	539,467
Revaluation reserve	19	418,144	385,632
Profit and loss account	19	977,976	1,205,257
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	<u>6,165,127</u>	<u>6,359,896</u>

The financial statements on pages 8 to 31 were approved by the board of directors on 26 July 2001 and were signed on its behalf by:-


A.P. Cunningham
Director

ARTESIAN DEVELOPER plc

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2001

	Note	2001 £	2001 £	2000 £	2000 £
OPERATING ACTIVITIES					
Net cash flow from operating activities	21		1,278,701		(315,369)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		13,650		34,667	
Interest paid		(69,125)		(106,663)	
Net cash outflow from returns on investments and servicing of finance			(55,475)		(71,996)
TAXATION					
Corporation tax paid			(8,913)		(221,155)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of fixed asset investments	11	(644,909)		(19,377)	
Disposal of fixed asset investments		637,835		—	
Purchase of investment properties	10	(2,970,045)		(3,342,612)	
Disposal of investment properties		1,333,137		3,554,635	
Purchase of tangible assets	9	(144,292)		(90,949)	
Disposal of tangible assets		2,327		8,612	
Purchase of other investments		83		(822,500)	
Net cash outflow from capital expenditure and financial investment			(1,785,864)		(712,191)
ACQUISITIONS AND DISPOSALS					
Purchase of subsidiary undertakings	24	(292,899)		—	
Cash acquired with subsidiaries		5,739		—	
Net cash outflow from acquisitions and disposals			(287,160)		—
DECREASE IN CASH BEFORE FINANCING					
			(858,711)		(1,320,711)
FINANCING					
Purchase of own shares		(442,523)		(576,732)	
Reduction in debt due within one year		(481,824)		—	
Increase in debt due after one year		1,569,470		1,296,797	
Net cash inflow from financing			645,123		720,065
DECREASE IN CASH	22		(213,588)		(600,646)

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001****1 PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. However, compliance with SSAP 19 "Accounting for investment properties (revised)" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in the note relating to tangible fixed assets below. A summary of the more important accounting policies is set out below.

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The directors have concluded that, in accordance with Financial Reporting Standard 9 "Associates, joint ventures and other joint arrangements", the company's share of Artesian Property Partnership ("APP") should be reported as a "joint arrangement". This requires the company to report in its own financial statements its share of the profit and loss account, balance sheet and cash flows of APP. Financial statements of APP have been prepared and audited at 31 March 2001, from which the profit and loss account and balance sheet are set out in note 2. The directors have taken advantage of the exemption in Section 229 (2) of the Companies Act 1985 and in FRS 2 from the requirement to prepare consolidated accounts in respect of the company and its dormant subsidiary, as the inclusion of that subsidiary is not material for the purpose of giving a true and fair view.

The share of APP's consolidated results that has been recognised by the company is 16.39% (2000:16.45%). That share is calculated by reference to the net asset values of all the partners of APP at 1 April 2000, reduced by the costs to the company of the 2000 buy back of shares, as adjusted for the effect of certain costs and expenses borne directly by the company. The share attributable to the company in the future may vary in line with any fluctuation in the proportion of entitlement that the company may undergo following future amounts returned to shareholders in the company and to the other partners.

ACQUISITIONS

On the acquisition of a business, fair values are attributed to the company's share of net separable assets. The excess of the cost of the acquisition over those fair values is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

The results and cash flows relating to acquired businesses are included in the profit and loss account and cash flows statement from the date of acquisition.

INTANGIBLE FIXED ASSETS

Capitalised goodwill is carried as an intangible fixed asset, and is amortised over its estimated useful life, which, for the agency businesses, is assumed to be between 10 and 20 years.

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

TANGIBLE FIXED ASSETS

Investment properties (see also note 10)

In accordance with SSAP 19, the investment property portfolio of the company is revalued annually on an open market value basis by appropriately qualified external valuers and by the executive directors. Any revaluation surplus or deficit arising is taken to the revaluation reserve except where the deficit is considered to be permanent. Permanent deficits are taken to the profit and loss account.

No depreciation or amortisation is provided in respect of freehold or leaseholds of over 50 years investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors believe that, as these properties are not held for consumption but investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

Investment properties are included at their full cost in the accounts once an irrevocable purchase contract has been entered into.

Investment properties are reported as sold at the date of exchange of a sale contract.

Assets in the course of construction are carried at cost which includes financing costs and own labour costs where relevant, and are reclassified as investment properties as soon as they are available for letting. All subsequent costs, including financing costs and own labour costs, are written off as they are incurred.

Investments

Listed investments are valued at market value.

Tangible assets

The cost of other tangible fixed assets is their purchase price, together with any incidental costs of acquisition.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets (other than investment properties), less their estimated residual values, on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold properties	-	2%
Short leasehold properties	-	over the life of the lease
Property fixtures, fittings and equipment	-	25%
Hotel fixtures, fittings and equipment	-	20%, 10% and 5%
Business centre fixtures, fittings and equipment	-	33%, 10% or over the life of the lease
Computer equipment	-	33%
Office fixtures, fittings and equipment	-	20%
Motor vehicles	-	20%

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

TURNOVER

Turnover comprises gross rental income receivable during the year, the sale of stock properties and estate agency fees, and was all derived from U.K. activities.

DEFERRED TAXATION (see also "Changes in presentation of financial statements")

Deferred taxation is provided at the current rate on timing differences that have originated but not reversed by the balance sheet date. Deferred taxation is not provided on unrealised revaluation gains on investment properties, unless, by the balance sheet date, the company has entered into a binding agreement to sell the revalued property and has recognised the gains and losses expected to arise from the sale. Deferred tax assets are recognised to the extent that it is more likely than not that the assets will be recovered. Deferred tax assets and liabilities are not discounted.

STOCKS

Properties carried as stock are valued at the lower of cost and net realisable value. Cost includes the purchase cost and associated acquisition costs, and, for development properties, building costs, financing costs and own labour costs.

OPERATING LEASES

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

CHANGES IN PRESENTATION OF FINANCIAL STATEMENTS

FRS 19, effective for accounting periods ending on or after 23 January 2002, but for which earlier adoption is encouraged, does not permit deferred taxation to be recognised on the unrealised revaluation gains on investment properties, unless, by the balance sheet date, the company has entered into a binding agreement to sell the revalued property and has recognised the gains and losses expected to arise on the sale.

In previous years, the company had recognised deferred tax on the unrealised revaluation gains on investment properties, as the directors considered that this recognition provided shareholders with a more accurate understanding of the post tax value of the investment properties that could be realised on a future disposal.

Further, FRS 19 requires recognition of deferred tax to be made in respect of all timing differences that have originated but not reversed by the balance sheet date, and where capital allowances for the cost of a fixed asset are received before or after the cost of the fixed asset is recognised in the profit and loss account.

In previous years, no recognition had been made of the deferred tax on capital allowances received on investment properties or those in the course of construction, as the directors considered that agreement would be reached with the purchasers of investment properties that were sold as to the tax written down value of those investment properties, such that none of the allowances received would be repayable. This had been the experience of the company to date.

In consequence of the changes required by FRS 19, certain balance sheet and profit and loss items at 31 March 2000 have been restated to comply with FRS 19, as set out below:

Deferred tax (Note 17): reduced by £52,441 to reflect the release of deferred tax on revaluation gains on investment properties, and increased by £48,513 to recognise additional deferred tax on timing differences.

Revaluation reserve (Note 19): reduced by £238,937 to reflect the release of deferred tax on revaluation gains on investment properties.

Profit and loss account (Note 19): increased by £242,865 to reflect the net effect of the restatements.

Tax recovery on the profit on ordinary activities (Note 7): reduced by £4,362 to recognise additional deferred tax on timing differences, and reduced by £18,270 to reflect the reversal of the release of deferred tax on realised revaluation gains.

The net effect on shareholders' funds at 31 March 2000 arising from these changes is an increase of £3,928.

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 MARCH 2001

(continued)

2. ARTESIAN PROPERTY PARTNERSHIP

2.1 With effect from 1 April 1998, the company became a partner in Artesian Property Partnership ("APP"). The other partners are Artesian Challenger plc, Artesian Competitor plc, Artesian Performer plc, Artesian Performer II plc, Artesian Select plc and Artesian Select II plc. M.R. Breen, A.P. Cunningham and N.J. L. Welch are directors of each of the partner companies. The principal place of business of APP is 60 Webbs Road, London, SW11 6SE.

2.2. The audited profit and loss accounts of APP for the year ended 31 March are set out below:

	APP	APP	Share attributable to the company 16.39%	Share attributable to the company 16.45%
	2001	2000	2001	2000
	£	£	£	£
Turnover				
Continuing operations	7,681,198	4,154,149	1,258,821	683,358
Acquisitions	2,889,268	—	473,503	—
	<u>10,570,466</u>	<u>4,154,149</u>	<u>1,732,324</u>	<u>683,358</u>
Costs of sales	(5,956,810)	(1,701,962)	(976,222)	(279,973)
	<u>4,613,656</u>	<u>2,452,187</u>	<u>756,102</u>	<u>403,385</u>
Gross profit				
Net operating expenses	(3,907,563)	(1,825,689)	(640,385)	(300,326)
	<u>706,093</u>	<u>626,498</u>	<u>115,717</u>	<u>103,059</u>
Operating profit				
Continuing operations	747,342	626,498	122,477	103,059
Acquisitions	(41,249)	—	(6,760)	—
	<u>706,093</u>	<u>626,498</u>	<u>115,717</u>	<u>103,059</u>
Profit on sale of investments	989,233	2,621,240	162,119	431,194
Investment income	83,293	210,739	13,650	34,667
Interest payable and similar charges	(421,795)	(648,408)	(69,125)	(106,663)
	<u>1,356,824</u>	<u>2,810,069</u>	<u>222,361</u>	<u>462,257</u>
Profit on ordinary activities before taxation				
Tax on profit on ordinary activities	(92,880)	(37,633)	(15,222)	(6,191)
	<u>1,263,944</u>	<u>2,772,436</u>	<u>207,139</u>	<u>456,066</u>
Profit on ordinary activities after taxation				
Partners' drawings	(379,358)	(236,423)	(56,186)	5,870
	<u>884,586</u>	<u>2,536,013</u>	<u>150,953</u>	<u>461,936</u>
Retained profit				

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

2. ARTESIAN PROPERTY PARTNERSHIP (continued)

2.3 The audited balance sheets of APP at 31 March are set out below:

	APP	APP (as restated)	Share attributable to the company 16.39%	Share attributable to the company 16.45%
	2001	2000	2001	2000
	£	£	£	£
Intangible assets	3,703,077	—	606,873	—
Tangible fixed assets	1,899,049	963,583	311,223	158,509
Investment properties	34,342,960	39,061,590	5,628,242	6,425,632
Investments	15,131	117,784	2,479	19,490
	<u>39,960,217</u>	<u>40,142,957</u>	<u>6,548,817</u>	<u>6,603,631</u>
Current assets:				
Stock properties	17,433,068	2,824,682	2,856,991	464,660
Debtors	3,467,464	11,449,278	620,695	1,743,302
Investments	5,000,000	5,000,000	819,417	822,500
Cash	750,523	1,539,382	122,999	253,114
	<u>26,651,055</u>	<u>20,813,342</u>	<u>4,420,102</u>	<u>3,283,576</u>
Creditors: amounts falling due within one year	(5,458,479)	(9,493,460)	(940,989)	(1,388,811)
Net current assets	<u>21,192,576</u>	<u>11,319,882</u>	<u>3,479,113</u>	<u>1,894,765</u>
Total assets less current liabilities	61,152,793	51,462,839	10,027,930	8,498,396
Creditors: amounts falling due after more than one year	(23,570,432)	(13,000,000)	(3,862,803)	(2,138,500)
Net assets	<u><u>37,582,361</u></u>	<u><u>38,462,839</u></u>	<u><u>6,165,127</u></u>	<u><u>6,359,896</u></u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

2. ARTESIAN PROPERTY PARTNERSHIP (continued)

2.4 The analysis of turnover, operating profit and net assets of APP is as follows:

	Turnover		Operating profit		Net assets	
	2001	2000	2001	2000	2001	2000 (as restated)
	£	£	£	£	£	£
Class of business:						
Continuing operations:						
Rental	3,546,045	3,211,051			39,276,406	48,571,040
Trading	4,135,154	943,098			17,433,069	2,744,682
	<u>7,681,199</u>	<u>4,154,149</u>	<u>747,342</u>	<u>626,498</u>	<u>56,709,475</u>	<u>51,315,722</u>
Acquisitions:						
Estate agency	2,889,268	—	(41,249)		4,297,747	—
	<u>10,570,467</u>	<u>4,154,149</u>	<u>706,093</u>	<u>626,498</u>		
Creditors: due after more than one year					(23,570,431)	(13,000,000)
Other fixed asset investments					145,571	147,117
					<u>37,582,361</u>	<u>38,462,839</u>

3 INVESTMENT INCOME

	2001	2000
	£	£
Other interest receivable and similar income	13,650	34,667
	<u>13,650</u>	<u>34,667</u>

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 MARCH 2001

(continued)

4 INTEREST PAYABLE AND SIMILAR CHARGES	2001	2000
	£	£
Interest payable on bank loans and overdrafts	247,764	132,551
Less: capitalised in respect of stock and assets in the course of construction	(178,639)	(25,888)
	<u>69,125</u>	<u>106,663</u>
 5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	 2001	 2000
This is stated after charging:-	£	£
Depreciation (notes 1 and 9)	48,186	25,551
Amortisation of goodwill	17,167	-
Operating lease rentals:-		
Other operating leases	72,224	46,389
Auditors' remuneration:-		
Audit services	11,865	12,749
 6 EMPLOYEE INFORMATION	 2001	 2000
	£	£
6.1 Staff costs including directors' emoluments:-		
Wages and salaries	360,168	73,659
Social security costs	33,617	11,509
	393,785	85,168
Less: capitalised in respect of stock and assets in the course of construction	(13,583)	-
	<u>380,202</u>	<u>85,168</u>
6.2 Directors' remuneration comprises:-		
Directors' fees	27,660	21,410
6.3 The average weekly number of employees of APP, including company's directors, during the year was 126 (2000: 18), including 105 (2000: nil) in the agency business.		

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001**

(continued)

7 TAXATION

The tax charge (2000: recovery) on the profit on ordinary activities for the year is as follows:

	2001	2000
	£	£
U.K. corporation tax at 20% (2000: 20%)	35,121	51,386
Over provision in prior year	(1,128)	(81,807)
Deferred taxation provided	6,853	10,344
	<u>40,846</u>	<u>(20,077)</u>

8 INTANGIBLE ASSETS

	Goodwill £
COST	
At 1 April 2000	—
Additions	624,040
At 31 March 2001	<u>624,040</u>
AMORTISATION	
At 1 April 2000	—
Charge for the year	17,167
At 31 March 2001	<u>17,167</u>
NET BOOK VALUE	
At 31 March 2001	<u>606,873</u>
At 31 March 2000	<u>—</u>

On the acquisition of a business, fair values are attributed to the company's share of net separable assets. The excess of the cost of the acquisition over those fair values is treated as purchased goodwill and capitalised in the year of acquisition. Goodwill is amortised over its estimated useful economic life, which, for the agency businesses, is assumed to be between 10 and 20 years.

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

9 TANGIBLE ASSETS

	Freehold property	Short leasehold properties	Investment property	Fixtures, fittings and equipment :- Office	Motor vehicles	TOTAL
	£	£	£	£	£	£
COST						
At 1 April 2000	—	1,495	224,599	27,101	22,260	275,455
Adjustment in share of APP	—	(6)	(842)	(102)	(84)	(1,034)
Acquired with subsidiaries	32,346	22,308	—	86,336	18,991	159,981
Additions	—	41,241	60,214	28,761	14,076	144,292
Disposals	—	—	(69,035)	(1,006)	(15,757)	(85,798)
At 31 March 2001	32,346	65,038	214,936	141,090	39,486	492,896
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION						
At 1 April 2000	—	782	90,289	19,777	6,098	116,946
Adjustment in share of APP	—	(3)	(338)	(74)	(23)	(438)
Acquired with subsidiaries	4,249	14,686	—	69,201	12,314	100,450
Charge for the year	30	2,512	22,997	7,751	14,896	48,186
Disposals	—	—	(68,831)	(310)	(14,330)	(83,471)
At 31 March 2001	4,279	17,977	44,117	96,345	18,955	181,673
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUE						
At 31 March 2001	28,067	47,061	170,819	44,745	20,531	311,223
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 2000	—	713	134,310	7,324	16,162	158,509
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

10 INVESTMENT PROPERTIES

	Freehold property £	Leasehold property £	TOTAL £
COST			
At 1 April 2000	3,661,003	294,490	3,955,493
Adjustment in share of APP	(13,722)	(1,104)	(14,826)
Additions	741,906	36,443	778,349
Disposals	(1,084,183)	—	(1,084,183)
At 31 March 2001	<u>3,305,004</u>	<u>329,829</u>	<u>3,634,833</u>
VALUATION SURPLUS			
At 1 April 2000			385,632
Adjustment in share of APP			(1,445)
Transfer on realisation of surplus			(62,844)
Increase in valuation in the year			96,801
At 31 March 2001			<u>418,144</u>
ASSETS IN THE COURSE OF CONSTRUCTION - at cost			
At 1 April 2000			2,084,507
Adjustment in share of APP			(7,813)
Additions			2,191,696
Transfer to stock			(2,693,125)
At 31 March 2001			<u>1,575,265</u>
TOTAL			
At 31 March 2001			<u>5,628,242</u>
At 31 March 2000			<u>6,425,632</u>

Should the above revalued properties be sold at those revalued amounts, a taxation liability of £62,544 would arise, for which no provision has been made as set out in note 17.

Investment properties and assets in the course of construction include the following capitalised costs:

	Interest £	Own labour £
At 1 April 2000	25,888	—
Transferred to stock	(25,888)	—
Capitalised in the year	24,527	4,610
At 31 March 2001	<u>24,527</u>	<u>4,610</u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

10 INVESTMENT PROPERTIES (continued)

The investment properties, excluding assets in course of construction, have been stated at open market value at 31 March 2001 of £4,052,977 as valued by:

- Messrs. Donaldsons, Chartered Surveyors, for properties of APP valued in total at £8,670,250, of which the company's share is £1,420,910;
- Messrs. Bidwells, Chartered Surveyors, for one property of APP valued at £1,230,000, of which the company's share is £201,577; and
- The company's directors for properties of APP, including those acquired during the year, of, in total £14,830,601, of which the company's share is £2,430,490.

11 INVESTMENTS: fixed assets

	2001 £	2000 £
Listed investments:		
At 1 April	19,377	—
Adjustment in share of APP	(94)	—
Additions	82,451	19,377
Disposals	(101,734)	—
At 31 March	—	19,377
Unlisted investments:		
Subsidiary undertaking; ordinary shares at cost		
At 1 April	113	113
Adjustment in share of APP	(92)	—
	21	113
Other investments; ordinary shares at cost		
At 1 April	—	—
Additions	562,458	—
Disposals	(560,000)	—
At 31 March	2,458	—
Total investments	2,479	19,490

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

11 INVESTMENTS: fixed assets (continued)

11.1 ACQUISITIONS

a) During the year, APP acquired 100% of the ordinary share capital of JSS (London Residential) Limited, an estate agency business, for a consideration of £1, together with the assumption of various liabilities, including payment of an amount of inter-company debt due to the vendor. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising on the acquisition is £384,782, of which the company's share of £63,066 has been capitalised, and is amortised over its estimated useful economic life. The company's share of the consideration was £12,068.

The profits after taxation of JSS (London Residential) Limited for the period from 1 January 2000 to the date of acquisition, 14 April 2001, were £21,651, and for the previous year ended 31 December 1999 were £173,704.

The following table sets out the fair value adjustments made to the book value of assets and liabilities acquired by APP:

	Book amount	Release of liability due to vendors	Alignment of accounting policies	Fair value to APP
	£	£	£	£
Tangible fixed assets	89,787	—	—	89,787
Current assets	319,065	—	—	319,065
Creditors	(844,272)	72,562	51,717	(719,993)
Fair value of net assets acquired	<u>(435,420)</u>	<u>72,562</u>	<u>51,717</u>	<u>(311,141)</u>
Goodwill				384,782
Cost of acquisition				<u>73,641</u>
Consideration:				£
Cash				1
Costs of acquisition				73,640
				<u>73,641</u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

11 INVESTMENTS: fixed assets (continued)

b) During the year, JSS (London Residential) Limited and its subsidiary companies acquired:

100% of the issued share capital of Townchoice Holdings Limited for consideration of £110,002, plus acquisition costs;

the trade and assets of Frank Harris and Co. for consideration of £1,000,000, plus acquisition costs;

the trade and assets of Brennan Residential for consideration of £310,450, plus acquisition costs; and

100% of the issued share capital of Homewood Properties Limited for consideration of £301,703.

The fair values of the assets and liabilities of each of the acquisitions are set out below.

	Townchoice Holdings Limited			Homewood Properties Limited	Frank Harris and Co.	Brennan Residential	Total
	book value at acquisition	fair value adjustment	fair value at acquisition	book and fair value at acquisition	book and fair value at acquisition	book and fair value at acquisition	
	£	£	£	£	£	£	£
Tangible fixed assets	266,942		266,942	5,378	1,175	5,000	278,495
Debtors	122,217		122,217	10,160	—	—	132,377
Cash at bank	4,762		4,762	34,371	—	—	39,133
Creditors	(1,083,275)	70,002	(1,013,273)	(56,548)	—	—	(1,069,821)
Bank overdrafts	(42,789)		(42,789)	—	—	—	(42,789)
Loans	(992,368)		(992,368)	—	—	—	(992,368)
Fair value of net assets acquired			(1,654,509)	(6,639)	1,175	5,000	(1,654,973)
Goodwill			1,765,061	308,342	1,023,702	325,945	3,423,050
Consideration (satisfied by cash)			110,552	301,703	974,877	330,945	1,718,077
Deferred consideration			—	—	50,000	—	50,000
			110,552	301,703	1,024,877	330,945	1,768,077

The deferred consideration is payable in eight quarterly tranches over two years following acquisition. The fair value adjustment was made to achieve consistency of accounting policies.

These acquisitions have been accounted for using the acquisition method of accounting. The amount of goodwill arising on the acquisition is £3,423,050, of which the company's share of £560,974 has been capitalised, and is amortised over its estimated useful economic life.

The company's share of consideration was £280,831.

c) During the year the company subscribed £560,000 for shares in Artesian Buy Back Limited, which was placed in members' voluntary liquidation prior to the year end.

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 MARCH 2001

(continued)

11 INVESTMENTS: fixed assets (continued)**11.2 SUBSIDIARY UNDERTAKING**

The company owns the whole of the issued share capital of £2 of Speed 6835 Limited, a dormant company incorporated in Great Britain.

12 STOCK PROPERTIES

	2001 £	2000 £
Trading properties	163,866	464,660
Property in course of development	2,693,125	—
	<u>2,856,991</u>	<u>464,660</u>

	Interest £	Own labour £
At 1 April 2000	—	—
Transferred from assets in the course of construction	25,888	—
Capitalised in the year	154,112	8,973
At 31 March 2001	<u>180,000</u>	<u>8,973</u>

13 DEBTORS

	2001 £	2000 £
Amounts falling due after more than one year:		
Other debtors	5,736	5,000
Amounts falling due within one year:		
Trade debtors	166,343	112,957
Amounts due from APP partners	3,711	64,275
Corporation tax	48,723	29,868
Other debtors	344,262	1,524,950
Prepayments and accrued income	51,920	6,252
	<u>614,959</u>	<u>1,738,302</u>
Total debtors	<u>620,695</u>	<u>1,743,302</u>

Other debtors includes £167,524 of sale proceeds (2000: £1,495,098).

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001**

(continued)

14 INVESTMENTS: current assets

	2001	2000
	£	£
Loan advance to a third party	819,417	822,500

In July 1999, Blockclause Limited ("Blockclause"), a wholly owned subsidiary of APP, acquired for a total cost of £5,238,124 an interest in a property on which it has entered into an option agreement with the operator of that property. The operator pays rent on that property to Blockclause during the period of the arrangement. The transaction has been accounted for as a finance arrangement in accordance with FRS 5, and the company's share is disclosed as a loan advance. Rental due in the year has been recognised as rental income.

The option arrangement has a primary period of 54 months. The operator can exercise a call option prior to 29 September 2004 at prices greater than the cost to Blockclause. Should the call option be exercised before 30 September 2001, the consideration for terminating the arrangement will be £5,337,500; after 30 September 2001 but before 30 September 2002 the consideration will be £5,487,500, and after 30 September 2002 but before 30 September 2004 the consideration will be £5,687,500. APP can exercise a put option between 1 October 2004 and 31 October 2004 which would require the operator to pay £5,687,500. The company's share of the gain that would arise on an exercise of an option will be recognised only when an option is exercised.

15 CREDITORS: amounts falling due within one year

	2001	2000
	£	£
Bank loans and overdrafts	548,148	1,043,937
Net obligations under finance leases and hire purchase contracts	10,157	—
Trade creditors	39,958	28,376
Corporation tax	43,935	—
Taxation and social security	43,901	—
Other creditors	96,727	153,414
Accruals	96,815	108,589
Total creditors	879,641	1,334,316

The bank loans of APP are secured, denominated in sterling and the interest thereon is linked to either three month LIBOR or bank base rate. The bank loans are secured by fixed charges on various investment properties.

ARTESIAN DEVELOPER plc**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2001**

(continued)

16 CREDITORS: amounts falling due after more than one year

	2001 £	2000 £
Bank loans repayable other than by instalment:		
Between one and two years	1,466,210	—
Between two and five years	2,393,188	2,138,500
	<u>3,859,398</u>	<u>2,138,500</u>
Net obligations under finance leases and hire purchase contracts	3,405	—
	<u>3,862,803</u>	<u>2,138,500</u>

The bank loans of APP are secured, denominated in sterling and the interest thereon is linked to bank base rate. The bank loans are secured by fixed charges on various investment properties, a loan advance to a third party and properties in the course of construction. Loans are repayable between 2002 and 2004.

17 PROVISION FOR LIABILITIES AND CHARGES**DEFERRED TAX**

	2001 £	2000 (as restated) £
At 1 April	54,495	44,151
Provided in the year on timing differences	6,853	10,344
	<u>61,348</u>	<u>54,495</u>
At 31 March		

In accordance with FRS 19, no deferred tax has been provided on the unrealised revaluation gains on investment properties. In prior years, such provision was made. The taxation that would arise if the revalued properties were sold at their revalued amounts would be £62,544 (2000: £53,244).

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

18 SHARE CAPITAL

			2001	2000
			£	£
Authorised:-				
100 Founders' shares of 50p each			50	50
5,999,900 Ordinary shares of 50p each			2,999,950	2,999,950
			<u>3,000,000</u>	<u>3,000,000</u>
	2001	2000	2001	2000
Allotted, called up and fully paid:-				
	Number of shares		£	£
Founders' shares of 50p each	100	100	50	50
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ordinary shares of 50p each				
At 1 April	4,503,077	5,048,504	2,251,538	2,524,252
Cancelled on share buy back during the year	(362,703)	(545,427)	(181,351)	(272,714)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March	4,140,374	4,503,077	2,070,187	2,251,538
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total share capital	4,140,474	4,503,177	2,070,237	2,251,588
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

19 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account	Capital redemption reserve	Revaluation reserve (as restated)	Profit and loss account (as restated)
	£	£	£	£
At 1 April 2000	1,977,952	539,467	385,632	1,205,257
Adjustment in share of APP	-	-	(1,445)	1,445
Cancellation of shares on 2000 buy back and costs	(181,351)	362,702	-	(442,523)
Transfer of realised revaluation surplus	-	-	(62,844)	62,844
Revaluation surplus on investment properties	-	-	96,801	-
Retained profit for the year	-	-	-	150,953
At 31 March 2001	<u>1,796,601</u>	<u>902,169</u>	<u>418,144</u>	<u>977,976</u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

20 RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

	2001	2000 (as restated)
	£	£
Shareholders' funds at 1 April	6,359,896	6,216,649
Cancellation of shares on buy back	(442,523)	(576,732)
Profit for the year	150,953	461,936
Other recognised gains relating to the year	96,801	258,043
Shareholders' funds at 31 March	<u>6,165,127</u>	<u>6,359,896</u>

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2001	2000
	£	£
Operating profit before taxation	85,155	82,661
Depreciation and amortisation	65,353	25,551
Decrease/(increase) in debtors	1,142,528	(144,303)
Decrease/(increase) in stock	299,099	(329,769)
(Decrease)/increase in creditors	(313,434)	50,491
Net cash flow from operating activities	<u>1,278,701</u>	<u>(315,369)</u>

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2001 £	2000 £
Decrease in cash	(213,588)	(600,646)
Decrease in debt due within one year	481,824	—
Increase in debt due after one year	(1,569,470)	(1,296,797)
Changes in net debt	(1,301,234)	(1,897,443)
Loans acquired with subsidiaries	(162,633)	—
Non-cash changes	95,081	117,912
Net debt at 1 April	(2,929,323)	(1,149,792)
Net debt at 31 March	(4,298,109)	(2,929,323)

23 ANALYSIS OF CHANGES IN NET DEBT

	Net debt at 1 April 2000 £	Cash flow £	Acquisition of subsidiaries £	Non- cash changes £	Net debt at 31 March 2001 £
Cash at bank	253,114	(213,588)	—	83,473	122,999
Debt due within one year	(1,043,937)	481,824	—	3,808	(558,305)
Debt due after one year	(2,138,500)	(1,569,470)	(162,633)	7,800	(3,862,803)
Net debt at 31 March	(2,929,323)	(1,301,234)	(162,633)	95,081	(4,298,109)

The non-cash changes arise from the differences between the composition of the company's share of APP's net assets at 1 April 2000 and the composition of those attributed to the company by APP following the 2000 buy back of shares.

24 PURCHASE OF SUBSIDIARY UNDERTAKINGS

The company's share of the fair value of net assets acquired, consideration and goodwill arising on APP's purchase of subsidiary undertakings is as follows:

	£
Tangible assets	59,531
Debtors	67,645
Creditors	(301,423)
Loans	(162,633)
	(336,880)
Consideration	292,899
Cash acquired with subsidiaries	(5,739)
Goodwill	624,040

ARTESIAN DEVELOPER plc

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

(continued)

25 DIRECTORS' INTEREST IN CONTRACTS

- 25.1 M.R. Breen has an interest in Epicwork Limited which provided property services to the value of £27,854 (2000: £17,516) including VAT to the company, and £44,249 (2000: £26,320) to APP. Epicwork also charged for the services of R.C. Breen to the agency business, for which the company's share was £4,917. At 31 March 2001 there was no balance due to that company.
- 25.2 N.J.L. Welch has an interest in G&W Projects Limited, which provided project management and surveying services of £23,447 (2000: £13,473) to APP and was re-imbursed for costs incurred for APP of £25,840. At 31 March 2001 there was no balance due to that company.

26 CAPITAL COMMITMENTS AND GUARANTEES

- 26.1 There is future capital expenditure contracted by APP but not provided for relating to property construction and refurbishment of £6,127,000.
- 26.2 APP has entered into operating leases on leasehold properties. The company's share of annual payments due under non-cancellable operating leases is as follows:

	Land and buildings		Other	
	2001	2000	2001	2000
	£	£	£	£
Expiry date:				
Within one year	14,124	—	580	—
Between two and five years	32,529	—	10,063	—
In over five years	57,769	38,883	—	—
	<u>104,422</u>	<u>38,883</u>	<u>10,643</u>	<u>—</u>

- 26.3 APP has guaranteed various operating lease payments by a tenant. The company's share of annual payments due under those non-cancellable operating leases is as follows:

	2001	2000
	£	£
Expiring between two and five years	<u>38,672</u>	<u>38,883</u>

ARTESIAN DEVELOPER plc



ARTESIAN DEVELOPER plc**NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Annual General Meeting of Artesian Developer plc (the company) will be held at:-

The East India Club,
16, St. James Square,
London, SW1

at 2.00pm on 17 September 2001, for the transaction of the following business:-

To read the notice convening the meeting.

To note the presentation of proxies.

To approve the following resolutions, all of which will be proposed as Ordinary Resolutions:-

- 1 To receive and adopt the directors' report and financial statements for the year ended 31 March 2001.
- 2 To re-elect M.R. Breen as a director of the company.
- 3 To re-appoint PricewaterhouseCoopers as auditors in accordance with Section 384 of the Companies Act 1985 to hold office from the conclusion of the Annual General Meeting and to authorise the directors to fix the remuneration of the auditors.

To approve the following resolution, which will be proposed as a Special Resolution:

- 4 That the proposed subscription by the company of £610,000 for 1,220,000 ordinary shares of 50p each in Artesian Buy Back 2001 Limited (as described in the letter to shareholders dated 26 July 2001 (the Letter)) be and is hereby approved and that the directors of the company (or a duly constituted committee thereof) be and are hereby authorised to do all such things as they may consider to be necessary or desirable to implement the subscription on the terms described in the Letter and on such amended terms (not being amendments of a material nature) as they may approve.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him/her. A proxy need not be a member of the company. A Form of Proxy is enclosed.

The Register of directors' shareholdings will be available for inspection during the meeting.

By order of the board,

Dated 26 July 2001

D.J.T. MacDonald
Joint Secretary

Registered Office:
40, Queen Anne Street,
London, W1G 9EL

ARTESIAN DEVELOPER plc



ARTESIAN DEVELOPER plc

For use by the holders of ordinary shares

FORM OF PROXY

I
(IN BLOCK CAPITALS PLEASE)

of
being a member of Artesian Developer plc hereby appoint M. R. Breen or, failing him, A. P. Cunningham both
directors of the company, or as my proxy to vote for me and
on my behalf at the Annual General Meeting of the company to be held on 17 September 2001, and at every
adjournment thereof.

Dated2001

Signature

ORDINARY RESOLUTIONS	FOR	AGAINST
1 Adoption of the report of the directors, report of the auditors and the accounts for the year ended 31 March 2001.		
2 To re-elect M.R. Breen as a director of the company.		
3 To re-appoint PricewaterhouseCoopers as the company's auditors and to authorise the directors to fix their remuneration.		

SPECIAL RESOLUTION	FOR	AGAINST
4 That the proposed subscription by the company of £610,000 for 1,220,000 ordinary shares of 50p each in Artesian Buy Back 2001 Limited (as described in the letter to shareholders dated 26 July 2001 (the Letter)) be and is hereby approved and that the directors of the company (or a duly constituted committee thereof) be and are hereby authorised to do all such things as they may consider to be necessary or desirable to implement the subscription on the terms described in the Letter and on such amended terms (not being amendments of a material nature) as they may approve.		

Notes

- 1 To be valid this proxy form, duly completed, must be lodged at 60 Webbs Road, London SW11 6SE not later than 15 September 2001.
- 2 In the case of joint holders the signature of the senior holder will be accepted.
- 3 If any other proxy be preferred strike out the names above and substitute the name(s) of the proxy or proxies in the space provided.
- 4 A proxy holder need not be a member of the company.
- 5 The completion and return of the form of proxy will not preclude ordinary shareholders attending and voting at the Meeting should they decide to do so.