ARTESIAN DEVELOPMENTS III plc

Annual report for the year ended 31 March 2000

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DIRECTORS AND ADVISERS

Directors	M.R. Breen A.P. Cunningham N.J.L. Welch C. O'Donoghue
Company Secretaries	A.P. Cunningham D.J.T. MacDonald
Auditors	PricewaterhouseCoopers No. 1, London Bridge, London, SE1 9QL
Registered office	40 Queen Anne Street, London, W1M 0EL

Registered Number: 3300825

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Chairman's statement
for the year ended 31 March 2000

Dear Shareholder,

I am delighted to be able to report the successful conclusion of the company's first development in Clapham, London SW4 and the commencement of a second development project in Pimlico, London SW1.

All of the houses at the company's development at Edgeley Road in Clapham were sold before the year end generating a profit after the management incentive but before tax of nearly £500,000. This development has generated return of 39% on the company's initial capital (net of issue costs) part of which has been distributed to shareholders by way of interim dividend paid earlier this year, with a further final dividend for the year of 5.12p to be proposed at the company's AGM.

Construction work has already started on the company's next development being the conversion of a pair of houses in Cambridge Street, London SW1 into 7 one, two and three bedroom flats with marketing of these flats due to commence in the Autumn.

As set out in the company's prospectus 60% of the post tax profits are attributed to the ordinary shareholders. Out of these profits a dividend of 5.12p per share was paid in January of this year and a further 5.12p is now proposed to be paid and the balance of the net profits, amounting to over £246,000, will be transferred to reserves. The "A" shareholders' share of profits in the sum of £172,909, is being paid by way of dividend. The "A" shares are held by Artesian Management Limited, a company owned by my fellow executive director Paul Cunningham and me. As shareholders may recall the management incentive is principally by way of a share of profits and not through project management or transaction fees.

The company has completed three years of qualifying activities in accordance with the EIS rules and accordingly will be unrestricted in its future business. The company will therefore no longer be limited to developments or prohibited from investment transactions and joint ventures.



Mark Breen
Chairman
14 August 2000

Directors' report
for the year ended 31 March 2000

Principal activity

The company's principal activity is property development.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends and transfers to reserves

The directors paid a dividend of 5.12 pence per ordinary share, amounting to £43,955 during the year, and propose a further dividend of 5.12 pence per ordinary share amounting to £43,955 to be paid. An amount of £172,909 is also payable as "A" shareholders' dividends. The profit (1999: loss) for the financial year of £246,139 (1999: loss of £27,419) will be transferred to reserves.

Directors and their interests

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

	No. of 50p Ordinary shares held at 1 April 1999 and 31 March 2000
M.R. Breen	2
A.P. Cunningham	2
N. J. L. Welch	–
C. O'Donoghue	–

M.R. Breen and A.P. Cunningham are directors of and the shareholders in Artesian Management Limited which holds 100 "A" shares in the company.

Taxation status

The directors consider that the close company provisions of the Income and Corporation Taxes Act 1988 Part XI do not apply to the company.

Directors' report (continued)

Directors' responsibilities

The directors are required by UK 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 or loss 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 2000. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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 legal obligations. The company's average creditor payment period at 31 March 2000 was 24 days (1999: 60 days).

Year 2000 issue

The company continued its programme of risk assessment in relation to its own computer systems, the properties that it operates, and the risks that the company's operating procedures are exposed to from the systems of major suppliers and service providers. Replacement of some computer software and hardware has taken place, the costs of which were not material.

Auditors

A resolution to re-appoint PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, will be proposed at the annual general meeting.

By order of the Board



A.P. Cunningham
Joint Secretary
14 August 2000

Auditors' report to the members of Artesian Developments III plc

We have audited the financial statements on pages 6 - 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 4, 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.

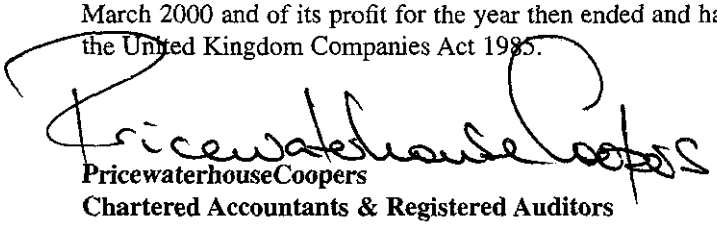
Basis of audit opinion

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 company's affairs at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants & Registered Auditors
London
14 August 2000

Profit and loss account
for the year ended 31 March 2000

	Notes	2000 £	1999 £
Turnover	1	2,002,953	–
Cost of sales		(1,311,446)	(20,324)
Gross profit / (loss)		691,507	(20,324)
Net operating expenses		(14,976)	(15,546)
Operating profit / (loss)		676,531	(35,870)
Interest receivable		14,850	10,505
Interest payable	2	(6,581)	(2,054)
Profit / (loss) on ordinary activities before taxation	3	684,800	(27,419)
Tax on profit / (loss) on ordinary activities	6	(177,842)	–
Profit / (loss) on ordinary activities after taxation		506,958	(27,419)
Dividends	7	(260,819)	–
Retained profit / (loss) for the year	12	246,139	(27,419)

The results for the year relate to the continuing activities of the company.

There are no gains and losses other than the retained profit (1999: loss) for the year, so no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit (1999: loss) on ordinary activities before taxation and the retained profit (1999: loss) for the year stated above, and their historical cost equivalents.

Balance sheet
at 31 March 2000

	Notes	2000 £	1999 £
Current assets			
Stocks	8	1,120,008	1,013,851
Debtors	9	287,912	5,172
Cash	16	139,584	1,583
		1,547,504	1,020,606
Creditors: amounts falling due within one year	10	(514,423)	(233,664)
Net assets		1,033,081	786,942
Capital and reserves			
Attributed to equity interests:			
Called up share capital	11	429,302	429,302
Share premium account	12	373,497	373,497
Profit and loss account	12	230,282	(15,857)
Shareholders' funds	13	1,033,081	786,942

The financial statements on pages 6 to 13 were approved by the Board of Directors on 14 August 2000 and were signed on its behalf by:

M.R. Breen
Director



Cash flow statement
for the year ended 31 March 2000

	Notes	2000 £	2000 £	1999 £	1999 £
Operating activities:					
Net cash inflow / (outflow) from operating activities	14		305,617		(432,302)
Returns on investments and servicing of finance:					
Interest received		14,850		10,505	
Interest and similar charges paid		(6,581)		(2,054)	
Net cash inflow from returns on investments and servicing of finance			8,269		8,451
Taxation:					
Corporation tax paid			–		(3,073)
Dividends:					
Dividends paid			(43,955)		–
Increase / (decrease) in cash before financing			269,931		(426,924)
Financing:					
(Repayment) / drawing under short term loan		(131,930)		131,930	
Net cash (outflow) / inflow from financing			(131,930)		131,930
Increase / (decrease) in cash	15		138,001		(294,994)

Notes to the financial statements for the year ended 31 March 2000

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Turnover

Turnover is the gross value of sales of residential properties, and has all arisen within the United Kingdom.

Sales

Sales are recognised on exchange of contracts.

Stocks and works in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes the purchase price of the site, associated acquisition costs and interest and associated costs incurred on borrowings to finance the development.

Deferred taxation

Deferred taxation is not provided unless there is a reasonable probability that a liability will arise or an asset will be realised in the foreseeable future.

2 Interest payable and similar charges

	2000	1999
	£	£
Interest payable on bank loan	6,581	2,054

3 Profit / (loss) on ordinary activities

	2000	1999
	£	£
This is stated after charging		
Directors' emoluments (note 4)	2,500	2,500
Auditors' remuneration for audit services	2,938	2,500
Artesian Management Limited fee for administration	7,359	5,771

M.R. Breen and A.P. Cunningham have an interest in Artesian Management Limited, details of which are set out in note 17.

Notes to the financial statements for the year ended 31 March 2000

4 Directors' emoluments

	2000 £	1999 £
Directors' emoluments comprise:		
Fees	2,500	2,500

5 Employee information

There were no employees during the year.

6 Taxation

	2000 £	1999 £
The tax charge on the profit (1999: loss) on ordinary activities for the year is as follows:		
Corporation tax at 30%	180,916	–
Over provision in prior year	(3,074)	–
	177,842	–

7 Dividends

	2000 £	1999 £
On ordinary shares:		
– paid – 5.12p per share	43,955	–
– proposed – 5.12p per share	43,955	–
	87,910	–
On "A" shares:		
– payable	172,909	–
	260,819	–

8 Stocks

	2000 £	1999 £
Clapham site, associated acquisition and development costs	–	1,013,851
131-133 Cambridge Street site, associated acquisition and development costs	1,120,008	–
	1,120,008	1,013,851

Notes to the financial statements for the year ended 31 March 2000

9 Debtors

	2000 £	1999 £
Amounts falling due after more than one year:		
Other debtors	5,000	5,000
Amounts falling due within one year:		
Trade debtors	282,912	172
Total debtors	287,912	5,172

10 Creditors: amounts falling due within one year

	2000 £	1999 £
Bank loan	–	131,930
Trade creditors	107,921	79,899
Corporation tax	177,842	–
Accruals	11,796	21,835
Dividend payable	172,909	–
Proposed dividend	43,955	–
	514,423	233,664

11 Called up share capital

	2000 £	1999 £
Equity		
Authorised:		
2,999,900 Ordinary shares of 50p each	1,499,950	1,499,950
100 "A" shares of 50p each	50	50
	1,500,000	1,500,000
	£	£
Called up, allotted and fully paid:		
858,504 Ordinary shares of 50p each	429,252	429,252
100 "A" shares of 50p each	50	50
	429,302	429,302

Notes to the financial statements for the year ended 31 March 2000

11 Called up share capital (continued)

Ordinary shares have the right to vote, to dividends as declared by the directors, and to the surplus assets of the company on a liquidation subject to the prior rights of "A" shares to arrears of "A Share Dividends".

"A" shares have rights to appoint directors, to receive "A Share Dividends" per annum which is based on Profit after Tax (as defined in the Articles), and on a liquidation to receive in priority to all other shares arrears of such "A Share Dividends". Until 30 November 2002, "A" shares as a class have the right to exercise 25.1% of the total number of votes capable of being cast on a resolution to wind up the company.

12 Reserves

	Share premium account	Profit and loss account
	£	£
At 1 April 1999	373,497	(15,857)
Retained profit for the year	–	246,139
At 31 March 2000	373,497	230,282

13 Reconciliation of movements in shareholders' funds

	2000	1999
	£	£
Opening shareholders' funds	786,942	814,361
Retained profit/ (loss) for the year	246,139	(27,419)
Closing shareholders' funds	1,033,081	786,942

14 Reconciliation of operating profit / (loss) to net cash inflow / (outflow) from operating activities

	2000	1999
	£	£
Operating profit / (loss) for the year	676,531	(35,870)
Increase in stocks	(106,157)	(488,803)
(Increase) / decrease in debtors	(282,740)	9,694
Increase in creditors	17,983	82,677
Net cash inflow / (outflow) from operating activities	305,617	(432,302)

Notes to the financial statements for the year ended 31 March 2000

15 Reconciliation of net cash flow to movement in net (debt) / funds

	2000	1999
	£	£
Increase / (decrease) in cash	138,001	(294,994)
Decrease / (increase) in loans	131,930	(131,930)
Changes in net funds / (debt)	269,931	(426,924)
Net (debt) / funds at 1 April	(130,347)	296,577
Net funds / (debt) at 31 March	139,584	(130,347)

16 Analysis of changes in net (debt) / funds

	1 April 1999	Cash flow	31 March 2000
	£	£	£
Cash at bank	1,583	138,001	139,584
Bank loan	(131,930)	131,930	–
Net (debt) / funds	(130,347)	269,931	139,584

17 Directors' interests in contracts

M.R. Breen and A.P. Cunningham are directors of, and have an interest in, Artesian Management Limited, which provided administrative services to the value of £7,359 (1999: £5,771) inclusive of VAT. At 31 March 2000 the balance due to that company was £7,359 (1999: £16,738).

18 Capital commitments

At 31 March 2000 the company had not entered into contracts in respect of construction work (1999: approximately £153,895).

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2000 Annual General Meeting of the company will be held at: -

The East India Club
16 St James Square
London SW1

At 12:30pm on 8 September 2000

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 2000.

2 To re-appoint PricewaterhouseCoopers as auditors in accordance with Section 384 of the Companies Act 1985 to hold office from the conclusion of the 2000 Annual General Meeting until the conclusion of the 2001 Annual General Meeting and to authorise the directors to fix the remuneration of the auditors.

3 That a final dividend in respect of the year ended 31 March 2000 be declared payable at the rate of 5.12 pence per ordinary share on 8 September 2000 to shareholders registered at the close of business on 1 September 2000.

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,
A.P. Cunningham
Joint Secretary
14 August 2000

ARTESIAN DEVELOPMENTS III plc

For use by the holders of ordinary shares

FORM OF PROXY

I .....

(IN BLOCK CAPITALS PLEASE)

of .....

being a member of Artesian Developments III 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 8 September 2000, and at every adjournment thereof.

Dated .....2000 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 2000		
2 To re-appoint PricewaterhouseCoopers as the company's auditors and to authorise the directors to fix the remuneration of the auditors.		
3 That a final dividend in respect of the year ended 31 March 2000 be declared payable at the rate of 5.12 pence per ordinary share on 8 September 2000 to shareholders registered at the close of business on 1 September 2000.		

Notes

1 To be valid this proxy form, duly completed, must be lodged at 60 Webbs Road, London SW11 6SE not later than 48 hours before the date of the Meeting.

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.