

Notes forming part of the financial statements for the year ended 31 March 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for income and expenditure on contracts and developments, provision for doubtful debts, depreciation and taxes.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings for the year ended 31 March 2006.

The results of businesses acquired or disposed of during the year have been included from the effective date of acquisition or up until the date of disposal. Profits or losses on intra-group transactions are eliminated in full.

The following principal accounting policies have been applied:

Turnover

Turnover is stated exclusive of VAT and represents the value of work done and properties sold, excluding part exchange properties which are included within cost of sales. In respect of sales of property, turnover is recognised when the sale becomes unconditional.

Profit is recognised on long term work in progress contracts if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract. Losses are recognised as soon as they are foreseen.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation has been provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life. It is calculated at the following rates:

Freehold buildings	–	2% per annum on the straight line basis
Leasehold improvements	–	25% per annum on the straight line basis
Motor vehicles	–	20–25% per annum on the straight line or reducing balance basis

Fixtures and fittings	–	15–25% per annum on the straight line or reducing balance basis
Plant and machinery	–	15–25% per annum on the straight line or reducing balance basis

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a purchase cost basis. Work in progress includes materials and labour costs and an appropriate proportion of overheads incurred on incomplete developments at the year end.

Land held for development or construction

Land held for building is stated at the lower of cost and net realisable value. Cost comprises land cost and direct materials and labour. Net realisable value is the actual or estimated net selling price.

Assets financed by hire purchase and leases

Where assets are financed by hire purchase, the assets are treated as if they had been purchased outright. The amount capitalised is the cost of the asset. The corresponding hire purchase commitments are shown in creditors. Depreciation on the relevant assets is charged to the profit and loss account.

Hire purchase payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the outstanding capital amounts.

When assets are financed by operating leases, their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

1 Accounting policies continued

Goodwill

Goodwill arising from the purchase of subsidiary undertakings represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired.

Goodwill arising on acquisitions is capitalised as an intangible asset. Goodwill is amortised on a straight line basis from the time of acquisition over its useful economic life which the directors estimate is 20 years.

Goodwill is regularly reviewed and any impairments are taken to the profit and loss account as they are identified.

If an undertaking is subsequently divested, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on divestment.

Pensions

The group operates defined contribution pension schemes. Contributions are charged to the profit and loss account in the year in which they become payable.

Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Comparative figures

Certain prior year amounts in the profit and loss account have been reclassified to conform with the 2006 presentation.

2 Turnover and operating profit

All turnover is generated from property-related activities within the UK.

During the year overhead costs totalling £1,363,048 (2005 - £1,362,866) were allocated from administrative expenses to work-in-progress.

3 Employees

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Staff costs, including directors, consist of:				
Wages and salaries	3,932,151	3,789,780	749,079	585,743
Social security costs	401,011	384,114	91,976	63,585
Other pension costs	89,825	97,226	25,149	30,101
	4,422,987	4,271,120	866,204	679,429

Details of remuneration, pension entitlement and interest in share options for each director are set out in the Report on Directors'

Remuneration on pages 14 to 16.

Included within wages and salaries and social security costs for the Group and Company for the year are amounts of £244,321 and £26,781 respectively being compensation for loss of office in respect of the former Chief Executive.

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
The average number of employees, including directors, during the year was:				
Administration	30	28	6	6
Operations	86	101	1	1
	116	129	7	7

Notes forming part of the financial statements continued for the year ended 31 March 2006

4 Operating profit

	2006 £	2005 £
This has been arrived at after charging/(crediting):		
Depreciation	32,367	51,163
Amortisation of goodwill	156,984	156,984
Auditors' remuneration	77,000	73,500
– audit services		
– other services	56,000	51,742
Hire of plant and machinery	51,565	39,827
Other operating lease rentals	76,337	65,786
– vehicles		
– land and buildings	330,274	330,274
Rent receivable	(336,351)	(309,133)
Profit on sale of fixed assets	(8,935)	(2,784)

Included in the group audit fee is an amount of £17,600 (2005 – £18,504) in respect of the company.

5 Exceptional items

	2006 £	2005 £
(Credits)/charges recognised after arriving at operating profit:		
(Recovery of costs)/provision in respect of sale of group undertakings in previous years (see note 19)	(405,108)	125,000

6 Interest payable

	2006 £	2005 £
Hire purchase	409	1,009
Bank overdrafts and loans repayable within five years	448,182	473,532
Other interest	95	61,997
	448,686	536,538

7 Taxation

	2006 £	2005 £
Current tax		
UK corporation tax on profits for the year	643,540	569,515
Adjustment in respect of prior year	(254,568)	(171,950)
Taxation on profit on ordinary activities	388,972	397,565

7 Taxation continued

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £	2005 £
Profit on ordinary activities before tax	2,646,493	2,135,048
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	793,948	640,514
Effects of:		
Expenses not deductible for tax purposes	35,716	56,341
Goodwill amortisation	47,095	46,620
Non-taxable income	(2,681)	–
Depreciation for year in excess of capital allowances	(3,726)	1,320
Capital loss adjustment	(97,199)	68,009
Utilisation of tax losses	(54,868)	(95,942)
Utilisation of provisions	(24,602)	(147,347)
Claim for land remediation tax relief	(50,143)	–
Adjustment in respect of previous years	(254,568)	(171,950)
Current tax charge for year	388,972	397,565

Subject to the agreement of HM Revenue & Customs, there are tax losses of approximately £3.7 million (2005 – £3.7 million) available for set off against future years profits.

8 Profit for the financial year

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit for the year, dealt with in the profit and loss account of the company and after taking into account dividends from subsidiary undertakings, was £491,742 (2005 – £126,721).

9 Earnings per share

The basic earnings per share is calculated by dividing the profit on ordinary activities after taxation by the weighted average number of shares in issue.

	2006 Number	2005 Number
The weighted average number of shares were:		
Basic weighted average number of shares	291,597,919	288,529,426

There were no dilutive potential ordinary shares in 2006 or 2005.

10 Intangible fixed assets

Goodwill

£

Cost

At 1 April 2005 and 31 March 2006 **3,136,389**

Amortisation

At 1 April 2005 665,183

Charge for the year 156,984

At 31 March 2006 **822,167**

Net book value

At 31 March 2006 **2,314,222**

At 31 March 2005 2,471,206

Notes forming part of the financial statements continued

for the year ended 31 March 2006

11 Tangible fixed assets

Group	Freehold land and buildings £	Leasehold improvements £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost						
At 1 April 2005	315,400	1,407	221,602	110,580	168,086	817,075
Additions	–	307	384	28,308	15,948	44,947
Disposals	–	–	(45,750)	(23,760)	–	(69,510)
At 31 March 2006	315,400	1,714	176,236	115,128	184,034	792,512
Depreciation						
At 1 April 2005	28,094	1,232	219,943	85,253	142,354	476,876
Provided for the year	5,773	245	961	11,919	13,469	32,367
Eliminated on disposals	–	–	(45,750)	(23,760)	–	(69,510)
At 31 March 2006	33,867	1,477	175,154	73,412	155,823	439,733
Net book value						
At 31 March 2006	281,533	237	1,082	41,716	28,211	352,779
At 31 March 2005	287,306	175	1,659	25,327	25,732	340,199

The net book value of fixed assets includes an amount of £Nil (2005 – £Nil) in respect of assets held under hire purchase.

The depreciation charge includes an amount of £Nil (2005 – £12,197) in respect of assets held under hire purchase.

Company	Leasehold improvements £	Equipment, fixtures and fittings £	Total £
Cost			
At 1 April 2005		1,407	32,491
Additions		307	3,747
At 31 March 2006		1,714	36,238
Depreciation			
At 1 April 2005		1,232	24,007
Provided for the year		245	5,226
At 31 March 2006		1,477	29,233
Net book value			
At 31 March 2006		237	7,005
At 31 March 2005		175	8,484

12 Fixed asset investments

Company	Subsidiary undertakings £
Cost	
At 1 April 2005 and 31 March 2006	11,452,149
Provisions	
At 1 April 2005 and 31 March 2006	1,000,000
Net book value	
At 31 March 2006 and 31 March 2005	10,452,149

In the opinion of the directors the aggregate value of the Company's investments are not less than the amount included in the balance sheet.

At 31 March 2006 the principal subsidiary undertakings all of which are included within the consolidated financial statements, were:

Name	Class of share capital held	Proportion held	Nature of business
Artisan (UK) Developments Limited	Ordinary	100%	Commercial property development
Rippon Homes Limited	Ordinary	100%	House building and development
Artisan (UK) Projects Limited	Ordinary	100%	Building construction
Artisan (UK) Properties Limited	Ordinary	100%	Property sales and letting

All the above companies are registered in England and Wales.

13 Current asset investments

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Listed investments	1,000	5,000	1,000	5,000

The listed investment at the year end is quoted on NASDAQ in the United States of America. During the year a provision of £4,000 was made for diminution in value of the investment.

14 Stocks and work in progress

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Raw materials and consumables	26,508	29,483	-	-
Land held for development and work in progress	23,515,125	20,874,643	-	-
Completed developments and houses for sale	2,895,929	882,088	-	-
	26,437,562	21,786,214	-	-

Notes forming part of the financial statements continued

for the year ended 31 March 2006

15 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade debtors	3,887,223	3,898,710	26,244	19,853
Amounts recoverable on contracts	935,772	2,547,516	–	–
Amounts owed from subsidiary undertakings	–	–	17,368,532	17,233,185
Other debtors	559,593	213,292	13,532	19,512
Prepayments and accrued income	160,332	132,015	45,207	33,220
	5,542,920	6,791,533	17,453,515	17,305,770

16 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Trade creditors	2,363,614	2,242,031	30,273	161,602
Amounts owed to subsidiary undertakings	–	–	1,049,758	1,058,862
Corporation tax	509,700	803,740	–	169,200
Other taxes and social security	140,851	224,700	15,389	16,176
Other creditors	163,348	196,083	–	–
Accruals and deferred income	5,390,847	4,625,754	541,159	493,123
Amounts due under hire purchase agreements	–	2,320	–	–
	8,568,360	8,094,628	1,636,579	1,898,963

17 Creditors: amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans (secured – see note 18)	6,563,065	7,060,746	12,341,754	13,449,691

18 Borrowings

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Are repayable as follows:				
In one year or less:				
Hire purchase agreements	–	2,320	–	–
In more than one year but not more than two years:				
Bank borrowings	6,563,065	–	12,341,754	–
In more than two years but not more than five years:				
Bank borrowings	–	7,060,746	–	13,449,691
	6,563,065	7,063,066	12,341,754	13,449,691

The bank loans are secured by a fixed and floating charge over the assets of the Group. Set-off is available to the bank between the company and its group company members by virtue of the bank holding a debenture from each company together with a cross corporate guarantee.

Since the year-end the existing revolving credit facilities due for repayment in June 2007 have been renegotiated and a new and enhanced revolving facility has been agreed for the period to June 2009.

19 Provisions for liabilities

Group and Company	Provision for claims £
At 1 April 2005	528,843
Utilised during the year	(81,098)
At 31 March 2006	447,745

The company has continued to be engaged with matters arising from the sale of Bickerton Construction Limited. Judgement from the Court of Appeal was handed down in favour of Artisan (UK) plc. The appellants applied for leave to appeal directly to the House of Lords and this was refused, exhausting the appellants opportunities under the English judicial system. There are some residual costs in connection with this matter but also other associated matters including an indemnity on a bond provided and, therefore, provisions are maintained.

20 Share capital

	2006 £	2005 £
Authorised		
1,000,000,000 (2005 – 1,000,000,000) ordinary shares of 0.5p each	5,000,000	5,000,000
Allotted, called up and fully paid		
328,529,426 (2005 – 288,529,426) ordinary shares of 0.5p each	1,642,647	1,442,647

During the year the company entered into the following share transactions:

On 3 March 2006 40,000,000 ordinary shares were placed with Aspen Finance Limited at 2.75p per share to raise £1.1 million of additional working capital.

Notes forming part of the financial statements continued for the year ended 31 March 2006

20 Share capital continued

Contingent rights to the allotment of shares

Options granted, exercised and lapsed under the employee share option scheme were as follows:

	31 March 2005	Granted in year	Surrendered in year	At 31 March 2006	Exercise price range
Approved scheme	3,250,000	–	–	3,250,000	3.00p
Unapproved scheme	7,666,666	4,666,666	5,166,666	7,166,666	3.00–16.00p

The above options are exercisable up to 1 April 2014.

Further details on share option schemes are provided in the Report on Directors' Remuneration on pages 14 to 16.

21 Reserves

	Group				Company			
	Share premium account £	Merger reserve £	Capital redemption reserve £	Profit and loss account £	Share premium account £	Merger reserve £	Capital redemption reserve £	Profit and loss account £
At 1 April 2005	9,456,668	515,569	91,750	4,208,508	9,456,668	689,328	91,750	215,699
Retained profit for the year	–	–	–	2,257,521	–	–	–	491,742
Premium arising on issue of shares	900,000	–	–	–	900,000	–	–	–
At 31 March 2006	10,356,668	515,569	91,750	6,466,029	10,356,668	689,328	91,750	707,441

22 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the year	2,257,521	1,737,483
Shares issued in year	1,100,000	–
Net movement in shareholders' funds	3,357,521	1,737,483
Opening shareholders' funds	15,715,142	13,977,659
Closing shareholders' funds	19,072,663	15,715,142

23 Net cash inflow from operating activities

	2006 £	2005 £
Operating profit	2,574,646	2,722,119
Depreciation	32,367	51,163
Amortisation	156,984	156,984
Profit on disposal of fixed assets	(8,935)	(2,784)
Increase in stock	(4,651,348)	(3,060,128)
Decrease/(increase) in debtors	1,248,613	(1,948,506)
Increase(decrease) in creditors and provisions	687,988	(40,480)
Net cash inflow/(outflow) from operating activities	40,315	(2,121,632)

24 Reconciliation of change in cash to movement in net debt

	2006 £	2005 £
(Decrease)/increase in cash in the year	(1,857)	3,368,182
Repayment of secured bank loans	497,681	957,177
Repayment of other loans	–	61,207
New secured bank loans	–	(7,060,746)
Capital element of hire purchase agreements	2,320	5,892
Cash inflow from decrease in liquid resources	–	(477,966)
Movement in net debt in the year	498,144	(3,146,254)
Transfer in respect of loan notes redeemed with current asset investments	–	236,453
Profit on sale of current asset investments	–	69,476
Increase in provision against current asset investments	(4,000)	–
Opening net debt	(7,052,859)	(4,212,534)
Closing net debt	(6,558,715)	(7,052,859)

25 Analysis of net debt

	At 1 April 2005 £	Cash flow £	Non-cash movement £	At 31 March 2006 £
Cash at bank	5,207	(1,857)	–	3,350
	5,207	(1,857)	–	3,350
Hire purchase agreements	(2,320)	2,320	–	–
Debt due after more than one year	(7,060,746)	497,681	–	(6,563,065)
Current asset investments	5,000	–	(4,000)	1,000
Net debt	(7,052,859)	498,144	(4,000)	(6,558,715)

26 Financial instruments**(a) Policies and risks**

The Group's financial instruments comprise equity investments, bank loans, finance leases, cash and various items such as trade debtors and trade creditors that arise directly from its operations. Cash and bank loans are used to raise finance for the group's operations and acquisitions. The main purpose of holding equity investments is to achieve capital growth and realise profits on their disposal.

The main risk arising from the Group's financial instruments are interest rate risk, as the group's borrowings are at floating rates of interest, and liquidity risk. The group has not entered into any derivative transactions. The equity investments held by the Group are susceptible to changes in value arising from market factors. The performance of each investment is constantly monitored by the directors and the company's advisers.

The Group is also subject to foreign exchange risk in respect of an immaterial investment denominated in Euros and US dollars as set out in note 26(c).

Short term debtors and creditors have been excluded from the disclosures.

Notes forming part of the financial statements continued

for the year ended 31 March 2006

26 Financial instruments continued

(b) Interest rate risk profile of financial liabilities

Currency	Total £	Fixed rate financial liabilities £	Floating rate financial liabilities £	Weighted average interest rate %	Weighted average period for which rate is fixed years
At 31 March 2006					
Sterling	6,563,065	–	6,563,065	6.08	–
At 31 March 2005					
Sterling	7,063,066	2,320	7,060,746	6.25	1.00

The hire purchase agreements are all term agreements none of which exceed 4 years.

The group's floating rate financial liabilities bear interest at rates based on the group's bank's base rate.

(c) Interest rate risk profile of financial assets

Currency	Total £	Fixed rate financial assets £	Floating rate financial assets £	Financial assets on which no interest is earned £
At 31 March 2006				
Sterling, Euros and US dollars	4,350	–	3,350	1,000
At 31 March 2005				
Sterling, Euros and US dollars	10,207	–	5,207	5,000

Floating rate financial assets comprises cash held in UK and Spanish bank accounts. Financial assets on which no interest is paid comprises an equity investment in listed securities denominated in US dollars.

(d) Maturity profile of the Group's financial liabilities

	2006 £	2005 £
Within one year	–	2,320
After one and within two years	6,563,065	–
After two and within five years	–	7,060,746
	6,563,065	7,063,066

(e) Borrowing facilities

The group has no undrawn committed facilities as at 31 March 2006 (2005 – Nil).

26 Financial instruments continued**(f) Fair value of financial liabilities and financial assets**

	2006 Book value £	2006 Fair value £	2005 Book value £	2005 Fair value £
Long term borrowings	6,563,065	6,563,065	7,060,746	7,060,746
Hire purchase	–	–	2,320	2,320
Cash	3,350	3,350	5,207	5,207
Current asset investments	1,000	1,000	5,000	5,000

The fair value of financial liabilities is based on market rates of interest.

The fair value of current asset investments are based on quoted market values, directors' valuation or actual disposal transactions after the year end.

27 Contingent liabilities and commitments

A cross guarantee held by the bank in favour of Artisan (UK) plc and its group company members has been given by the Company for all monies owing. At 31 March 2006, bank borrowings of group company members covered by the Company's cross guarantee amounted to £Nil (2005 – £Nil).

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees. As at 31 March 2006, bonds in issue amount to £8,613 (2005 – £8,613).

As previously disclosed, the liquidator of Bickerton Construction Limited had made enquiries into management charges from Artisan around the time of the sale of Bickerton. The liquidator has now stated in his latest report to creditors that no further actions or investigations are to be carried out.

28 Leasing commitments

Annual commitments under non-cancellable operating leases are as follows:

	2006 Land and buildings £	2006 Other £	2005 Land and buildings £	2005 Other £
Within one year	4,400	23,081	12,400	8,480
Between two and five years	118,850	62,632	110,850	60,363
After five years	207,024	–	207,024	–