

3300825

ARTESIAN

Developments III plc



ANNUAL REPORT

For the year ended 31 March 2003

Annual report for the year ended 31 March 2003

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DIRECTORS AND ADVISERS

Directors	M.R. Breen A.P. Cunningham N.J.L. Welch C. O'Donoghue
Joint Company Secretaries	A.P. Cunningham D.J.T. MacDonald
Registered Office	40, Queen Anne Street, London, W1G 9EL
Auditors	PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
Transfer Office	60, Webbs Road, London, SW11 6SE
Registered in England	3300825

Chairman's statement for the year ended 31 March 2003

Dear Shareholder,

Please find enclosed the Directors' report and audited financial statements for the year ended 31 March 2003 and the notice of the Annual General Meeting of the Company, which will be held on Tuesday 1 July 2003.

Keypoints in this year's report and accounts are:

Profit before tax:	£11,154	(2002: £80,686)
NAV per share:	£1.36	(2002: £1.35)

The nominal profit reported for the year does not reflect a lack of activity on the part of your management. In the last 12 months we have:-

- Completed the acquisitions of flats in Portman Square, London W1 and Holland Park, London W11. The Portman Square flat was purchased with a relatively short unexpired lease and was intended to be resold after refurbishment and the negotiation of an extended lease. Since the year end, and after protracted negotiations, this has been sold at a profit in its existing condition.

The Holland Park property gives us a foothold in a block of flats with potential either for the development of two penthouses on top of the existing block or the redevelopment of the entire block; we are now in negotiation with the other lessees.

- Exchanged contracts for the purchase of a well located commercial site in Cobham, Surrey, for conversion to residential and retail use on a "subject to planning" basis and with a delayed completion. Planning permission for six flats and a single retail unit has now been obtained.
- Exchanged contracts for the purchase of a small office building in Fetter Lane, London EC4 for redevelopment as a restaurant with eleven flats on the upper floors.

All of these projects have been undertaken as joint ventures with Artesian Developments IV plc and should come to fruition during the next 12 months.

No dividend is proposed this year as last year's shareholders' vote was conclusively against the payment of dividends. However, shareholders' views were more evenly divided between the provision of a limited exit route facility and the reinvestment of profits. Therefore, in accordance with the commitment made last year we are again canvassing shareholders as to their wishes. Although a substantial majority of shareholders voted for the continuation of the business of the Company your board recognises that some shareholders may wish to realise the value of their shareholding. The companies within the Artesian Property Partnership have, for a number of years, offered their shareholders a limited share sale facility, on an annual basis, at a discount of 15% to the audited NAV per share. If a majority of shareholders now support the provision of such a facility for this Company, which would be financed by a reduction in distributable profits of up to £150,000 this year, shareholders will be given the opportunity of offering their shares for sale at a price of £1.16 per share (85% of NAV per share) later this year. Shareholders should be aware that the provision of a share sale facility will require the Company to increase its borrowing requirement in connection with the projects described above.

To enable your board to give effect to the wishes of the majority of shareholders please take the time to complete and return the enclosed questionnaire slip in the accompanying prepaid envelope, **to be received by 30 May 2003.**

As set out in the Company's prospectus, the holder of the A shares (Artesian Management Limited, a company owned by my fellow executive director Paul Cunningham and me) is entitled to a share of a profit in the sum of £4,462 which is paid by way of a dividend. The A shareholder however, has waived the whole of that dividend as the profits earned are attributable to interest receivable as opposed to profits generated from development activities.

Mark Breen
Chairman
30 April 2003



Directors' report

for the year ended 31 March 2003

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 do not propose to pay a dividend on the ordinary shares (2002: nil per ordinary share). An amount of £4,462 (2002: £25,640) is payable as "A" shareholders' dividends, of which £4,462 (2002: £10,512) has been waived. The retained profit for the financial year of £11,476 (2002: £48,971) 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:

	<u>No. of 50p Ordinary shares held at</u> <u>1 April 2002 and 31 March 2003</u>
M.R. Breen	5,000
A.P. Cunningham	2,500
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
for the year ended 31 March 2003**

(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 year.

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 period ended 31 March 2003. 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 2003 for trade creditors excluding amounts due under contracted terms was 10 days (2002: nil days).

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers have resigned and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the next annual general meeting.

By order of the Board



**D.J.T. MacDonald
Joint Company Secretary
30 April 2003**

Independent auditors' report to the members of Artesian Developments III plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and accounting standards and are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Companies Act 1985. 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. The other information comprises only the directors' report.

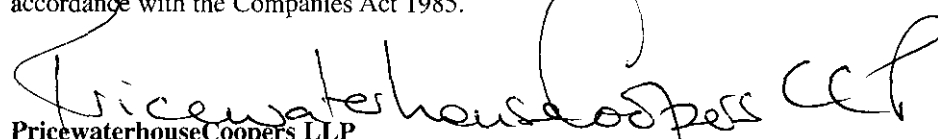
Basis of audit opinion

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 affairs of the company at 31 March 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
London
30 April 2003

ARTESIAN DEVELOPMENTS III plc

Profit and loss account for the year ended 31 March 2003

	Notes	2003 £	2002 £
Turnover	1	10,617	880,512
Cost of sales		(18,111)	(817,853)
Gross (loss)/profit		(7,494)	62,659
Net operating expenses		(16,724)	(13,227)
Operating (loss)/profit		(24,218)	49,432
Interest receivable		35,372	34,411
Interest payable	2	—	(3,157)
Profit on ordinary activities before taxation	3	11,154	80,686
Tax on profit on ordinary activities	6	322	(16,587)
Profit on ordinary activities after taxation		11,476	64,099
Dividends	7	—	(15,128)
Retained profit for the year	12	11,476	48,971

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

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

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

ARTESIAN DEVELOPMENTS III plc

Balance sheet at 31 March 2003

	Notes	2003 £	2002 £
Current assets			
Stocks	8	878,573	1,684
Debtors	9	34,492	5,555
Cash	16	562,123	1,203,845
		<u>1,475,188</u>	<u>1,211,084</u>
Creditors: amounts falling due within one year	10	(304,748)	(52,120)
Net assets		<u>1,170,440</u>	<u>1,158,964</u>
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	367,641	356,165
Shareholders' funds	13	<u>1,170,440</u>	<u>1,158,964</u>

The financial statements on pages 6 to 12 were approved by the Board of Directors on 30 April 2003 and were signed on its behalf by:



M.R. Breen
Director

**Cash flow statement
for the year ended 31 March 2003**

	Notes	2003 £	2003 £	2002 £	2002 £
Operating activities:					
Net cash (outflow)/inflow from operating activities	14		(616,523)		735,308
Returns on investments and servicing of finance:					
Interest received		6,067		34,411	
Interest and similar charges paid		—		(3,157)	
		<u>6,067</u>		<u>31,254</u>	
Net cash inflow from returns on investments and servicing of finance			6,067		31,254
Taxation:					
Corporation tax paid			(16,138)		(50,359)
Dividends:					
Dividends paid			(15,128)		(124,533)
			<u>(15,128)</u>		<u>(124,533)</u>
(Decrease)/increase in cash	15		<u><u>(641,722)</u></u>		<u><u>591,670</u></u>

Notes to the financial statements for the year ended 31 March 2003

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 preparation of financial statements

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

The directors have concluded that, in accordance with Financial Reporting Standard 9 "Associates, joint ventures and other joint arrangements", the company's share of certain property transactions should be reported as "joint arrangements". 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 those transactions.

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 work 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. Property purchases are recognised on exchange of contracts, where any relevant conditions applying to the contract have been satisfied by year end.

Deferred taxation

Deferred taxation is provided at the current rate on timing differences that have originated but not reversed by the balance sheet date. 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.

2 Interest payable and similar charges

	2003	2002
	£	£
Interest payable on bank loan and overdraft	—	175
Other interest payable	—	2,982
	<u>—</u>	<u>3,157</u>
	<u>—</u>	<u>3,157</u>

3 Profit on ordinary activities

	2003	2002
	£	£
This is stated after charging		
Directors' emoluments (note 4)	2,500	2,500
Auditors' remuneration for audit services	2,977	3,000
Artesian Management Limited fee for administration	9,437	3,500

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 2003**

(continued)

4 Directors' emoluments

	2003 £	2002 £
Directors' emoluments comprise:		
Fees	2,500	2,500
	<u> </u>	<u> </u>

5 Employee information

There were no employees during the year.

6 Taxation on profit on ordinary activities

	2003 £	2002 £
Corporation tax at 19% (2002: 20%)	274	16,734
Over provision in prior year	(596)	(147)
	<u> </u>	<u> </u>
	322	16,587
	<u> </u>	<u> </u>

7 Dividends

	2003 £	2002 £
On "A" shares:		
– payable	–	15,128
	<u> </u>	<u> </u>
	–	15,128
	<u> </u>	<u> </u>

8 Stocks

	2003 £	2002 £
Stock properties, associated acquisition and development costs	878,573	1,684
	<u> </u>	<u> </u>

Stock properties are held jointly with other parties, and have been reported as the company's share of the total cost of these properties. The principal other party with which the stock properties are held is Artesian Developments IV plc, the directors of which are also the directors of the company.

9 Debtors

	2003 £	2002 £
Amounts falling due after more than one year:		
Other debtors	5,000	5,000
Amounts falling due within one year:		
Trade debtors	–	553
Other debtors	29,492	2
	<u> </u>	<u> </u>
Total debtors	34,492	5,555
	<u> </u>	<u> </u>

**Notes to the financial statements
for the year ended 31 March 2003**

(continued)

10 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	290,924	–
Corporation tax	274	16,734
Accruals	13,537	20,226
Other taxation	13	32
Dividend payable	–	15,128
	<u>304,748</u>	<u>52,120</u>

Trade creditors include an amount of £290,399 in respect of stock properties which are held jointly with Artesian Developments IV plc, the directors of which are also the directors of the company.

11 Called up share capital

	2003 £	2002 £
Equity		
Authorised:		
2,999,900 Ordinary shares of 50p each	1,499,950	1,499,950
100 "A" shares of 50p each	50	50
	<u>1,500,000</u>	<u>1,500,000</u>
	£	£
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
	<u>429,302</u>	<u>429,302</u>

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 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".

12 Reserves

	Share premium account £	Profit and loss account £
At 1 April 2002	373,497	356,165
Retained profit for the year	–	11,476
At 31 March 2003	<u>373,497</u>	<u>367,641</u>

**Notes to the financial statements
for the year ended 31 March 2003**

(continued)

13 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Opening shareholders' funds	1,158,964	1,109,993
Retained profit for the year	11,476	48,971
Closing shareholders' funds	<u>1,170,440</u>	<u>1,158,964</u>

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

	2003	2002
	£	£
Operating (loss)/profit for the year	(24,218)	49,432
(Increase)/decrease in stocks	(876,889)	675,900
Decrease in debtors	368	4,283
Increase in creditors	284,216	5,693
Net cash (outflow)/inflow from operating activities	<u>(616,523)</u>	<u>735,308</u>

15 Reconciliation of net cash flow to movement in net funds

	2003	2002
	£	£
(Decrease)/increase in cash	(641,722)	591,670
Net funds at 1 April	1,203,845	612,175
Net funds at 31 March	<u>562,123</u>	<u>1,203,845</u>

16 Analysis of changes in net funds

	1 April 2002	Cash flow	31 March 2003
	£	£	£
Cash at bank	1,203,845	(641,722)	562,123
Net funds	<u>1,203,845</u>	<u>(641,722)</u>	<u>562,123</u>

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 £9,437 (2002: £3,500) inclusive of VAT. At 31 March 2003 the balance due to that company was £9,437 (2002: £3,500).

18 Capital commitments

At 31 March 2003 the company had not entered into contracts in respect of construction work .

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2003 Annual General Meeting of Artesian Developments III plc (the company) will be held at: -

The East India Club
16 St James Square
London SW1

At 11:00am on 1 July 2003 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 2003.
- 2 To re-elect M. R. Breen as a director of the company.
- 3 To re-appoint PricewaterhouseCoopers LLP 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.

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 30 April 2003

D.J.T. MacDonald
Joint Company Secretary

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

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 1 July 2003, and at every adjournment thereof.

Dated2003

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 2003		
2 To re-elect M. R. Breen as a director of the company.		
3 To re-appoint PricewaterhouseCoopers LLP as the company's auditors and to authorise the directors to fix their remuneration .		

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.

