CONTENTS

	Pages
Directors and advisers	1
Chairman's statement	2-3
Report of the directors	4-6
Report of the auditors	7
Profit and loss account	8
Statement of total recognised gains and losses	9
Note of historical cost profits and losses	9
Balance sheet	10
Cash flow statement	11
Notes to the financial statements	12-31
Notice of Annual General Meeting	
Form of proxy	

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 2760521

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CHAIRMAN'S STATEMENT

Dear Shareholder

Please find enclosed the Directors' Report and Audited Financial Statements for the year ended 31 March 2002 and the Notice of the Annual General Meeting to be held on 26 September 2002.

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

- Net asset value per share £1.70 (2001: £1.63)
- Net assets have increased to £6.3m from £6.09m (adjusted for 2001 buy back)
- Pre-tax gains £240,000 (2001: £290,000)

I am pleased to be able to report that we have completed and sold seven of the nine flats at St James's Square and the office development at 42 Kingsway. Although in very different locations, each was a demanding development completed to exacting standards. In both cases the quality of the finished product was extremely high and this was reflected in the sales prices achieved.

Having pre-sold 75% of the flats at Harlequin Court it is extremely frustrating to report that, despite considerable efforts on the part of your management team, the contractors have failed to meet agreed target dates for the completion of this project. When we reported to shareholders last year, practical completion was scheduled for the Spring of 2002 and therefore most, if not all, of the profits represented by those contracted sales, would have fallen within the financial year to 31 March 2002. Practical completion is now scheduled for September and therefore the profits for this development will be reflected in the accounts for the year to March 2003.

During the year, there has been progress on a number of other activities. A number of smaller London residential units were sold profitably where prospects for rent yields were weak. The Royal Park Hotel, charging budget prices near Paddington Station, London, was acquired and is being upgraded to a townhouse hotel. The agency group has been largely re-branded as Jackson-Stops & Staff to the benefit of current trading. Trading at the existing hotels and business centres is recovering from a year which had some well publicised difficulties. Three new business centres have been under construction during the year, of which one opened with encouraging occupancy levels in June, and the others are due to open shortly.

The year's profits are stated after writing off the costs of closure of The Royal Park Hotel prior to its refurbishment, and further marketing costs on Harlequin Court, but do not yet include any profits from this development. Our standing investment portfolio has shown valuation growth of over 10%, with some residential properties' valuations increasing over 20%.

Last summer we received offers to sell 257,731 shares and applications to purchase 112,160 shares. Having satisfied the applications to purchase in full, the balance of the shares offered for sale were purchased by Artesian Buy Back 2001 Limited. Pursuant to the Resolution passed at the Company's EGM on 21 March 2002 the company purchased 145,571 shares from Artesian Buy Back 2001 Limited which were then cancelled.

Once again shareholders will have the opportunity to offer their shares for sale. However, because of the scale of the Harlequin Court development, the level of sales already contracted and the proximity of practical completion, we have decided, solely for the purposes of this year's share sale facility, to recognise a proportion of the inherent profitability in Harlequin Court and therefore make a fair value adjustment to the Company's NAV.

As stated above the audited NAV of the Company is £6.3m equivalent to an NAV per share of £1.70. The effect of the fair value adjustment is to increase the NAV to £6.55m (the Adjusted NAV) and therefore the Adjusted NAV per share is £1.76. Applying the usual discount of 15% to the Adjusted NAV results in a price of £1.50, which is the price at which shareholders may offer their shares for sale. As well as the opportunity to sell shares there will of course be an opportunity for shareholders to buy further shares at £1.52 , which includes broker's commission and stamp duty of approximately 1%. Application forms and a letter setting out details of this arrangement are enclosed with this report. **If you do not wish to sell all or part of your shareholding or do not wish to apply to purchase further shares you do not need to take any action in response to that letter.**

CHAIRMAN'S STATEMENT (continued)

Shareholders intending to offer to buy or sell shares should read the accompanying letter, the offer to sell and application to purchase 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.

During the course of the current financial year APP will be completing a substantial development programme with an anticipated end value of more than £65 million. Despite some uncertainties and risks in the London property market, we believe that our blend of property related activities provides good opportunities to make sustainable profits.

MARK BREEN
Chairman
31 July 2002

60, Webbs Road,
London, SW11 6SE

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The company carries out a wide range of property related activities, including investment, development and trading, and estate agency.

RESULTS FOR THE YEAR

The profit for the year before taxation was £68,100 (2001: £191,437) from which has been deducted a tax charge of £36,468 (2001: £38,113) to give a profit for the year on ordinary activities after taxation of £31,632 (2001: £153,324). The revaluation surplus on investment properties before taxation was £171,435 (2001: £98,950). The total recognised gains were £203,067 (2001: £252,274).

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 then had as its partners seven Artesian former Business Expansion Scheme companies. A further two Artesian former Enterprise Investment Scheme companies, Artesian Developments plc and Artesian Developments II plc, joined APP with effect from 1 April 2001. The results reflect the company's 15.83% (2001: 16.75%) 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 2002, 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 15.83% (2001:16.75%) That share is calculated by reference to the net asset values of all the partners of APP at 1 April 2001 (including the net asset values contributed as at 1 April 2001 by Artesian Developments plc and Artesian Developments II plc on joining APP), reduced by the costs to the company of the 2001 buy back of its shares and the costs 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.

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.

REPORT OF THE DIRECTORS (continued)

CHARITABLE DONATIONS

During the year the company made charitable donations of £139 (2001: £526).

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 31.3.2002		No. of 50p shares as at 31.3.2001	
	Ordinary shares	Founders' shares	Ordinary shares	Founders' shares
M.R. Breen	8,002	25	5,002	25
A.P. Cunningham	2	15	2	15
N.J.L. Welch	–	–	–	–

A.P. Cunningham 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 2002. 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 145,571 of its ordinary shares of 50p each, which represented 3.78% of the called up share capital. The purchase price was £1.415 per share, and the total consideration together with costs was £207,013. The purchase was made following approval from the shareholders.

This year, subject to shareholders' approval, the company is proposing to subscribe up to £562,000 in ordinary shares in Artesian Buy Back 2002 Limited which may purchase shares in the company. No provision has been made in the financial statements for these amounts.

REPORT OF THE DIRECTORS (continued)

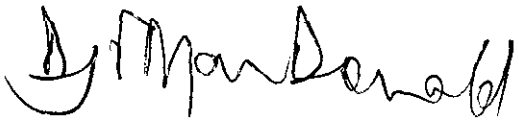
CREDITOR PAYMENT POLICY

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 2002 was 14 days (2001: 15 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
31 July 2002
40, Queen Anne Street,
London, W1G 9EL

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARTESIAN SELECT plc

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical gains and losses, 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 United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board.

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. The other information comprises only the directors' report and the chairman's statement.

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 2002 and of the profit and cash flows of the company for the period then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

PricewaterhouseCoopers,
Chartered Accountants and Registered Auditors,
London.
31 July 2002

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £	2001 £
Turnover	1 and 2		
Continuing operations		2,927,489	1,286,767
Acquisitions		22,252	484,015
		2,949,741	1,770,782
Cost of sales		(1,898,886)	(997,895)
Gross profit		1,050,855	772,887
Net operating expenses		(1,068,991)	(690,461)
Operating profit/(loss)			
Continuing operations		24,055	89,336
Acquisitions		(42,191)	(6,910)
		(18,136)	82,426
Profit on sale of investments		142,746	165,718
Investment income	3	29,027	13,953
Interest payable and similar charges	4	(85,537)	(70,660)
Profit on ordinary activities before taxation	5	68,100	191,437
Tax on profit on ordinary activities	7	(36,468)	(38,113)
Retained profit	20	31,632	153,324

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £	2001 £
Retained profit for the financial year		31,632	153,324
Other recognised gains during the year:			
Unrealised surplus on revaluation of investment properties	10	171,435	98,950
Total recognised gains relating to the year		203,067	252,274

NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £	2001 £
Reported profit on ordinary activities before taxation		68,100	191,437
Realisation of surplus on revaluation of investment properties	10	4,258	64,239
Historical cost profit on ordinary activities before taxation		72,358	255,676
Historical cost profit for the year retained after taxation		35,890	217,563

BALANCE SHEET
AT 31 MARCH 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Intangible assets	8	586,774	620,346
Tangible assets	9	377,274	318,132
Investment property	10	8,096,783	5,753,190
Investments	11	2,375	2,534
		9,063,206	6,694,202
CURRENT ASSETS			
Stock property	12	2,922,831	2,920,417
Debtors	13	1,123,213	634,091
Investments	14	791,713	837,608
Cash	23	154,549	125,729
		4,992,306	4,517,845
CREDITORS: amounts falling due within one year	15	(2,846,932)	(899,615)
NET CURRENT ASSETS		2,145,374	3,618,230
TOTAL ASSETS LESS CURRENT LIABILITIES		11,208,580	10,312,432
CREDITORS: amounts falling due after more than one year	16	(4,832,120)	(3,948,558)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(79,242)	(62,710)
NET ASSETS		6,297,218	6,301,164
CAPITAL AND RESERVES			
Called up share capital	18	1,855,335	1,928,121
Share premium account	19	1,614,703	1,686,761
Capital redemption reserve	19	1,209,595	1,064,751
Revaluation reserve	19	571,184	427,427
Profit and loss account	19	1,046,401	1,194,104
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	6,297,218	6,301,164

The financial statements on pages 8 to 31 were approved by the board of directors on 31 July 2002 and were signed on its behalf by:-

M. R. Breen
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2002

	Note	2002 £	2002 £	2001 £	2001 £
OPERATING ACTIVITIES					
Net cash flow from operating activities	21		(509,197)		1,310,811
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		29,027		13,953	
Interest paid		(206,793)		(70,660)	
Net cash flow from returns on investments and servicing of finance			(177,766)		(56,707)
TAXATION					
Corporation tax paid			1,195		(60,646)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of fixed asset investments	11	(615,000)		(636,813)	
Disposal of fixed asset investments		615,000		629,469	
Purchase of investment properties		(2,601,208)		(3,035,981)	
Disposal of investment properties		1,033,780		1,362,731	
Purchase of tangible assets	9	(135,788)		(147,494)	
Disposal of tangible assets		9,848		2,381	
Purchase of other investments		–		(108)	
Net cash flow from capital expenditure and financial investment			(1,693,368)		(1,825,815)
ACQUISITIONS AND DISPOSALS					
Purchase of subsidiary undertakings		(3,476)		(299,310)	
Cash acquired with subsidiaries		6,601		5,868	
Net cash flow from acquisitions and disposals			3,125		(293,442)
DECREASE IN CASH BEFORE FINANCING			(2,376,011)		(925,799)
FINANCING					
Purchase of own shares		(207,013)		(677,165)	
Increase/(reduction) of debt due within one year		1,428,218		(492,276)	
Increase in debt due after one year		1,099,918		1,604,815	
Net cash flow from financing			2,321,123		435,374
DECREASE IN CASH	23		(54,888)		(490,425)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2002

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 2002, 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 15.83% (2001:16.75%). That share is calculated by reference to the net asset values of all the partners of APP at 1 April 2001 (including the net asset values contributed as at 1 April 2001 by Artesian Developments plc and Artesian Developments II plc on joining APP), reduced by the costs to the company of the 2001 buy back of shares and costs 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 APP partners.

ADOPTION OF NEW ACCOUNTING STANDARDS

FRS18 "Accounting Policies", effective for accounting periods ending on or after 22 June 2001 has been adopted. The directors have reviewed the company's accounting policies and consider that the accounts are prepared in accordance with FRS 18.

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 and a hotel acquired during the year, is assumed to be between 10 and 20 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

TANGIBLE FIXED ASSETS

Investment property (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 held as 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.

Tangible assets

The cost of tangible fixed assets is the 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 property	-	2%
Short leasehold property	-	over the life of the lease
Investment 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%

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

TURNOVER

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

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 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.

STOCK PROPERTY

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.

LEASING AND HIRE PURCHASE COMMITMENTS

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

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 II plc, Artesian Developer plc, Artesian Developments plc and Artesian Developments 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 years ended 31 March are set out below:

	APP	APP	Share attributable to the company 15.83%	Share attributable to the company 16.75%
	2002	2001	2002	2001
	£	£	£	£
Turnover				
Continuing operations	18,488,331	7,681,198	2,927,489	1,286,767
Acquisitions	140,529	2,889,268	22,252	484,015
	18,628,860	10,570,466	2,949,741	1,770,782
Costs of sales	(11,992,266)	(5,956,810)	(1,898,886)	(997,895)
Gross profit	6,636,594	4,613,656	1,050,855	772,887
Net operating expenses	(6,500,667)	(3,907,563)	(1,029,332)	(654,602)
Operating profit				
Continuing operations	402,388	747,342	63,715	125,195
Acquisitions	(266,461)	(41,249)	(42,192)	(6,910)
	135,927	706,093	21,523	118,285
Profit on sale of investments	901,499	989,233	142,746	165,718
Investment income	183,318	83,293	29,027	13,953
Interest payable and similar charges	(540,202)	(421,795)	(85,537)	(70,660)
Profit on ordinary activities before taxation	680,542	1,356,824	107,759	227,296
Tax on profit on ordinary activities	(192,977)	(92,880)	(30,556)	(15,559)
Profit on ordinary activities after taxation	487,565	1,263,944	77,203	211,737
Partners' drawings	(280,652)	(379,358)	(45,571)	(58,413)
Retained profit	206,913	884,586	31,632	153,324

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

2. ARTESIAN PROPERTY PARTNERSHIP (continued)

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

	APP	APP	Share attributable to the company 15.83%	Share attributable to the company 16.75%
	2002	2001	2002	2001
Fixed assets:	£	£	£	£
Intangible assets	3,705,725	3,703,077	586,774	620,346
Tangible fixed assets	2,382,643	1,899,049	377,274	318,132
Investment property	51,134,606	34,342,960	8,096,783	5,753,190
Investments	15,131	15,131	2,375	2,534
	57,238,105	39,960,217	9,063,206	6,694,202
Current assets:				
Stock property	18,458,910	17,433,068	2,922,831	2,920,417
Debtors	7,093,430	3,467,464	1,123,213	634,091
Investments	5,000,000	5,000,000	791,713	837,608
Cash	976,045	750,523	154,549	125,729
	31,528,385	26,651,055	4,992,306	4,517,845
Creditors: amounts falling due within one year	(18,387,469)	(5,458,479)	(2,926,174)	(962,325)
Net current assets	13,140,916	21,192,576	2,066,132	3,555,520
Total assets less current liabilities	70,379,021	61,152,793	11,129,338	10,249,722
Creditors: amounts falling due after more than one year	(30,516,877)	(23,570,432)	(4,832,120)	(3,948,558)
Net assets	39,862,144	37,582,361	6,297,218	6,301,164

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

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	
	2002	2001	2002	2001	2002	2001
	£	£	£	£	£	£
Class of business:						
Continuing operations:						
Rental	4,059,160	3,546,045			38,693,958	39,276,406
Trading	9,206,631	4,135,154			22,749,940	17,433,069
Estate agency	5,222,540	–			4,046,629	–
	18,488,331	7,681,199	402,388	747,342	65,490,527	56,709,475
Acquisitions:						
Rental	(14,526)	–	(253,554)	–	4,652,374	–
Estate agency	155,055	2,889,268	(12,907)	(41,249)	83,386	4,297,747
	18,628,860	10,570,467	135,927	706,093		
Net borrowings					(30,516,877)	(23,570,432)
Other fixed asset investment					152,734	145,571
					39,862,144	37,582,361

3 INVESTMENT INCOME

	2002	2001
	£	£
Other interest receivable and similar income	29,027	13,953
	29,027	13,953

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

4 INTEREST PAYABLE AND SIMILAR CHARGES	2002 £	2001 £
Interest payable on bank loans and overdrafts	442,241	253,265
Less: capitalised in respect of stock and assets in the course of construction	(356,704)	(182,605)
	85,537	70,660

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION This is stated after charging:-	2002 £	2001 £
Depreciation (notes 1 and 9)	58,245	49,255
Amortisation of goodwill	34,106	17,548
Operating lease rentals:-		
Other operating leases	126,233	73,827
Auditors' remuneration:-		
Audit services	19,437	12,129
Non-audit services	238	–

6 EMPLOYEE INFORMATION		2002 £	2001 £
6.1	Staff costs including directors' emoluments:-		
	Wages and salaries	614,350	368,177
	Social security costs	62,410	34,363
		676,760	402,540
	Less: capitalised in respect of stock and assets in the course of construction	(23,685)	(13,884)
		653,075	388,656
6.2	Directors' remuneration comprises:-		
	Directors' fees	28,405	28,288

6.3 The average weekly number of employees of APP, including the company's directors, during the year was 139 (2001: 126), including 120 (2001: 105) in the agency business.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

7 TAXATION

	2002 £	2001 £
Current year tax:		
U.K. corporation tax	17,051	35,000
Over provision in prior year	–	(1,789)
Deferred taxation provided	19,417	4,902
Current year tax charge	36,468	38,113
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	68,100	191,437
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2001: 30.00%)	20,430	57,431
Increased by:		
Tax losses not utilisable	30,031	12,611
Depreciation and amortisation non-deductible	22,012	30,572
Non-deductible costs	3,376	10,132
and reduced by:		
Capital allowances	(28,375)	(50,637)
Tax losses utilised	–	(3,047)
Indexation relief on disposals	(2,938)	(11,670)
Benefit of timing deferrals	(8,068)	(7,279)
Current year tax charge	36,468	38,113

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

8 INTANGIBLE FIXED ASSETS

	Goodwill £
COST	
At 1 April 2001	637,894
Adjustment in share of APP	(34,952)
Additions	34,525
At 31 March 2002	637,467
AMORTISATION	
At 1 April 2001	17,548
Adjustment in share of APP	(961)
Charge for the year	34,106
At 31 March 2002	50,693
NET BOOK VALUE	
At 31 March 2002	586,774
At 31 March 2001	620,346

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 and hotel businesses, is assumed to be between 10 and 20 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

9 TANGIBLE FIXED ASSETS

	Freehold property £	Short leasehold property £	Fixtures, fittings and equipment:- Investment property £	Office £	Motor vehicles £	TOTAL £
COST						
At 1 April 2001	33,064	66,482	219,704	144,224	40,362	503,836
Adjustment in share of APP	(1,812)	(3,643)	(12,038)	(7,903)	(2,212)	(27,608)
Acquired with subsidiaries	–	–	8,733	840	–	9,573
Additions	–	612	118,606	14,600	1,970	135,788
Disposals	–	(10,622)	(9,848)	(56,736)	(3,197)	(80,403)
At 31 March 2002	31,252	52,829	325,157	95,025	36,923	541,186
DEPRECIATION						
At 1 April 2001	4,374	18,376	45,096	98,484	19,374	185,704
Adjustment in share of APP	(240)	(1,007)	(2,471)	(5,397)	(1,062)	(10,177)
Acquired with subsidiaries	–	–	–	695	–	695
Charge for the year	352	5,743	27,213	18,536	6,401	58,245
Disposals	–	(10,622)	–	(56,736)	(3,197)	(70,555)
At 31 March 2002	4,486	12,490	69,838	55,582	21,516	163,912
NET BOOK VALUE						
At 31 March 2002	26,766	40,339	255,319	39,443	15,407	377,274
At 31 March 2001	28,690	48,106	174,608	45,740	20,988	318,132

Assets held under finance leases and hire purchase contracts originally cost £29,094 (2001: £27,125) and have net book values of £14,652 (2001: £13,165). Depreciation charged for the year was £5,916 (2001: £5,061).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

10 INVESTMENT PROPERTY

	Freehold property at cost £	Leasehold property at cost £	Total at cost £	Valuation surplus £	Total at valuation £
At 1 April 2001	3,378,375	337,151	3,715,526	427,427	4,142,953
Adjustment in share of APP	(185,114)	(18,476)	(203,590)	(23,420)	(227,010)
Share of assets introduced to APP	16,047	–	16,047	–	16,047
Additions	105,265	402	105,667	–	105,667
Disposals	(297,024)	–	(297,024)	(4,258)	(301,282)
Increase in valuation in the year	–	–	–	171,435	171,435
At 31 March 2002	3,017,549	319,077	3,336,626	571,184	3,907,810

ASSETS IN THE COURSE OF CONSTRUCTION - at cost	
At 1 April 2001	1,610,237
Adjustment in share of APP	(88,231)
Acquired with subsidiaries	720,459
Additions	2,536,260
Disposals	(589,752)
At 31 March 2002	4,188,973
TOTAL	
At 31 March 2002	8,096,783
At 31 March 2001	5,753,190

Should the above revalued properties be sold at those revalued amounts, a taxation liability of £84,882 would arise, for which no provision has been made as set out in note 17.

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

	Interest £	Own labour £
At 1 April 2001	25,071	4,712
Adjustment in share of APP	(1,374)	(258)
Capitalised in the year	171,996	13,932
Disposals	(32,932)	(628)
At 31 March 2002	162,761	17,758

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

10 INVESTMENT PROPERTY (continued)

The investment properties, excluding assets in the course of construction, have been stated at open market value at 31 March 2002 of £3,907,810 as valued by:

- Messrs. Donaldsons, Chartered Surveyors, for properties of APP valued in total at £10,376,503, of which the company's share is £1,643,042;
- Messrs. Bidwells, Chartered Surveyors, for one property of APP valued at £1,340,000, of which the company's share is £212,179; and
- The company's directors for properties of APP, including those acquired during the year, of, in total £12,962,980, of which the company's share is £2,052,589.

11 INVESTMENTS: fixed assets

	2002 £	2001 £
Listed investments:		
At 1 April	–	20,555
Adjustment in share of APP	–	(844)
Additions	–	84,281
Disposals	–	(103,992)
At 31 March	–	–
Unlisted investments:		
Subsidiary undertaking; ordinary shares at cost		
At 1 April and 31 March	2	2
Other investments; ordinary shares at cost		
At 1 April	2,532	–
Adjustment in share of APP	(159)	
Additions	615,000	552,532
Disposals	(615,000)	(550,000)
At 31 March	2,373	2,532
Total investments	2,375	2,534

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

11 INVESTMENTS: fixed assets (continued)

11.1 ACQUISITIONS

11a) During the year, APP acquired 100% of the ordinary share capital of The Royal Park Hotel Limited, which had previously been owned by Artesian Developments plc and Artesian Developments II plc ("the APP vendor companies"), of which companies M.R. Breen and A. P. Cunningham are directors. Refurbishment of the hotel, which is situated near Paddington Station, London, as a four star townhouse hotel, is currently taking place. The consideration for the purchase of the shares was £1,626,537, and has been accounted for using the acquisition method of accounting. The amount of goodwill arising on the acquisition of £134,653 has been capitalised, of which the company's share was £21,321, and is amortised over its estimated economic life of 20 years. The company's share of the cost of acquisition was £258,809 and of the cash cost was £1,259.

The losses of The Royal Park Hotel Limited for the period from 1 January 2001 to the effective date of acquisition, April 2001, were £92,578, and the profit after taxation for the previous year ended 31 December 2000 was £324.

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

	Book amount	Revaluation of hotel	Fair value to APP
	£	£	£
Tangible fixed assets	4,287,738	317,413	4,605,151
Stocks	16,799	–	16,799
Debtors	43,896	–	43,896
Cash	34,078	–	34,078
Creditors	(700,090)	–	(700,090)
Bank loans	(2,500,000)	–	(2,500,000)
	1,182,421	317,413	1,499,834
Goodwill			134,653
Cost of acquisition			1,634,487
Settled as:			
Cash			7,950
Consideration due to APP vendor companies			1,626,537
			1,634,487

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

11 INVESTMENTS: fixed assets (continued)

b) During the year, JSS (London Residential) Limited acquired 100% of the ordinary share capital of Jackson-Stops & Staff (Country Houses) Limited, an estate agency business, for a consideration of £14,000. This acquisition has been accounted for using the acquisition method of accounting. The amount of goodwill arising on the acquisition is £83,386, of which the company's share of £13,204 has been capitalised, and is amortised over its estimated useful economic life. The company's share of the cost of acquisition and cash cost was £2,217.

The loss after taxation of Jackson-Stops & Staff (Country Houses) Limited for the period from 1 January 2001 to the date of acquisition, April 2001, was £19,586, and for the previous year ended 31 December 2000 was £43,873.

The following table sets out the book and fair value of assets and liabilities acquired:

	Book and fair value to APP £
Tangible fixed assets	2,224
Debtors	16,501
Cash	7,607
Creditors	(27,668)
Loans and finance leases	(68,050)
Fair value of net assets acquired	(69,386)
Goodwill	83,386
Cost of acquisition	14,000
Settled as:	
Cash	14,000

c) During the year the company subscribed £615,000 for shares in Artesian Buy Back 2001 Limited, which was placed in members' voluntary liquidation prior to the year end.

11.2 SUBSIDIARY UNDERTAKING

The company owns the whole of the issued share capital of £2 of Speed 6832 Limited, a dormant company incorporated in Great Britain.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

12 STOCK PROPERTY

	2002 £	2001 £
Trading property	414,706	167,504
Property in the course of development	2,508,125	2,752,913
	2,922,831	2,920,417

Property in the course of development include the following capitalised costs:

	Interest £	Own labour £
At 1 April 2001	184,996	9,172
Adjustment in share of APP	(11,175)	(502)
Capitalised in the year	184,708	9,753
Released on disposal	(66,409)	(6,427)
At 31 March 2002	292,120	11,996

13 DEBTORS

	2002 £	2001 £
Amounts falling due after more than one year:		
Other debtors	7,318	5,863
Amounts falling due within one year:		
Trade debtors	124,114	170,036
Corporation tax	11,705	53,215
Other debtors	929,642	351,905
Prepayments and accrued income	50,434	53,072
	1,115,895	628,228
Total debtors	1,123,213	634,091

Other debtors includes £679,453 of sale proceeds (2001: £171,243).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

14 INVESTMENTS: current assets

	2002 £	2001 £
Loan advance to a third party	791,713	837,608

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 had a primary period of 54 months. The operator could exercise a call option prior to 29 September 2004 at prices greater than the cost to Blockclause. Subsequent to the year end, the option agreement was cancelled and the interest in the property was sold at a price greater than the cost to APP.

15 CREDITORS: amounts falling due within one year

	2002 £	2001 £
Bank loans and overdrafts	2,366,937	560,317
Net obligations under finance leases and hire purchase contracts	7,341	10,382
Trade creditors	44,048	40,845
Amounts due to APP partners	14,771	1,345
Corporation tax	28,692	44,010
Taxation and social security	40,873	44,876
Other creditors	222,984	98,876
Accruals	121,286	98,964
Total creditors	2,846,932	899,615

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

16 CREDITORS: amounts falling due after more than one year

	2002 £	2001 £
Bank loans repayable other than by instalment:		
Between one and two years	2,338,730	1,498,760
Between two and five years	2,492,834	2,446,317
	4,831,564	3,945,077
Net obligations under finance leases and hire purchase contracts	556	3,481
	4,832,120	3,948,558

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.

17 PROVISION FOR LIABILITIES AND CHARGES

DEFERRED TAX

	2002 £	2001 £
At 1 April	62,710	57,808
Adjustment in share of APP	(2,885)	–
Provided in the year on timing differences	19,417	4,902
At 31 March	79,242	62,710

In accordance with FRS 19, no deferred tax has been provided on the unrealised revaluation gains on investment properties. The taxation that would arise if the revalued properties were sold at their revalued amounts would be £84,882 (2001: £63,932).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

18 SHARE CAPITAL

	2002 £	2001 £
Authorised:-		
100 Founders' shares of 50p each	50	50
5,999,900 Ordinary shares of 50p each	2,999,950	2,999,950
	3,000,000	3,000,000

	2002 Number of shares	2001 Number of shares	2002 £	2001 £
Allotted, called up and fully paid:-				
Founders' shares of 50p each	100	100	50	50
Ordinary shares of 50p each				
At 1 April	3,856,141	4,365,821	1,928,071	2,182,911
Cancelled on share buy back during the year	(145,571)	(509,680)	(72,786)	(254,840)
At 31 March	3,710,570	3,856,141	1,855,285	1,928,071
Total share capital	3,710,670	3,856,241	1,855,335	1,928,121

19 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £	Capital redemption reserve £	Revaluation reserve £	Profit and loss account £
At 1 April 2001	1,686,761	1,064,751	427,427	1,194,104
Adjustment in share of APP	–	–	(23,420)	23,420
Cancellation of shares on 2001 buy back and costs	(72,058)	144,844	–	(207,013)
Transfer of realised revaluation surplus	–	–	(4,258)	4,258
Revaluation surplus on investment properties	–	–	171,435	–
Retained profit for the year	–	–	–	31,632
At 31 March 2002	1,614,703	1,209,595	571,184	1,046,401

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

20 RECONCILIATION OF EQUITY SHAREHOLDERS' FUNDS

	2002 £	2001 £
Shareholders' funds at 1 April	6,301,164	6,726,055
Cancellation of shares on buy back	(207,013)	(677,165)
Profit for the year	31,632	153,324
Other recognised gains relating to the year	171,435	98,950
Shareholders' funds at 31 March	6,297,218	6,301,164

21 RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating (loss)/profit before taxation	(18,136)	82,426
Depreciation and amortisation	92,351	66,803
(Increase)/decrease in debtors	(552,897)	1,176,276
(Increase)/decrease in stock	(79,237)	305,630
Increase/(decrease) in creditors	48,722	(320,324)
Net cash flow from operating activities	(509,197)	1,310,811

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £	2001 £
Decrease in cash	(54,888)	(490,425)
(Increase)/decrease in debt due within one year	(1,428,218)	492,276
Increase in debt due after more than one year	(1,099,918)	(1,604,815)
Changes in net debt	(2,583,024)	(1,602,964)
Loans and finance leases acquired with subsidiaries	(406,632)	(166,243)
Non-cash changes	331,335	482,958
Opening net debt	(4,393,528)	(3,107,279)
Closing net debt	(7,051,849)	(4,393,528)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 MARCH 2002

23 ANALYSIS OF CHANGES IN NET DEBT

	Net debt at 1 April 2001 £	Cash flow £	Acquisition of subsidiaries £	Non-cash changes £	Net debt at 31 March 2002 £
Cash at bank	125,729	(54,888)	–	83,708	154,549
Debt due within one year	(570,699)	(1,428,218)	(406,632)	31,271	(2,374,278)
Debt due after one year	(3,948,558)	(1,099,918)	–	216,356	(4,832,120)
Net debt at 31 March	(4,393,528)	(2,583,024)	(406,632)	331,335	(7,051,849)

The non-cash changes arise from the differences between the composition of the company's share of APP's net assets at 1 April 2001 and the composition of those attributed to the company by APP following the 2001 buy back of shares and the introduction to APP of two further partner companies.

24 DIRECTORS' INTEREST IN CONTRACTS

24.1 M.R. Breen has an interest in Epicwork Limited which provided property services to the value of £36,894 (2001: £33,079) including VAT to the company, and £45,128 (2001: £45,231) to APP. Epicwork also charged for the services of R.C. Breen to the agency business, for which the company's share was £2,375 (2001: £5,025). At 31 March 2002 the balance due to that company was £2,375 (2001: £nil).

24.2 N.J.L. Welch has an interest in G&W Projects Limited, which provided project management and surveying services to APP for which the company's share was £15,347 (2001: £23,967), and was reimbursed for costs incurred for APP, for which the company's share was £66,156 (2001: £26,414). At 31 March 2002 there was no balance due to that company (2001: £nil).

25 CAPITAL COMMITMENTS AND GUARANTEES

25.1 There is future capital expenditure contracted by APP but not provided for relating to property construction and refurbishment of £6,550,591.

25.2 The company's share of annual payments due by APP under non-cancellable operating leases is as follows:

	Land and buildings 2002 £	2001 £	Other 2002 £	2001 £
Expiry date:				
Within one year	–	14,438	1,812	593
Between two and five years	32,215	33,251	14,793	10,287
In over five years	66,528	59,051	–	–
	98,743	106,740	16,605	10,880

25.3 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:

	2002 £	2001 £
Expiry date:		
Within one year	5,675	–
Between two and five years	21,026	39,530
	26,701	39,530