



# Artisan (UK) plc Annual report 2005



Artisan is a UK based house builder and business park developer.

**Artisan (UK) plc**

Artisan (UK) plc is the holding company for a group of property development companies and a property holding company. Artisan (UK) plc commenced trading in December 1998. The current principal trading companies are shown below.

**Rippon Homes Limited**

Rippon Homes, which has been part of the Artisan Group since December 2000, is a residential house developer based in Mansfield operating in the East Midlands and Yorkshire areas. Rippon Homes incorporates the Living Heritage division for more exclusive properties.

**Artisan (UK) Developments Limited**

This company develops business parks consisting of commercial office space together with light industrial units where there is an appropriate location. Its activity is concentrated in Cambridgeshire and Hertfordshire.

**Artisan (UK) Projects Limited**

This company manages the construction activity, principally for Artisan (UK) Developments Limited.

**Artisan (UK) Properties Limited**

It has not been the Group's intention to hold property in the long term, but where the Group holds tenanted properties and properties available for tenants, they are held in this company.

All of the above are 100% subsidiaries of Artisan (UK) plc

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## Financial highlights

“The 2005 results are most satisfying and have exceeded the market’s expectations”



- 122% growth in earnings per share to 0.60p (2004: 0.27p)
- 35% rise in operating profits to £2.72m (2004: £2.02m)
- Shareholders’ funds increased by 12.4% to £15.7m
- No dividend recommended in order to retain available funds within the business (2004: nil)
- Residential land bank expanded by over 35%
- Commercial activity level increases significantly
- Commercial Development operations return to profitability
- Court of Appeal ruling on the Infiniteland case upholds judgment in Artisan’s favour



Artisan (UK) Developments is a commercial property development company with a proven track record of success. It designs and develops attractive, modern, purpose-built business parks in prime locations in East Anglia and the Northern Home Counties.

It specialises in developing bright and airy office accommodation, spacious and individual light industrial units, warehousing, Research & Development premises, and purpose-built industrial starter units. A very flexible approach allows for sizes to meet individual business requirements.

Each of our developments are designed and built with careful consideration by a team of talented architects and planners, and constructed with the same level of consideration and attention to detail by professional contractors. Artisan (UK) Developments prides itself on providing all types of small to medium-sized businesses with high specification work space specific to their individual needs and demands.

#### Key to images on the following pages

1. Vantage Park:  
Providing occupiers with plenty of natural light
2. Purpose-built, mixed-use industrial premises at Colmworth Business Park, St Neots designed to maximise all available space
3. The four bedroom "Chatsworth" detached house with classic Georgian styling is a much sought after property
4. Thoughtful design and landscaping at Axon Peterborough Business Park
5. Premier Travel Inn chose a prominent position within the Colmworth Business Park, St Neots
6. Office accommodation designed to offer occupiers convenient and comfortable working premises and ample on-site parking
7. The Living Heritage Millburgh Hall apartment project is a sympathetic restoration and conversion of a fine period property
8. Modern design and architecture gives an Artisan office campus stylish identity
9. Bespoke solutions provide light industrial businesses with high-specification premises appropriate to their individual requirements
10. The Winchester is a superior example of a four bedroom detached bungalow with lounge, dining room and fitted kitchen providing excellent accommodation
11. Rippon developments offer pleasing and varied street scenes utilising style, character and traditional design
12. Every Rippon home offers a superb master bedroom, most incorporating en-suites
13. By adding to the standard Rippon specification, from our range of extras, you can personalise your home
14. Balcony feature on Vantage park office development
15. You can create an individual effect for any room in your home
16. The Beechdale is an exemplary example of a three-bedroom town house, having a fully fitted dining kitchen with French doors that lead onto the rear garden





5.



6.



7.



8.



9.



10.



11.

Rippon Homes has achieved success by constantly delivering everything our customers would expect and more.

Above all we believe people want homes that reflect individuality. A portfolio of over 50 different house styles, from two bedroom mews style homes to select developments of individual luxury family homes by the Living Heritage division. This enables us to create differing house styles for different people. Every property we build receives the same commitment to quality and attention to detail that makes the difference between simply building a house and creating a home.



## Chairman's statement

“...the platform to achieve this growth is now firmly founded.”

It is one of the more pleasant duties of a company chairman to report on a year which sees significant growth in both operating profits and pre-tax earnings.

Operating profits have risen to £2.7m (2004: £2.0m). Pre-tax profits almost doubled to £2.1m from last year's £1.1m, partly due to the absence of the significant exceptional costs that were a feature of 2004, but should not disguise the real progress made by the Group in its activities in the year.

The market for our commercial business parks has been active during the year under review, with a much higher level of sales achieved. The prospects for this area of the business are expected to remain positive for 2005/06.

Whilst the housing market is always likely to be punctuated by short term volatility, the Board believes the long term prospects for housebuilding are strongly founded on basic economic principles, and we continue to build up land reserves at Rippon Homes and seek other opportunities to expand.

Inevitably any corporate activity has been inhibited whilst the Infiniteland litigation remained open. It is to be welcomed that the Court of Appeal has upheld the judgment of the High Court finding in favour of Artisan as explained in the Financial Review that follows in this report.

Your Board is looking forward to 2005/06 with confidence and, although we anticipate a more difficult and uncertain year for our housebuilding operations, we will redouble our efforts to pursue interesting prospects in the property sector. Whilst the Group is in a much better position to pursue worthwhile opportunities we will not allow our pursuit of these opportunities to compromise the stability that has been established over the past couple of years. We are determined to take the Group forward to restore a more robust market capitalisation and believe the platform to achieve this growth is now firmly founded.

With this in mind, your Board does not recommend a dividend for the current year, in order that funds for investment may be retained in the business.

The impressive results for the year could only have been achieved with the support of all the employees in the business, and I should like to acknowledge their efforts on behalf of the entire Board.

**Michael W Stevens**  
Chairman  
11 July 2005

## Operational review

“...also expanded with more sites in the conurbations...”

During the year, sales on the Group's business parks grew to £8.6m (2004: £4.8m). This included sales of serviced plots as well as completed properties, and has enabled us to make a significant reduction in the working capital employed in commercial land and stocks. This has greatly improved the return on capital employed within Artisan (UK) Developments whilst rebalancing stocks.

The most notable transaction in the year was at Vantage Park in Huntingdon, where we let the three office units constructed in the previous year and concluded an investment sale at £2.4m to one of the Cambridge colleges in March 2005.

Overall, the last two months of the year proved very productive for the sale of stock properties, to the extent that virtually all of these were sold by the year end. This has required the rebuilding of stock levels in the first half of 2005/06. Demand for forward sales on offices remains good at the present time particularly in the market for the smaller properties Artisan (UK) Developments offers.

2004/05 was a profitable but disjointed year for house sales at Rippon Homes. From July 2004 the market in the East Midlands stood still for three months whilst prospective purchasers nervously watched for signs of a fall in house prices and estate agents sought to re-align asking prices for less desirable older properties. Despite

a rally in the New Year, the business finished the year with 118 houses sold, compared with 126 sales in the previous year when customer demand was at an exceptionally high level.

Demand has calmed since the early-spring revival and results for the year to 31 March 2006 will be significantly impacted by the condition of the market in the autumn. However, Rippon Homes enjoys a low exposure to the troubled apartments sector and buy-to-let investors, and its houses are attractive to the more traditional buyer. Typically this means Rippon Homes does not operate on the higher percentage of forward-sales reported by volume housebuilders, and it remains difficult to forecast sales volumes in the current cautious market. Our land buying strategy has allowed Rippon Homes to offer a higher percentage of less expensive properties. We have also expanded with more sites in the conurbations west of Nottingham and Yorkshire where we expect demand will be more resilient.

“...greatly improved the return on capital employed...”

“...continued to invest in the housing land bank...”

One factor having an influence across both our business streams is the growing popularity of purchasing property through private pension plans (SIPPs). From April 2006 the fiscal rules are set to change to enable a wider range of property investments, including housing, to be purchased in this manner although restricting the size of the related mortgages. Whilst the influence of these Treasury policies on the markets is unclear, it may be that some purchasers will await the start date for certain types of house purchase.

Shareholders will be aware that Artisan has been exploring the expansion of the housebuilding business through a possible corporate acquisition. During the year talks were held with several different companies, but these did not lead to fruition.

We have continued to invest in the housing land bank at Rippon Homes and during the year we increased our landholdings by over 35%, ending the year with 230 plots owned or contracted,

(2004: 168 plots). Future commercial development capacity stands at over 17,000 square metres of developable floorspace, which is approaching three years' production, and new outlets are being sourced for 2006/07.

The year to 31 March 2005 has demonstrated the Group's ability to return a good level of operating profits through its operations and provided a sound base for future years.

**Martyn Freeman**  
Chief Executive  
11 July 2005

“...demonstrated the Group's ability to return a good level of operating profits...”

## Financial review

“...activity at the year end was very successful...”

### Results

The Group operating profit has improved to £2.72m (2004: £2.02m): an increase of 35%. In particular the commercial activity at the year end was very successful with over £3.0m of sales achieved in the last month. Profit has grown as a result of the improvement in commercial trading activity supported by a rise in the margins achieved on residential sales.

Earnings per share have increased by 122% to 0.60p (2004: 0.27p).

Group turnover for the year to 31 March 2005 reduced to £27.3m (2004: £32.1m) due in part to the weakness of the residential housing market compared to the prior year despite the excellent recovery in business park development activity. In the year to 31 March 2004 the turnover was enhanced by the sales of older Living Heritage stock accounting for much of the reduction in turnover.

There has been some additional exceptional expenditure in respect of disposals of group undertakings in previous years. This is largely in respect of the litigation continuing through the year over the Group's sale of Bickerton Construction Limited.

### Share capital

In the year there has been no share capital issued. Share options granted are detailed in the Remuneration Report.

### Balance sheet

The net assets of the Group have continued to grow with an increase from £14.0m to £15.7m as a result of the retained profit for the year. At 31 March 2005 the Group had net cash balances of £nil (2004: £0.4m) reflecting the funding basis of our new banking facilities whereby all positive bank balances in the group are offset against loan drawdown. This is particularly advantageous in reducing net interest payable. The Group has borrowings of £7.1m (2004: £4.7m). The gearing ratio is now 44.9% (2004: 31.4%) reflecting the continued investment in trading stocks as your Board seeks to improve the depth of the residential land bank. Your Board expects to take advantage of the opportunities to be gained by increasing this gearing ratio as worthwhile new projects are identified in both residential and commercial activities.

### Summary of operating results

|                         | Residential   | Commercial   | Property dealing | Central        | Total         |
|-------------------------|---------------|--------------|------------------|----------------|---------------|
| <b>Turnover</b>         |               |              |                  |                |               |
| <b>2005</b>             | <b>£18.7m</b> | <b>£8.6m</b> | <b>–</b>         | <b>–</b>       | <b>£27.3m</b> |
| 2004                    | £26.6m        | £4.8m        | £0.7m            | –              | £32.1m        |
| <b>Operating profit</b> |               |              |                  |                |               |
| <b>2005</b>             | <b>£3.1m</b>  | <b>£1.1m</b> | <b>–</b>         | <b>£(1.3)m</b> | <b>£2.9m</b>  |
| 2004                    | £3.3m         | £(0.1)m      | –                | £(1.0)m        | £2.2m         |

The analysis of profit is before group management charges and excludes goodwill amortisation.

**122%**

EPS growth

**12%**

Net asset growth

“...banking facilities...proven to be of significant benefit...”

#### Work in progress

Work in progress has increased from £18.7m to £21.8m reflecting the continued investment in residential land bank, whilst commercial work in progress has been successfully reduced through profitable trading. The investment in commercial work in progress will increase from the low point following the successful sales of finished units at the year end as further stock is developed for sale. As the completion of two of the office parks can now be foreseen, further investment in new business park sites is expected.

#### Non-core assets

Artisan has, as indicated last year, essentially finalised the disposal of its non-core assets with the realisations of its holdings in Stratus Services Group Inc and Partners in Property Solutions plc, both modestly in excess of balance sheet value. Artisan retains a small number of common stock shares in Stratus.

#### Litigation

The dispute with Infiniteland Limited over the sale of Bickerton Construction Limited continued to be a distraction during the year. After enduring the long and expensive High Court hearing which found in favour of Artisan in the previous financial year, Infiniteland were granted leave to appeal to the Court of Appeal. The appeal hearing was heard in February 2005 and judgment handed down in June 2005, again in favour of Artisan, dismissing Infiniteland's claims and upholding Artisan's right to collect the £503,000 debt outstanding together with substantial costs and interest. The Court of Appeal did not grant leave to Infiniteland to appeal this judgment,

but as Infiniteland intend to seek leave to appeal directly to the House of Lords, the full outstanding debt remains provided for whilst litigation continues and no assumption of any funds recoverable has been made.

Also as we previously reported, the liquidator of Bickerton Construction Limited has made enquiries into management charges from Artisan around the time of the sale of Bickerton. At the end of 2004 the liquidator threatened legal action in respect of management charges of £1,400,000 paid by Bickerton to Artisan in June 2001. If proceedings are issued Artisan intends to defend its position on the validity of the management charges. If the defence is unsuccessful, the matter may result in a repayment by Artisan of an amount equal to all or part of the management charges plus costs.

#### Bankers

The new corporate banking facilities agreed with The Royal Bank of Scotland plc have proven to be of significant benefit to the Group. Following the completion of the first year on 30 June 2005, the £5m top slice of funding has been renewed for a further year, the balance having been drawn down on a three year committed revolving credit facility. The new facility has been entered into with the clear understanding that it is Artisan's intention to improve its land banks and seek acquisitions.

**Chris Musselle**  
Finance Director

11 July 2005

## Directors and advisers

### Directors

#### Michael W Stevens

Non-Executive Chairman

#### Martyn Freeman

Chief Executive

#### Christopher Musselle

Finance Director

#### Norman Saunders

Non-Executive

#### John Hemingway

Non-Executive

### Secretary

#### Philip Speer

### Company number

3630998

### Registered office

Mace House,  
Sovereign Court,  
Ermine Business Park,  
Huntingdon,  
Cambridgeshire PE29 6XU

### Auditors

#### BDO Stoy Hayward LLP

8 Baker Street,  
London W1U 3LL

### Registrar

#### Capita Registrars

The Registry,  
34 Beckenham Road,  
Beckenham,  
Kent BR3 4TU

### Nominated Advisers

#### Seymour Pierce Limited

Bucklersbury House,  
3 Queen Victoria Street,  
London EC4N 8EL

### Stockbroker

#### Seymour Pierce Limited

Bucklersbury House,  
3 Queen Victoria Street,  
London EC4N 8EL

### Legal Advisers

#### Simmons & Simmons

CityPoint,  
One Ropemaker Street,  
London EC2Y 9SS

#### Thomson Webb & Corfield

16 Union Road,  
Cambridge CB2 1HE

### Bankers

#### The Royal Bank of Scotland plc

10 St Peter's Street,  
St Albans,  
Hertfordshire AL1 3LY

## Report of the directors for the year ended 31 March 2005

The directors present their report together with the audited financial statements for the year ended 31 March 2005.

### Principal activities, review of the business and future developments

The principal activities of the Group during the year were property related services which included residential house building, commercial property development and property management.

The Chairman's statement, operational and financial reviews are set out on pages 5 to 9 and contain details of the Group's progress during the year together with an indication of future developments.

### Results and dividends

The profit and loss account is set out on page 18 and shows the profit for the year. The Group profit for the year after taxation amounted to £1,737,483 (2004: £768,802).

The directors do not propose to pay a final dividend for the year (2004: £nil). No ordinary dividends were paid in the year (2004: £nil).

### Directors

The following directors have held office throughout the year:

Michael Stevens  
Christopher Musselle  
Martyn Freeman  
Norman Saunders  
John Hemingway

### Directors' shareholdings

The directors at 31 March 2005 and their interests in the share capital (beneficially or potentially beneficially held) of the Company at the dates stated were:

|                      | Ordinary shares |            | Options   |           |
|----------------------|-----------------|------------|-----------|-----------|
|                      | 2005            | 2004       | 2005      | 2004      |
| Michael Stevens      | 29,666,667      | 29,666,667 | –         | –         |
| Christopher Musselle | 298,853         | 298,853    | 3,833,333 | 1,780,000 |
| Martyn Freeman       | 204,000         | 204,000    | 3,833,333 | 1,500,000 |
| Norman Saunders      | 46,666          | 46,666     | –         | –         |
| John Hemingway       | –               | –          | –         | –         |

### Substantial shareholders

At 11 July 2005 the Company has been notified of the following interests in its issued share capital pursuant to Part VI of the Companies Act 1985:

|                       | Ordinary shares of 0.5p each |          |
|-----------------------|------------------------------|----------|
| Aspen Finance Limited | 29,666,667                   | (10.28%) |

Michael Stevens, a director, is beneficially interested in the shares held by Aspen Finance Limited as a director of Aspen Finance Limited and a potential beneficiary of its parent company, Okaba Management Inc.

### Creditors payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions. The number of average days purchases of the Company represented by trade creditors at 31 March 2005 was 30 days (2004: 29 days).

### Annual General Meeting

The Annual General Meeting of the Company will be held at Butchers Hall, 87 Bartholomew Close, London, EC1A 9HP on 7 September 2005 at 11am. Notice of the Annual General Meeting will be separately enclosed with the distribution of the Report and Accounts.

### Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board

### Philip Speer

#### Secretary

11 July 2005

## Corporate governance

The directors acknowledge the importance of the principles set out in the 2004 FRC Combined Code on Corporate Governance. Although not required to make these disclosures, the directors set out below how the principles that they consider to be applicable to the Company have been applied during the year:

### The Board of directors

During the year to 31 March 2005 the Board comprised a non-executive chairman, a chief executive, a finance director and two independent non-executive directors. The Board includes non-executive directors of sufficient calibre and number to bring independent judgement on the key issues facing the Group.

The Board meets regularly throughout the year to review performance against pre-agreed budgets. The Board has a formal schedule of matters specifically reserved to it for decision covering overall strategy, acquisition and divestment policy, approval of budgets and major capital expenditure projects and general treasury and risk management policies. To enable the Board to discharge its duties, all directors have full access to all relevant information and to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, the directors may take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

A nominations committee is not considered appropriate because of the small size of the Board but all appointments or potential appointments are fully discussed by all Board members. All new directors and senior management are given a comprehensive introduction to the Group's business, including visits to the principal sites and meetings with senior management. Any training necessary will be provided at the Company's expense.

The Articles of Association provide that directors will be subject to re-election at the first opportunity after their appointment and then submit to re-election at intervals of three years. The Chief Executive is not subject to retirement by rotation, but would expect to submit voluntarily to re-election at intervals of three years.

### Audit Committee

The Audit Committee consists of Norman Saunders, Chairman, and John Hemingway. The Audit Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. Meetings are also attended by relevant executive directors. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

### Remuneration Committee

The Remuneration Committee consists of John Hemingway, Chairman, and Norman Saunders. The Committee's role is, amongst other responsibilities, to consider and approve the remuneration and benefits of the executive directors. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code. The Report on Directors' Remuneration is set out on pages 14 to 16.

### Internal control

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness.

No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Board with reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

The Company has had procedures in place throughout the year and up to the date of approval of this annual report, which accord with the Internal Control Guidance for Directors on the Combined Code published in September 1999.

The Board has delegated the detailed design of the system of internal control to the executive directors. The Board has also appointed a manager with specific responsibility for operational risk management. The Group Financial Controller and the Operational Risk Surveyor are formally encouraged to approach the Audit Committee if appropriate.

The control framework and key procedures are as follows:

- The executive directors meet regularly together, and with other senior executives, to consider Group financial performance, business development and Group management issues. The directors and officers of Group subsidiaries comprise executives with appropriate functional responsibilities. Directors of key operating companies meet regularly to manage their respective businesses.
- The Group Board establishes corporate strategy and Group business objectives. Divisional management must integrate such objectives into divisional business strategies for presentation to the Group Board with supporting financial objectives.
- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. Major business risks and their financial implications are appraised by the responsible executives and endorsed by divisional management.

This is an integral part of the strategic planning process. The appropriateness of controls is considered by the executives, having regard to cost/benefit, materiality and the likelihood of risks crystallising. Key risks and actions to mitigate those risks are considered at each regular Board meeting and are formally reviewed and approved by the Group Board annually.

- Divisional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators are reviewed by the executive directors and must support divisional business strategies. The consolidated Group budget is approved by the Group Board.
- Reports on Group and divisional performances are regularly provided to directors and discussed at Group Board meetings. Performance against both budgets and objectives together with management of business risks are reviewed with divisional management, as are forecasts and material sensitivities. The Board regularly receives reports from key executives and functional heads covering areas such as forecasts, business development, strategic planning, legal and corporate matters.
- There is a group-wide policy governing appraisal and approval of investment expenditure and asset disposals. Post investment performance reviews are undertaken.
- Clearly defined organisation structures and appropriate delegated authorities for executives are in place throughout the Group.

#### Relations with shareholders

Communications with shareholders are given high priority. All shareholder enquiries to the directors are attended to by a director. There is a regular commentary for shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year, as well as the investor relations section of the Company's website.

The Board also uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Chairmen of the Audit and Remuneration Committees are available at Annual General Meetings to answer questions.

Established procedures ensure the timely release of share price sensitive information and the publication of financial results and regulatory financial statements.

#### Health and safety

A high standard of health and safety management is promoted at all levels within the Group. The Group's health and safety approach is supported by training programmes at operating businesses, Group health and safety rules and monitoring and auditing to promote a high level of awareness and commitment.

#### Statement by directors on compliance with the provisions of the Combined Code

The Board consider that they have complied with the provisions of the Combined Code throughout the year ended 31 March 2005 which they consider to be practicable and appropriate for a relatively small public company in accordance with the recommendations on corporate governance.

#### Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

#### Going concern

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Report on directors' remuneration

This report has been prepared by the Remuneration Committee on behalf of the Board for submission to shareholders. In so doing, the provisions of the Combined Code annexed to the Listing Rules of the UK Listing Authority have been followed, where considered to be appropriate.

### Remuneration Committee members

The Remuneration Committee consists of Norman Saunders and John Hemingway. The Remuneration Committee meets as required during the year and at least twice a year.

### Remuneration Committee responsibilities

The Remuneration Committee provides advice and recommendations to the Board regarding the Company's framework for executive remuneration and its duties include:

- monitoring the remuneration policies applied in the Group having regard to relevant market comparisons and practice;
- considering and making recommendations on the remuneration arrangements (including bonuses, pension rights, service contracts and compensation payments) of executive directors of the Company. Its approach is consistent with the Group's overall philosophy that all staff should be competitively rewarded;
- considering and making recommendations on the remuneration arrangements (including bonuses, pension rights, service contracts and compensation payments) of senior executives of the Group;
- ensuring that the remuneration policy and the Group's practices for executive directors facilitate the employment and motivation of top quality personnel and adequately reward individual contributions made to the Group while at the same time remaining appropriate in terms of the Group's performance; and if considered appropriate;
- monitoring the Group's employee share schemes in relation to legislative and market developments and determining within the overall remuneration policy the level of options or awards under such schemes, and making recommendations for the grant of options.

### Policy

The Company has given full consideration to the principles of, and has complied as far as possible with the provisions of, the Combined Code on directors' remuneration.

A strategic aim is to align as closely as possible the interests of employees and shareholders. This is achieved by attracting, training, developing and retaining talented staff at all levels throughout the Group underpinned by the provision of highly competitive salaries and benefits to all employees.

Individual salary, bonus and benefit levels for executive directors and other senior executives are reviewed annually by the Remuneration Committee and are determined by reference to a range of criteria including:

- personal performance;
- level of responsibility;
- the performance of the Group relative to its competitors; and
- the practice of other listed companies, in particular those operating in similar sectors.

### Remuneration packages

The remuneration package for executive directors comprises short term and longer term benefits, post retirement benefits and share options. The Remuneration Committee is empowered to take external advice to help ensure the appropriateness of these benefits, where it considers it appropriate to do so.

Short term benefits comprise annual salary, provision of a company car (or car allowance), life assurance, medical expenses insurance and performance bonuses.

### Directors' service agreements

Each of the executive directors has a service agreement which requires not more than twelve months notice of termination.

The non-executive directors have contracts with the Company terminable at six months notice.

### Pensions

Pension contributions are paid on a money purchase basis to the personal pension schemes of the executive directors. These arrangements are continually reviewed to ensure that they are appropriate. There is no intention to set up an occupational pension scheme.

### Non-executive directors

The fees of non-executive directors are set by the Board.

## Directors' remuneration

|                       | Salary<br>and fees<br>£ | Bonus<br>£     | Benefits<br>£ | Pension<br>contributions<br>£ | Total<br>31 March<br>2005<br>£ | Total<br>31 March<br>2004<br>£ |
|-----------------------|-------------------------|----------------|---------------|-------------------------------|--------------------------------|--------------------------------|
| <b>Executives</b>     |                         |                |               |                               |                                |                                |
| Martyn Freeman        | 130,556                 | 52,890         | 18,155        | 13,000                        | <b>214,601</b>                 | 182,041                        |
| Christopher Musselle  | 128,750                 | 52,890         | 18,146        | 12,814                        | <b>212,600</b>                 | 182,041                        |
| <b>Non-executives</b> |                         |                |               |                               |                                |                                |
| Michael Stevens       | 60,000                  | —              | —             | —                             | <b>60,000</b>                  | —                              |
| Norman Saunders       | 17,175                  | —              | 3,427         | —                             | <b>20,602</b>                  | 19,968                         |
| John Hemingway        | 16,800                  | —              | —             | —                             | <b>16,800</b>                  | 15,350                         |
| <b>Total 2005</b>     | <b>353,281</b>          | <b>105,780</b> | <b>39,728</b> | <b>25,814</b>                 | <b>524,603</b>                 |                                |
| Total 2004            | 283,250                 | 53,300         | 37,850        | 25,000                        |                                | 399,400                        |

Pension contributions of £12,500 each were paid in the prior year in respect of Martyn Freeman and Christopher Musselle.

The remuneration for Michael Stevens is payable in accordance with an agreement with Limestar Investments Limited for the provision of his services.

The value of benefits received during the year relates principally to the provision of company cars (or car allowances), life assurance and medical expenses cover.

Pension contributions were made in respect of 2 directors (2004: 2).

## Share price performance

The closing mid-market price of the Company's shares on 31 March 2005 was 2.63p per share and the high and low prices during the year were 3.5p and 2.5p respectively.

## Share options

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interest and those of investors.

At 31 March 2005 options were outstanding to directors under the terms of the share option schemes to subscribe for ordinary shares as follows:

|                          | At<br>31 March<br>2004 | Granted<br>in year | Surrendered<br>in year | At<br>31 March<br>2005 | Exercise<br>price | Date<br>from which<br>exercisable | Expiry date | Conditions |
|--------------------------|------------------------|--------------------|------------------------|------------------------|-------------------|-----------------------------------|-------------|------------|
| <b>Approved scheme</b>   |                        |                    |                        |                        |                   |                                   |             |            |
| Martyn Freeman           | —                      | 500,000            | —                      | <b>500,000</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2014  | (a)        |
| Christopher Musselle     | 280,000                | —                  | (280,000)              | <b>—</b>               | 7.00p             | 10 Sep 2003                       | 10 Sep 2009 |            |
|                          | —                      | 500,000            | —                      | <b>500,000</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2014  | (a)        |
| <b>Unapproved scheme</b> |                        |                    |                        |                        |                   |                                   |             |            |
| Martyn Freeman           | —                      | 916,666            | —                      | <b>916,666</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2010  | (b)        |
|                          | —                      | 916,667            | —                      | <b>916,667</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2010  | (c)        |
|                          | 1,500,000              | —                  | —                      | <b>1,500,000</b>       | 16.00p            | 17 May 2004                       | 18 May 2010 |            |
| Christopher Musselle     | —                      | 916,666            | —                      | <b>916,666</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2010  | (b)        |
|                          | —                      | 916,667            | —                      | <b>916,667</b>         | 3.00p             | 1 Apr 2007                        | 1 Apr 2010  | (c)        |
|                          | 1,500,000              | —                  | —                      | <b>1,500,000</b>       | 16.00p            | 17 May 2004                       | 18 May 2010 |            |

No options were exercised during the year.

## Report on directors' remuneration continued

Immediately prior to the grant of new options on 1 April 2004, Christopher Musselle surrendered 280,000 existing share options in the Approved Executive Share Option scheme. 200,000 existing share options in the Approved Executive Share Option scheme were also surrendered by a subsidiary company director.

Under the authority allowed in the existing Approved and Unapproved Executive Share Option schemes, share options have been issued to the executive directors of Artisan (UK) plc and other senior management of the trading companies within the Group. The number and terms of the share options were carefully considered by the Remuneration Committee and issued to help ensure that the interests of senior management of the Group are maintained alongside those of the shareholders. The Remuneration Committee believe that a principal interest of the shareholders is share price growth and accordingly the exercise of the shares is conditional upon share price growth in Artisan (UK) plc.

### Conditions

- a) The exercise of the option is conditional on the closing mid-market price of an ordinary share exceeding the threshold price for a consecutive period of 30 days prior to the date of exercise.

The threshold price is:

- until 6 April 2007 4.25p
- until 31 March 2008 4.75p
- until 31 March 2009 5.50p
- after 31 March 2009 the option lapses

These options may be exercised between three and ten years after the options were granted.

- b) The exercise of the option is conditional on the closing mid-market price of an ordinary share exceeding 4.25p ('the threshold price') for a consecutive period of 90 days prior to the third anniversary of the date of grant. These options may be exercised between three and six years after the options were granted.
- c) The exercise of the option is conditional on the closing mid-market price of an ordinary share exceeding 4.75p ('the threshold price') for a consecutive period of 90 days prior to the third anniversary of the date of grant. These options may be exercised between three and six years after the options were granted.

### Options recommended since the year end

On 5 July 2005, the Remuneration Committee recommended the grant of 4,666,666 further unapproved share options to the executive directors of Artisan (UK) plc and other senior management. These options will be granted on 18 July 2005, their exercise price being fixed by reference to the average closing share price of the Company in the previous week.

Options to be granted to directors in this regard are as follows:

|                      | Number  | Conditions |
|----------------------|---------|------------|
| Martyn Freeman       | 916,666 | (a)        |
|                      | 916,667 | (b)        |
| Christopher Musselle | 916,666 | (a)        |
|                      | 916,667 | (b)        |

### Conditions

- a) The exercise of the option is conditional on the closing mid-market price of an ordinary share exceeding 4.75p for a consecutive period of 90 days prior to the third anniversary of the date of grant. These options may be exercised between three and six years after the options were granted.
- b) The exercise of the option is conditional on the closing mid-market price of an ordinary share exceeding 5.50p for a consecutive period of 90 days prior to third anniversary of the date of grant. These options may be exercised between three and six years after the options were granted.

### Directors' interests

The Directors' interests in the ordinary shares of the Company are set out in the Directors' Report on page 11 and details of the options outstanding are set out above.

On behalf of the Remuneration Committee

### John Hemingway

11 July 2005

## Report of the independent auditors to the shareholders of Artisan (UK) plc

We have audited the financial statements of Artisan (UK) plc for the year ended 31 March 2005 on pages 18 to 33 which have been prepared under the accounting policies set out on pages 22 and 23.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the Company and other members of the Group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Operations and Financial Reviews, the Directors' Report, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely

upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 Group'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 Group and the Company as at 31 March 2005 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

London

11 July 2005

## Group profit and loss account for the year ended 31 March 2005

|                                                                                   | Note | 2005<br>£           | 2004<br>£    |
|-----------------------------------------------------------------------------------|------|---------------------|--------------|
| <b>Turnover</b>                                                                   | 2    | <b>27,326,235</b>   | 32,116,765   |
| Cost of sales                                                                     |      | <b>(22,606,419)</b> | (28,325,253) |
| <b>Gross profit</b>                                                               |      | <b>4,719,816</b>    | 3,791,512    |
| Administrative expenses                                                           |      | <b>(2,031,523)</b>  | (1,775,720)  |
| Other operating income                                                            |      | <b>33,826</b>       | 6,254        |
| <b>Group operating profit</b>                                                     | 4    | <b>2,722,119</b>    | 2,022,046    |
| Loss on sale of Group undertaking in prior year                                   |      | <b>(7,640)</b>      | (20,343)     |
| Exceptional provisions in respect of sale of Group undertakings in previous years | 5    | <b>(125,000)</b>    | (554,504)    |
| Exceptional profits arising on current asset investments and loan notes           | 5    | <b>69,476</b>       | 108,236      |
|                                                                                   |      | <b>2,658,955</b>    | 1,555,435    |
| Interest payable                                                                  | 6    | <b>(536,538)</b>    | (486,958)    |
| Interest receivable and similar income                                            |      | <b>12,631</b>       | 36,409       |
| <b>Profit on ordinary activities before taxation</b>                              |      | <b>2,135,048</b>    | 1,104,886    |
| Taxation                                                                          | 7    | <b>(397,565)</b>    | (336,084)    |
| <b>Retained profit for the year</b>                                               | 21   | <b>1,737,483</b>    | 768,802      |
| Basic earnings per share                                                          | 9    | <b>0.60p</b>        | 0.27p        |
| Diluted earnings per share                                                        | 9    | <b>0.60p</b>        | 0.27p        |

All recognised gains and losses in the current and prior year are included in the profit and loss account.

## Group balance sheet

at 31 March 2005

|                                                                | Note | 2005<br>£         | 2005<br>£         | 2004<br>£  | 2004<br>£  |
|----------------------------------------------------------------|------|-------------------|-------------------|------------|------------|
| <b>Fixed assets</b>                                            |      |                   |                   |            |            |
| Intangible assets                                              | 10   |                   | <b>2,471,206</b>  |            | 2,628,190  |
| Tangible assets                                                | 11   |                   | <b>340,199</b>    |            | 368,178    |
|                                                                |      |                   | <b>2,811,405</b>  |            | 2,996,368  |
| <b>Current assets</b>                                          |      |                   |                   |            |            |
| Investments                                                    | 13   | <b>5,000</b>      |                   | 177,037    |            |
| Stocks and work in progress                                    | 14   | <b>21,786,214</b> |                   | 18,726,086 |            |
| Debtors                                                        | 15   | <b>6,791,533</b>  |                   | 5,079,480  |            |
| Cash at bank and in hand                                       |      | <b>5,207</b>      |                   | 355,653    |            |
|                                                                |      | <b>28,587,954</b> |                   | 24,338,256 |            |
| <b>Creditors: amounts falling due within one year</b>          | 16   | <b>8,094,628</b>  |                   | 12,409,645 |            |
| <b>Net current assets</b>                                      |      |                   | <b>20,493,326</b> |            | 11,928,611 |
| <b>Total assets less current liabilities</b>                   |      |                   | <b>23,304,731</b> |            | 14,924,979 |
| <b>Creditors: amounts falling due after more than one year</b> | 17   | <b>7,060,746</b>  |                   | 52,320     |            |
| <b>Provisions for liabilities and charges</b>                  | 19   | <b>528,843</b>    |                   | 895,000    |            |
|                                                                |      |                   | <b>15,715,142</b> |            | 13,977,659 |
| <b>Capital and reserves</b>                                    |      |                   |                   |            |            |
| Called up share capital                                        | 20   | <b>1,442,647</b>  |                   | 1,442,647  |            |
| Share premium account                                          | 21   | <b>9,456,668</b>  |                   | 9,456,668  |            |
| Merger reserve                                                 | 21   | <b>515,569</b>    |                   | 515,569    |            |
| Capital redemption reserve                                     | 21   | <b>91,750</b>     |                   | 91,750     |            |
| Profit and loss account                                        | 21   | <b>4,208,508</b>  |                   | 2,471,025  |            |
| <b>Equity shareholders' funds</b>                              | 22   | <b>15,715,142</b> |                   | 13,977,659 |            |

The financial statements were approved by the Board on 11 July 2005.

**Chris Musselle**  
Director

## Company balance sheet at 31 March 2005

|                                                                | Note | 2005<br>£  | 2005<br>£  | 2004<br>£ | 2004<br>£  |
|----------------------------------------------------------------|------|------------|------------|-----------|------------|
| <b>Fixed assets</b>                                            |      |            |            |           |            |
| Tangible assets                                                | 11   |            | 8,484      |           | 15,215     |
| Investments                                                    | 12   |            | 10,452,149 |           | 10,452,149 |
|                                                                |      |            | 10,460,633 |           | 10,467,364 |
| <b>Current assets</b>                                          |      |            |            |           |            |
| Investments                                                    | 13   | 5,000      |            | 177,037   |            |
| Debtors                                                        | 15   | 17,305,770 |            | 3,162,397 |            |
| Cash at bank and in hand                                       |      | 2,186      |            | 747,756   |            |
|                                                                |      | 17,312,956 |            | 4,087,190 |            |
| <b>Creditors: amounts falling due within one year</b>          | 16   | 1,898,963  |            | 1,840,183 |            |
| <b>Net current assets</b>                                      |      |            | 15,413,993 |           | 2,247,007  |
| <b>Total assets less current liabilities</b>                   |      |            | 25,874,626 |           | 12,714,371 |
| <b>Creditors: amounts falling due after more than one year</b> | 17   |            | 13,449,691 |           | 50,000     |
| <b>Provisions for liabilities and charges</b>                  | 19   |            | 528,843    |           | 895,000    |
|                                                                |      |            | 11,896,092 |           | 11,769,371 |
| <b>Capital and reserves</b>                                    |      |            |            |           |            |
| Called up share capital                                        | 20   |            | 1,442,647  |           | 1,442,647  |
| Share premium account                                          | 21   |            | 9,456,668  |           | 9,456,668  |
| Merger reserve                                                 | 21   |            | 689,328    |           | 689,328    |
| Capital redemption reserve                                     | 21   |            | 91,750     |           | 91,750     |
| Profit and loss account                                        | 21   |            | 215,699    |           | 88,978     |
| <b>Equity shareholders' funds</b>                              |      |            | 11,896,092 |           | 11,769,371 |

The financial statements were approved by the Board on 11 July 2005.

**Chris Musselle**  
Director

## Group cash flow statement

for the year ended 31 March 2005

|                                                                               | Note | 2005<br>£        | 2005<br>£          | 2004<br>£   | 2004<br>£   |
|-------------------------------------------------------------------------------|------|------------------|--------------------|-------------|-------------|
| <b>Net cash (outflow)/inflow from operating activities</b>                    | 23   |                  | <b>(2,121,632)</b> |             | 6,517,922   |
| <b>Returns on investments and servicing of finance</b>                        |      |                  |                    |             |             |
| Interest received                                                             |      | <b>12,631</b>    |                    | 36,409      |             |
| Interest paid                                                                 |      | <b>(489,149)</b> |                    | (486,958)   |             |
| <b>Net cash outflow from returns on investments and servicing of finance</b>  |      |                  | <b>(476,518)</b>   |             | (450,549)   |
| <b>Taxation</b>                                                               |      |                  |                    |             |             |
| UK corporation tax paid                                                       |      |                  | <b>(520,064)</b>   |             | (237,295)   |
| <b>Capital expenditure and financial investment</b>                           |      |                  |                    |             |             |
| Sale of tangible fixed assets                                                 |      | <b>4,894</b>     |                    | 34,284      |             |
| Purchase of tangible fixed assets                                             |      | <b>(25,294)</b>  |                    | (31,813)    |             |
| <b>Net cash (outflow)/inflow from investing activities</b>                    |      |                  | <b>(20,400)</b>    |             | 2,471       |
| <b>Acquisitions and disposals</b>                                             |      |                  |                    |             |             |
| Disposal of subsidiary undertaking in prior year                              |      | <b>(7,640)</b>   |                    | (20,343)    |             |
| <b>Net cash outflow from acquisitions and disposals</b>                       |      |                  | <b>(7,640)</b>     |             | (20,343)    |
| <b>Net cash (outflow)/inflow before use of liquid resources and financing</b> |      |                  | <b>(3,146,254)</b> |             | 5,812,206   |
| <b>Management of liquid resources</b>                                         |      |                  |                    |             |             |
| Sale of current asset investments                                             |      |                  | <b>477,966</b>     |             | 817,897     |
| <b>Financing</b>                                                              |      |                  |                    |             |             |
| Movement in borrowing                                                         |      | <b>6,042,362</b> |                    | (8,655,115) |             |
| Capital element of finance leases                                             |      | <b>(5,892)</b>   |                    | (17,413)    |             |
| <b>Net cash inflow/(outflow) from financing</b>                               |      |                  | <b>6,036,470</b>   |             | (8,672,528) |
| <b>Increase/(decrease) in cash</b>                                            | 24   |                  | <b>3,368,182</b>   |             | (2,042,425) |

## Notes forming part of the financial statements for the year ended 31 March 2005

### 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 2005.

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.

#### 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 or reducing balance 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 contracts and developments at the year end. Profit is recognised on long term contracts, as stated above.

#### 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 and interests in associates, 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 or, if arising in respect of an associate, recorded as part of the related investment. 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.

## 2 Turnover and operating profit

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

During the year overhead costs totalling £1,362,866 (2004: £1,517,042) were allocated from administrative expenses to work-in-progress.

## 3 Employees

|                                               | 2005<br>£ | 2004<br>£ |
|-----------------------------------------------|-----------|-----------|
| Staff costs, including directors, consist of: |           |           |
| Wages and salaries                            | 3,789,780 | 3,271,858 |
| Social security costs                         | 384,114   | 341,755   |
| Other pension costs                           | 97,226    | 84,040    |
|                                               | 4,271,120 | 3,697,653 |

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.

|                                                                            | 2005<br>Number | 2004<br>Number |
|----------------------------------------------------------------------------|----------------|----------------|
| The average number of employees, including directors, during the year was: |                |                |
| Administration                                                             | 28             | 27             |
| Operations                                                                 | 101            | 99             |
|                                                                            | 129            | 126            |

## Notes forming part of the financial statements continued for the year ended 31 March 2005

### 4 Operating profit

|                                                      | 2005<br>£ | 2004<br>£ |
|------------------------------------------------------|-----------|-----------|
| This has been arrived at after charging/(crediting): |           |           |
| Depreciation                                         | 51,163    | 82,086    |
| Amortisation of goodwill                             | 156,984   | 156,984   |
| Auditors' remuneration                               | 73,500    | 70,000    |
| – audit services                                     |           |           |
| – other services                                     | 51,742    | 42,727    |
| Hire of plant and machinery                          | 39,827    | 32,051    |
| Other operating lease rentals                        | 25,233    | 15,203    |
| – vehicles                                           |           |           |
| – land and buildings                                 | 100,000   | 156,033   |
| Rent receivable                                      | (63,209)  | (60,254)  |
| Profit on sale of fixed assets                       | (2,784)   | (18,260)  |

### 5 Exceptional items

|                                                                                                                                                | 2005<br>£ | 2004<br>£ |
|------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Charges/(credits) recognised after arising at operating profit:                                                                                |           |           |
| a) Profits arising on current asset investments and loan notes                                                                                 |           |           |
| i) Profit arising on disposal of UK listed investments                                                                                         | –         | (108,236) |
| ii) Profit arising on disposal of shares and convertible redeemable preferred stock in NASDAQ quoted company and shares in an unquoted company | (69,476)  | –         |
|                                                                                                                                                | (69,476)  | (108,236) |
| b) Costs incurred and provision against claims in respect of the disposal of Group undertakings in prior years                                 | 125,000   | 554,504   |

### 6 Interest payable

|                                                       | 2005<br>£ | 2004<br>£ |
|-------------------------------------------------------|-----------|-----------|
| Hire purchase and finance leases                      | 1,009     | 2,882     |
| Bank overdrafts and loans repayable within five years | 473,532   | 474,487   |
| Other interest                                        | 61,997    | 9,589     |
|                                                       | 536,538   | 486,958   |

### 7 Taxation

|                                                | 2005<br>£ | 2004<br>£ |
|------------------------------------------------|-----------|-----------|
| <b>Current tax</b>                             |           |           |
| UK corporation tax on profits for the year     | 569,515   | 336,084   |
| Adjustment in respect of prior year            | (171,950) | (85,146)  |
| Total current tax                              | 397,565   | 250,938   |
| <b>Deferred tax</b>                            |           |           |
| Origination and reversal of timing differences | –         | 85,146    |
| Taxation on profit on ordinary activities      | 397,565   | 336,084   |

## 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:

|                                                                                                    | 2005<br>£        | 2004<br>£ |
|----------------------------------------------------------------------------------------------------|------------------|-----------|
| Profit on ordinary activities before tax                                                           | <b>2,135,048</b> | 1,104,886 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004: 30%) | <b>640,514</b>   | 331,466   |
| Effects of:                                                                                        |                  |           |
| Expenses not deductible for tax purposes                                                           | <b>56,341</b>    | 151,079   |
| Goodwill amortisation                                                                              | <b>46,620</b>    | 46,620    |
| Non-taxable income                                                                                 | –                | (71,998)  |
| Depreciation for year in excess of capital allowances                                              | <b>1,320</b>     | 4,020     |
| Capital loss adjustment                                                                            | <b>68,009</b>    | –         |
| Utilisation of tax losses                                                                          | <b>(95,942)</b>  | (125,103) |
| Utilisation of provisions                                                                          | <b>(147,347)</b> | –         |
| Adjustment in respect of previous years                                                            | <b>(171,950)</b> | (85,146)  |
| Current tax charge for year                                                                        | <b>397,565</b>   | 250,938   |

Subject to the agreement of the Inland Revenue, there are tax losses of approximately £3 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 £126,721 (2004: £88,978).

## 9 Earnings per share

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

|                                             | 2005<br>Number     | 2004<br>Number |
|---------------------------------------------|--------------------|----------------|
| The weighted average number of shares were: |                    |                |
| Basic weighted average number of shares     | <b>288,529,426</b> | 288,332,705    |

There were no dilutive potential ordinary shares in 2005 or 2004.

## 10 Intangible fixed assets

### Goodwill

£

### Cost

#### At 1 April 2004 and 31 March 2005

**3,136,389**

### Amortisation

At 1 April 2004

508,199

Charge for the year

156,984

#### At 31 March 2005

**665,183**

### Net book value

#### At 31 March 2005

**2,471,206**

At 31 March 2004

2,628,190

## Notes forming part of the financial statements continued

for the year ended 31 March 2005

### 11 Tangible fixed assets

| Group                   | Freehold<br>land and<br>buildings<br>£ | Leasehold<br>improvements<br>£ | Plant and<br>machinery<br>£ | Motor<br>vehicles<br>£ | Fixtures<br>and fittings<br>£ | Total<br>£     |
|-------------------------|----------------------------------------|--------------------------------|-----------------------------|------------------------|-------------------------------|----------------|
| <b>Cost</b>             |                                        |                                |                             |                        |                               |                |
| At 1 April 2004         | 315,400                                | 53,212                         | 231,599                     | 134,242                | 293,275                       | 1,027,728      |
| Additions               | –                                      | –                              | 460                         | 17,578                 | 7,256                         | 25,294         |
| Disposals               | –                                      | (51,805)                       | (10,457)                    | (41,240)               | (132,445)                     | (235,947)      |
| <b>At 31 March 2005</b> | <b>315,400</b>                         | <b>1,407</b>                   | <b>221,602</b>              | <b>110,580</b>         | <b>168,086</b>                | <b>817,075</b> |
| <b>Depreciation</b>     |                                        |                                |                             |                        |                               |                |
| At 1 April 2004         | 22,321                                 | 52,645                         | 228,976                     | 112,682                | 242,926                       | 659,550        |
| Provided for the year   | 5,773                                  | 392                            | 1,424                       | 12,165                 | 31,409                        | 51,163         |
| Eliminated on disposals | –                                      | (51,805)                       | (10,457)                    | (39,594)               | (131,981)                     | (233,837)      |
| <b>At 31 March 2005</b> | <b>28,094</b>                          | <b>1,232</b>                   | <b>219,943</b>              | <b>85,253</b>          | <b>142,354</b>                | <b>476,876</b> |
| <b>Net book value</b>   |                                        |                                |                             |                        |                               |                |
| <b>At 31 March 2005</b> | <b>287,306</b>                         | <b>175</b>                     | <b>2,659</b>                | <b>24,327</b>          | <b>25,732</b>                 | <b>340,199</b> |
| At 31 March 2004        | 293,079                                | 567                            | 2,623                       | 21,560                 | 50,349                        | 368,178        |

The net book value of fixed assets includes an amount of £nil (2004: £12,197) in respect of assets held under hire purchase. The depreciation charge includes an amount of £12,197 (2004: £9,352) in respect of assets held under hire purchase.

| Company                 | Leasehold<br>improvements<br>£ | Equipment,<br>fixtures<br>and fittings<br>£ | Total<br>£    |
|-------------------------|--------------------------------|---------------------------------------------|---------------|
| <b>Cost</b>             |                                |                                             |               |
| At 1 April 2004         | 27,407                         | 40,715                                      | 68,122        |
| Additions               | –                              | 1,260                                       | 1,260         |
| Disposals               | (26,000)                       | (10,891)                                    | (36,891)      |
| <b>At 31 March 2005</b> | <b>1,407</b>                   | <b>31,084</b>                               | <b>32,491</b> |
| <b>Depreciation</b>     |                                |                                             |               |
| At 1 April 2004         | 26,851                         | 26,056                                      | 52,907        |
| Provided for the year   | 381                            | 7,146                                       | 7,527         |
| Disposals               | (26,000)                       | (10,427)                                    | (36,427)      |
| <b>At 31 March 2005</b> | <b>1,232</b>                   | <b>22,775</b>                               | <b>24,007</b> |
| <b>Net book value</b>   |                                |                                             |               |
| <b>At 31 March 2005</b> | <b>175</b>                     | <b>8,309</b>                                | <b>8,484</b>  |
| At 31 March 2004        | 556                            | 14,659                                      | 15,215        |

## 12 Fixed asset investments

| Company                            | Subsidiary undertakings<br>£ |
|------------------------------------|------------------------------|
| <b>Cost</b>                        |                              |
| At 1 April 2004 and 31 March 2005  | 11,452,149                   |
| <b>Provisions</b>                  |                              |
| At 1 April 2004 and 31 March 2005  | 1,000,000                    |
| <b>Net book value</b>              |                              |
| At 31 March 2005 and 31 March 2004 | 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 2005 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%            | House building and commercial property development |
| 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<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|---------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Listed investments at cost            | 5,000              | 378,145            | 5,000                | 378,145              |
| Unlisted investments at cost          | –                  | 90,465             | –                    | 90,465               |
| Provisions against listed investments | –                  | (291,573)          | –                    | (291,573)            |
|                                       | 5,000              | 177,037            | 5,000                | 177,037              |

The listed investment at the year end is quoted on NASDAQ in the United States of America.

## 14 Stocks and work in progress

|                                            | Group<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|--------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Raw materials and consumables              | 29,483             | 68,137             | –                    | –                    |
| Land held for development                  | 3,680,424          | 1,669,008          | –                    | –                    |
| Work in progress                           | 17,194,219         | 16,468,857         | –                    | –                    |
| Completed developments and houses for sale | 882,088            | 520,084            | –                    | –                    |
|                                            | 21,786,214         | 18,726,086         | –                    | –                    |

## Notes forming part of the financial statements continued

for the year ended 31 March 2005

### 15 Debtors

|                                           | Group<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|-------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Trade debtors                             | 3,898,710          | 4,130,233          | 19,853               | 17,889               |
| Amounts recoverable on contracts          | 2,547,516          | 282,088            | –                    | –                    |
| Amounts owed from subsidiary undertakings | –                  | –                  | 17,233,185           | 2,783,870            |
| Other debtors                             | 213,292            | 505,814            | 19,512               | 249,208              |
| Prepayments and accrued income            | 132,015            | 161,345            | 33,220               | 111,430              |
|                                           | 6,791,533          | 5,079,480          | 17,305,770           | 3,162,397            |

Included in other debtors is £nil (2004: £236,453) of convertible redeemable preferred stock in a NASDAQ quoted company.

### 16 Creditors: amounts falling due within one year

|                                                   | Group<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|---------------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Bank loans and overdrafts (secured – see note 18) | –                  | 4,625,805          | –                    | 250,000              |
| Other loans                                       | –                  | 61,207             | –                    | 61,207               |
| Trade creditors                                   | 5,387,676          | 4,797,947          | 161,602              | 103,450              |
| Amounts owed to subsidiary undertakings           | –                  | –                  | 1,058,862            | 1,000,000            |
| Corporation tax                                   | 803,740            | 926,239            | 169,200              | 169,200              |
| Other taxes and social security                   | 224,700            | 256,463            | 16,176               | 15,600               |
| Other creditors                                   | 196,083            | 123,236            | –                    | –                    |
| Accruals                                          | 1,480,109          | 1,612,856          | 493,123              | 240,726              |
| Amounts due under hire purchase agreements        | 2,320              | 5,892              | –                    | –                    |
|                                                   | 8,094,628          | 12,409,645         | 1,898,963            | 1,840,183            |

### 17 Creditors: amounts falling due after more than one year

|                                            | Group<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|--------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| Bank loans (secured – see note 18)         | 7,060,746          | 50,000             | 13,449,691           | 50,000               |
| Amounts due under hire purchase agreements | –                  | 2,320              | –                    | –                    |
|                                            | 7,060,746          | 52,320             | 13,449,691           | 50,000               |

## 18 Borrowings

|                                                      | Group<br>2005<br>£ | Group<br>2004<br>£ | Company<br>2005<br>£ | Company<br>2004<br>£ |
|------------------------------------------------------|--------------------|--------------------|----------------------|----------------------|
| <b>Are repayable as follows:</b>                     |                    |                    |                      |                      |
| In one year or less:                                 |                    |                    |                      |                      |
| Bank borrowings                                      | –                  | 4,625,805          | –                    | 250,000              |
| Other loans and borrowings                           | –                  | 61,207             | –                    | 61,207               |
| Hire purchase agreements                             | <b>2,320</b>       | 5,892              | –                    | –                    |
| In more than one year but not more than two years:   |                    |                    |                      |                      |
| Bank borrowings                                      | –                  | 50,000             | –                    | 50,000               |
| Hire purchase agreements                             | –                  | 2,320              | –                    | –                    |
| In more than two years but not more than five years: |                    |                    |                      |                      |
| Bank borrowings                                      | <b>7,060,746</b>   | –                  | <b>13,449,691</b>    | –                    |
|                                                      | <b>7,063,066</b>   | 4,745,224          | <b>13,449,691</b>    | 361,207              |

The bank loans and overdrafts 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.

## 19 Provisions for liabilities and charges

| Group and Company                                  | Provision<br>for claims<br>£ |
|----------------------------------------------------|------------------------------|
| At 1 April 2004                                    | 895,000                      |
| Utilised during the year                           | (491,157)                    |
| Charge for the year in the profit and loss account | 125,000                      |
| <b>At 31 March 2005</b>                            | <b>528,843</b>               |

The Company has continued to be engaged with matters arising from the sale of Bickerton Construction Limited which has now culminated in a hearing in the Court of Appeal. Once again judgment was handed down in favour of Artisan (UK) plc. The appellants were refused permission by the Court of Appeal to apply to the House of Lords for a further hearing. However, the appellants intend to apply for leave to appeal directly to the House of Lords. Further costs of this dispute have been incurred during the year to 31 March 2005. In connection with this matter and other associated matters including an indemnity on a bond provided, provisions are maintained.

## 20 Share capital

|                                                                | 2005<br>£        | 2004<br>£ |
|----------------------------------------------------------------|------------------|-----------|
| <b>Authorised</b>                                              |                  |           |
| 1,000,000,000 (2004: 400,000,000) ordinary shares of 0.5p each | <b>5,000,000</b> | 2,000,000 |
| <b>Allotted, called up and fully paid</b>                      |                  |           |
| 288,529,426 ordinary shares of 0.5p each                       | <b>1,442,647</b> | 1,442,647 |

## Notes forming part of the financial statements continued for the year ended 31 March 2005

### 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<br>2004 | Granted<br>in year | Surrendered<br>in year | At<br>31 March<br>2005 | Exercise<br>price range |
|-------------------|------------------|--------------------|------------------------|------------------------|-------------------------|
| Approved scheme   | 280,000          | 3,250,000          | (280,000)              | <b>3,250,000</b>       | 3.00p                   |
| Unapproved scheme | 3,000,000        | 3,666,666          | —                      | <b>6,666,666</b>       | 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<br>premium<br>account<br>£ | Merger<br>reserve<br>£ | Capital<br>redemption<br>reserve<br>£ | Profit<br>and loss<br>account<br>£ | Share<br>premium<br>account<br>£ | Merger<br>reserve<br>£ | Capital<br>redemption<br>reserve<br>£ | Profit<br>and loss<br>account<br>£ |
| At 1 April 2004                 | 9,456,668                        | 515,569                | 91,750                                | 2,471,025                          | 9,456,668                        | 689,328                | 91,750                                | 88,978                             |
| Retained profit<br>for the year | —                                | —                      | —                                     | 1,737,483                          | —                                | —                      | —                                     | 126,721                            |
| <b>At 31 March 2005</b>         | <b>9,456,668</b>                 | <b>515,569</b>         | <b>91,750</b>                         | <b>4,208,508</b>                   | <b>9,456,668</b>                 | <b>689,328</b>         | <b>91,750</b>                         | <b>215,699</b>                     |

### 22 Reconciliation of movements in shareholders' funds

|                                     | 2005<br>£         | 2004<br>£  |
|-------------------------------------|-------------------|------------|
| Profit for the year                 | <b>1,737,483</b>  | 768,802    |
| Shares issued in year               | —                 | 59,352     |
| Net movement in shareholders' funds | <b>1,737,483</b>  | 828,154    |
| Opening shareholders' funds         | <b>13,977,659</b> | 13,149,505 |
| Closing shareholders' funds         | <b>15,715,142</b> | 13,977,659 |

### 23 Net cash inflow from operating activities

|                                                     | 2005<br>£          | 2004<br>£ |
|-----------------------------------------------------|--------------------|-----------|
| Operating profit                                    | <b>2,722,119</b>   | 2,022,046 |
| Depreciation                                        | <b>51,163</b>      | 82,086    |
| Amortisation                                        | <b>156,984</b>     | 156,984   |
| Profit on disposal of fixed assets                  | <b>(2,784)</b>     | (18,260)  |
| (Increase)/decrease in stock                        | <b>(3,060,128)</b> | 3,516,705 |
| (Increase)/decrease in debtors                      | <b>(1,948,506)</b> | 629,180   |
| (Decrease)/increase in creditors and provisions     | <b>(40,480)</b>    | 129,181   |
| Net cash (outflow)/inflow from operating activities | <b>(2,121,632)</b> | 6,517,922 |

## 24 Reconciliation of change in cash to movement in net debt

|                                                                           | 2005<br>£   | 2004<br>£    |
|---------------------------------------------------------------------------|-------------|--------------|
| Increase/(decrease) in cash in the year                                   | 3,368,182   | (2,042,425)  |
| Repayment of secured bank loans                                           | 957,177     | 8,612,851    |
| Repayment of other loans                                                  | 61,207      | 42,264       |
| New secured bank loans                                                    | (7,060,746) | –            |
| Capital element of finance leases                                         | 5,892       | 17,413       |
| Cash inflow from decrease in liquid resources                             | (477,966)   | (817,897)    |
| Movement in net debt in the year                                          | (3,146,254) | 5,812,206    |
| Conversion of debtors to current asset investments                        | –           | 600,000      |
| Transfer in respect of loan notes redeemed with current asset investments | 236,453     | –            |
| Profit on sale of current asset investments                               | 69,476      | 108,236      |
| Increase in provision against current asset investments                   | –           | (112,278)    |
| Opening net debt                                                          | (4,212,534) | (10,620,698) |
| Closing net debt                                                          | (7,052,859) | (4,212,534)  |

## 25 Analysis of net debt

|                                   | At<br>1 April<br>2004<br>£ | Cash<br>flow<br>£ | Non-cash<br>movement<br>£ | At<br>31 March<br>2005<br>£ |
|-----------------------------------|----------------------------|-------------------|---------------------------|-----------------------------|
| Cash at bank                      | 355,653                    | (350,446)         | –                         | 5,207                       |
| Bank overdrafts                   | (3,718,628)                | 3,718,628         | –                         | –                           |
|                                   | (3,362,975)                | 3,368,182         | –                         | 5,207                       |
| Finance leases                    | (8,212)                    | 5,892             | –                         | (2,320)                     |
| Debt due within one year          | (968,384)                  | 968,384           | –                         | –                           |
| Debt due after more than one year | (50,000)                   | (7,010,746)       | –                         | (7,060,746)                 |
| Current asset investments         | 177,037                    | (477,966)         | 305,929                   | 5,000                       |
| Net debt                          | (4,212,534)                | (3,146,254)       | 305,929                   | (7,052,859)                 |

## 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 some of 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 investment denominated in 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 2005

### 26 Financial instruments continued

#### (b) Interest rate risk profile of financial liabilities

| Currency                | Total<br>£       | Fixed rate<br>financial<br>liabilities<br>£ | Floating rate<br>financial<br>liabilities<br>£ | Weighted<br>average<br>interest<br>rate<br>% | Weighted<br>average<br>period for<br>which rate<br>is fixed<br>years |
|-------------------------|------------------|---------------------------------------------|------------------------------------------------|----------------------------------------------|----------------------------------------------------------------------|
| <b>At 31 March 2005</b> |                  |                                             |                                                |                                              |                                                                      |
| <b>Sterling</b>         | <b>7,063,066</b> | <b>2,320</b>                                | <b>7,060,746</b>                               | <b>6.25</b>                                  | <b>1.00</b>                                                          |
| At 31 March 2004        |                  |                                             |                                                |                                              |                                                                      |
| Sterling                | 4,745,224        | 69,419                                      | 4,675,805                                      | 6.28                                         | 1.00                                                                 |

The finance leases all relate to term agreements none of which exceed four years. Other loans include £nil (2004: £61,207) of loan notes repayable within one year.

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<br>£    | Fixed rate<br>financial<br>assets<br>£ | Floating<br>rate<br>financial<br>assets<br>£ | Financial<br>assets on<br>which no<br>interest<br>is earned<br>£ |
|--------------------------------|---------------|----------------------------------------|----------------------------------------------|------------------------------------------------------------------|
| <b>At 31 March 2005</b>        |               |                                        |                                              |                                                                  |
| <b>Sterling and US dollars</b> | <b>10,207</b> | <b>–</b>                               | <b>5,207</b>                                 | <b>5,000</b>                                                     |
| At 31 March 2004               |               |                                        |                                              |                                                                  |
| Sterling and US dollars        | 769,143       | 236,453                                | 355,653                                      | 177,037                                                          |

Floating rate financial assets comprises cash held in UK bank accounts. Financial assets on which no interest is paid comprises an equity investment in listed securities of which £5,000 (2004: £86,572) is in respect of an investment denominated in US dollars, otherwise all assets are denominated in sterling.

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

|                                 | 2005<br>£        | 2004<br>£ |
|---------------------------------|------------------|-----------|
| Within one year                 | <b>2,320</b>     | 4,692,904 |
| After one and within two years  | <b>–</b>         | 52,320    |
| After two and within five years | <b>7,060,746</b> | –         |
|                                 | <b>7,063,066</b> | 4,745,224 |

#### (e) Borrowing facilities

The Group has no undrawn committed facilities as at 31 March 2005 (2004: nil).

## 26 Financial instruments continued

### (f) Fair value of financial liabilities and financial assets

|                                                | 2005<br>Book value<br>£ | 2005<br>Fair value<br>£ | 2004<br>Book value<br>£ | 2004<br>Fair value<br>£ |
|------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Short term borrowings                          | –                       | –                       | 4,687,012               | 4,687,012               |
| Long term borrowings                           | 7,060,746               | 7,060,746               | 50,000                  | 50,000                  |
| Finance leases                                 | 2,320                   | 2,320                   | 8,212                   | 8,212                   |
| Cash                                           | 5,207                   | 5,207                   | 355,653                 | 355,653                 |
| Current asset investments                      | 5,000                   | 5,000                   | 177,037                 | 177,037                 |
| Convertible redeemable preferred stock (asset) | –                       | –                       | 236,453                 | 236,453                 |

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 2005, bank borrowings of Group Company members covered by the Company's cross guarantee amounted to £nil (2004: £4,405,332).

In the normal course of business the Group has given counter indemnities in respect of performance bonds and financial guarantees. As at 31 March 2005, bonds in issue amount to £8,613 (2004: £10,613).

Other than the bond provided for in these financial statements, the Group has given guarantees in the normal course of business, in respect of performance bonds of subsidiaries since sold. In view of the time expired since the disposal of these subsidiaries and the nature of the projects concerned, the directors do not expect any further liabilities to arise (2004: £108,365).

The liquidator of Bickerton Construction Limited has made enquiries into management charges from Artisan around the time of the sale of Bickerton. The liquidator has now threatened legal action in respect of management charges of £1,400,000 paid by Bickerton to Artisan in June 2001. If proceedings are issued Artisan intends to defend its position on the validity of the management charges. If the defence is unsuccessful, the matter may result in repayment by Artisan of an amount equal to all or part of the management charge plus costs. Provision has been made for the costs of defending any action but no provision has been made for any liability that Artisan may incur as a result of the liquidator's threatened action.

## 28 Leasing commitments

Operating lease payments amounting to £179,693 are due within one year (2004: £168,328). The leases to which these amounts relate expire as follows:

|                            | 2005<br>Land and<br>buildings<br>£ | 2005<br>Other<br>£ | 2004<br>Land and<br>buildings<br>£ | 2004<br>Other<br>£ |
|----------------------------|------------------------------------|--------------------|------------------------------------|--------------------|
| Within one year            | –                                  | 8,480              | –                                  | 21,075             |
| Between two and five years | 110,850                            | 60,363             | 110,850                            | 36,403             |

## Notes



Artisan (UK) plc  
Mace House  
Sovereign Court  
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