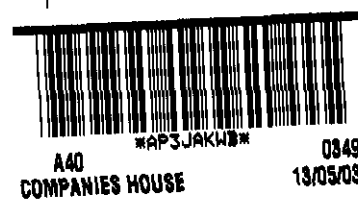


CLS HOLDINGS PLC

Annual Report & Accounts

2002



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CLS IS A QUOTED PROPERTY INVESTMENT
company operating successfully in THREE EUROPEAN
MARKETS, *the UK, Sweden and France.*

*We are confident that our track record of growth is set to continue and we
remain firmly committed to achieving a high level of returns for shareholders.*

UK, den France

| | |
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FINANCIAL HIGHLIGHTS

Key statistics

| | 31 Dec 2002 | 31 Dec 2001 Re-stated | |
|--|---------------|--------------------------|-----------|
| Adjusted NAV per share* | 408.7p | 365.0p | Up 12.0% |
| Statutory NAV per share | 394.9p | 353.4p | Up 11.7% |
| Adjusted earnings per share* | 17.3p | 9.8p | Up 76.5% |
| Earnings per share | 15.7p | 6.7p | Up 134.3% |
| Shares in issue ('000's) | 94,129 | 99,266 | Down 5.2% |
| Distribution per share from tender offer buy-backs | 14.4p | 12.1p | Up 19.0% |

Other financial information

| | 31 Dec 2002 | 31 Dec 2001 Re-stated | |
|--|----------------|--------------------------|-----------|
| Property portfolio | £848.9m | £728.3m | Up 16.6% |
| Net asset value | £371.7m | £350.8m | Up 6.0% |
| Cash | £65.7m | £55.2m | Up 19.0% |
| Net rental income (including associate and JV) | £60.3m | £51.1m | Up 18.0% |
| Operating profit (including associate and JV) | £46.1m | £37.7m | Up 22.3% |
| Net interest payable | £28.9m | £27.0m | Up 7.0% |
| Core profit before tax (see page 9) | £20.9m | £13.7 m | Up 52.6% |
| Profit before taxation | £17.1m | £11.3m | Up 51.3% |
| Profit after taxation | £15.3m | £7.1m | Up 115.5% |
| Adjusted gearing* | 119.6% | 101.9% | Up 17.4% |
| Statutory Gearing | 123.8% | 104.3% | Up 18.7% |
| Solidity (net assets as a ratio of gross assets) | 39.6% | 43.3% | Down 8.5% |
| FRS13 fair value adjustment after tax (see page 9) | 23.6p | 16.4p | Up 43.9% |

* The Group has adopted the requirements of FRS 19, that requires a tax provision to be made in respect of capital allowances to the extent that they are not covered by available tax losses brought forward. In practice we consider it unlikely that the benefit of these capital allowances will not continue to be available whether or not the properties are sold in the future. The Board has complied with recent pronouncements from the APB, ASB and Listing Authority in showing NAV and Earnings per share including the FRS 19 provision with equal prominence as adjusted figures. The effect of FRS 19 has been excluded from those statistics that are indicated by an asterisk, a reconciliation of which is on page 88.

At 31 December 2002 the FRS 19 deferred tax charge included in the profit and loss account was £1.5 million and the cumulative reduction to net assets was £13.0 million (31 December 2001: £3.3 million and £11.5 million respectively). The remaining accounting policies are as set out in note 1.

408.7p

Adjusted NAV per share* 408.7 pence
up 12.0 per cent (Statutory NAV per
share 394.9 pence up 11.7 per cent)

£17.1m

Profit before tax £17.1 million
up 51.3 per cent

£848.9m

Portfolio valued at £848.9 million
up 16.6 per cent

15.5%

Total return to shareholders 15.5 per cent
(based on adjusted NAV per share and
distributions) up from 15.4 per cent
(based on Statutory NAV: 15.4 per cent
up from 14.5 per cent)

14.4p

Intended distribution of 8.9 pence
per share making a total distribution
to shareholders of 14.4 pence per
share for the year up 19.0 per cent



2002

£60.3m

Net rental income (including
associate and JV) £60.3 million
up 18.0 per cent

£65.7m

Year end available cash £65.7 million
up 19.0 per cent

Refurbished

Major letting of refurbished property at Solna in Sweden, 84 per cent now let



2002

Re-financings

Re-financings
raise £48.1 million

Swedish acquisitions

Acquisition of 1,281 apartments (79,614 sq m) and 33,494 sq m of commercial space at Lövgärdet near Gothenburg together with a further property at Solna (4,862 sq m), for £34.6 million

French acquisitions

Acquisition of 11 properties in Paris
for £33.9 million

Lease restructuring

Spring Gardens office complex:

- Lease restructuring and extension; 100 per cent now let to The Home Office

Rent reviews

Increase of rents during the year of 7.0 per cent
on a like for like basis as a result of rent reviews
and indexation

BUSINESS HIGHLIGHTS

| | |
|--|--|
| | |
| | |
| | |

CHAIRMAN'S STATEMENT

OUR EXCELLENT RESULTS
*fully endorse the strategic decision we
made several years ago to invest in the*
SWEDISH *and* FRENCH
property markets.

During the year we have continued to manage and expand the business in a risk averse manner, concentrating our activities in our core markets of London, Sweden and France, and principally in the office sector of each of these markets, a sector in which we have specialised since the Company was founded. As a result of our knowledge of the market, our cautious investment approach and efficient management of both the portfolio and the business as a whole, I believe that the Company has excellent defensive qualities, whilst still providing a solid platform for increased profitability and further growth in net asset value.

We have made selective purchases of well-let properties in both Sweden and France. We remain strongly committed to the pro-active management of our existing property portfolio, refurbishing and upgrading properties and restructuring leases where appropriate, in order to increase rental income and to enhance long term asset growth. We have also achieved an increase in our like for like rental income (ignoring acquisitions and disposals) of 7.0 percent, not only due to the indexation of rents in France and Sweden and to rent reviews concluded in London, but also as a result of the re-letting of space becoming vacant during the year, particularly in France, at higher rents. As a result, our gross rental income increased by 22.9 per cent to £65.9 million, and the annualised gross rental income of the Group's portfolio as at the year end was £70.8 million. I am delighted to report that this figure exceeds the estimate of £68 million predicted in my statement last year.

The growth in rental income when coupled with our reduced cost of borrowing as a result of lower interest rates has produced record profit before tax of £17.1million, an increase of 51.3 per cent. Furthermore, the overall tax charge on this year's profit is just £2.1 million, of which £1.5 million is deferred tax, giving an effective tax rate of 12.5 per cent reflecting the benefit of capital allowances.

Over the year we have continued to refinance our property portfolio where increases in value achieved mainly through active management have permitted increased gearing. The cash thus raised, together with the additional cash generated by our core operating activities during the year has led to an increase of 19.0 per cent in our cash resources to £65.7 million at the year end.

In London we have seen a weakening in tenant demand in some areas over the year. However, given sustained low interest rates and the lack of an attractive investment alternative on the stock market, we believe that the value of well let office properties will perform robustly during 2003. In London, 40 per cent of rental income from our portfolio is now derived from Government sources. This percentage has increased during the year as a result of the construction of additional offices and the restructuring of the leases at Spring Gardens office complex resulting in all the rents there being Government sourced. Our average lease length in London is 10.6 years unexpired and none of our buildings is located in the City of London with its large over supply of offices. These strengths in tenant structure and lease profiles should minimise the risk to tenant default and the consequent re-letting of the resulting vacant space in what is likely to be an increasingly difficult occupational market as the year progresses.

On the other hand, the value of offices in London with shorter leases or those requiring upgrading is likely to deteriorate and this could provide opportunities for selective purchases during the year. Our own cash resources and excellent relationships with a number of banks means that we will be ideally placed to take advantage of these opportunities as and when they arise.

Although general market rents in Sweden have declined over the year the new lettings we have achieved at Solna have been considerably in excess of those needed to secure a profitable return on our refurbishment projects. The letting of 14,350 sq m at Solna to Co-op has ensured the success of the extension and refurbishment of Solna Business Park. The portfolio remains extremely well let with 50 per cent of our rental income in Sweden secured on Government sources.

Meanwhile we intend to make further purchases of offices in France where a relatively high yield, continuing tenant demand, availability of well built modern properties and low interest rates make acquisitions attractive.


We remain committed to the delivery to our tenants of high quality well managed offices with excellent communication facilities and we will continue to modernise and upgrade our portfolio in order to meet tenant demand.

Share prices in the property sector as a whole, including CLS, suffer a substantial discount to NAV. As a result the Company's share price is significantly below net asset value per share and the Board continues to believe in the benefit of distributing cash as capital dividends by way of a tender offer buy-back. The Company returns to shareholders the same amount of cash by this method as it would on a distribution by way of a cash dividend and it enhances the net asset value of the remaining shares in issue. The Board therefore intends to recommend a tender offer buy-back of 1 in 27 shares at a price of 240 pence per share, giving a total distribution of 14.4 pence per share representing an increase of 19.0 per cent on the previous year.

We believe that the business is in a position to produce substantial profit growth during 2003 whilst the overall charge to taxation will remain low.

I would like to take this opportunity of welcoming the appointments to the Board of Anna Seeley who joined the Board in September 2002 as Group Property Director, and of Steven Board who is Chief Operating Officer and joined the Board in February 2003. We are also pleased to announce the appointment of KBC Peel Hunt as our joint stockbrokers alongside HSBC.

I would also like to put on record my thanks to my fellow directors, our staff, advisors, banks and shareholders for their support during the year.



Sten Mortstedt
Executive Chairman

THE STRONG DEFENSIVE
position of the Group, evidenced by a significant
proportion of its portfolio being let to
GOVERNMENT TENANTS
on longer leases, has enabled CLS to
continue to deliver solid underlying growth.

For the eighth successive year since flotation net asset value per share has increased. Adjusted NAV of 408.7 pence per share (December 2001: 365.0 pence), grew by 12.0 per cent during 2002 (Statutory NAV of 394.9 pence per share grew by 11.7 per cent over the same period). Since 1995 the adjusted net asset value per share has grown by 17.6 per cent compound per annum, or a total of 212.2 per cent (Statutory NAV has shown the same growth had FRS 19 applied throughout that period). The organic growth in adjusted net asset value per share over the period (taking into account the effect of tender offer buy-backs but excluding growth attributable to the purchase of shares on the market for cancellation) has been 180.7 per cent (Statutory NAV has shown the same growth had FRS 19 applied throughout that period). If all share options were exercised, the dilutive effect would be to reduce adjusted NAV per share by 3.1 pence (Statutory NAV by 2.9 pence).

At the year end, the post-tax FRS 13 adjustment that amends fixed interest loans to fair value, amounted to 23.6 pence per share (December 2001: 16.4 pence).

The return in the year to shareholders based on the increase in adjusted NAV per share and distributions by way of tender offer buy-back was 15.5 per cent (December 2001: 15.4 per cent). Based on Statutory NAV the return is 15.4 per cent (December 2001: 14.5 per cent).

During the year the Company distributed £12.7 million (12.9 pence per share) to shareholders by way of tender offer buy-backs. The Company also purchased 0.6 million shares on the market for cancellation (0.6 per cent of the shares in issue as at 1 January 2002) at a cost of £1.2 million, an average price per share of 200 pence. Since 1998 a total of £44.1 million has been returned to shareholders through tender offer buy-backs, and, in addition, 19.5 million shares have been purchased on the market for cancellation at a cost of £32.8 million, in all a total of £76.9 million.

Net assets grew by £20.9 million to £371.7 million in the year, including positive foreign exchange translation movements of £11.5 million (relating to the Group's Swedish and French net assets). This arises because although each property is funded by loans in local currency, the equity in the property is exposed to movements in foreign exchange rates when translated into sterling. Net asset growth is calculated after taking into account the cost of tender offer buy-back distributions and market repurchases made during the year, which totalled £14.0 million.

Core profit generated by the Group rose by 52.6 per cent. This has been calculated to show the profit arising solely from property rental as set out below:

| | 2002 £m | 2001 £m |
|-------------------------------------|-------------|-------------|
| Profit before tax | 17.1 | 11.3 |
| Deduct: | | |
| Equity investment losses | (3.1) | (6.3) |
| WightCable loss | (0.7) | — |
| (Loss)/profit on sale of properties | (0.2) | 0.5 |
| Lease surrenders and variations | 0.5 | 0.8 |
| Profit on trading stock | — | 0.4 |
| Negotiated settlement in France | (0.1) | 2.6 |
| Fees re aborted purchase | (0.2) | (0.4) |
| | (3.8) | (2.4) |
| Core profit | 20.9 | 13.7 |
| Increase on previous year | 52.6% | 27.9% |

REVIEW OF THE PROFIT AND LOSS ACCOUNT

FINANCIAL RESULTS BY LOCATION The results of the Group have been analysed by location and main business activity as set out below:

| | 2002 Total £m | UK* £m | Sweden £m | France £m | Equity investments £m | 2001 £m |
|--|---------------------|-------------|--------------|--------------|-----------------------------|-------------|
| Net rental income | 60.3 | 34.3 | 11.5 | 14.5 | — | 51.1 |
| Less JV income | (0.9) | (0.9) | — | — | — | (0.9) |
| Other income | 1.3 | 1.3 | 0.2 | (0.2) | — | 4.3 |
| Net rental and property related income (excluding JV) | 60.7 | 34.7 | 11.7 | 14.3 | — | 54.5 |
| Operating expenses | (12.3) | (8.4) | (1.8) | (1.7) | (0.4) | (11.3) |
| Losses and write-downs on equity investments | (3.1) | — | — | — | (3.1) | (6.3) |
| Associate/JV operating profit | 0.8 | 0.8 | — | — | — | 0.9 |
| Operating profit | 46.1 | 27.1 | 9.9 | 12.6 | (3.5) | 37.8 |
| (Loss)/gains from sale of investment properties | (0.1) | (0.1) | — | — | — | 0.5 |
| Net interest payable and related charges | (28.9) | (15.1) | (8.7) | (4.4) | (0.7) | (27.0) |
| Profit on ordinary activities before tax | 17.1 | 11.9 | 1.2 | 8.2 | (4.2) | 11.3 |
| Profit on ordinary activities before tax for the year ended 31 December 2001 | 11.3 | 11.7 | 0.3 | 8.2 | (8.9) | |

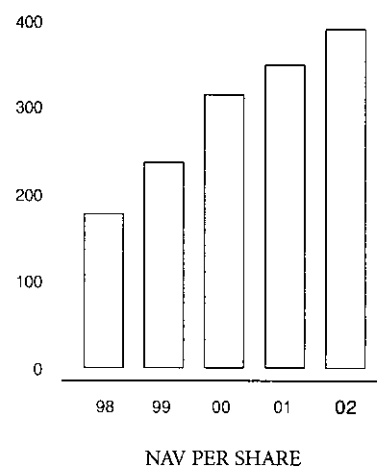
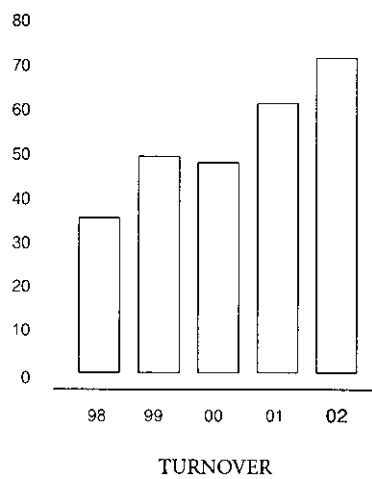
* Results relating to Germany were immaterial in the context of the overall results of the Group and have therefore been included within the UK segment for all analyses.

FINANCIAL REVIEW *(continued)*

The underlying elements of the growth in equity shareholders' funds are set out below:

| | £m |
|---|--------------|
| Net Assets at 31 December 2001 (re-stated) | 350.8 |
| Direct investment | |
| Income from investments in property and other | 57.4 |
| Losses and write downs in equity investments | (3.1) |
| Administrative expenses | (8.3) |
| Net interest payable | (28.9) |
| Profit before taxation | 17.1 |
| Taxation – current | (0.7) |
| – deferred | (1.5) |
| Equity minority interest | 0.4 |
| Retained profit | 15.3 |
| Indirect investment | |
| Revaluations | 7.9 |
| Exchange and other movements | 12.0 |
| Increase in equity due to direct and indirect investment | 35.2 |
| Other equity movements | |
| Capital distributions by tender offer buy-backs including costs | (12.9) |
| Other share buy backs | (1.2) |
| Share Issues | 0.1 |
| Minority Interests | (0.3) |
| Net Assets at 31 December 2002 | 371.7 |

FOR THE EIGHTH SUCCESSIVE YEAR SINCE FLOTATION
net asset value per share has increased



FINANCIAL REVIEW *(continued)*

REVIEW OF THE PROFIT AND LOSS ACCOUNT *(continued)*

NET RENTAL INCOME has increased by 18.0 per cent to £60.3 million and reflects the inclusion of the Lövgärdet portfolio and one further property at Solna, Sweden that were purchased in January 2002, and a further eleven properties acquired in France during the year. These acquisitions contributed £3.1 million and £1.3 million to net rental income respectively.

OTHER INCOME of £1.3 million (2001: £4.3 million) mainly comprised lease surrenders of £0.5 million (principally at Great West House, Brentford) gym membership fees generated from the Solna development of £0.2 million and gross profit for WightCable of £0.4 million for the six months since its acquisition.

ADMINISTRATIVE EXPENDITURE of £8.3 million (2001: £8.0 million) included £1.1 million of overhead relating to WightCable. Excluding the overhead from this acquisition, the year on year comparison shows a reduction of £0.8 million reflecting lower levels of professional and abortive fees (by £0.5 million) and personnel costs (by £0.2 million).

NET PROPERTY EXPENSES of £4.0 million (2001: £3.3 million) included an amount of £1.1 million of depreciation of which £0.8 million related to amortisation of a short leasehold interest. The remaining un-amortised value is now £0.4 million. A provision for bad and doubtful debts was made amounting to £0.8 million (December 2001: £0.5 million) which related mainly to three tenants. In addition a substantial marketing campaign at Solna has been undertaken costing £0.4 million. Over 84 per cent of the newly refurbished vacant space has been let.

OTHER OPERATING LOSSES mainly represent the write down of equity of £0.4 million and loans of £2.4 million from our investment in what is now WightCable, as part of its restructuring in the first half of the year. The residual investment amounts to £1.3 million, and due to our increased participation, the results of WightCable have been consolidated since 1 July 2002. The impact on the Group's profit before tax was a loss of £0.7 million, although the effect on retained profit was reduced by minority interests of £0.4 million and tax allowances of £0.3 million. It is anticipated that this company will begin to generate positive cash flows in the latter part of 2003. Provisions of £0.3 million were made against three other unlisted investments.

| | 2002 £m | 2001 £m |
|---------------------------------------|------------|------------|
| Losses relating to listed investments | – | (4.3) |
| Write downs of unlisted investments | (3.1) | (2.0) |
| | (3.1) | (6.3) |

NET INTEREST AND SIMILAR CHARGES amounted to £28.9 million and showed an increase of £1.9 million over net expenditure in 2001. Increased interest payable of £1.6 million reflected further re-financing in the UK of £27.4 million and in Sweden of £13.2 million during 2002. In addition new loans of £51.0 million were raised in respect of our acquisitions at Lövgärdet in Sweden and eleven properties in France.

The Company's policy is to expense all interest payable to the profit and loss account, including interest incurred in the funding of refurbishment and development projects

A breakdown of the net charge is set out below:

| | 2002 £m | 2001 £m | Difference £m |
|---|---------------|---------------|------------------|
| Interest receivable | 1.6 | 2.7 | (1.1) |
| Foreign exchange | 0.3 | (0.5) | 0.8 |
| Interest receivable and similar income | 1.9 | 2.2 | (0.3) |
| Interest payable and similar charges | (30.8) | (29.2) | (1.6) |
| Net interest and similar charges | (28.9) | (27.0) | (1.9) |

Interest payable and similar charges of £30.8 million (2001: £29.2 million) included joint venture interest of £0.9 million (2001: £0.9 million) relating to the Group's interest in Teighmore Limited, owner of Southwark Towers.

Interest costs included £1.8 million incurred in respect of development loans relating to the refurbishment of Frasaren 11 at Solna Business Centre, for which only £1.1 million of rental income was received during 2002.

The average cost of borrowing for the Group at December 2002 is set out below:

| December 2002 | UK | Sweden | France | Total |
|---|--------------|--------------|--------------|--------------|
| Average interest rate on fixed rate debt | 9.9 % | 6.2 % | 4.9 % | 7.9 % |
| Average interest rate on variable rate debt | 5.4 %* | 5.6 % | 4.4 % | 5.2 % |
| Overall weighted average interest rate | 6.6 % | 5.9 % | 4.6 % | 6.0 % |
| December 2001 | | | | |
| Average interest rate on fixed rate debt | 10.2% | 6.1% | 4.9% | 7.7% |
| Average interest rate on variable rate debt | 5.9% | 5.0% | 4.4% | 5.5% |
| Overall weighted average interest rate | 7.0% | 5.6% | 4.6% | 6.3% |

* On the assumption that interest rates remain at today's rates, the average interest rate will fall during 2003 by approximately 0.2 per cent or £0.9 million p.a.

Interest payable and similar charges also include the depreciation of interest rate caps amounting to £0.8 million (2001: £0.6 million) and amortisation of issue costs of loans of £1.0 million (2001: £0.8 million).

FINANCIAL REVIEW *(continued)*

TAXATION The Group's current taxation charge has benefited from substantial corporation tax losses brought forward in some subsidiaries, significant capital allowances on many of the Group's UK properties, and amortisation deductions in Sweden and France. These factors will have less effect in the future as corporation tax losses are used against expected profits and as allowances and amortisation deductions decrease in existing subsidiaries. We do however anticipate utilising capital allowances on assets held by recently acquired subsidiary companies.

REVIEW OF THE BALANCE SHEET

INVESTMENT PROPERTIES The property assets of the Group (including plant and machinery) have increased by 16.8 per cent to £852.4 million (2001: £729.8 million). The net increase of £122.6million included the addition of eleven new properties (18,061 sq m: 194,413 sq ft) located in Paris at a cost of £33.9 million, one additional property at Solna (4,862 sq m: 52,247 sq ft) and 1,281 apartments (79,614 sq m: 855,532 sq ft) and 33,494 sq m (359,926 sq ft) of commercial space at Lövgärdet near Gothenburg for £34.6 million.

In addition, expenditure on refurbishments, principally at Solna, amounted to £21.3 million and the effect of foreign exchange on overseas assets was a gain of £25.7 million.

The revaluation gain of the Group's investment properties, including joint venture, was as follows:

| | 2002 £m | 2001 £m |
|--|------------|-------------|
| Revaluation of property in 2002 | | |
| UK | (5.7) | 7.8 |
| Sweden | 4.3 | 11.7 |
| France | 9.3 | 10.8 |
| Total Revaluation | 7.9 | 30.3 |

Based on the valuation at 31 December 2002 and annualised contracted rent receivable at that date of £70.8 million (2001: £57.5 million), the portfolio shows a yield of 7.9 per cent (2001: 7.9 per cent).

An analysis of the location of investment property assets and related loans is set out below:

| December 2002 | Total Balance Sheet £m | % | UK+ £m | % | Sweden £m | % | France £m | % |
|--|---------------------------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|
| Investment Properties | 848.9 | 100.0 | 424.1 | 50.0 | 214.4 | 25.2 | 210.4 | 24.8 |
| Loan | (526.2) | 100.0 | (280.5) | 53.3 | (110.1) | 20.9 | (135.6) | 25.8 |
| Equity in Property Assets | 322.7 | 100.0 | 143.6 | 44.5 | 104.3 | 32.3 | 74.8 | 23.2 |
| Other | 49.0 | 100.0 | 35.3 | 72.0 | (2.8) | (5.7) | 16.5 | 33.7 |
| Net Equity | 371.7 | 100.0 | 178.9 | 48.1 | 101.5 | 27.3 | 91.3 | 24.6 |
| Equity in property assets as a percentage of investment | | 38.0% | | 33.9% | | 48.6% | | 35.6% |
| | £m | | £m | | £m | | £m | |
| Opening Equity (re-stated) | 350.8 | | 204.6 | | 79.1 | | 67.1 | |
| Increase during 2002 | 20.9 | | (25.7)* | | 22.4 | | 24.2 | |
| Closing Equity 2002 | 371.7 | | 178.9 | | 101.5 | | 91.3 | |

+ Results relating to Germany were immaterial in the context of the overall results of the Group and have therefore been included within the UK segment for all analyses. The following exchange rates* were used to translate assets and liabilities at the year end: SEK/GBP 14.033; Eur/GBP 1.5309.

* Net assets were reduced by payments for share purchases, tender offer distributions and deferred tax provisions totalling £27.1 million which are included within the results of the UK.



LOAN/EQUITY SPLIT OF PROPERTY ASSETS

FINANCIAL REVIEW *(continued)*

DEBT STRUCTURE Borrowings are raised by the Group to finance holdings of investment properties. These are secured, in the main, on the individual properties to which they relate. All borrowings are taken up in the local currencies from specialist property lending institutions.

Financial instruments are held by the Group to manage interest and foreign exchange rate risk. Hedging instruments such as interest rate caps are acquired from prime banks. The Group has thereby hedged all of its interest rate exposure and a significant proportion of its foreign exchange rate exposure.

The activities of the Group are mainly financed through share capital, reserves and long term loans, which are secured against the properties to which they relate.

| | Total £m | % | UK £m | % | Sweden £m | % | France £m | % |
|---------------------------|-------------|-------|----------|-------|--------------|-------|--------------|-------|
| Net Interest Bearing Debt | | | | | | | | |
| Fixed Rate Loans | (171.3) | 32.5 | (75.9) | 27.1 | (57.6) | 52.3 | (37.8) | 27.9 |
| Floating Rate Loans | (354.9) | 67.5 | (204.6) | 72.9 | (52.5) | 47.7 | (97.8) | 72.1 |
| | (526.2) | 100.0 | (280.5) | 100.0 | (110.1) | 100.0 | (135.6) | 100.0 |
| Bank and investments | 65.7 | | 45.0 | | 3.5 | | 17.2 | |
| Net Interest Bearing Debt | (460.5) | 100.0 | (235.5) | 51.1 | (106.6) | 23.2 | (118.4) | 25.7 |
| 2001 | (364.8) | 100.0 | (211.5) | 58.0 | (64.3) | 17.6 | (89.0) | 24.4 |

Non interest bearing debt, represented by short-term creditors, amounted to £30.8 million [December 2001: £29.8 million].

| | Total % | UK % | Sweden % | France % |
|--|------------|-----------|-------------|-------------|
| Floating rate loan caps | | | | |
| 2002 | | | | |
| Percentage of net floating rate loans capped* | 100 | 100 | 100 | 100 |
| Average base interest rate at which loans are capped | 6.3 | 6.3 | 6.2 | 6.4 |
| Average tenure | 3.2 years | 3.5 years | 2.4 years | 3.1 years |
| 2001 | | | | |
| Percentage of net floating rate loans capped* | 99 | 100 | 100 | 93 |
| Average base interest rate at which loans are capped | 6.6 | 6.6 | 6.3 | 6.8 |
| Average tenure | 3.5 years | 3.6 years | 3.1 years | 3.3 years |

* Net floating rate loans are defined as floating rate loans less available cash deposits.

In relation to its London based portfolio the Group has continued to pursue a financial strategy to raise floating rate long term loans hedged against adverse interest rate movements by the acquisition of interest rate caps. Caps are normally purchased on a five-year basis. At 31 December 2002 the average period to maturity of caps was 3.2 years.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond, which has a current outstanding balance of £39.5 million at an interest rate of 10.8 per cent with a maturity date of 2025; and a zero coupon bond, with a current outstanding balance of £4.2 million, with matching interest rate and maturity date. Following the rent review which was settled in 2002 increasing rent by £0.7 million to £5.4 million per annum, further borrowing was raised of £7.4 million.

Swedish property acquisitions have been financed through a combination of equity, long term fixed rate loans at an average interest rate of 6.2 per cent and floating rate loans for which the average interest rate in 2002 was 5.6 per cent. In addition, the Group entered into forward foreign exchange contracts in order to hedge its exposure to foreign currency transactions in relation to the refurbishment of Solna Business Park.

French property acquisitions have been funded by a mixture of equity and external bank finance. The bank funding has been raised long term [mainly fifteen years], 72.1 per cent of which is on a floating rate basis, hedged for the first five years against adverse interest rate movements by the acquisition of interest caps and 27.9

per cent of the loan book is fixed until 2004 at an average interest rate of 4.9 per cent.

If interest rates were to rise to our cap ceilings the Group's full year additional cost of borrowing would amount to approximately £6.9 million.

The net borrowings of the Group at 31 December 2002 of £460.5 million showed an increase of £95.7 million over 2001, reflecting the Group's programme of acquisitions and refurbishments.

The Group has adopted the requirements of FRS13, which addresses among other things, disclosure in relation to derivatives and other financial instruments. If our loans were held at fair value then the Group's fixed rate debt at the year end would be in excess of book value by £31.7 million [2001: £23.2 million] which net of tax at 30 per cent equates to £22.2 million [2001: £16.2 million]. A substantial amount of this is attributable to the long-term securitisation of New Printing House Square.

The contracted future cash flows from the properties securing the loans are currently well in excess of all interest and ongoing loan repayment obligations. Only £15.7 million [3.0 per cent] of the Group's total bank debt of £526.2 million is repayable within the next 12 months, with £320.6 million (60.9 per cent) maturing after five years.

FINANCIAL REVIEW *(continued)*

SHARE CAPITAL The share capital of the Company totalled £23.5 million at 31 December 2002, represented by 94,129,431 ordinary shares of 25 pence each which are quoted on the main market of the London Stock Exchange.

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2002 resulting in the purchase of 4.6 million shares and providing a distribution of £12.7 million to shareholders, together with costs of £0.2 million. As the shares continued to trade at a discount to NAV, the Group bought back a total of 0.6 million shares in the market for cancellation at an average cost per share of 200 pence, representing 0.6 per cent of opening shares. This has involved a total cash expenditure of £1.2 million.

A total of 39.9 million shares have been purchased at a total cost of £76.9 million since the programme of buy backs started in 1998.

The average cost of shares purchased for cancellation over this period was 193 pence per share.

The weighted average number of shares in issue during the year was 97,427,913 [2001: 106,054,397]

The average mid-market price of the shares traded in the market during the year ended 31 December 2002 was 218.5 pence with a high of 260.0 pence in May 2002 and a low of 191.0 pence in October 2002.

Since 31 December 2002 the Company has purchased 1,117,920 shares in the market for cancellation and issued 22,000 shares in respect of share options exercised.

Should the proposed tender offer buy back be fully taken up, the number of shares in issue would be reduced by 3,445,685 to 89,587,826.

An analysis of share movements during the year is set out below:

| | No. of shares Million 2002 | No. of shares Million 2001 |
|---|----------------------------------|----------------------------------|
| Opening shares | 99.3 | 108.1 |
| Tender offer buy back | (4.6) | (3.7) |
| Buybacks in the market for cancellation | (0.6) | (6.6) |
| Shares issued for the exercise of options | – | 1.5 |
| Closing shares | 94.1 | 99.3 |

In total 38.7 million shares were traded in the market during 2002. The share price on 25 March 2003 was 198.5 pence.

The share price of CLS increased by 0.7 per cent in the year to 31 December 2002 compared to a decrease of 0.3 per cent in the FTSE All Share Real Estate Index and a decrease of 25.0 per cent in the FTSE All-Share Index

An analysis of the ownership structure at 31 December 2002 is set out below:

| | No. of shares | Percentage of shares |
|----------------------|-------------------|-------------------------|
| Institutions | 40,766,967 | 43.3 |
| Private investors | 2,766,451 | 2.9 |
| The Mortstedt family | 47,495,177 | 50.5 |
| Other | 3,100,836 | 3.3 |
| Total | 94,129,431 | 100.0 |

The Company operates share option schemes to enable its staff to participate in the prosperity of the Group. At 31 December 2002 there were 1,225,000 options in existence with an average exercise price of 167.8 pence.

DISTRIBUTION As the current share price remains at a considerable discount to net asset value, your Board is intending to propose a further tender offer buy-back of shares in lieu of paying a cash dividend, on the basis of 1 in 27 shares at a price of 240.0 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 8.9 pence, yielding a total distribution in cash terms of 14.4 pence per share for the year [2001: 12.1 pence].

CORPORATE STRUCTURE The aim has been to continue to hold individual properties within separate subsidiary companies, each with one loan on a non-recourse basis.

OUR STRATEGY *is to target*
ABOVE AVERAGE RETURNS
on equity through acquisition, active
MANAGEMENT, REFURBISHMENT,
and SELECTIVE SALES.

We continue to focus upon low risk high return properties in our core locations of UK, Sweden and France. At the same time we actively manage the portfolio with a view to maximising capital returns. The Group now owns 110 properties with a total lettable area of 582,953 sq m (6,274,994 sq ft), of which 46 properties are in the UK, 23 in Sweden and 41 in France. We have 453 commercial tenants and 1,415 residential tenants.

An analysis of contracted rent, book value and yields is set out below:

| Region | Total Rent £000 | % | Net Rent £000 | % | Book Value £000 | % | Yield on contracted rent | Yield When Fully Let |
|----------------------|--------------------|--------------|------------------|--------------|--------------------|--------------|--------------------------------|-------------------------|
| London City Fringes | 280 | 0.4 | 280 | 0.4 | 2,550 | 0.3 | 11.0 | |
| London Mid Town | 6,639 | 9.4 | 6,639 | 9.9 | 96,500 | 11.3 | 6.9 | |
| London West End | 3,131 | 4.4 | 3,076 | 4.6 | 67,285 | 7.9 | 4.6 | |
| London West | 5,583 | 7.9 | 5,368 | 8.0 | 59,704 | 7.0 | 9.0 | |
| London South Bank | 8,888 | 12.5 | 8,754 | 13.1 | 120,295 | 14.2 | 7.3 | |
| London South West | 2,042 | 2.9 | 2,055 | 3.1 | 26,650 | 3.1 | 7.7 | |
| London North West | 5,494 | 7.8 | 5,527 | 8.3 | 45,420 | 5.4 | 12.2 | |
| Outside London | 350 | 0.5 | 350 | 0.5 | 3,000 | 0.4 | 11.7 | |
| Total UK | 32,407 | 45.8 | 32,049 | 47.9 | 421,404 | 49.6 | 7.6 | 8.3 |
| Germany | 206 | 0.3 | 184 | 0.3 | 2,672 | 0.3 | 6.9 | |
| Total Germany | 206 | 0.3 | 184 | 0.3 | 2,672 | 0.3 | 6.9 | 6.9 |
| Sweden Gothenburg | 5,890 | 8.3 | 3,805 | 5.7 | 37,056 | 4.4 | 10.3 | |
| Sweden Stockholm | 11,236 | 15.9 | 10,139 | 15.2 | 131,831 | 15.5 | 7.7 | |
| Sweden Vänersborg | 4,384 | 6.2 | 3,998 | 6.0 | 45,536 | 5.4 | 8.8 | |
| Total Sweden | 21,510 | 30.4 | 17,942 | 26.9 | 214,423 | 25.3 | 8.4 | 8.2* |
| France Paris | 13,346 | 18.9 | 13,346 | 20.0 | 173,081 | 20.4 | 7.7 | |
| France Lyon | 2,448 | 3.4 | 2,448 | 3.6 | 28,513 | 3.4 | 8.6 | |
| France Lille | 464 | 0.7 | 464 | 0.7 | 5,324 | 0.6 | 8.7 | |
| France Antibes | 377 | 0.5 | 377 | 0.6 | 3,501 | 0.4 | 10.8 | |
| Total France | 16,635 | 23.5 | 16,635 | 24.9 | 210,419 | 24.8 | 7.9 | 8.2 |
| Group Total | 70,758 | 100.0 | 66,810 | 100.0 | 848,918 | 100.0 | 7.9 | 8.2 |

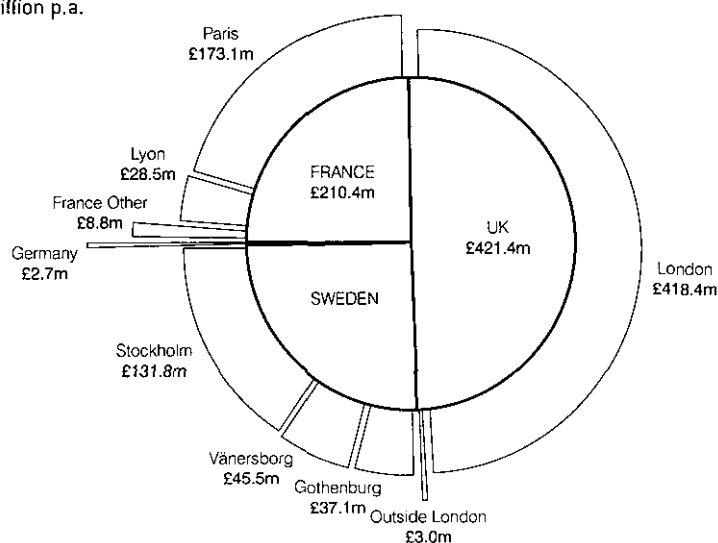
• Conversion Rates: SEK/GBP 14.033; Eur/GBP 1.5309.

* Yields based on receivable rent and potential rents have been calculated on the assumption that year-end book values will increase by anticipated refurbishment expenditure of approximately £66.8 million in respect of refurbishment projects in Solna, Stockholm, Sweden.

We estimate that open market rents are approximately 3.0 per cent higher than current contracted rents receivable, which represents a potential increase of £2.1 million. This excludes the additional rents we will receive as a result of our refurbishment programme. An analysis of the net increase is set out below:

| | Contracted Rent £ Million | Estimated Rental Value £ Million | Reversionary Element % |
|--------------|------------------------------|--|------------------------------|
| UK & Germany | 32.6 | 32.0 | (1.8) |
| Sweden | 21.6 | 21.4 | (0.9) |
| France | 16.6 | 19.5 | 17.5 |
| Total | 70.8 | 72.9 | 3.0 |

The total potential gross rental income (comprising contracted rentals, and estimated rental value of unlet space and refurbishment) of the portfolio is £80.9 million p.a.



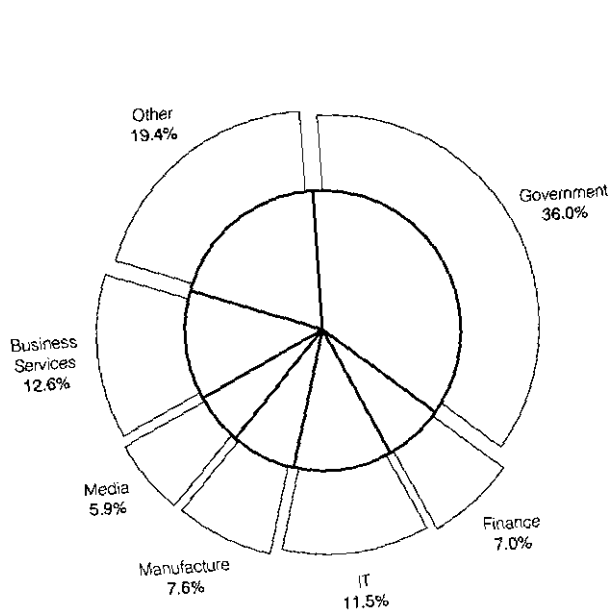
BOOK VALUE OF ASSETS BY LOCATION

PROPERTY REVIEW *(continued)*

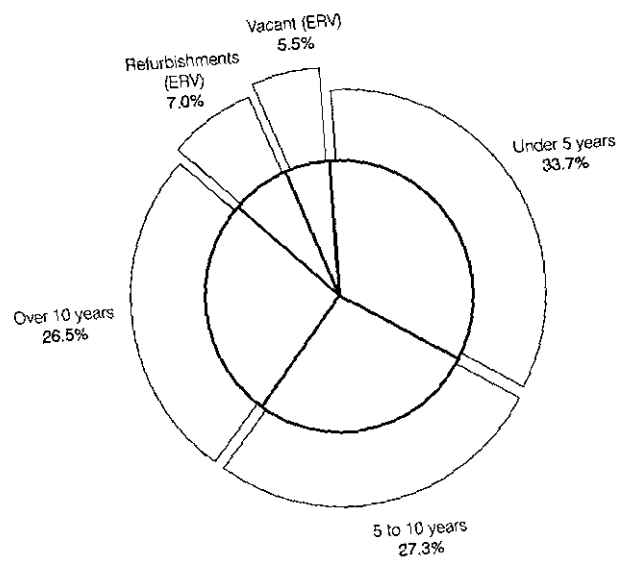
Rent analysed by length of lease and location

| Description | Sq m | Sq ft | Contracted Aggregate Rental £000 | Contracted but not income producing £000 | Unlet space at ERV £000 | Space under refurb. or with plan. consent at ERV £000 | Total £000 |
|----------------------|----------------|------------------|---|--|----------------------------------|---|---------------|
| UK < 5 years | 32,709 | 352,033 | 7,380 | 21 | – | – | 7,401 |
| UK 5 – 10 years | 45,247 | 487,043 | 10,589 | 116 | – | – | 10,705 |
| UK > 10 years | 68,951 | 742,197 | 14,301 | – | – | – | 14,301 |
| Vacant | 11,641 | 125,315 | – | – | 2,830 | – | 2,830 |
| Total UK | 158,548 | 1,706,588 | 32,270 | 137 | 2,830 | – | 35,237 |
| Germany | 3,095 | 33,315 | 206 | – | – | – | 206 |
| Total Germany | 3,095 | 33,315 | 206 | – | – | – | 206 |
| Sweden <5 years | 179,663 | 1,933,940 | 12,481 | 192 | – | – | 12,673 |
| Sweden 5–10 years | 11,356 | 122,239 | 1,293 | 452 | – | – | 1,745 |
| Sweden >10 years | 69,224 | 745,145 | 4,987 | 2,105 | – | – | 7,092 |
| Refurbished space | 17,484 | 188,202 | – | – | – | 5,675 | 5,675 |
| Vacant | 17,374 | 187,018 | – | – | 1,079 | – | 1,079 |
| Total Sweden | 295,101 | 3,176,544 | 18,761 | 2,749 | 1,079 | 5,675 | 28,264 |
| France < 5 years | 55,260 | 594,833 | 7,000 | – | – | – | 7,000 |
| France 5–10 years | 67,481 | 726,383 | 9,635 | – | – | – | 9,635 |
| Vacant | 3,468 | 37,330 | – | – | 525 | – | 525 |
| Total France | 126,209 | 1,358,546 | 16,635 | – | 525 | – | 17,160 |
| GROUP TOTAL | 582,953 | 6,274,993 | 67,872 | 2,886 | 4,434 | 5,675 | 80,867 |

The above table shows rental income by category and the future potential income available from new lettings and refurbishments.



GROSS RENT BY SECTOR



TOTAL RENT BY LEASE LENGTH

75 PER CENT *of the*
UK portfolio is let to
GOVERNMENT BODIES
and LARGE CORPORATES

77 PER CENT *of leases run for*
MORE THAN 5 *years*

5 YEARS +

PROPERTY REVIEW *(continued)*

UK

In our continued efforts to work the UK portfolio in a down turning market we have concentrated on retaining existing tenants and enhancing the properties currently held within the portfolio.

During the year we completed the infill between units 2 and 3 at Spring Gardens and extended the leases to the Home Office that now expire between 2010 and 2025. The UK government is now responsible for 100 per cent of the rental income.

Our serviced offices continue to perform well and made a contribution during 2002 of £0.5 million. We have expanded the operation at Vista and hope to increase the space available at London House in the early part of 2003. At present we have an average occupation rate of 86.0 per cent and are looking into expanding the concept into other buildings where there are vacant floors.

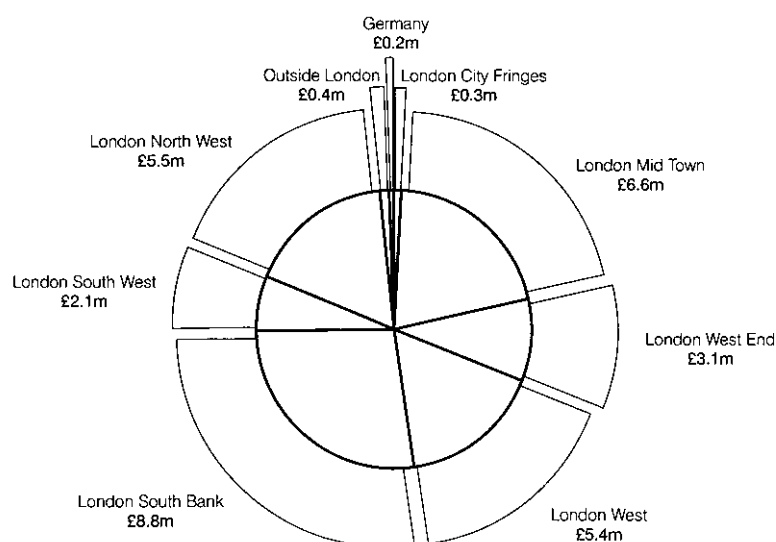
We took possession of One Leicester Square from the previous tenant in September of 2002 and are actively marketing the premises. We hope to be able to announce a new letting on the majority of the space in the near future.

The eighteen flats at Coventry House will be completely refurbished by March 2003 and are currently being actively marketed. They have been very well received in the market and a third of the apartments have already been reserved. The sign at the top of the building was successfully upgraded by Van Wagner at the end of 2002 and now that it has been let to Vodafone is fully income producing.

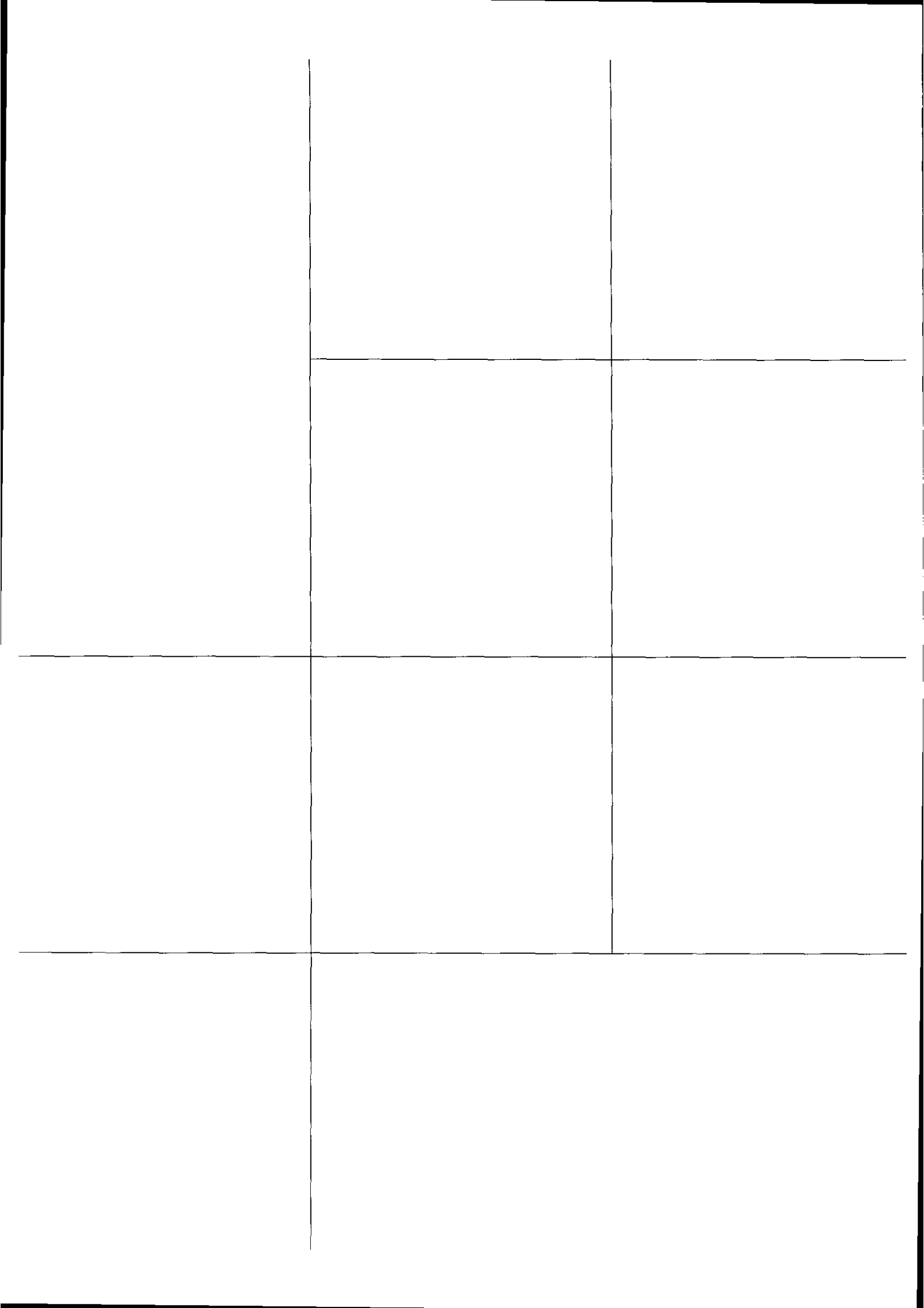
Our planning application to build a new tower at London Bridge Station, designed by Renzo Piano, has been called in by the Secretary of State and the public enquiry is due to commence on 15 April 2003. We own a one third interest in the project and in the existing fully income producing investment property known as Southwark Towers which is let to PricewaterhouseCoopers. We have not taken into account any development hope value in the accounts for 31 December 2002.

Although there has been a further down turn in the UK property market during 2002 the portfolio continues to perform well. We have successfully managed to achieve increases on rent reviews at New Printing House Square, Coombe Hill House, CI Tower and Westminster Tower. The overall vacancy rate by rental income within the UK portfolio has increased to 8.0 per cent, more than half of which is represented by One Leicester Square. The majority of our portfolio (75 per cent) in the UK continues to be let to government bodies and large corporates. Additionally 77.2 per cent of leases run for more than five years. We continue to work with our tenants in meeting their needs as well as investing in our buildings in order to retain existing tenants and attract new ones.

In a falling German market we sold Westbahnhof for £1.6 million, for which the Group originally paid £1.2 million. We now have only one remaining minor investment in Germany.



RENT BY LOCATION



SUBSTANTIAL PROGRESS
*in refurbishment
and lettings at*
SOLNA BUSINESS CENTRE

further ACQUISITIONS
in GOTHENBURG *and* STOCKHOLM

2002

Sweden

SWEDEN

In Sweden the portfolio continues to perform well. We remain dedicated to enhancing our properties at Solna Business Park, Lövgärdet and Vänerparken, and we continue to attract new tenants where vacant space is available.

SOLNA BUSINESS PARK

Although the Stockholm market has weakened Solna Business Park continues to attract new tenants. We signed a major letting to Coop in the fourth quarter of 2002. Coop are relocating from their offices in Stockholm centre where they have been located for over 70 years to Solna in January 2004 on a ten-year lease and will initially occupy a total of 14,350 sq m (154,150 sq ft). This letting means that Fräsaren 11 is now over 84 per cent let and we remain hopeful of securing tenants for most of the remainder in the first half of 2003.

The facilities at Solna Business Park will be expanded to include an enhanced onsite restaurant to be opened in April 2003 and, in addition, a business hotel, a conference centre and a number of shops will open at the end of 2003. The existing gym at Solna continues to be very popular and we are confident that these ancillary services will add to Solna's appeal to new and existing tenants.

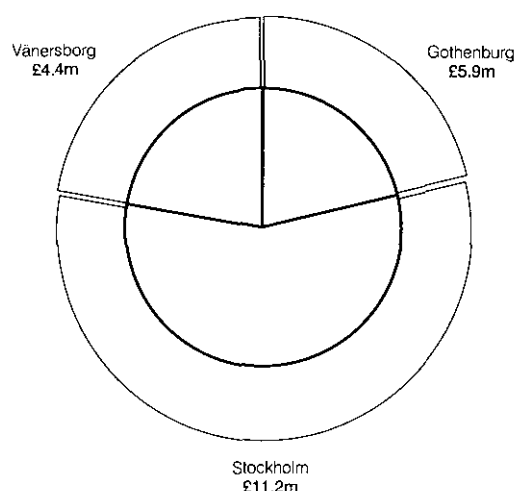
LÖVGÄRDET, GOTHENBURG

Since the acquisition of Lövgärdet in January 2002 we have improved the services to our tenants and built up a close relationship with the tenants' association in respect of the residential properties and hence obtained a reduced vacancy rate. As of the year end only seven flats out of 1,281 were vacant while being refurbished. Regarding the commercial leases, we have implemented CLS's normal close tenant contacts and we begin to see improvements in tenant relationships. Leases on 76 per cent of the commercial space expire in 2014.

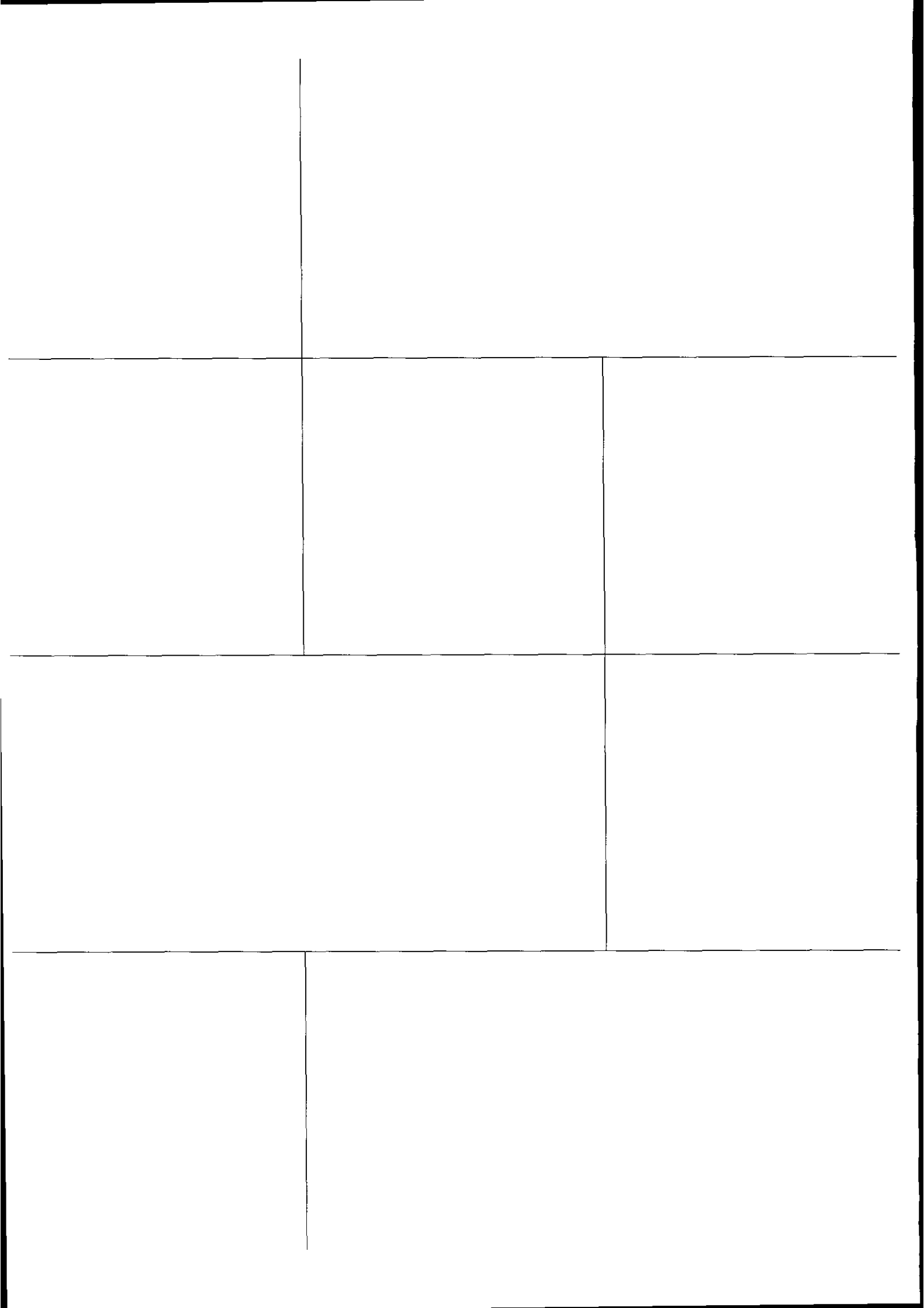
VÄNERPARKEN

Vänerparken is let primarily to the local council on long leases, 75 per cent of leases on the space expire in June 2015.

We work closely with the local council and the other tenants in order to continue to meet their demand for occupation and simultaneously securing prolongation of the shorter leases of which only 2.6 per cent by rental income expires within the next three years.



RENT BY LOCATION



HIGH QUALITY *acquisitions*
of well-let office properties
made at HIGH INITIAL YIELDS
potential for RENTAL GROWTH
within the portfolio

GROWTH

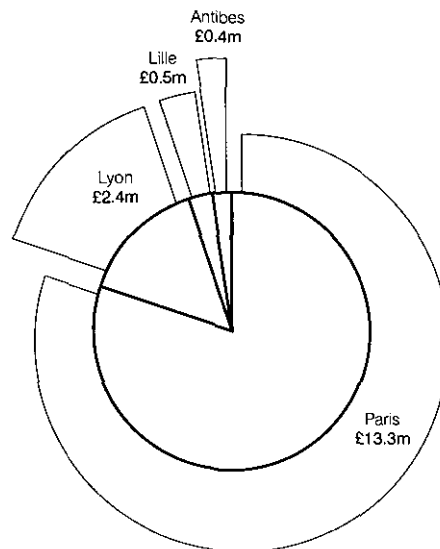
FRANCE

Throughout 2002 France has continued to perform extremely well. We have continued to see growth in our existing portfolio and have acquired 11 new properties throughout the year.

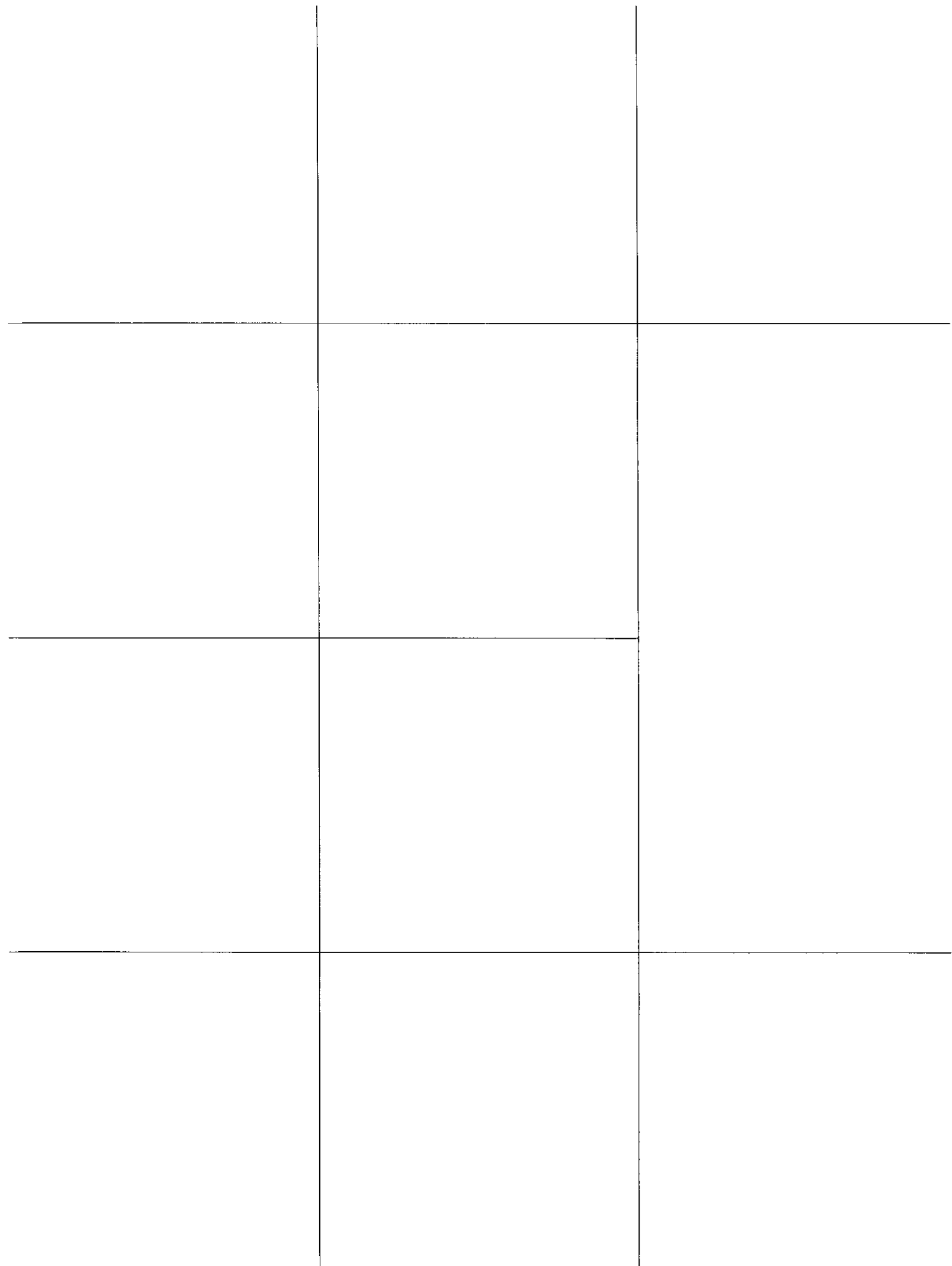
Through active management we have let or restructured leases covering 13,348 sq m (143,424 sq ft), or 10.5 per cent of the total French portfolio with a weighted average increase of 28.0 per cent, €562,300 (£367,300). In addition automatic indexation has increased the rent during the year by €691,732 (£451,800), equating to 3.4 per cent. The overall uplift in rental income on a like for like basis was therefore 6.2 per cent.

The acquisitions made during the year have been of high quality, well-let offices at high initial yields. These acquisitions have been funded on a floating rate basis. The investments generate a very high initial return, further enhanced through the recent reduction in interest rates. In addition we see potential for rental growth, especially within the portfolio acquired from Banque Hervet.

During 2003 we expect to see further investment opportunities in the French market. The French investment market has remained strong in 2002 and has not showed any signs of a slowdown. However, the demand in the letting market slowed during the year with a subsequent easing of letting levels. Where possible we will continue to restructure leases and retain existing tenants. The portfolio is still underlet and hence we see a possibility for rental growth even if market rents are reduced from peak levels obtained in 2001.



RENT BY LOCATION



DIRECTORS, OFFICERS *and* ADVISORS

Directors

Sten Mortstedt (Executive Chairman)
Thomas Thomson BA (Vice Chairman and Acting Chief Executive)
Dan Bäverstam (Chief Financial Officer)
Anna Seeley BSc MRICS (Group Property Director)
Steven Board FCCA (Chief Operating Officer)
Bengt Mortstedt Juris Cand (Non-executive Director)
Keith Harris PhD *†‡ (Non-executive Director)
Thomas Lundqvist † (Non-executive Director)
James Dean FRICS *† (Non-executive Director)

* = member of Remuneration Committee

† = member of Audit Committee

‡ = senior independent director

Company Secretary

Steven Board FCCA

Registered Office

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Tinworth Street
London SE11 5EF

Registered Number

2714781

Registered Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
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London WC2N 6NN

Registrars and Transfer Office

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8 Bankhead Crossway North
Edinburgh EH11 4BR

Clearing Bank

Royal Bank of Scotland plc
24 Grosvenor Place
London SW1X 7HP

Financial Advisors

HSBC Bank plc
8 Canada Square
London E14 5HQ

Joint Stockbrokers

HSBC Bank plc
8 Canada Square
London E14 5HQ

KBC Peel Hunt

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London EC2N 1PH

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DIRECTORS' REPORT

for the year ended 31 December 2002

The Directors present their report and the audited financial statements for the year ended 31 December 2002. The Chairman's statement should be read in conjunction with this report.

1 PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the investment in, development and management of commercial properties.

2 REVIEW OF BUSINESS

The consolidated profit and loss account for the year is set out on page 63.

A review of results for the year and prospects for the future are included within the Chairman's Statement, Financial Review and Property Review.

3 DIVIDENDS

In lieu of paying an interim cash dividend in 2002 the Company distributed £5,353,093 to shareholders (equivalent to 5.5 pence per share) by way of tender offer buy-back completed in November.

Your Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2002. It is proposed, therefore, that the Company offers to buy 1 in 27 of the shares registered in the name of each eligible shareholder at a price of 240 pence per share. This compares with a mid-market price of 198.5 pence per share on 25 March 2003.

The resulting distribution to shareholders will be £8,269,644 or 8.9 pence per share, which will be made in May 2003. When added to the distribution made under the November tender offer, shareholders who take advantage of both tender offers in respect of the financial year 2002 will have received a total return of 14.4 pence per share.

4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made tender-offer and market purchases totalling 5,199,969 of its own shares at a cost of £13,830,342, a weighted average of 266 pence per share. This represents £1,299,992 in nominal value, or 5.2 per cent of the brought forward called up share capital.

The Directors considered that the purchases were in the best interests of the shareholders given the cash resources of the Company and the significant discount in the market price of the Company's shares to their net asset value.

At the 2002 Annual General Meeting the Company was authorised to make market purchases of up to 9,678,474 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 1,694,992 and therefore still has authority to purchase 7,983,482. Included within these market purchases were three transactions since the year end, being 555,000 shares at 200.0 pence per share on 28 February 2003, 550,000 shares at 200.0 pence per share on 4 March 2003 and 12,920 shares at 195.0 pence per share on 19 March 2003. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 8,958,782 shares.

5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2002 was carried out by Allsop & Co and DTZ Debenham Tie Leung, which produced an open market value of £848.9 million. On the basis of these valuations statutory net assets per share amounted to 394.9 pence. In view of the policy of re-valuing properties bi-annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 2002.

6 DIRECTORS

The current Directors of the Company are shown on page 32.

A statement of Directors' remuneration and their interests in shares and options of the company is given below.

Anna Seeley was appointed Group Property Director on 11 September 2002 and Steven Board, who is Chief Operating Officer, joined the Board on 25 February 2003.

Biographical details of the non-executive Directors are as follows:

James Dean, aged 48, has worked for Savills plc since 1973, becoming a partner in 1983, and a director of Savills plc between 1987 and 1999. He remains a director of Savills Financial Holdings PLC. He is also a director of Cosalt plc, Daniel Thwaites plc and a number of private companies.

DIRECTORS' REPORT

for the year ended 31 December 2002

6 DIRECTORS *(continued)*

Dr Keith Harris, aged 49 obtained his doctorate in 1977 and embarked on a career in investment banking. Following eight years at Morgan Grenfell in London and New York, where he was President of Morgan Grenfell Inc., he went on to become Managing Director and Head of International Corporate Finance at Drexel Burnham Lambert, CEO of Apax Partners Ltd. and, in 1994, was appointed Chief Executive of HSBC Investment Bank plc. In 1999, Keith left HSBC to pursue a number of interests as chairman or non-executive director of a range of public and private companies. These now include his chairmanship of Seymour Pierce Group Plc. In August 2000 Keith became Chairman of the Football League and in January 2001 joined the Board of Wembley National Stadium Limited. He resigned his chairmanship of the Football League Ltd in August 2002.

Bengt Mortstedt, aged 54, holds a Bachelor of Law Degree from Stockholm University. He began his career as a Junior Judge of the Växjö District Court and in 1974 he joined Citadellet AB, the Mortstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the board of the Company as an executive director. He became a non-executive director in September 1998.

Thomas Lundqvist, aged 58, joined the Board in November 1990 and had been Finance Director of the Group until retiring from the position and becoming a non-executive Director on 1 October 1995. Prior to joining CLS, Mr Lundqvist worked for the ASEA – Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken where he was a board member.

The Board has determined that, apart from Bengt Mortstedt, the non-executive Directors are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.

7 SUBSTANTIAL SHAREHOLDERS

In addition to the interest of the Mortstedt family referred to in note 7 of the Directors' Remuneration Report, the Company has been notified of interests which at 25 March 2003 represented 3 per cent or more of the Company's issued share capital.

| | No. of shares | % |
|----------------------------------|---------------|------|
| Nutraco Nominees Limited | 3,696,798 | 3.97 |
| Chase Nominees Limited (FISL) | 3,542,659 | 3.81 |
| Phildrew Nominees Limited (LF20) | 2,943,557 | 3.16 |

8 CORPORATE GOVERNANCE

Combined Code

The Board supports the principles of good governance as set out in section 1 of the Combined Code and incorporated into the rules of the UK Listing Authority, and considers that during the year the Company has complied with the provisions of the Code.

The Board

The Board currently comprises five executive Directors, including the Chairman, and four non-executive Directors. Its primary objective is to focus on adding value to the assets of the Group by identifying and assessing business opportunities and ensuring that potential risks are identified, monitored and controlled.

In making commercial assessments the Directors review detailed plans including financial viability reports that among other things, detail the impact of proposals in respect of return on capital, return on cash and the likely impact on the profit and loss account, cash flows and gearing.

Strategy is determined after having taken due regard of forecast domestic and international developments.

Group and divisional budgets and quarterly financial forecasts including net asset and cashflow projections are formally reviewed by the Board on a quarterly basis. In addition the executive directors monitor cashflows on a weekly basis.

The Board meets six times during the year and is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources. During 2002 all of the Directors attended all of the board meetings, except Keith Harris who was not present at the board meeting held on 5 December 2002. Directors are, where necessary, able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if and when required. It is proposed that in the forthcoming year the non-executive Directors will meet as a group without the executive directors or the Chairman being present.

DIRECTORS' REPORT

for the year ended 31 December 2002

8 CORPORATE GOVERNANCE *(continued)*

The non-executive directors fulfil a key role in corporate accountability. The remits and membership of the Audit and Remuneration Committees of the board are set out below. The terms of reference of these Committees will be reviewed as part of the Company's overall review of the Smith report "Audit Committees: Combined Code guidance" and the Higgs report "Review of the role and effectiveness on non-executive directors", both proposing changes to the Combined Code.

The Board is assisted by the following committees:

The Audit Committee, which comprises three non-executive Directors. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors. The Committee may seek information from any employee of the group and obtain external professional advice if necessary. Due to the relatively low number of personnel employed within the Group and the nature of the business the Board has decided not to establish a separate internal audit department. The members of the Audit Committee are as shown on page 32.

The Remuneration Committee comprises two non-executive Directors, James Dean and Keith Harris. The committee considers the employment and performance of individual executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme. The Committee meets at least once a year.

As the Board of Directors of the Company is considered small the Board has decided not to appoint a nomination committee. Any appointments to the Board are instead considered by the full Board.

In addition to Board meetings, an executive committee comprising senior management meets weekly to discuss management issues relating to the Group.

There is a division of responsibilities between the Executive Chairman, who is responsible for the overall strategy of the Group and the Vice Chairman and Acting Chief Executive, who is responsible for the strategy and day to day running of the Group. He is assisted by the Chief Financial Officer and Chief Operating Officer.

Internal Control

The Board acknowledges that the Directors are responsible for the Group's system of internal control and have established procedures which are designed to provide reasonable assurance against material mis-statement or loss. The Directors have reviewed the effectiveness of the system of internal control for the period. The Directors have recognised that such a system can only provide a reasonable and not absolute assurance of no material mis-statement or loss. The key elements of the process by which the system of internal control is monitored are as follows:

- The risks which the group faces or is likely to face are reviewed on an ongoing basis in Board and executive meetings.
- The control mechanisms for each identified risk are reviewed regularly.
- Problems which arise are reviewed to determine whether they could have been avoided or their effect mitigated through improved control procedures.
- The risk and control features of new projects are assessed as they arise.
- The audit committee considers any internal control issues raised by the external auditors or management.

Set out on pages 6 to 30 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks. Quarterly and annual budgets are prepared for each area and monitored. Parameters have been established for investment decisions to be referred to the Board for approval. Three-yearly rolling cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

Directors responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the Group at the end of the year and of the profit or loss for the year. 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
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the Group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

DIRECTORS' REPORT

for the year ended 31 December 2002

8 CORPORATE GOVERNANCE *(continued)*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have a general responsibility for taking reasonable steps to safeguard the assets of the company and the Group and to prevent and detect fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the CLS Holdings PLC website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Shareholder Relations

The Group issues full annual accounts to each of its shareholders and at the half-year an Interim Report is sent to all shareholders. In addition, all press releases are copied to each shareholder and included on the Company's web-site.

The Chairman and the Vice Chairman and Acting Chief Executive and other senior management have regular meetings with institutional shareholders.

9 GOING CONCERN

The financial statements which appear on pages 63 to 87 are prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

10 SHARE CAPITAL

Changes in share capital are shown in note 21.

11 CHARITABLE CONTRIBUTIONS

The contributions made by the Group during the year for charitable purposes were £586 (2001: £390).

12 INSURANCE OF DIRECTORS

The Group maintains insurance for the Company's Directors in respect of their duties as Directors.

13 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 25 days total invoices received for the year as a whole (2001: 29 days). For the Company, trade creditors were owed nil days (2001: nil days).

14 AUDITORS

Following conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 February 2003, and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the forthcoming annual general meeting.

By order of the Board



S F Board

Company Secretary

28 March 2003

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2002

1 REMUNERATION POLICY

The Company's policy on remuneration is to attract, retain and incentivise high calibre staff, recognising that they are a key element to ensure the ongoing success of the business.

Consistent with this policy, CLS Holdings plc remuneration packages awarded to directors are intended to be competitive and comprise a mix of performance related and non-performance related remuneration designed to incentivise directors, but not to detract from the goals of Corporate Governance.

The targeted composition of each director's remuneration is discretionary after taking into account individual and Company performance. There are no contractual entitlements to bonus payments for any director. The proportion of amounts in addition to contractual entitlements that were awarded in the past year are described below as performance related.

| Director | Non-performance related | Performance related |
|------------------|-------------------------|---------------------|
| Sten Mortstedt | 40% | 60% |
| Tom Thomson | 65% | 35% |
| Dan Bäverstam | 49% | 51% |
| Anna Seeley | 65% | 35% |
| Steven Board | 57% | 43% |
| Bengt Mortstedt | 100% | Nil |
| Thomas Lundqvist | 100% | Nil |
| Keith Harris | 100% | Nil |
| James Dean | 100% | Nil |

Share options have been awarded to executive directors on a discretionary basis. There is no policy to provide share options to executive directors on an annual basis.

2 DIRECTORS' SERVICE CONTRACTS

Details of the service contracts of those who served as directors during the year are:

| Name | Contract date | Notice period |
|------------------|---------------|---------------|
| Sten Mortstedt | 28.04.94 | 1 year |
| Tom Thomson | 01.10.01 | 1 year |
| Dan Bäverstam | 01.01.94 | 1 year |
| Anna Seeley | 11.09.02 | 3 months |
| Steven Board | 02.12.98 | 6 months |
| Bengt Mortstedt | 18.12.98 | 6 months |
| Thomas Lundqvist | 20.12.98 | 6 months |
| Keith Harris | 28.04.94 | 6 months |
| James Dean | 23.04.99 | 6 months |

There is no provision in the contract of any executive director for contractual termination payments save those payments normally due under current employment law.

All of the non-executive directors are appointed until such time as they are re-elected. If they fail to be re-elected their service contracts will cease.

No directors resigned in the period and no termination payments were made.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2002

3 MEMBERS OF THE REMUNERATION COMMITTEE

The members of the remuneration committee during the year were:

James Dean

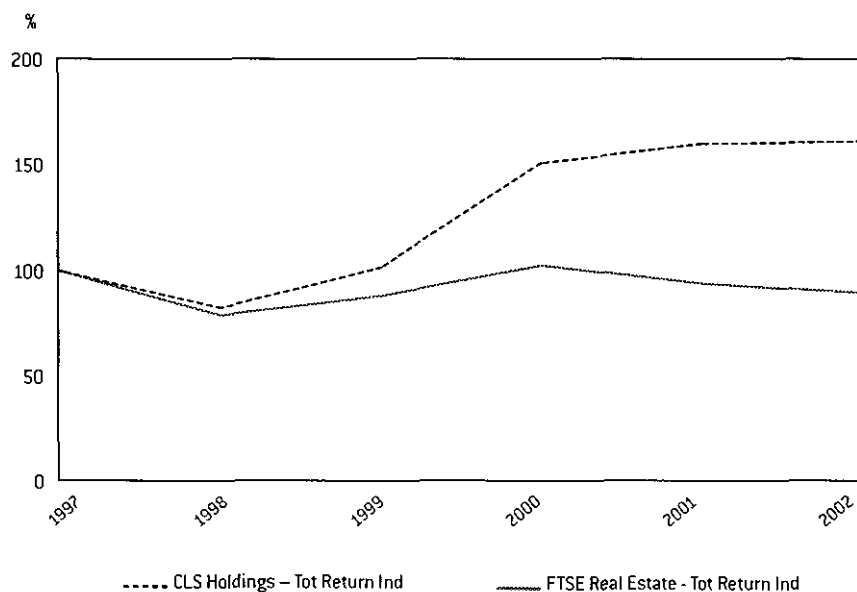
Keith Harris

During the year, the following parties provided advice that materially assisted the remuneration committee:

Sten Mortstedt (Executive Chairman)

4 PERFORMANCE GRAPH

Over the period 1 January 1998 to 31 December 2002 the total shareholder return in respect of CLS Holdings has shown a return of 61 per cent compared to a decline of 10 per cent in the FTSE All Share Real Estate Index. This index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates.



Source: Data Stream

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2002

5 DIRECTORS' REMUNERATION AND COMPENSATION

Directors' detailed emoluments

| | 2002 Fees £000 | 2002 Salary £000 | 2002 Perfor- mance related element £000 | 2002 Benefits in kind £000 | 2002 Compensation for loss of office £000 | 2002 Total £000 | 2001 Total £000 |
|---|----------------------|------------------------|--|-------------------------------------|---|-----------------------|-----------------------|
| Executive | | | | | | | |
| Sten Mortstedt (Executive Chairman) | — | 138 | 210 | — | — | 348 | 344 |
| Thomas Thomson (Vice Chairman and Acting Chief Executive) | — | 208 | 110 | 1 | — | 319 | 80 |
| Dan Bäverstam (Executive Director) | — | 135 | 140 | 3 | — | 278 | 59 |
| Anna Seeley (Group Property Director) | — | 36 | 20 | — | — | 56 | — |
| Glyn Hirsch (resigned 5 October 2001) | — | — | — | — | — | — | 477 |
| Non-Executive | | | | | | | |
| Bengt Mortstedt (Non-Executive Director) | 20 | — | — | — | — | 20 | 18 |
| Keith Harris (Non-Executive Director) | 25 | — | — | — | — | 25 | 23 |
| Thomas Lundqvist (Non-Executive Director) | 20 | — | — | — | — | 20 | 18 |
| James Dean (Non-Executive Director) | 25 | — | — | — | — | 25 | 23 |
| Patrik Gransater (resigned 28 February 2001) | — | — | — | — | — | — | 3 |
| Total 2002 | 90 | 517 | 480 | 4 | — | 1,091 | |
| Total 2001 | 85 | 380 | 268 | 4 | 308 | | 1,045 |

The emoluments of Anna Seeley are shown from the date from which her directorship commenced being 11 September 2002.

The emoluments of Tom Thomson and Dan Bäverstam for 2001 are shown from their date of appointment being 5 October 2001.

The only benefits provided to any executive Director are permanent health and medical insurance and pension contributions under the Company's Group Benefit Scheme. Two directors are members of the Company's defined contribution pension scheme; the Company contributed £10,000 in respect of Tom Thomson and £5,000 in respect of Dan Bäverstam (2001: £3,000 and £1,000 respectively).

No car is provided for any executive Director.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2002

6 SHARE SCHEMES

Interests in share options

Details of options held by directors during the year are set out below:

| Director | Date of grant | Earliest exercise date | Expiry date | Exercise price (pence) | No. at 1 Jan 2002 | Granted in year | Exercised in year | Lapsed in year | No. at 31 Dec 2002 |
|-----------------|---------------|------------------------|-------------|------------------------|-------------------|-----------------|-------------------|----------------|--------------------|
| Sten Mortstedt | 23.07.97 | 23.07.00 | 22.07.04 | 166.66 | 69,000 | – | – | – | 69,000 |
| Tom Thomson | 03.05.96 | 03.05.99 | 02.05.03 | 98 | 80,000 | – | – | – | 80,000 |
| | 23.07.97 | 23.07.00 | 22.07.04 | 166.66 | 24,000 | – | – | – | 24,000 |
| | 20.12.01 | 20.12.04 | 19.12.11 | 212.5 | 14,000 | – | – | – | 14,000 |
| | 20.12.01 | 20.12.04 | 19.12.08 | 212.5 | 436,000 | – | – | – | 436,000 |
| Dan Bäverstam | 15.06.94 | 15.06.97 | 14.06.04 | 108 | 60,000 | – | – | – | 60,000 |
| | 23.05.96 | 23.05.99 | 22.05.06 | 98 | 36,000 | – | – | – | 36,000 |
| | 23.07.97 | 23.07.00 | 22.07.04 | 166.66 | 69,000 | – | – | – | 69,000 |
| Bengt Mortstedt | 23.07.97 | 23.07.00 | 22.07.04 | 166.66 | 36,000 | – | – | – | 36,000 |

No other directors have been granted share options in the shares of the company or other group entities. None of the terms and conditions of the share options was varied during the year.

The market price of the shares at the end of the year was 214 pence per share and the range of market prices during the year was between 191 and 260 pence per share.

No directors exercised options during the year and therefore no directors made gains.

7 INTERESTS IN SHARES

The interests of the directors in the shares of the Company were:

| | 31 December 2002 ordinary shares of 25p | 1 January 2002 ordinary shares of 25p |
|------------------|--|--|
| Sten Mortstedt | 41,015,568 | 43,023,303 |
| Tom Thomson | 75,634 | 79,361 |
| Dan Bäverstam | 37,836 | 37,510 |
| Anna Seeley | 8,704 | 8,901* |
| Bengt Mortstedt | 6,470,905 | 6,787,660 |
| Keith Harris | 8,214 | 8,615 |
| James Dean | 27,480 | 18,568 |
| Thomas Lundqvist | 106,647 | 111,866 |

* as notified on appointment as a director on 11 September 2002.

There has been no change to the interests set out above between 31 December 2002 and the date of this report.

8 LONG TERM INCENTIVE SCHEME

The company does not operate a long term incentive scheme.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2002

9 DIRECTORS' PENSION ENTITLEMENT

The executive directors are entitled to participate in a defined contribution pension scheme. Participants are required to contribute 5 per cent of basic UK salary which is matched by a contribution from the Company of 5 per cent.

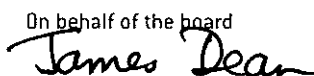
10 WAIVER OF EMOLUMENTS

No director has waived emoluments during the year.

11 AUDITABLE INFORMATION

The information in the remuneration report subject to audit is that included in the tables and related notes in sections on directors remuneration, share options and pensions.

On behalf of the board



James Dean

Chairman of the Remuneration Committee

28 March 2003

INDEPENDENT AUDITORS' REPORT

to the members of CLS Holdings plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of historical cost profits and losses, the reconciliation of movements in shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
28 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2002

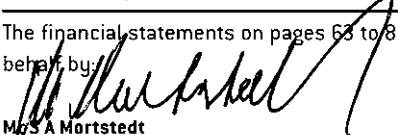
| | Notes | 2002 £000 | 2001 £000 Re-stated |
|---|-------|-----------------|---------------------------|
| Net rental income | | | |
| (including associates & joint ventures, from continuing operations) | | 60,328 | 51,100 |
| Less: Joint venture (continuing operations) | | (907) | (924) |
| Group net rental income | | 59,421 | 50,176 |
| Other income | | 1,289 | 4,309 |
| | 2,3 | 60,710 | 54,485 |
| Administrative expenses | | (8,342) | (8,010) |
| Net property expenses | | (3,998) | (3,318) |
| | | (12,340) | (11,328) |
| Other operating losses | | (3,054) | (6,301) |
| Group operating profit | | 45,316 | 36,856 |
| Continuing operations | | 46,029 | 36,856 |
| Acquisitions | | (713) | — |
| Share of joint venture's operating profit (continuing operations) | | 883 | 873 |
| Share of associate's operating loss (acquisitions) | | (93) | — |
| Operating profit including joint ventures and associates | | 46,106 | 37,729 |
| (Losses)/gains from sale of investment property | | (153) | 524 |
| Profit on ordinary activities before interest | | 45,953 | 38,253 |
| Interest receivable and similar income: | | | |
| Group | | 1,915 | 2,223 |
| Joint Venture | | 1 | 17 |
| Associate | | — | — |
| Interest payable and similar charges: | 4 | | |
| Group | | (29,925) | (28,350) |
| Joint Venture | | (860) | (864) |
| Associate | | (17) | — |
| Profit on ordinary activities before taxation | 3,6 | 17,067 | 11,279 |
| Tax on profit on ordinary activities: | | | |
| Group — current | 8 | (648) | (938) |
| — deferred | | (1,497) | (3,273) |
| Joint Venture | | — | — |
| Associate | | — | — |
| Profit on ordinary activities after taxation | 9 | 14,922 | 7,068 |
| Equity minority interest | | 388 | — |
| Retained profit for the year | 23 | 15,310 | 7,068 |
| Basic Earnings per Share | 11 | 15.7p | 6.7p |
| Diluted Earnings per Share | 11 | 15.5p | 6.6p |

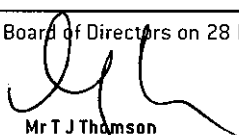
CONSOLIDATED BALANCE SHEET

at 31 December 2002

| | Notes | 2002 £000 | 2001 £000 Re-stated |
|--|-------|------------------|---------------------------|
| Fixed assets | | | |
| Tangible assets | 12 | 852,354 | 729,760 |
| Investments: | | | |
| Interest in joint venture: | | | |
| Share of gross assets | | 17,024 | 15,257 |
| Share of gross liabilities | | (14,257) | (13,147) |
| | 13 | 2,767 | 2,110 |
| Interest in associate | 13 | 1,730 | – |
| Other investments | 13 | 301 | 712 |
| | | 857,152 | 732,582 |
| Current assets | | | |
| Debtors – amounts falling due after more than one year | 14 | 4,354 | 5,179 |
| Debtors – amounts falling due within one year | 14 | 9,156 | 11,740 |
| Investments | 15 | 4,580 | 6,275 |
| Cash at bank and in hand | 16 | 65,650 | 55,239 |
| | | 83,740 | 78,433 |
| Creditors: amounts falling due within one year | 17 | (48,182) | (58,933) |
| Net current assets | | 35,558 | 19,500 |
| Total assets less current liabilities | | 892,710 | 752,082 |
| Creditors: amounts falling due after more than one year | 18 | (507,735) | (389,788) |
| Provisions for liabilities and charges | 20 | (13,255) | (11,482) |
| Net Assets | | 371,720 | 350,812 |
| Capital and reserves | | | |
| Called up share capital | 21 | 23,532 | 24,817 |
| Share premium account | 23 | 68,551 | 68,476 |
| Revaluation reserve | 23 | 218,837 | 202,022 |
| Capital redemption reserve | 23 | 9,975 | 8,675 |
| Other reserves | 23 | 22,637 | 19,657 |
| Profit and loss account | 23 | 28,468 | 27,165 |
| Total equity shareholders' funds | | 372,000 | 350,812 |
| Equity minority interests | | (280) | – |
| Capital employed | | 371,720 | 350,812 |

The financial statements on pages 63 to 87 were approved by the Board of Directors on 28 March 2003 and were signed on its behalf by:


Mrs A Mortstedt
Director


Mr T J Thomson
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2002

| | Notes | 2002 £000 | 2001 £000 |
|--|-------|------------------|--------------|
| Net cash inflow from operating activities | 24 | 52,143 | 38,851 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,541 | 2,627 |
| Interest paid | | (26,598) | (25,968) |
| Issue costs on new bank loans | | (2,196) | (1,940) |
| Interest rate caps purchased | | (1,062) | (2,275) |
| Net cash outflow from returns on investments and servicing of finance | | (28,315) | (27,556) |
| Taxation | | (223) | (887) |
| Capital expenditure and financial investment | | | |
| Purchase and enhancement of properties | | (90,270) | (41,947) |
| Sale of investment properties | | 1,802 | 3,488 |
| Purchase of other fixed assets | | (945) | (1,609) |
| Purchase of own shares | | (14,007) | (25,604) |
| Net cash outflow for capital expenditure and financial investment | | (103,420) | (65,672) |
| Acquisitions and disposals | | | |
| Investment in associate/joint venture | | (461) | (331) |
| Purchase of subsidiary undertaking | 24 | (92) | – |
| Cash acquired on purchase of subsidiary undertaking | | 228 | – |
| Net cash outflow before use of liquid resources and financing | | (80,140) | (55,595) |
| Management of liquid resources | | | |
| Cash (placed on)/released from short term deposits | | (8,364) | 12,732 |
| Financing | | | |
| Issue of ordinary share capital | | 90 | 1,446 |
| New loans | | 113,935 | 139,699 |
| Repayment of loans | | (24,231) | (69,577) |
| Net cash inflow from financing | | 89,794 | 71,568 |
| Increase in cash | 25 | 1,290 | 28,705 |

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

for the year ended 31 December 2002

| | 2002 £000 | 2001 £000 Re-stated |
|--|--------------|---------------------------|
| Profit for the financial year | 15,310 | 7,068 |
| Unrealised surplus on revaluation of properties | 7,530 | 30,344 |
| Share of joint venture unrealised surplus on revaluation of properties | 333 | – |
| Release of revaluation deficit on property disposal | 443 | – |
| Currency translation differences on foreign currency net investments | 11,489 | (6,152) |
| Other recognised gains relating to the year | 19,795 | 24,192 |
| Total recognised gains and losses relating to the year | 35,105 | 31,260 |
| Prior year adjustment (note 23) | (11,482) | |
| Total gains and losses recognised since last annual report | 23,623 | |

RECONCILIATION OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 December 2002

| | 2002 £000 | 2001 £000 Re-stated |
|---|--------------|---------------------------|
| Reported profit on ordinary activities before taxation | 17,067 | 11,279 |
| Realisation of property revaluation gains of previous years | – | 1,559 |
| Historical cost profit on ordinary activities before taxation | 17,067 | 12,838 |
| Historical cost profit for the year retained after taxation, minority interests and dividends | 15,310 | 8,627 |

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2002

| | 2002 £000 | 2001 £000 Re-stated |
|---|--------------|---------------------------|
| Profit for the financial year | 15,310 | 7,068 |
| Other recognised gains relating to the year | 19,795 | 24,192 |
| New share capital issued | 90 | 1,532 |
| Purchase of own shares | (13,831) | (25,344) |
| Expenses of share issue/purchase of own shares | (176) | (261) |
| Net additions to shareholders' funds | 21,188 | 7,187 |
| Opening shareholders' funds (originally £362,294 before deducting prior year adjustment of £11,482) | 350,812 | 343,625 |
| Closing shareholders' funds | 372,000 | 350,812 |

COMPANY BALANCE SHEET

at 31 December 2002

| | Notes | 2002 £000 | 2001 £000 |
|---|-------|--------------|--------------|
| Fixed Assets | | | |
| Investments | 13 | 57,729 | 57,472 |
| Current Assets | | | |
| Debtors – amounts falling due within one year | 14 | 47,797 | 58,276 |
| Current asset investments | 15 | 29 | – |
| Cash at bank and in hand | 16 | 32,168 | 34,632 |
| | | 79,994 | 92,908 |
| Creditors: amounts falling due within one year | 17 | (1,058) | (1,953) |
| Net Current Assets | | 78,936 | 90,955 |
| Total Assets Less Current Liabilities | | 136,665 | 148,427 |
| Net Assets | | 136,665 | 148,427 |
| Capital and Reserves | | | |
| Called up share capital | 21 | 23,532 | 24,817 |
| Share premium account | 23 | 68,551 | 68,476 |
| Capital redemption reserve | 23 | 9,975 | 8,675 |
| Other reserves | 23 | 4,599 | 4,599 |
| Profit and loss account | 23 | 30,008 | 41,860 |
| Total Equity Shareholders' Funds | | 136,665 | 148,427 |

The financial statements on pages 67 to 87 were approved by the Board of Directors on 28 March 2003 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr T J Thomson
Director

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

1 PRINCIPAL ACCOUNTING POLICIES

The Group has adopted Financial Reporting Standard 19 'Deferred Taxation' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been re-stated accordingly. Details of the effect of adopting FRS 19 are given in note 23.

The financial statements have been prepared in accordance with Accounting Standards currently applicable in the United Kingdom. The principal accounting policies have been applied consistently except as stated above, and are set out below.

(a) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties held as fixed assets.

(b) Basis of consolidation

The Group financial statements consolidate the accounts of CLS Holdings plc and all its subsidiary undertakings drawn up to 31 December each year. Four group companies have different balance sheet dates to CLS Holdings plc being SA Petits Champs at 31 May, SA Solabel at 31 October, Mohican Nominees Limited at 13 December and WightCable Limited at 30 June. Their results have been included for the year to 31 December based on management accounts.

(c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past, goodwill was written off to other reserves. In circumstances where the purchase consideration was less than the attributable net asset value at the date of acquisition, the difference was treated as a "reserve arising on consolidation" and was included within other reserves. In accordance with FRS10 "goodwill and intangible assets", which was adopted from the year ended 31 December 1998, previous years' negative goodwill was not re-capitalised in the balance sheet. The total amount of positive goodwill previously written off and negative goodwill previously credited, still included within other reserves is £3.2 million and £15.7 million respectively (2001: £3.2 million and £15.7 million).

Negative goodwill arising on the acquisition of the associated undertaking and joint venture has been included in the carrying amount for the associated undertaking and joint venture, and will be credited to the profit and loss when the investment in the associated undertaking or joint venture is sold.

(d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or at a contracted rate where appropriate, and the accounts of overseas subsidiaries are translated at the same rates. Differences on exchange arising from the re-translation of the opening net investment in subsidiary companies are taken to reserves. All other exchange differences are dealt with through the profit and loss account.

(e) Turnover

Turnover comprises the total value of rents and service charge income receivable under operating leases, including reverse premiums paid by tenants on surrender of leases, and property-related services provided during the year, excluding VAT and intra-Group trading. Where there is a material rent free period and the amount is considered to be recoverable, the income is spread evenly over the period to the date of the first break. Rents received in advance are shown as deferred income in the balance sheet.

(f) Income from property sales

Profits or losses arising from the sale of trading and investment properties are included in the profit and loss account of the Group. Profits or losses arising from the sale of investment properties are calculated by reference to their carrying value and recorded after operating profit as part of ordinary activities.

(g) Properties

i) Investment properties

Investment properties are re-valued bi-annually. Completed investment properties are stated at their open market value in their existing state. Surpluses or deficits arising on revaluation are reflected in the revaluation reserve. Revaluation deficits that exceed the total of the revaluation reserve and are deemed to be permanent are charged to the profit and loss account.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Properties *(continued)*

ii) Acquisition and disposal of properties

Acquisitions and disposals of assets are considered to have taken place where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract. Profit on sales of investment properties is recognised in the profit and loss account by reference to net carrying amount. Acquisitions and disposals are considered to be part of continuing activities unless they represent a material change to the portfolio or a departure from the principal activities of the business.

(h) Depreciation

i) Investment properties

Freehold

In accordance with Statement of Standard Accounting Practice No 19 no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation or amortisation is one of the many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or quantify this separately.

Leasehold

For the reason stated above no amortisation is provided on leasehold properties with unexpired terms of more than 50 years. Leasehold properties having unexpired terms of less than 50 years are amortised so as to write off their cost or valuation over the unexpired period of the lease.

ii) Other tangible fixed assets

Depreciation is provided on all fixed assets other than investment properties, at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life, as follows:

| | |
|-----------------------|----------------------|
| Leasehold improvement | over period of lease |
| Plant and machinery | 20 % – 25 % |

(i) Deferred taxation

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that:

- Provision is not made in respect of property revaluation gains and losses
- Provision is not made for further tax which could arise if subsidiaries or associated undertakings were to be disposed of
- Provision is not made for any taxation which could arise if overseas companies were to remit dividends
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

(j) Leases

Finance leases are capitalised and depreciation is provided over the shorter of the length of lease and the normal depreciation policy. Lease payments are treated as consisting of capital and interest elements. Interest is charged to the profit and loss account. Operating lease rentals are charged wholly to the profit and loss account as incurred.

(k) Financial Instruments

Interest Rate Caps

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial Instruments *(continued)*

Shares, Warrants & Options

Shares, warrants and options are held on the balance sheet at the lower of cost and net realisable value. Net realisable value is determined by the quoted market price in respect of listed investments and Directors' valuation regarding other non-property assets. Profits are only recognised on shares once they are sold and on options when either the maturity date is reached or the exposure on the option is closed out. Income received on options which have not yet reached maturity is held as deferred income.

Forward foreign exchange contracts

Where forward foreign exchange contracts are entered into to hedge the Group's net investment in overseas operations, any gains and losses on those contracts are taken directly to reserves. Any potential losses on forward contracts at the balance sheet date are similarly provided for, although potential profits are deferred until they crystallise.

Any premium paid is taken to the profit and loss account in the year.

(l) Issue costs of loans

Issue costs relating to new loans are capitalised and amortised to follow the profile of the loan principal. Un-amortised amounts at the balance sheet date are deferred against the loan liability.

(m) Joint ventures and Associates

The Group's share of net assets and results of associated undertakings has been included in the accounts under the equity accounting method in compliance with FRS 9. Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual arrangement. The Group accounts include that appropriate share of the joint venture's results and retained reserves which have been included in the accounts on a gross equity basis in accordance with FRS 9.

(n) Pension costs

The Group operates a defined contribution pension scheme for all eligible employees. The pension costs charged represents the contributions payable.

(o) Net rental income

The Group's net rental income comprises rental and service charge income less service charge expenditure, invoiced in the year.

2 PROPERTY AND OTHER INCOME

| | 2002 £000 | 2001 £000 |
|---|---------------|---------------|
| Turnover by activity | | |
| Rental income | 65,905 | 53,634 |
| Less: Joint venture | (907) | (924) |
| Service charge income | 5,115 | 3,987 |
| | 70,113 | 56,697 |
| Fees from property related services | 81 | 41 |
| Lease variation and surrender income | 475 | 805 |
| Other income (includes WightCable turnover of £568,000) | 917 | 3,463 |
| Turnover | 71,586 | 61,006 |
| Service charge expenditure | (10,692) | (6,521) |
| Other expenditure | (184) | — |
| | 60,710 | 54,485 |

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

3 SEGMENTAL REPORTING

| | Turnover 2002 £000 | Turnover 2001 £000 | Profit before tax 2002 £000 | Profit before tax 2001 £000 | Net assets 2002 £000 | Net assets 2001 £000 |
|------------------------------|--------------------------|--------------------------|--------------------------------------|--------------------------------------|----------------------------|----------------------------|
| Geographical analysis | | | | | | |
| UK | 41,245 | 38,238 | 7,658 | 2,820 | 178,912 | 204,559 |
| Sweden | 15,843 | 8,738 | 1,181 | 271 | 101,487 | 79,135 |
| France | 14,314 | 14,030 | 8,228 | 8,188 | 91,321 | 67,118 |
| | 71,402 | 61,006 | 17,067 | 11,279 | 371,720 | 350,812 |

Profit before tax for the UK segment includes losses on equity investment activities of £4,185,000 (2001: £8,863,000), profit of £24,000 (2001: £26,000) from the joint venture and turnover and gross profit from WightCable Limited of £0.6 million and £0.4 million respectively. Net assets in relation to financial instruments amounted to £4,580,000 (2001: £6,275,000).

| | Continuing Operations 2002 £000 | Acquisitions 2002 £000 | Total 2002 £000 | Continuing Operations 2001 £000 | Acquisitions 2001 £000 | Total 2001 £000 |
|--------------------------------|--|------------------------------|-----------------------|--|------------------------------|-----------------------|
| Group net rental income | 59,421 | – | 59,421 | 50,176 | – | 50,176 |
| Other operating (losses)/gains | (2,154) | 389 | (1,765) | (1,992) | – | (1,992) |
| Administrative expenses | (7,240) | (1,102) | (8,342) | (8,010) | – | (8,010) |
| Net property expenses | (3,998) | – | (3,998) | (3,318) | – | (3,318) |
| Operating profit/(loss) | 46,029 | (713) | 45,316 | 36,856 | – | 36,856 |

4 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2002 £000 | 2001 £000 |
|--|---------------|---------------|
| Group | | |
| On debentures | 4,282 | 4,332 |
| On bank loans | 21,533 | 20,112 |
| On finance leases | 89 | 121 |
| On other loans | 2,566 | 2,573 |
| Issue costs of loans | 2,196 | 1,940 |
| | 30,666 | 29,078 |
| Less: amounts capitalised | (741) | (728) |
| | 29,925 | 28,350 |
| Share of Joint Venture – on bank loans | 860 | 864 |
| Share of Associate – on other loans | 17 | – |

5 DIRECTORS' EMOLUMENTS, SHARE OPTIONS AND INTERESTS IN ORDINARY SHARES

Information relating to Directors' emoluments, share options and interests in ordinary shares are given in the Remuneration Report on pages 57 to 61.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2002 £000 | 2001 £000 |
|--|--------------|--------------|
| This is stated after charging: | | |
| Auditors' remuneration for audit services | 202 | 170 |
| Depreciation of tangible fixed assets – Owned assets | 530 | 319 |
| – Leased assets | 830 | 1,150 |
| Loss/(profit) on disposal of fixed assets | 12 | (2) |
| Operating lease rentals – land & buildings | 517 | 535 |
| Operating lease rentals – other | 19 | 23 |
| Directors' emoluments | 1,091 | 1,045 |

Fees paid to PricewaterhouseCoopers for non-audit services in the UK were £26,590 (2001: nil). Audit fees for the Company were £40,000 (2001: £43,000)

7 EMPLOYEE INFORMATION

The monthly average number of persons employed by the Group, including executive Directors and their aggregate emoluments, was as follows:

| | 2002 | 2001 |
|-------------------------|--------------|--------------|
| (a) Number of employees | 58 | 52 |
| | 2002 £000 | 2001 £000 |
| (b) Costs | | |
| Wages & salaries | 3,266 | 3,008 |
| Social security costs | 325 | 257 |
| Other pension costs | 138 | 95 |
| | 3,729 | 3,360 |

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2002 £000 | 2001 £000 Re-stated |
|---|--------------|---------------------------|
| United Kingdom corporation tax at 30.0% (2001: 30.0%) | – | (175) |
| Overseas tax | (648) | (763) |
| Deferred tax: | | |
| Origination and reversal of timing differences | (1,497) | (3,273) |
| | (2,145) | (4,211) |

The current taxation charge for the year has been reduced by corporation tax losses brought forward and by the capital allowances on fixed plant and machinery in properties held as investments.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

8 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax | 17,067 | 11,279 |
| Profit on ordinary activities before tax at standard rate of corporation tax in the UK of 30.0% (2001: 30.0%) | 5,120 | 3,384 |
| Adjustment in respect of foreign tax rates | 19 | 144 |
| Losses utilised | (5,714) | (294) |
| Expenses not deductible for tax purposes | 1,734 | (1,714) |
| Capital allowances in excess of depreciation | (821) | (1,147) |
| Difference on taxation treatment of disposals | 310 | 565 |
| | 648 | 938 |

9 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements. The parent Company's retained profit for the financial year was £2,155,000 (2001: £40,359,000).

10 DIVIDENDS

No Dividends have been paid or proposed for the year ended 31 December 2002 (2001: nil).

As noted in the Directors' Report it is proposed that the Company buy back 1 in 27 shares at 240 pence per share in lieu of a final dividend.

11 EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

| | Earnings £000s | 2002 Weighted average no. of shares | Per share amount, pence | Earnings £000s Re-stated | 2001 Weighted average no. of shares | Per share amount, pence |
|--|-------------------|--|-------------------------------|--------------------------------|--|-------------------------------|
| Basic EPS | | | | | | |
| Earnings attributable to ordinary shareholders | 15,310 | 97,428 | 15.7p | 7,068 | 106,054 | 6.7p |
| Effect of dilutive securities | | | | | | |
| Options | – | 1,247 | [0.2p] | – | 785 | (0.1p) |
| Diluted EPS | 15,310 | 98,675 | 15.5p | 7,068 | 106,839 | 6.6p |

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

12 TANGIBLE FIXED ASSETS

| | Investment Freehold property £000 | Investment Long Leasehold property £000 | Investment Short Leasehold property £000 | Leasehold premium £000 | Leasehold improve- ments £000 | Plant and Machinery £000 | Total £000 |
|----------------------------------|--|---|--|------------------------------|--|--------------------------------|----------------|
| Group | | | | | | | |
| Cost or valuation: | | | | | | | |
| at 1 January 2002 | 714,053 | 12,995 | 2,400 | 30 | 8 | 2,999 | 732,485 |
| Exchange differences | 24,804 | 853 | – | – | – | 62 | 25,719 |
| Additions | 89,658 | 117 | – | – | – | 934 | 90,709 |
| Acquisitions | – | – | – | – | – | 1,534 | 1,534 |
| Transfers | (7,600) | 7,600 | – | – | – | – | – |
| Surplus/(deficit) on revaluation | 7,659 | (129) | – | – | – | – | 7,530 |
| Disposals | (1,512) | – | – | (30) | (8) | (8) | (1,558) |
| at 31 December 2002 | 827,062 | 21,436 | 2,400 | – | – | 5,521 | 856,419 |
| Depreciation: | | | | | | | |
| At 1 January 2002 | – | – | 1,150 | 30 | 8 | 1,537 | 2,725 |
| Exchange differences | – | – | – | – | – | 25 | 25 |
| Charge for the year | – | – | 830 | – | – | 530 | 1,360 |
| Disposals | – | – | – | (30) | (8) | (7) | (45) |
| at 31 December 2002 | – | – | 1,980 | – | – | 2,085 | 4,065 |
| Net book value | | | | | | | |
| at 31 December 2002 | 827,062 | 21,436 | 420 | – | – | 3,436 | 852,354 |
| Net book value | | | | | | | |
| at 1 January 2002 | 714,053 | 12,995 | 1,250 | – | – | 1,462 | 729,760 |

(a) At 31 December 2002 all freehold and leasehold properties owned by the consolidated Group were revalued at their open market value taking into account their condition and tenancies existing at that date. The property valuations were carried out by Allsop & Co and DTZ Debenham Tie Leung, independent firms of Chartered Surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institute of Chartered Surveyors.

(b) The historical cost of the freehold and leasehold investment properties included at valuation is freehold: £608.0 million, leasehold: £24.2 million.

(c) Included in leasehold properties are assets of £3.4 million which are held under finance leases (2001: £2.9 million)

(d) The holding Company has no tangible fixed assets.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

13 INVESTMENTS

| | | Joint Venture £000 | Associate £000 | Shares in subsidiary undertakings £000 | Other investments £000 | Total £000 |
|---|-------------------|--------------------------|-------------------|---|------------------------------|----------------|
| Fixed Asset Investments | | | | | | |
| Group | | | | | | |
| At 1 January 2002 | – Goodwill | (1,205) | – | – | – | (1,205) |
| | – Other | 3,315 | – | – | 712 | 4,027 |
| Additions | – Goodwill | – | 1,830 | – | – | 1,830 |
| | – Other | 633 | 10 | – | 120 | 763 |
| Disposals | – Goodwill | – | – | – | – | – |
| | – Other | – | – | – | (531) | (531) |
| Share of retained profit/(loss) | | 24 | (110) | – | – | (86) |
| | | 2,767 | 1,730 | – | 301 | 4,798 |
| At 31 December 2002 | – Goodwill | (1,205) | 1,946 | – | – | 741 |
| | – Other | 3,972 | (216) | – | 301 | 4,057 |
| | | 2,767 | 1,730 | – | 301 | 4,798 |
| Company | | | | | | |
| Cost at 1 January 2002 | | – | – | 60,970 | – | 60,970 |
| Additions | | – | – | 257 | – | 257 |
| Cost at 31 December 2002 | | – | – | 61,227 | – | 61,227 |
| Provision at 1 January 2002 | | – | – | (3,498) | – | (3,498) |
| Provision at 31 December 2002 | | – | – | (3,498) | – | (3,498) |
| Net Book Value at 31 December 2002 | | – | – | 57,729 | – | 57,729 |
| Net Book Value at 1 January 2002 | | – | – | 57,472 | – | 57,472 |

The joint venture is Teighmore Limited, a property investment company incorporated in Jersey, of which the Group owns 33 1/3 per cent of the ordinary share capital (2001: 33 1/3 per cent). The parent company owns no shares in Teighmore Limited.

The associate is Keronite Limited, a metals coating company, incorporated in England & Wales, of which the Group owns 38.1 per cent (2001: 21.2 per cent) of the ordinary share capital. This has been accounted for as an associate (2001: accounted for as a current asset investment) as the Board believes that the Group now exerts significant influence over its operations. At the year-end the Group was owed £522,000 by Keronite Limited as a long-term loan, which is treated as part of the investment. The parent company owns no shares in Keronite Limited.

A list of principal subsidiary undertakings is shown in Note 30.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

14 DEBTORS

| | Group | | Company | |
|---|-------|--------|---------|--------|
| | 2002 | 2001 | 2002 | 2001 |
| | £000 | £000 | £000 | £000 |
| Amounts falling due after more than one year | | | | |
| Other debtors | 4,354 | 5,179 | – | – |
| Amounts falling due within one year | | | | |
| Trade debtors | 2,902 | 3,701 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 44,149 | 55,809 |
| Other debtors | 5,050 | 6,422 | 95 | – |
| Prepayments and accrued income | 1,204 | 1,617 | 3,553 | 2,467 |
| | 9,156 | 11,740 | 47,797 | 58,276 |

15 CURRENT ASSET INVESTMENTS

| | Group | | Company | |
|---------------------|-------|-------|---------|------|
| | 2002 | 2001 | 2002 | 2001 |
| | £000 | £000 | £000 | £000 |
| Shares and Warrants | 4,580 | 6,275 | 29 | – |

The listed shares and warrants stated at the lower of cost and net realisable value of £1,026,000 (2001: £831,000) relate to investments on the London and Swedish Stock Exchanges. The market value of the listed investments at 31 December 2002 was £1,203,000 (2001: £1,059,000).

16 CASH AT BANK AND IN HAND

At 31 December 2002, Group cash balances with banks include £4.3 million (2001: £0.6 million) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (Company – nil, 2001: nil).

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---------------|---------------|--------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £000 | £000 | £000 | £000 |
| Interest bearing: | | | | |
| Debenture loans | 461 | 414 | — | — |
| Bank loans and overdrafts | 13,608 | 28,566 | — | — |
| Other loans | 844 | — | — | — |
| Obligations under finance leases | 155 | 140 | — | — |
| Amounts owed to subsidiary undertakings | — | — | 1,026 | 1,304 |
| Non interest bearing: | | | | |
| Trade creditors | 3,302 | 3,180 | 32 | — |
| Other taxes and social security | 612 | 367 | — | — |
| Corporation tax | 1,885 | 1,460 | — | — |
| Other creditors | 5,120 | 4,020 | — | — |
| Accruals and deferred income | 22,195 | 20,786 | — | 649 |
| | 48,182 | 58,933 | 1,058 | 1,953 |

Details of debentures, bank loans and other loans are shown in Note 19.

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group | | Company | |
|----------------------------------|----------------|----------------|----------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | £000 | £000 | £000 | £000 |
| Debenture loans | 39,119 | 39,581 | — | — |
| Bank loans | 449,236 | 331,506 | — | — |
| Other loans | 16,300 | 15,692 | — | — |
| Obligations under finance leases | 1,920 | 1,944 | — | — |
| Other creditors | 1,160 | 1,065 | — | — |
| | 507,735 | 389,788 | — | — |

Details of debentures, bank loans and other loans are shown in Note 19

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

19 ANALYSIS OF CORPORATE LOANS

| | Group | | Company | |
|---|----------------|----------------|----------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| | £000 | £000 | £000 | £000 |
| Debtenture loans are repayable by instalments as follows: | | | | |
| In one year or less or on demand | 461 | 414 | — | — |
| In more than one but not more than two years | 512 | 461 | — | — |
| In more than two but not more than five years | 1,908 | 1,716 | — | — |
| In more than five years | 36,699 | 37,404 | — | — |
| | 39,580 | 39,995 | — | — |
| Bank loans are repayable as follows: | | | | |
| In one year or less or on demand | 14,245 | 29,098 | — | — |
| In more than one but not more than two years | 51,845 | 12,367 | — | — |
| In more than two but not more than five years | 134,657 | 146,139 | — | — |
| In more than five years – by instalment | 262,414 | 172,040 | — | — |
| – other than by instalment | 4,188 | 3,765 | — | — |
| | 467,349 | 363,409 | — | — |
| Un-amortised issue costs | (4,505) | (3,338) | — | — |
| | 462,844 | 360,071 | — | — |
| Other loans and net obligations under finance leases are repayable as follows: | | | | |
| In one year or less or on demand | 999 | 140 | — | — |
| In more than one but not more than two years | 1,006 | 989 | — | — |
| In more than two but not more than five years | 3,057 | 3,005 | — | — |
| In more than five years – by instalment | 12,717 | 13,650 | — | — |
| – other than by instalment | 1,444 | — | — | — |
| | 19,223 | 17,784 | — | — |
| Un-amortised issue costs | (4) | (8) | — | — |
| | 19,219 | 17,776 | — | — |

(a) The £39.6 million (2001: £40.0 million) of debtenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million with final repayment due January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at a fixed rate of 10.76 per cent. The debtentures are secured by a legal charge over the property and securitisation of its rental income.

(b) Interest on bank loans is charged at fixed rates ranging between 3.55 per cent and 7.37 per cent and floating rates of LIBOR or equivalent, plus a margin ranging between 0.8 per cent and 3.25 per cent. All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

(c) Interest on other loans is charged at fixed rates ranging between 7.5 per cent and 11.6 per cent. The loans are secured by legal charges over the respective properties to which they relate.

The aggregate amount of loans repayable by instalments, any part of which falls due for repayment in more than five years is £321.7 million (2001: £214.3 million) for bank loans and £19.2 million (2001: £17.8 million) for other loans.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

20 PROVISION FOR LIABILITIES AND CHARGES

| | 2002 Provision £000 | 2002 Amount unprovided £000 | 2001 Provision £000 Re-stated | 2001 Amount unprovided £000 Re-stated |
|---|---------------------------|--------------------------------------|--|---|
| Group | | | | |
| Deferred taxation is provided as follows: | | | | |
| Capital allowances in excess of depreciation | 14,242 | — | 13,335 | — |
| Future benefit of tax losses | [1,263] | — | [1,853] | — |
| Taxation on revaluation surplus | — | 2,121 | — | 7,796 |
| | 12,979 | 2,121 | 11,482 | 7,796 |
| Provision for forward foreign exchange losses | 276 | — | — | — |
| | 13,255 | 2,121 | 11,482 | 7,796 |
| At 1 January as previously reported | — | — | — | — |
| Prior year adjustment FRS 19 | 11,482 | — | 8,209 | — |
| Amount charged to profit and loss | 1,497 | — | 3,273 | — |
| | 12,979 | — | 11,482 | — |

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the unremitted earnings of overseas subsidiaries. Such tax would only become payable if the property were sold without it being possible to claim rollover relief or the earnings were remitted to the UK. No tax is expected to be paid on these in the foreseeable future.

Losses of £13.2 million (2001: £10.7 million) have not been recognised in the deferred tax provision as they will only be recoverable if the entities make taxable profits in the future. Future profitability is not sufficiently certain to recognise an asset.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

No deferred tax liability arises relating to the Company (2001: nil).

21 SHARE CAPITAL

| | 2002 £000 | 2001 £000 |
|---|--------------------------|--|
| (a) Authorised and issued as at 31 December | | |
| Authorised 160,000,000 Ordinary Shares of 25p each | 40,000 | 40,000 |
| Allotted, called up and fully paid | | |
| 94,129,431 Ordinary Shares of 25p each (2001: 99,266,400) | 23,532 | 24,817 |
| | | |
| | Nominal value £000 | Number of Ordinary Shares of 25p each 000s |
| (b) Allotments of issued capital | | |
| Opening share capital | 24,817 | 99,266 |
| Issue of shares allotted under share option scheme | 15 | 63 |
| Cancelled pursuant to Market purchase | [144] | [577] |
| Cancelled pursuant to Tender Offer | [1,156] | [4,623] |
| | 23,532 | 94,129 |

The consideration receivable for shares allotted in respect of options exercised was £90,549 (2001: £1,445,155)

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

22 OPTIONS IN SHARES OF CLS HOLDINGS PLC

Details of options in shares of CLS Holdings plc granted during 2002 are given in the Directors' Remuneration Report on page 60.

23 SHARE PREMIUM ACCOUNT AND RESERVES

| | Share premium account £000 | Revaluation reserve £000 | Capital redemption reserve £000 | Other reserves £000 | Profit and loss account £000 |
|--|-------------------------------------|--------------------------------|--|---------------------------|------------------------------------|
| Group | | | | | |
| At 1 January 2002 as previously reported | 68,476 | 202,022 | 8,675 | 19,657 | 38,647 |
| Prior year adjustment | — | — | — | — | (11,482) |
| At 1 January 2002 as re-stated | 68,476 | 202,022 | 8,675 | 19,657 | 27,165 |
| Exchange difference | — | 8,509 | — | 2,980 | — |
| Shares issued | 75 | — | — | — | — |
| Share buybacks | — | — | 1,300 | — | (13,831) |
| Expenses of share buybacks | — | — | — | — | (176) |
| Release of revaluation deficit on property disposal | — | 443 | — | — | — |
| Unrealised surplus on revaluation of properties | — | 7,863 | — | — | — |
| Retained profit for the year | — | — | — | — | 15,310 |
| At 31 December 2002 | 68,551 | 218,837 | 9,975 | 22,637 | 28,468 |
| The prior year adjustment relates to the implementation of FRS 19. The adoption of FRS 19 has resulted in an increase of the tax charge by £1.5 million (2001: £3.3 million) and a decrease in profit of £1.5 million (2001: £3.3 million). The adjustment to the opening reserves at 1 January 2001 was £8.2 million. | | | | | |
| Company | | | | | |
| At 1 January 2002 | 68,476 | — | 8,675 | 4,599 | 41,860 |
| Shares issued | 75 | — | — | — | — |
| Share buybacks | — | — | 1,300 | — | (13,831) |
| Expenses of share buybacks | — | — | — | — | (176) |
| Retained profit for the year | — | — | — | — | 2,155 |
| At 31 December 2002 | 68,551 | — | 9,975 | 4,599 | 30,008 |

24 (a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Operating profit | 45,316 | 36,856 |
| Depreciation | 1,360 | 1,469 |
| Decrease/(increase) in debtors | 2,592 | (6,516) |
| Increase in creditors | 2,390 | 2,450 |
| Decrease in current asset investments | 473 | 2,409 |
| Decrease in stocks | — | 2,185 |
| Loss/(profit) on sale of fixed assets | 12 | (2) |
| Net cash inflow from operating activities | 52,143 | 38,851 |
| Continuing operations | 52,984 | 38,587 |
| Acquisitions | (841) | 264 |

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

24 (b) ACQUISITIONS

| | Book value and fair value £000 |
|-----------------------|--------------------------------------|
| WightCable Limited | |
| Tangible fixed assets | 1,534 |
| Cash at bank | 228 |
| Other current assets | 139 |
| Current liabilities | (700) |
| Long term loans | (1,000) |
| | 201 |
| Minority interests | (109) |
| Net assets acquired | 92 |
| Consideration: | |
| Cash | 92 |

25 (a) ANALYSIS OF NET DEBT

| | 1 Jan 2002 £000 | Cash Flow £000 | Acquisition £000 | Non-cash movement £000 | Foreign Exchange £000 | 31 Dec 2002 £000 |
|--|-----------------------|----------------------|---------------------|------------------------------|-----------------------------|------------------------|
| Net cash: | | | | | | |
| Cash at bank and in hand | 55,239 | 9,654 | – | – | 757 | 65,650 |
| Less: deposits treated as liquid resources | (5,507) | (8,364) | – | – | – | (13,871) |
| | 49,732 | 1,290 | – | – | 757 | 51,779 |
| Liquid resources: | | | | | | |
| Deposits included in cash | 5,507 | 8,364 | – | – | – | 13,871 |
| Debt: | | | | | | |
| Debts falling due within one year | (28,980) | (62) | – | 14,129 | – | (14,913) |
| Finance leases falling due within one year | (140) | – | – | – | (15) | (155) |
| Debts falling due after more than one year | (386,778) | (89,812) | (543) | (13,387) | (14,135) | (504,655) |
| Finance leases falling due after more than one year | (1,944) | 170 | – | – | (146) | (1,920) |
| | (417,842) | (89,704) | (543) | 742 | (14,296) | (521,643) |
| Net debt | (362,603) | (80,050) | (543) | 742 | (13,539) | (455,993) |
| Cash at bank and in hand | 55,239 | 9,654 | – | – | 757 | 65,650 |
| Debts falling due within one year | (29,120) | (62) | – | 14,129 | (15) | (15,068) |
| Debts falling due after more than one year | (388,722) | (89,642) | (543) | (13,387) | (14,281) | (506,575) |
| | (362,603) | (80,050) | (543) | 742 | (13,539) | (455,993) |

Liquid resources are short-term deposits that are readily convertible into known amounts of cash.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

25 (b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 2002 £000 | 2001 £000 |
|--|--------------|--------------|
| Increase in cash in the period | 1,290 | 28,705 |
| Cash outflow/(inflow) from increase/(decrease) in liquid resources | 8,364 | (12,732) |
| Cash inflow from increase in debt | (89,704) | (70,122) |
| Changes in net debt resulting from cash flows | (80,050) | (54,149) |
| Translation differences | (13,539) | 7,408 |
| Capitalised interest | (422) | (380) |
| Capitalisation of Issue costs | 1,163 | 1,107 |
| Other non-cash movements | (542) | (1) |
| Net debt at 1 January | (362,603) | (316,588) |
| Net debt at 31 December | (455,993) | (362,603) |

26 CHANGES IN FINANCING

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| (a) Loan finance | | |
| Balance brought forward | 417,842 | 355,688 |
| Net cash inflow | 89,704 | 70,122 |
| Interest capitalised | 422 | 380 |
| Capitalisation of issue costs | (1,163) | (1,107) |
| Foreign exchange movements | 14,296 | (7,242) |
| Other non-cash movements | 542 | 1 |
| Balance carried forward | 521,643 | 417,842 |
| | 2002 £000 | 2001 £000 |
| (b) Share capital (including share premium account and capital redemption reserve) | | |
| Balance brought forward | 101,968 | 100,436 |
| Shares issued | 90 | 1,532 |
| Balance carried forward | 102,058 | 101,968 |

27 PENSIONS

The Group operates a defined contribution, salary sacrifice scheme for its employees, which commenced in February 2001.

The cost for the year amounted to £138,000 (2001: £95,000) and there were no outstanding or prepaid contributions at the balance sheet date.

28 FINANCIAL INSTRUMENTS

(a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

28 FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk profile of financial liabilities

As explained on page 14 of the financial review, in order to mitigate the effect of interest rate fluctuations the Group has purchased interest rate caps or secured fixed rate borrowings in respect of virtually all of its debt.

The interest rate risk profile of the Group's financial liabilities at 31 December 2002 was:

| | Total £ 000 | Floating rate financial liabilities £ 000 | Fixed rate financial liabilities £ 000 | Financial liabilities on which no interest is paid £ 000 |
|----------------------------|----------------|---|--|---|
| Financial liabilities | | | | |
| – Sterling | 277,877 | 203,759 | 74,118 | – |
| – Swedish Kronor | 108,492 | 51,261 | 57,231 | – |
| – Euro | 135,274 | 96,363 | 38,911 | – |
| At 31 December 2002 | 521,643 | 351,383 | 170,260 | – |
| Financial liabilities | | | | |
| – Sterling | 255,002 | 187,867 | 67,135 | – |
| – Swedish Kronor | 68,113 | 27,970 | 40,143 | – |
| – Euro | 94,727 | 55,417 | 39,310 | – |
| At 31 December 2001 | 417,842 | 271,254 | 146,588 | – |

The above floating rate debt is disclosed as such as none of the Group's interest rate caps are currently being drawn upon to cap the rate payable.

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

Arrangement fees of £4.5 million have been offset against the balance of floating and fixed rate loans (2001: £3.3 million)

| | Fixed rate financial liabilities | Weighted average period for which rate is fixed Years | Weighted average period until maturity Years | Financial liabilities on which no interest is paid |
|----------------------------|-------------------------------------|--|--|--|
| – Sterling | 10.01 | 15.91 | – | – |
| – Swedish Kronor | 6.24 | 4.71 | – | – |
| – Euro | 4.99 | 1.85 | – | – |
| At 31 December 2002 | 7.59 | 8.90 | – | – |
| – Sterling | 10.33 | 16.2 | – | – |
| – Swedish Kronor | 6.09 | 5.0 | – | – |
| – Euro | 4.95 | 2.8 | – | – |
| At 31 December 2001 | 7.69 | 9.5 | – | – |

Floating rate financial liabilities bear interest at rates based on relevant national LIBOR or equivalents, which are fixed in advance for periods of between one month and six months. Further protection from interest rate movement is provided by interest rate caps on £186 million of debt at 6.0 per cent to 9.0 per cent expiring within 1 to 6 years (2001: £196 million at 6.0 per cent to 9.0 per cent expiring within 1 to 5 years), £50.3 million of SEK denominated debt at 5.5 per cent to 6.7 per cent expiring within 2 to 5 years (2001: £28.9 million at 6.0 per cent to 6.7 per cent expiring within 4 years), and £81.0 million of Euro denominated debt at 5.5 per cent to 7.0 per cent expiring within 1 to 5 years (2001: £52.0 million at 6.0 per cent to 7.0 per cent expiring within 1 to 5 years)

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

28 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk of financial assets

| | Cash at bank and in hand £000 | Short- term deposits £000 | 2002 Total £000 | Cash at bank and in hand £000 | Short- term deposits £000 | 2001 Total £000 |
|----------------|--|------------------------------------|-----------------------|--|------------------------------------|-----------------------|
| Sterling | 31,075 | 12,931 | 44,006 | 38,731 | 5,055 | 43,786 |
| Swedish Kronor | 3,913 | – | 3,913 | 5,652 | – | 5,652 |
| Euro | 16,780 | 940 | 17,720 | 5,338 | 452 | 5,790 |
| Other | 11 | – | 11 | 11 | – | 11 |
| At 31 December | 51,779 | 13,871 | 65,650 | 49,732 | 5,507 | 55,239 |

Short-term deposits are invested at competitive floating rates of interest based on relevant national LIBID and base rates or equivalents in Jersey, the UK and France.

| | | |
|--|--------------|--------------|
| In addition the following financial assets were held: | 2002 £000 | 2001 £000 |
| Assets held as part of the financing arrangements of the Group: | | |
| Interest-bearing debtors – fixed rate financial assets | 3,350 | 2,024 |
| Floating rate financial assets | – | 3,657 |
| Assets held or issued for treasury purposes: | | |
| Interest rate caps | 2,382 | 2,797 |
| | 5,732 | 8,478 |

The fixed rate interest-bearing debtors include a third party loan of £1.9 million (2001: £2.0 million) which is repayable over a period of 25 years from the balance sheet date at a fixed rate of 7.0 per cent, and a deferred interest loan of £1.4 million (2001: £1.4 million) which is repayable within one year at a fixed rate of 8.0 per cent. The remaining balances are third party loans at floating rates of interest based on relevant LIBOR and base rates.

Assets held for treasury purposes do not attract interest.

The weighted average periods until maturity for interest rate caps, the financial assets on which no interest is paid, are 3.5 years for Sterling, 2.4 years for SEK and 3.1 years for Euro.

(d) Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 31 December was as follows:

| | Debt £000 | Finance Leases £000 | Other financial liabilities £000 | 2002 Total £000 | Debt £000 | Finance Leases £000 | Other financial liabilities £000 | 2001 Total £000 |
|-----------------------------|----------------|---------------------------|---|-----------------------|----------------|---------------------------|---|-----------------------|
| Within 1 year, or on demand | 14,913 | 155 | – | 15,068 | 28,980 | 140 | – | 29,120 |
| Between 1 and 2 years | 52,459 | 161 | – | 52,620 | 13,105 | 145 | – | 13,250 |
| Between 2 and 5 years | 137,458 | 525 | – | 137,983 | 149,189 | 473 | – | 149,662 |
| Over 5 years | 314,738 | 1,234 | – | 315,972 | 224,484 | 1,326 | – | 225,810 |
| | 519,568 | 2,075 | – | 521,643 | 415,758 | 2,084 | – | 417,842 |

(e) Borrowing facilities

The Group has the following un-drawn, committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

| | 2002 Total £ 000 | 2001 Total £ 000 |
|---------------------------|------------------------|------------------------|
| Expiring within 1 year | 7,910 | 2,500 |
| Expiring within 1-2 years | – | 13,821 |
| | 7,910 | 16,321 |

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

28 FINANCIAL INSTRUMENTS *(continued)*

(f) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 2002 and 2001. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of the methods and assumptions used for each category of financial instruments.

| | Book value £ 000 | 2002 Fair value £ 000 | Book value £ 000 | 2001 Fair value £ 000 |
|--|---------------------|-----------------------------|---------------------|-----------------------------|
| Primary financial instruments held or issued | | | | |
| to finance the Group's operations: | | | | |
| Short-term borrowings | (15,068) | (15,068) | (29,120) | (29,120) |
| Long-term borrowings | (506,575) | (538,268) | (388,722) | (411,942) |
| Short-term deposits | 13,871 | 13,871 | 5,507 | 5,507 |
| Cash at bank and in hand | 51,779 | 51,779 | 49,732 | 49,732 |
| Interest bearing debtor | 3,350 | 3,567 | 5,681 | 5,753 |
| Derivative financial instruments held to manage | | | | |
| the interest rate and currency profile: | | | | |
| Interest rate caps and collars | 3,018 | (375) | 2,797 | 1,916 |
| Financial instruments held for trading purposes | | | | |
| Other financial liabilities | - | - | - | - |
| Equity investments and other financial assets | 4,816 | 4,994 | 6,404 | 6,587 |

Summary of methods and assumptions

| | |
|--|--|
| Interest rate cap and forward foreign currency contracts | Fair value is based on market price of comparable instruments at the balance sheet date. |
| Short-term deposits and borrowings | The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments. |
| Equity investments | The fair value of listed equity investments is the quoted market value. In the case of unlisted equity investments, the fair value is estimated using the British Venture Capital Association guidelines. |
| Long-term interest bearing debtor | The fair value of this asset has been calculated by discounting expected cash flows at the prevailing interest rate. |
| Long-term borrowings | The fair value for floating rate loans approximates to the carrying value reported in the balance sheet as payments are reset to market rates at intervals of less than one year. Fixed rate loans have been discounted at gilt rates, which were provided by the banks. |

(g) Currency exposures

As explained in paragraph 2 on page 14 of the financial review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows in the local currencies of its main operating units. Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

The tables below show the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on re-translation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

28 FINANCIAL INSTRUMENTS *(continued)*

(g) Currency exposures *(continued)*

| | Net foreign currency monetary assets/(liabilities) | | | |
|---|--|---------------|---------------|---------------|
| | SEK £000 | Euro £000 | Other £000 | Total £000 |
| 2002 | | | | |
| Functional currency of Group operation: | | | | |
| Sterling | 955 | 13,727 | 11 | 14,693 |
| Total | 955 | 13,727 | 11 | 14,693 |
| 2001 | | | | |
| Functional currency of Group operation: | | | | |
| Sterling | 1,441 | (966) | 11 | 486 |
| Total | 1,441 | (966) | 11 | 486 |

(h) Hedges

As explained in the financial review in paragraph 2 on page 14 the Group's policy is to hedge the following exposures:

- Interest rate risk – using interest rate caps
- Currency risk – using local currency borrowing, forward foreign currency contracts and swaps

Gains and losses on interest rate caps used for hedging are not recognised and are effectively deferred in the balance sheet as the book values of the cap may differ from the fair value. Gains and losses on forward foreign exchange contracts arise due to movements in the exchange rate. These gains and losses are taken to reserves and matched with the change in value of the foreign net asset investment.

The table below shows the extent to which the Group has off balance sheet (unrecognised) and on balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amounts of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next years or later profit and loss account.

| | Deferred losses £000 |
|--|----------------------------|
| Unrecognised gains and losses on hedges as at 1 January 2002 | 881 |
| Loss arising before 1 January included in current year expenditure | (783) |
| Loss arising before 1 January not included in current year income and now deferred | 98 |
| Loss arising in current year not included in current year expenditure and now deferred | 3,295 |
| Unrecognised gains and losses on hedges as at 31 December 2002 | 3,393 |
| Of which: | |
| Gains and losses expected to be recognised in 2003 | 869 |
| Gains and losses expected to be recognised in 2004 or later | 2,524 |

(i) Financial instruments held for trading purposes

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Net loss included in profit and loss account | | |
| Fair value of financial assets held for trading at 31 December | (3,054) | (6,301) |
| | 4,994 | 6,587 |
| Fair value of financial liabilities held for trading at 31 December | – | – |
| | 4,994 | 6,587 |

NOTES TO FINANCIAL STATEMENTS

at 31 December 2002

29 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has annual commitments under non-cancellable property operating leases of £0.1 million per annum for leases expiring within 1 to 5 years and £0.4 million per annum for leases that expire in more than five years.

At 31 December 2002 the Company had guaranteed £106.8 million of Group Companies liabilities (2001: £84.3 million). Of the amount guaranteed, £13.9 million (2001: £13.9 million) is limited to a maximum annual liability of £1.5 million (2001: £1.5 million).

At 31 December 2002 the Group had no authorised but not contracted for financial commitments (2001: £1.0 million).

30 INVESTMENT IN GROUP UNDERTAKINGS

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those wholly owned subsidiary companies whose results or financial position, in the opinion of the Directors, principally affected the figures of the Group. All of these subsidiaries were incorporated in England and Wales with the exception of Vänerparken Investments AB and Solna Business Centre AB which are incorporated in Sweden and Hamersley International BV which is incorporated in Holland.

| | |
|-----------------------------------|---------------------------------|
| CI Tower Investments Limited | One Leicester Square Limited |
| CLSH Management Limited | Spring Gardens Limited |
| Carlow House Limited | Three Albert Embankment Limited |
| Durnvale Limited | Vauxhall Cross Limited |
| Great West House Limited | Vänerparken Investments AB |
| Hamersley International BV | Vista Centre Limited |
| Ingrove Limited | Solna Business Centre AB |
| New London House Limited | Lövgärdet Residential AB |
| New Printing House Square Limited | Lövgärdet Business AB |
| | Citadel Holdings PLC |

The principal activity of each of these subsidiaries is property investment apart from CLSH Management Limited which is property management. To comply with the Companies Act 1985, a full list of subsidiaries will be filed with the Company's next annual return.

31 OTHER RELATED PARTY TRANSACTIONS

CLSH Management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as agent in respect of the collection of rental income and payment of loan interest for Teighmore Limited, a joint venture of the Group. At 31 December 2002 Teighmore Limited was owed £0.9 million by the Group (2001: £0.7 million).

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £14,000 (2001: £13,000).

32 POST BALANCE SHEET EVENTS

There are no material post balance sheet events that affect these financial statements.

FIVE YEAR FINANCIAL SUMMARY

for the year ended 31 December

| | 2002 £000 | 2001 £000 Re-stated | 2000 £000 Re-stated | 1999 £000 Re-stated | 1998 £000 Re-stated |
|---|-----------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Turnover and results | | | | | |
| Turnover | 71,402 | 61,006 | 47,548 | 49,040 | 35,025 |
| Operating Profits | 45,316 | 36,856 | 34,698 | 35,800 | 26,642 |
| Share of Profit of Associated and Joint Venture Undertaking | 790 | 873 | 1,649 | 1,021 | – |
| Gain from sale of subsidiary | – | – | – | – | 465 |
| [Loss]/gain from sale of investment properties | [153] | 524 | 2,969 | – | 2,131 |
| Profit on Ordinary Activities Before Interest | 45,953 | 38,253 | 39,316 | 36,821 | 29,238 |
| Net interest payable and similar charges | [28,886] | [26,974] | [24,487] | [19,908] | [18,184] |
| Profit Before Taxation | 17,067 | 11,279 | 14,829 | 16,913 | 11,054 |
| Tax on ordinary activities – current | [648] | [938] | [11] | [2,125] | [961] |
| Tax on ordinary activities – deferred | [1,497] | [3,273] | [2,798] | 318 | [478] |
| Profit For the Financial Year | 14,922 | 7,068 | 12,020 | 15,106 | 9,615 |
| Equity minority interests | 388 | – | [7] | – | – |
| Dividends | – | – | – | – | [3,406] |
| Retained Profit | 15,310 | 7,068 | 12,013 | 15,106 | 6,209 |
| Share buy backs paid and proposed | [14,007] | [12,120] | [10,541] | [7,663] | [8,473] |
| Net Assets Employed | | | | | |
| Fixed assets | 857,152 | 732,582 | 674,084 | 507,424 | 409,401 |
| Net current assets | 35,558 | 19,500 | 19,958 | 15,262 | 9,843 |
| | 892,710 | 752,082 | 694,042 | 522,686 | 419,244 |
| Non-current liabilities | [507,735] | [389,788] | [342,094] | [273,968] | [211,674] |
| Provision for liabilities and charges | [13,255] | [11,482] | [8,209] | [5,411] | [5,729] |
| Net Assets | 371,720 | 350,812 | 343,739 | 243,307 | 201,841 |
| Ratios | | | | | |
| Adjusted net assets per share | £4.09 | £3.65 | £3.26 | £2.44 | £1.84 |
| Statutory net assets per share | £3.95 | £3.53 | £3.18 | £2.39 | £1.79 |
| Earnings per share | 15.7p | 6.7p | 11.9p | 14.3p | 5.4p |
| Gearing | 124% | 104% | 89% | 101% | 94% |
| Interest cover | 1.59 | 1.42 | 1.61 | 1.83 | 1.57 |

The results comply with the requirements of FRS 3 and have been prepared on a consistent basis.

The results for prior years have been Re-stated for the effects of FRS 19.

RECONCILIATION OF STATUTORY TO DISCLOSED ADJUSTED STATISTICS

| | Statutory figure | Deferred tax adjustment | Adjusted figure |
|----------------------------|---------------------|----------------------------|--------------------|
| Net Assets | £371.7m | £13.0m | £384.7m |
| NAV per share | 394.9p | 13.8p | 408.7p |
| Earnings per share | 15.7p | 1.6p | 17.3p |
| Diluted earnings per share | 15.7p | 1.6p | 17.3p |
| Gearing | 123.8% | 4.2% | 119.6% |

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