

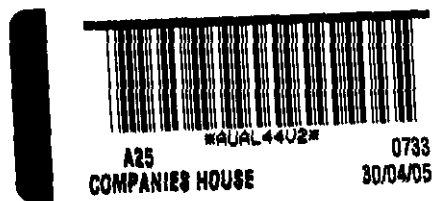
2714781

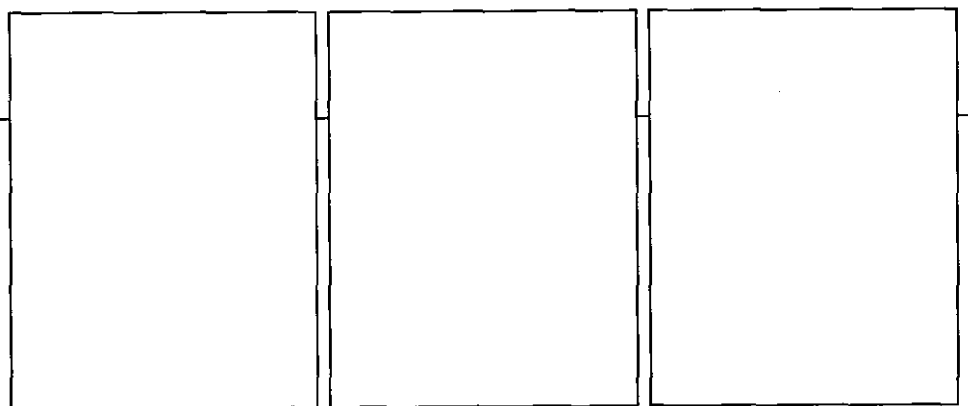
Annual Report & Accounts

2004



CLS HOLDINGS PLC





United Kingdom pg. 20

Sweden pg. 24

Continental Europe pg. 28

**CLS IS A QUOTED PROPERTY COMPANY
OPERATING SUCCESSFULLY IN THREE
PRINCIPAL 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.

.01	Introduction
.02	Business Highlights
.03	Financial Highlights
.04	Chairman's Statement
.08	Financial Review
.16	Property Review
.32	Directors, Officers and Advisers
.33	Portfolio
.53	Directors' Report
.59	Directors' Remuneration Report
.64	<i>Independent Auditors' Report</i>
.65	Consolidated Profit and Loss Account
.66	Consolidated Balance Sheet
.67	Consolidated Cash Flow Statement
.68	Statement of Group Total Recognised Gains and Losses
.68	Reconciliation of Group Historical Cost Profits and Losses
.68	Reconciliation of Movements in Group Shareholders' Funds
.69	<i>Company Balance Sheet</i>
.70	Notes to the Financial Statements
.88	Five Year Summary

BUSINESS HIGHLIGHTS

During 2004

24,100 sq m

Letting of 24,100 sq m (259,412 sq ft) in Solna, Stockholm to ICA, Scandinavia's largest food retailer.

£12.4m

Unrealised gains from three equity investments that were listed in the year amounted to £12.4 million. The gain has not been booked and does not feature in our financial results as the investments continue to be held at the lower of cost and net realisable value.

£38.2m

Acquisition of seven new properties, two in the UK, four in France and one in Luxembourg at a cost of £38.2 million.

£1.7m

One Leicester Square fully let to four tenants, including MTV, at a rental of £1.7 million p a.

£7.4m

Sale of Seine Defense, Paris for £7.4 million (£11.0 million) at a profit of £0.5 million.

£111.3m

Financing of property assets raised £111.3 million.

After the year end

18,500 sq m

Pre-let of close to 18,500 sq m (200,000 sq ft) at London Bridge Tower to Shangri-La hotel group for 30 years without a break.

FINANCIAL HIGHLIGHTS

20.0%

Added value to shareholders 20.0 per cent, up 7.2 per cent, based on increase in adjusted NAV per share and distributions in the year (19.9 per cent based on statutory NAV up 4.8 per cent).

516.6p

Adjusted Net Asset Value (NAV) per share 516.6 pence, up 15.9 per cent (Statutory NAV per share 508.5 pence up 15.8 per cent).

£18.8m

Profit before tax £18.8 million up 6.8 per cent.

19.3p

Intended distribution by way of a tender offer buy-back of 1 in 41 shares at 485 pence being 11.8 pence per share making a total distribution to shareholders of 19.3 pence per share for the year, up 12.9 per cent.

£1,022.4m

Property portfolio (including share of JVs) valued at £1.02 billion up 11.3 per cent.

£67.5m

Net rental income * (including associates and JVs) £67.5 million up 5.8 per cent.

£56.7m

Year end cash £56.7million (2003: £56.7 million).

KEY STATISTICS AND OTHER FINANCIAL INFORMATION

	31 Dec 2004	31 Dec 2003	Movement
PROFIT AND LOSS			
Adjusted earnings per share*	22.3p	20.0p	Up 11.5%
Earnings per share	21.1p	20.7p	Up 1.9%
Net rental income (including associates and JVs)	£67.5m	£63.8m	Up 5.8%
Operating profit (including associates and JVs)	£52.5m	£46.4m	Up 13.1%
Net interest payable (including associates and JVs)	£34.2m	£30.7m	Up 11.4%
Core profit before tax (see page 10)	£20.4m	£21.4m	Down 4.7%
Profit before taxation	£18.8m	£17.6m	Up 6.8%
Retained profit	£18.1m	£18.8m	Down 3.7%
BALANCE SHEET			
Adjusted NAV per share*	516.6p	445.7p	Up 15.9%
Statutory NAV per share	508.5p	439.2p	Up 15.8%
Distribution per share from tender offer buy-backs	19.3p	17.1p	Up 12.9%
Property portfolio (including JVs)	£1,022.4m	£918.5m	Up 11.3%
Property portfolio (excluding JVs)	£981.6m	£882.4m	Up 11.2%
Net asset value	£426.4m	£385.0m	Up 10.8%
Cash	£56.7m	£56.7m	–%
Adjusted gearing*	128.9%	125.1%	Up 3.8%
Statutory gearing	130.9%	126.9%	Up 4.0%
Solidity (net assets as a ratio of gross assets)	39.4%	39.5%	Down 0.1%
Shares in issue ('000's)			
– excluding treasury shares	83,853	87,644	Down 4.3%
FRS13 fair value adjustment after tax (see page 14)	28.8p	20.7p	Up 39.1%

* FRS19 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 likely that the benefit of these capital allowances will continue to be available whether or not the properties are sold in the future. The Board has complied with pronouncements from the APB, ASB and Listing Authority in showing NAV and Earnings per share including the FRS19 provision with equal prominence to the adjusted figures. The effect of FRS 19 has been excluded from those statistics that are described as adjusted, a reconciliation of which is set out on the final page of this document.

At 31 December 2004 the FRS 19 deferred tax charge included in the profit and loss account was £1.1 million and the cumulative reduction to net assets was £6.8 million (31 December 2003: credit to tax of £0.6 million and reduction in net assets of £5.7 million respectively).

* Net rental income comprises gross rental income and service charge income, less service charge expenses.

CHAIRMAN'S STATEMENT

I am very satisfied with the continuing strong performance of the Group and am confident that it will deliver further added value during 2005.

INTRODUCTION

I am very pleased to report that the Company has performed well during 2004. Our financial results are discussed in detail in the Financial Review and therefore I will highlight only the principal figures here. Adjusted net asset value per share (NAV) has increased by 15.9 per cent to 516.6 pence (Statutory NAV per share increased by 15.8 per cent to 508.5 pence) and profit before taxation increased by 6.8 per cent to £18.8 million.

Furthermore significant progress has been made during the year in planning and re-developing a number of our properties the benefit of which has not yet been fully reflected in our reported results for 2004, however this work has laid solid foundations to further strengthen the Group's position.

BUSINESS REVIEW

UK In particular, progress has been made in the UK including a substantial pre-let of nearly 18,500 sq m (200,000 sq ft) of space at London Bridge Tower to the Shangri-La hotel group.

SWEDEN In Sweden a major pre-let took place whereby 24,100 sq m (259,412 sq ft) of offices and retail space at Solna, Stockholm was let to ICA, Scandinavia's largest food retailer. The letting, which was one of the largest in Sweden in recent years comprises 14,700 sq m (158,230 sq ft) of office space let for just under twelve years and 9,400 sq m (101,182 sq ft) of retail space let for fifteen years. ICA is due to take occupation and commence rental payments on the newly refurbished space this Summer.

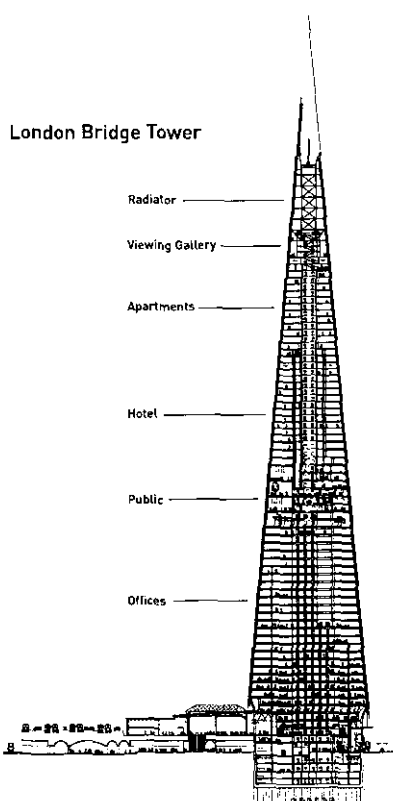
CONTINENTAL EUROPE Our asset portfolio in continental Europe has been further strengthened by five new acquisitions in France and Luxembourg at favourable yields and at a cost of £30.8 million.

EQUITY INVESTMENTS

The performance of our equity investments has shown a significant improvement in the year, principally due to the successful flotations on AIM in London of Amino Technologies Plc and Clearspeed Technology Plc, and Note AB on the Stockholm Stock Exchange. Although these three investments produced an unrealised surplus of £12.4 million at 31 December 2004, the gain has not yet been reflected in our results. The market value of our equity investments held as current assets, is £23.0 million. These investments are carried in our books at £10.6 million, at the lower of cost and net realisable value. We believe that there is potential latent value in the remaining unlisted investments we hold and it is likely that a number of these will either be listed or sold within the next two years.

MARKET BACKGROUND

The economies of Europe and the UK in particular have been underpinned by relatively strong fundamental economic indicators and established performance which has stimulated demand for commercial property investments. The weight of money available for investment and relatively stable and low interest rates have further contributed to enhance property values. Investment in property has shown the highest returns since



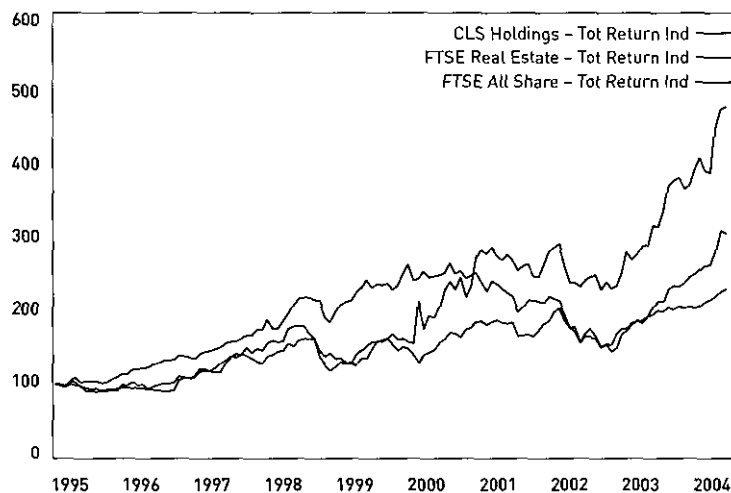
October 1994 and the total return in 2004 to investors on the FTSE Real Estate Index, reflecting share price increase and distributions, was 45 per cent.

Against this backdrop the total return to CLS investors in the year has been 51 per cent (Source : Thomson Data Stream).

Since our flotation in May 1994 our net assets have grown from £127.7 million to £426.4 million, an increase of 233.9 per cent, a growth rate of 11.6 per cent compound per annum and 11.9 per cent compound per annum over the last five years.

Over the period since we were listed, adjusted net asset value per share has increased from 129.0 pence to 516.6 pence, 13.4 per cent compound per annum. Our property assets, based in the UK, Sweden and France have increased from £287.0 million to £1,022.4 million (including joint ventures), an increase of 256.2 per cent.

This growth has resulted in our shares outperforming the FTSE Real Estate Index by 153 per cent and the FTSE All Share Index by 210 per cent since flotation (as at 31 January 2005).



Source : Datastream

As a result of our sustained growth, in May 2004 we were admitted into the FTSE 350 index.

The closing price of our shares on 31 March 2005 was 431.0 pence compared to a price of 111 pence on flotation, an increase of 288.3 per cent in that period, and a growth of 50.9 per cent in the year to 31 December 2004.

strong growth

THE UNDERLYING BUSINESS FOCUS AND PRINCIPLES BY WHICH WE OPERATE

The continually moving commercial environment requires us to be flexible and vigilant in order to adapt to changing conditions. However this is not incompatible with our strategic focus on the fundamental principles that drive the business forward. These can be summarised as follows:

PRIMARY AIM IS TO PROVIDE OUR TENANTS WITH HIGH QUALITY PREMISES – our aim is to provide our tenants with high quality premises that are well managed and offer flexible facilities in line with their requirements. We recognise the importance of delivering value for money and being responsive to their needs. Wherever practicable we offer the latest technological facilities to our tenants.

LOCAL MARKETS – we only operate in regions where we have a clear understanding of local markets and have firm relationships with well established and reputable professional advisers. Operating from locally based offices also enhances our ability to work closely with our tenants.

LONG-TERM INVESTMENTS AND LONG-TERM RELATIONSHIPS – we look to develop long-term relationships with all our business partners including tenants, lending institutions, advisers or suppliers. We do not trade properties, we are long-term investors keen to add value by improving our properties and their surroundings.

CAREFULLY RESEARCHED BUSINESS DECISIONS – commercial decisions, in all our business locations, are subject to rigorous, carefully researched and analytical processes and are formally presented to senior management before being effected.

LOCAL MANAGEMENT – we employ well qualified and experienced local management whilst maintaining strong lines of communication with our main London office.

INTEGRITY – we recognise the immense value of working with people who have solid business integrity, sound expertise and who are people we can trust.

RISK AVERSE – we identify and monitor business risks and construct risk averse mechanisms in the financing of our assets. Reasonably substantial interest bearing cash reserves are held on our balance sheet in order to be able to react quickly to potential opportunities.

ENVIRONMENTAL ISSUES – we will continue our work on improving the environmental development of our properties throughout the Group, as already evidenced by the prestigious environmental "P mark" standard we received for developing "green" energy efficient properties through the refurbishment of our Solna complex.

The installation of energy efficient plant occurs wherever possible in order to reduce energy consumption in our newly refurbished buildings. We regard green energy and cost reduction as a major challenge and we plan to use among other things, solar and geo-thermal energy efficient heating and cooling plants where it is practical to do so. Additionally, we seek to source the materials used in our development projects from sustainable resources.

OPEN AND HONEST BUSINESS RELATIONSHIPS – we ensure that there are clear, open lines of communication with our lenders and equity investors.

PROSPECTS

We have made significant progress during 2004 and we look forward to a number of challenges in the coming months and years. We have several major developments in progress. In the UK our objective, together with our partners, of completing the development of London Bridge Tower will require a great deal of skill and careful attention. We therefore intend to ensure that the very best team is assembled to bring this important project to a successful conclusion. In West London, Great West House will be given a major refurbishment that will rejuvenate the entire profile of the building, increasing its appeal and value. In Sweden we will finish the extensive refurbishment to Solna Business Park.

We will develop further our use of leading designs and materials in our refurbishments. An example of this is the utilisation of façade materials at Solna incorporating the technology of Keronite, a UK based associate company, that changes the surface composition of light alloys such as aluminium or magnesium to produce a diamond hard and corrosion resistant surface.

We will continue to seek out and acquire properties where the returns meet our investment criteria and we will also assess the individual performance of our existing investments and make selective sales where appropriate.

On the letting front, the continuing challenge will be to reduce the available vacant space in each of our major markets. At 31 December 2004 the Group had vacant space of 24,192 sq m (260,406 sq ft) representing 4.1 per cent of lettable space with a further 37,430 sq m (402,906 sq ft) or 6.4 per cent under refurbishment.

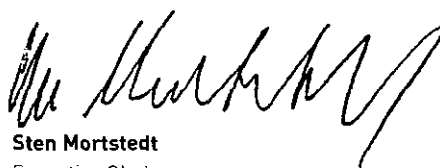
Our property activities are complemented by the relatively small-scale equity investment business that is now showing significant potential returns but is also a cash equivalent reserve and, in addition, diversifies a small element of our overall business risk.

The CLS share price has performed well in 2004 yet still remains at a discount to net asset value. We believe in the continuing benefit of distributing cash by way of tender offer buy-backs, as it enhances the net asset value of the remaining shares in issue and is tax beneficial for many shareholders. It is the intention of the Board to recommend a tender

offer buy-back of one in forty one shares at a price of 485 pence per share, resulting in a total distribution for the year of 19.3 pence per share, an increase of 12.9 per cent on the previous year.

I would like to thank Anna Seeley, who resigned her Board position last November, for her contribution to the Group and I would also like to thank my fellow directors, our staff, advisers, lenders and shareholders for the support they have given to the Company.

In conclusion, I am very satisfied with the continuing strong performance of the Group and am confident that it will deliver further added value during 2005. We are far from complacent and will continue to seek to optimise shareholder returns.



Sten Mortstedt
Executive Chairman
31 March 2005

FINANCIAL REVIEW

2004 has seen further strong growth in the assets in each of our markets. This has been coupled with robust operating performance.

Adjusted net asset value (NAV) of 516.6 pence per share (December 2003: 445.7 pence), grew by 15.9 per cent during 2004 (Statutory NAV of 508.5 pence per share grew by 15.8 per cent over the same period). In the last five years the adjusted NAV per share has grown by 16.2 per cent compound per annum, or a total of 211.9 per cent (Statutory NAV has shown a similar growth throughout that period). The organic growth in adjusted NAV 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 191.6 per cent (Statutory NAV has shown similar growth throughout that period). If all share options were to be exercised, the dilutive effect would be to reduce adjusted NAV per share by 2.2 pence (Statutory NAV by 2.1 pence).

At the year end the post-tax FRS 13 disclosure, showing the effect of restating fixed interest loans to fair value, amounted to a reduction of 28.8 pence per share (December 2003: 20.7 pence).

Added value to shareholders increased by 20.0 per cent (December 2003: 12.8 per cent), as measured by the increase in adjusted NAV per share and distributions by tender offer buy-backs. Based on Statutory NAV the return was 19.9 per cent (December 2003: 15.1 per cent).

During the year the Company distributed £15.7 million (18.1 pence per share) to shareholders by way of tender offer buy-backs at an average price per share of 384 pence (December 2003 : 15.4 pence per share distributed).

Net assets grew by £41.4 million to £426.4 million in the year, of which just £0.8 million related to positive foreign exchange translation movements in respect of the Group's Swedish and French net assets. Foreign exchange movements are hedged as each property is funded by loans in local currency. Net asset growth is calculated after taking into account the cost of tender offer buy-back distributions made during the year, which totalled £15.7 million as mentioned above.

Adjusted gearing at the year end increased to 128.9 per cent (2003: 125.1 per cent) (statutory gearing was 130.9 per cent – 2003: 126.9 per cent). Tender offer buy-backs during the year had the impact of increasing gearing by 3.6 per cent and the positive effect of foreign exchange translation of overseas net assets during 2004 reduced gearing by 0.2 per cent.

The Group held £56.7 million cash as at 31 December 2004 (December 2003: £56.7 million), the movement in the year being:

	2004 £m	2003 £m
Cash inflow from property activities	51.7	52.2
(Increase)/decrease in equity investments held in current assets	(6.5)	0.2
Cash inflow from operations	45.2	52.4
Net interest and other finance costs	(33.1)	(29.0)
Taxation	(0.5)	(1.4)
Properties purchased and enhanced	(67.5)	(22.6)
New loans	111.3	25.5
Properties sold	8.5	23.6
Loans repaid	(45.2)	(29.2)
Tender offer payment to shareholders	(15.7)	(14.1)
Market purchase of shares for cancellation	-	(2.9)
Other	(3.0)	(11.3)
	-	(9.0)

Movement in Net Assets

	Group £000	UK £000	Sweden £000	Continental Europe* £000	Equity investments £000
Opening Net Assets	385.0	181.6	91.6	103.8	8.0
Direct investment					
Income from investment in property	64.9	30.5	16.5	18.5	(0.6)
Realised gains in equity investments	1.5				1.5
Cable company losses	(3.6)				(3.6)
Administrative expenses	(9.8)	(4.2)	(3.1)	(1.8)	(0.7)
Net interest payable	(34.2)	(16.8)	(10.1)	(5.1)	(2.2)
Profit before taxation from direct investment activities	18.8	9.5	3.3	11.6	(5.6)
Taxation -					
Current taxation	(0.6)	(2.7)		(0.6)	2.7
Deferred tax provision (FRS19)	(1.1)	0.2			(1.3)
Equity minority interest	1.0				1.0
Retained profit	18.1	7.0	3.3	11.0	(3.2)
Indirect investment gains					
Revaluation gains on property investments	34.2	21.6	3.0	9.6	
Revaluation gains on joint venture properties	4.7	4.7			
	38.9	26.3	3.0	9.6	
Increase in equity due to direct and indirect investment	57.0	33.3	6.3	20.6	(3.2)
Other equity movements					
Share issues	0.4	0.4			
Shares purchased and associated costs	(0.1)	(0.1)			
Exchange and other movements	0.8		1.5	(0.7)	
Movements on inter-company debt		(14.9)	10.7	(5.7)	9.9
Minority interest	(1.0)				(1.0)
Capital distributions by way of tender offer buy-backs	(15.7)	(15.7)			
Net Assets at 31 December 2004	426.4	184.6	110.1	118.0	13.7
Unrealised unbooked gains on listed investments	12.4				12.4
Net Assets at 31 December 2004 after un-booked gains	438.8	184.6	110.1	118.0	26.1
NAV (including un-booked equity investment gain)	523.3p	220.1p	131.3p	140.7p	31.1p
Increase in adjusted Net Assets	53.8	3.0	18.5	14.2	18.1
Increase per share in Net Assets	64.2p	3.6p	22.1p	16.9p	21.6p
Return on adjusted Net Assets	18.0%	18.3%	6.9%	19.8%	115.0%

* Continental Europe incorporates the French portfolio and our properties in Luxembourg and Germany

Existing equity investments held amounted to £10.5 million (December 2003: £4.0 million). Since the successful flotation of Amino Technologies Plc, Clearspeed Technology Plc and Note AB, the majority by value are listed investments, which continue to be carried at the lower of cost and net realisable value, and represent only 1.0 per cent of the gross assets of the Group.

We believe that our unlisted investments have the potential for growth in value in due course and we continue to be closely involved in their progress and add commercial support where appropriate.

The carrying value of our portfolio of listed investments was £7.4 million at the year end. Had they been carried at market value an unrealised gain of £12.4 million would have arisen.

The underlying elements of the growth in net assets are set out in the table on page 9. The table includes an un-booked adjustment in respect of the unrealised equity investment gains mentioned above. This inclusion is for information purposes. Due to the existing corporate structure of the Group it is not expected that deferred taxation would become payable if either the properties or the listed investments were sold. It is currently anticipated that the overseas property assets would be sold within corporate entities.

The slight fall in core profit, which shows profit arising solely from property rental, has arisen because of the impact of refinancing of properties and increased interest rates in the UK.

	2004 £m	2003 £m
Profit before tax	18.8	17.6
Deduct:		
Realised gains/(losses) in equity investments	1.5	(1.4)
Cable company losses	(3.6)	(4.6)
Profit on sale of properties	0.5	1.9
Lease surrenders and variations	-	0.3
	(1.6)	(3.8)
Core profit	20.4	21.4
(Decrease)/increase on previous year	(4.7)%	8.6%

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:

	2004 Total £m	UK £m	Sweden £m	Continental Europe £m	Equity investments £m	2003 £m
Net rental income	67.5	31.9	16.9	18.7	-	63.8
Less income in JVs	(2.6)	(2.6)	-	-	-	(1.4)
Other income	2.6	0.6	0.6	-	1.4	3.9
Net rental and property related income (excluding JVs)	67.5	29.9	17.5	18.7	1.4	66.3
Operating expenses	(18.8)	(6.1)	(4.1)	(2.5)	(6.1)	(19.6)
Realised gains/(losses) in equity investments	1.5	-	-	-	1.5	(1.4)
Associates/JVs operating profit	2.3	2.5	-	-	(0.2)	1.1
Operating profit	52.5	26.3	13.4	16.2	(3.4)	46.4
Gain from sale of investment properties	0.5	-	-	0.5	-	1.9
Net interest payable and related charges	(34.2)	(16.8)	(10.1)	(5.1)	(2.2)	(30.7)
Profit on ordinary activities before tax	18.8	9.5	3.3	11.6	(5.6)	17.6
Tax	(1.7)	(2.5)	-	(0.6)	1.4	(0.1)
Minority interest	1.0	-	-	-	1.0	1.3
Retained profit	18.1	7.0	3.3	11.0	(3.2)	18.8
Retained profit 31 December 2003	18.8	10.0	1.3	10.4	(2.9)	
(Decrease)/increase in retained profit	(0.7)	(3.0)	2.0	0.6	(0.3)	

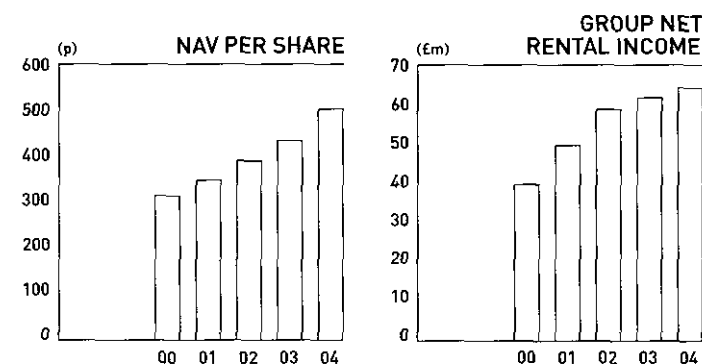
NET RENTAL INCOME has increased by 5.8 per cent to £67.5 million and reflects a full year contribution from Coop in Solna, Sweden (£1.9 million) and increased rentals in France due to indexation and lease restructuring (£1.4 million).

OTHER INCOME of £2.6 million (2003: £3.9 million) includes the consolidation of gross margins of telecoms subsidiaries of £1.5 million and dilapidations income of £0.2 million at Great West House, Brentford. Of the remainder, gym membership fees generated from the Solna development amounted to £0.5 million.

OPERATING EXPENSES

ADMINISTRATIVE EXPENDITURE relating to the core property business amounted to £9.1 million, an increase of £1.5 million over the previous year. The main reasons for the increase were the write off of capitalised fit-out costs at Solna, Sweden, amounting to £0.3 million, increased expenditure on professional fees of £0.5 million and increased costs of £0.6 million resulting from strengthening of the management team and small increases as a result of inflation.

The consolidation of £5.1 million of operating costs for WightCable Limited and WightCable North Limited were also included within this



category of expenditure. Other non-property related overheads amounted to £0.7 million.

NET PROPERTY EXPENSES of £3.9 million (2003: £4.2 million) included depreciation of £0.4 million, letting fees of £0.5 million, mainly relating to the successful letting of One Leicester Square and vacant space within the French portfolio. Of the remainder, operating costs of the gym at Solna amounted to £0.8 million, void costs were £0.4 million (mainly Great West House, Brentford, undergoing refurbishment and Vista Office Centre, Hounslow), bad debts amounted to £0.7 million and repairs and maintenance costs were £0.2 million for minor refurbishment works in Paris and the UK.

REALISED GAINS/(LOSSES) IN EQUITY INVESTMENTS amounted to £1.5 million. Included within that amount was a gain of £2.7 million in respect of a settlement of the creditor voluntary arrangement at WightCable North Limited, whereby its liability was significantly reduced through negotiation of an early settlement of debt. Also included within this net gain was a provision of £1.5 million set against the goodwill held in our balance sheet relating to one of our unlisted investments. Other trading gains in the year on listed investments amounted to £0.4 million.

	2004 £m	2003 £m
Gains/(losses) relating to listed investments	0.4	(0.2)
Write downs of unlisted investments	(1.6)	(1.2)
Profit on settlement of CVA at WightCable North Limited	2.7	-
	1.5	(1.4)

NET INTEREST AND FINANCIAL CHARGES amounted to £34.2 million and showed an increase of £3.5 million over net expenditure in 2003, reflecting the re-financings within the French portfolio and at Solna and increased interest rates in the UK.

The Group'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:

	2004 £m	2003 £m	Difference £m
Interest receivable	1.7	1.7	-
Foreign exchange	0.1	0.4	(0.3)
Interest receivable and similar income	1.8	2.1	(0.3)
Interest payable and similar charges	(36.0)	(32.8)	(3.2)
Net interest and financial charges	(34.2)	(30.7)	(3.5)

Interest payable and similar charges of £36.0 million (2003: £32.8 million) included joint venture interest of £1.8 million (2003: £1.1 million) relating to the Group's interest in Teighmore Limited, owner of Southwark Towers, and a full year's charge for New London Bridge House Limited which was acquired in September 2003. Depreciation of interest rate caps amounted to £1.0 million (2003: £0.9 million) and amortisation of issue costs of loans totalled £1.1 million (2003: £0.9 million).

The average cost of borrowing for the Group at 31 December 2004, which includes depreciation of interest rate caps and margin, is set out below:

December 2004	UK	Sweden	Continental Europe	Total
Average interest rate on fixed rate debt	7.3%	5.8%	4.6%	6.4%
Average interest rate on variable rate debt	6.6%	3.9%	3.3%	4.6%
Overall weighted average interest rate	7.1%	4.8%	4.0%	5.7%

December 2003

Average interest rate on fixed rate debt	8.1%	6.1%	4.6%	6.7%
Average interest rate on variable rate debt	5.5%	4.4%	3.5%	4.7%
Overall weighted average interest rate	6.7%	5.3%	4.0%	5.6%

TAXATION The Group's current taxation charge has benefited from the utilisation of losses, significant capital allowances, particularly in telecommunications companies held by our investment division, and amortisation deductions. 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.

REVIEW OF THE BALANCE SHEET

TANGIBLE ASSETS The tangible assets of the Group (including plant and machinery) have increased to £986.6 million (2003: £889.3 million). The net increase of £97.3 million included expenditure on refurbishments of £29.0 million of which £24.2 million was expended at Solna, mainly on the construction of retail and office space for ICA. Foreign exchange translation gains on Swedish and French property holdings amounted to £5.7 million in the year. After taking account of the

effect of foreign exchange translation on loans to finance these assets, the net effect was a gain of £0.8 million.

Four new properties were purchased in France at a cost of £24.1 million, and we completed the purchase of a property in Luxembourg at a cost of £6.7 million. Quayside Lodge, Fulham was acquired during the year at a cost of £6.0 million. We sold our property at Seine Defense during the year for £7.4 million, yielding a profit on disposal of £0.5 million.

Revaluation movements on the Group's investment properties were as follows:

	2004 £m	2003 £m
UK	26.3	(0.6)
Sweden	3.0	(6.9)
Continental Europe	9.6	4.5
Total revaluation	38.9	(3.0)

Based on the valuations at 31 December 2004 and annualised contracted rent receivable at that date of £74.6 million (2003: £69.4 million), the portfolio shows a yield of 6.9 per cent (2003: 7.2 per cent).

The uplift in the UK revaluation included £4.7 million in respect of the Group's share of the gain in value of joint venture properties at London Bridge Tower and New London Bridge House. London Bridge Tower has been valued as an investment property, no account has been taken of speculative development gains.

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

	Total £m	%	UK* £m	%	Sweden* £m	%	Continental Europe* £m	%	Equity % investments £m	%
Investment Properties	981.6	100.0	438.6	44.7	273.1	27.8	269.9	27.5	0.0	0.0
Loans	(609.3)	100.0	(278.6)	45.8	(153.6)	25.2	(173.2)	28.4	(3.9)	0.6
Equity in Property Assets	372.3	100.0	160.0	43.0	119.5	32.1	96.7	26.0	(3.9)	(1.1)
Other	54.1	100.0	24.6	45.5	(9.4)	(17.4)	21.3	39.4	17.6	32.5
Net Equity	426.4	100.0	184.6	43.3	110.1	25.8	118.0	27.7	13.7	3.2

Equity in Property as a Percentage of Investment

	£m	£m	£m	£m	£m
Opening Equity	385.0	181.6	91.6	103.8	8.0
Increase	41.4	3.0	18.5	14.2	5.7
Closing Equity	426.4	184.6	110.1	118.0	13.7

† The following exchange rates were used to translate assets and liabilities at the year end : SEK/GBP 12.742, Euro/GBP 1.4125

* Net assets were reduced by payments for tender offer distributions totalling £15.7 million which are included within the results of the UK.

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.

	Total £m	%	UK £m	%	Sweden £m	%	Continental Europe £m	%	Equity Investments £m	%
Net Interest Bearing Debt										
Fixed Rate Loans	(374.2)	61.4	(202.2)	72.6	(90.1)	58.7	(81.8)	47.2	(0.1)	2.6
Floating Rate Loans	(235.1)	38.6	(76.4)	27.4	(63.5)	41.3	(91.4)	52.8	(3.8)	97.4
	(609.3)	100.0	(278.6)	100.0	(153.6)	100.0	(173.2)	100.0	(3.9)	100.0
Bank and cash	56.7		17.5		12.4		24.7		2.0	
Net Interest Bearing Debt	(552.6)	100.0	(261.0)	47.2	(141.2)	25.6	(148.5)	26.9	(1.9)	0.3
2003	(483.8)	100.0	(222.3)	45.9	(133.1)	27.5	(126.6)	26.2	(1.8)	0.4

Non interest bearing debt, represented by short-term creditors, amounted to £40.4 million (December 2003: £36.4 million).

Floating rate loan caps	Total %	UK %	Sweden %	Continental Europe %
2004				
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	5.3	6.6	4.9	4.8
Average tenure	3.1 years	2.7 years	3.4 years	3.4 years
2003				
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	6.2	6.4	6.0	6.0
Average tenure	2.9 years	3.4 years	1.7 years	3.0 years

During 2004 the Group took advantage of the historically low interest rates and flat yield curves and increased the fixed proportion of loans to 62 per cent (from 53 per cent in 2003) of outstanding loans at favourable rates while continuing to hedge floating rate debt with interest rate caps.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond. This bond has a current outstanding balance of £38.6 million (December 2003: £39.1 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 £5.0 million (December 2003: £4.5 million), with matching interest rate and maturity date. This debt instrument has a significant adverse effect on the average interest rate and the FRS 13 adjustment.

The net borrowings of the Group at 31 December 2004 of £552.6 million showed an increase of £68.8 million over 2003, reflecting the refinancing of our assets at Solna and within the French portfolio, and new loans for acquisitions.

Under 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, the Group's fixed rate debt at the year end would be in excess of book value by £34.5 million (2003: £25.9 million) which net of tax at 30 per cent equates to £24.2 million (2003: £18.1 million).

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 £17.4 million (2.9 per cent) of the Group's total bank debt of £609.3 million is repayable within the next 12 months, with £369.2 million (60.6 per cent) maturing after five years.

SHARE CAPITAL The share capital of the Company totalled £21.4 million at 31 December 2004, represented by 85,497,177 ordinary shares of 25 pence each which are quoted on the main market of the London Stock Exchange. Of the shares in issue, 1,644,176 are held as Treasury shares following the tender offer buy-back in November 2004, and therefore are not included for the purposes of

the proposed tender offer buy-back or for calculating Earnings and NAV per share.

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2004 resulting in the purchase of 4.1 million shares and providing a distribution of £15.7 million to shareholders, together with costs of £0.1 million.

A total of 50.9 million shares have been purchased at a total cost of £109.6 million since the programme of buy-backs started in 1998. The average cost of shares purchased

for cancellation over this period was 215 pence per share.

The weighted average number of shares in issue during the year was 86,113,994 (2003: 90,791,078).

The average mid-market price of the shares traded in the market during the year ended 31 December 2004 was 331.4 pence with a high of 410 pence in December 2004 and a low of 270 pence in January 2004.

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

	No of shares Million 2004	No of shares Million 2003
Opening shares	87.6	94.1
Tender offer buy-back	(4.1)	(5.4)
Buy-backs in the market for cancellation	-	(1.5)
Shares issued for the exercise of options	0.4	0.4
Closing shares for NAV purposes	83.9	87.6
Shares held in Treasury by the Company	1.6	-
Closing shares in issue	85.5	87.6

In total 27.1 million shares were traded in the market during 2004.

An analysis of the ownership structure is set out below:

	Number of shares	Percentage of shares
Institutions	36,555,729	43.6%
Private investors	1,261,221	1.5%
The Mortstedt family	42,755,371	51.0%
Other	3,280,680	3.9%
	83,853,001	100.0%
Shares held in Treasury by the Company	1,644,176	
Total	85,497,177	

Should the proposed tender offer buy-back be fully taken up, the number of shares in issue would be reduced by 2,045,195 to 81,807,806 (excluding shares held in treasury of 3,689,371).

The Company operates share option schemes to enable its staff to participate in the prosperity of the Group. At 31 December 2004 there were 585,000 options in existence with an average exercise price of 207.6 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 41 shares at a price of 485 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 11.8 pence, yielding a total distribution in cash terms of 19.3 pence per share for the year (2003: 17.1 pence).

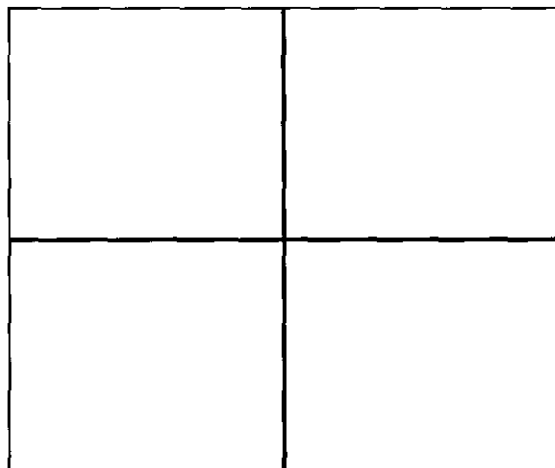
CORPORATE STRUCTURE The aim has been to continue to hold individual properties within separate subsidiary companies, each with one loan on a non-recourse basis.

IFRS In common with all listed companies in the European Union, we will be required to adopt International Financial Reporting Standards (IFRS) for our reporting period commencing 1 January 2005. These new Standards will radically alter the basis of reporting financial performance for all companies, not just those in the property sector. A detailed programme is now underway to evaluate the impact of adopting the new Standards and we will publish the 2005 interim results in accordance with IFRS.

PROPERTY REVIEW

Our continuing Group strategy is to focus upon low risk high return properties in our core locations of London, Sweden and France.

We believe that our emphasis on actively managing the portfolio maximises long term capital returns.



The Group now owns 113 properties with a total lettable area of 585,350 sq m (6,300,850 sq ft), of which 45 properties are in the UK, 23 in Sweden, 43 in France, 1 in Germany and 1 in Luxembourg. We have 506 commercial tenants and 1,291 residential tenants.

high returns

We target above average returns on equity through acquisition, active management, refurbishment, and selective sales.

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

	Contracted Rent £000	%	Net rent £000	%	Book Value £000	%	Yield on net rent %	Yield when fully let %
London City Fringes	212	0.3	212	0.3	2,800	0.3	7.6	
London Mid town	6,980	9.4	6,980	10.4	102,850	10.5	6.8	
London West End	4,232	5.7	4,202	6.2	62,325	6.3	6.7	
London West	5,547	7.4	4,992	7.4	68,881	7.0	7.2	
London South Bank	9,624	12.8	9,518	14.1	139,930	14.3	6.8	
London South West	1,398	1.9	1,174	1.7	18,200	1.9	6.5	
London North West	3,210	4.3	3,236	4.8	41,700	4.2	7.8	
Outside London	245	0.3	245	0.4	1,900	0.2	12.9	
Total UK	31,448	42.1	30,559	45.3	438,586	44.7	7.0	7.2*
Sweden Gothenburg	6,569	8.8	2,825	4.2	43,164	4.4	6.5	
Sweden Stockholm	10,553	14.2	8,811	13.1	183,095	18.6	4.8	
Sweden Vanersborg	4,774	6.4	3,976	5.9	46,853	4.8	8.5	
Total Sweden	21,896	29.4	15,612	23.2	273,112	27.8	5.7	6.4†
Continental Europe								
France Paris	16,526	22.1	16,526	24.5	217,175	22.2	7.6	
France Lyon	2,716	3.6	2,716	4.0	31,469	3.2	8.6	
France Lille	579	0.8	579	0.9	6,273	0.6	9.2	
France Antibes	420	0.6	420	0.6	4,326	0.4	9.7	
Total France	20,241	27.1	20,241	30.0	259,243	26.4	7.8	8.3
Luxembourg	813	1.1	813	1.2	8,779	0.9	9.3	
Total Luxembourg	813	1.1	813	1.2	8,779	0.9	9.3	9.3
Germany	223	0.3	206	0.3	1,841	0.2	11.2	
Total Germany	223	0.3	206	0.3	1,841	0.2	11.2	11.2
Total Continental Europe	21,277	28.5	21,260	31.5	269,863	27.5	7.9	8.4
Group Total	74,621	100.0	67,431	100.0	981,561	100.0	6.9	7.3

Conversion rates : SEK/GBP 12.7420 Euro/GBP 1.4125

• Contracted rent is defined as gross annualised rent supported by a signed contract.

• Net rent is defined as contracted rent less net service charge costs.

• Yields on net rents have been calculated by dividing the net rent by the book value.

• Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2004 will increase by refurbishment expenditure of approximately £14.3 million in respect of projects in the UK.

† Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2004 will increase by refurbishment expenditure of approximately £32.4 million in respect of projects in Solna, Sweden.

Rent analysed by length of lease and location

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

	Sq m	Sq ft	Contracted Aggregate Rental £000	Contracted but not income producing £000	Unlet Space at ERV £000	Space under Refurbish- ment or with planning consent £000	Total £000	Total %
UK > 10 yrs	53,801	579,125	11,434	1,330	-	-	12,764	38.5%
UK 5-10 yrs	43,277	465,841	10,204	490	-	-	10,694	32.2%
UK < 5 yrs	39,730	427,668	7,990	-	-	-	7,990	24.1%
Development Stock	2,653	28,554	-	-	-	-	-	0.0%
Vacant	10,838	116,660	-	-	1,652	88	1,740	5.2%
Total UK	150,299	1,617,848	29,628	1,820	1,652	88	33,188	100.0%
Sweden > 10 yrs	37,440	403,014	4,288	-	-	-	4,288	16.0%
Sweden 5-10 yrs	34,042	366,437	3,152	-	-	-	3,152	11.8%
Sweden < 5 yrs	172,701	1,858,999	14,456	-	-	-	14,456	54.2%
Refurbished space	37,430	402,906	-	-	-	4,404	4,404	16.5%
Vacant	5,034	54,187	-	-	389	-	389	1.5%
Total Sweden	286,647	3,085,543	21,896	-	389	4,404	26,689	100.0%
France 5-10 yrs	50,623	544,919	8,094	-	-	-	8,094	37.6%
France < 5 yrs	82,668	889,860	12,147	-	-	-	12,147	56.4%
Vacant	8,320	89,559	-	-	1,286	-	1,286	6.0%
Total France	141,611	1,524,338	20,241	-	1,286	-	21,527	100.0%
Luxembourg < 5 yrs	3,698	39,806	813	-	-	-	813	100.0%
Total Luxembourg	3,698	39,806	813	-	-	-	813	100.0%
Germany < 5 yrs	3,095	33,315	223	-	-	-	223	100.0%
Total Germany	3,095	33,315	223	-	-	-	223	100.0%
Group > 10 yrs	91,241	982,139	15,722	1,330	-	-	17,052	20.7%
Group 5-10 yrs	127,942	1,377,197	21,450	490	-	-	21,940	26.6%
Group < 5 yrs	301,892	3,249,648	35,629	-	-	-	35,629	43.2%
Refurbished space	37,430	402,906	-	-	-	4,404	4,404	5.4%
Development Stock	2,653	28,554	-	-	-	-	-	0.0%
Vacant	24,192	260,406	-	-	3,327	88	3,415	4.1%
Group Total	585,350	6,300,850	72,801	1,820	3,327	4,492	82,440	100.0%

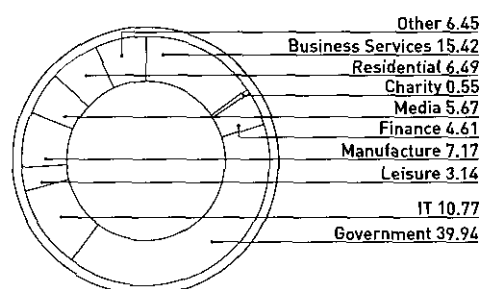
We estimate that open market rents are approximately 0.8 per cent lower than current contracted rents receivable, which represents a potential decrease of £0.6 million. This excludes the additional rents we will receive as a result of our refurbishment programme. An analysis of the net decrease is set out below:

	Contracted Rent £ Million	Estimated Rental Value £ Million	Reversionary Element %
UK	31.4	28.3	(9.9)
Sweden	21.9	23.7	8.2
Continental Europe	21.3	22.0	3.3
Total	74.6	74.0	(0.8)

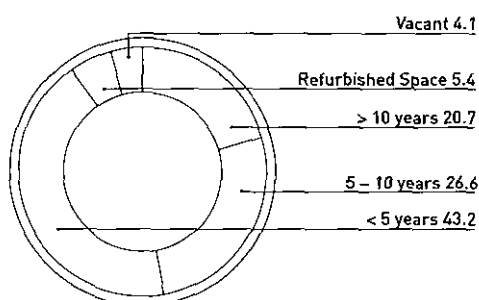
The total potential gross rental income (comprising contracted rentals, and estimated rental value of unlet space and refurbishment) of the portfolio is £82.4 million p.a.

During the year 51,441 sq m (553,711 sq ft) of space has been vacated and 54,518 sq m (586,832 sq ft) has been re-let. Rent reviews, indexation and lease extensions have generated further annual income of £0.7 million.

CONTRACTED RENT BY SECTOR (%)



TOTAL RENT BY LEASE LENGTH (%)



United Kingdom

HIGHLIGHTS

- **One Leicester Square, London WC2** – Now fully let to Viacom (MTV) and three other tenants at a total rent of £1,715,000 per annum.
- **Spring Gardens, London SE11** – Planning consent granted for further infill of 855 sq m, pre-let to the Home Office. Upon completion, the total income from the Government increases to £5,452,000 per annum, 46% of which is secured until 2025.
- **Great West House, Brentford TW8** – Planning consent granted for a comprehensive refurbishment of this 14,000 sq m landmark building close to Heathrow and the M4.
- **Quayside, Fulham, London SW6** – 3,050 sq m office building adjacent to Imperial Wharf and overlooking the Thames, acquired for £5.75m, equivalent to £1,884 per sq m.
- **Vista, Heathrow TW4** – 2,037 sq m let to the Metropolitan Police on a 10 year lease at £148 per sq m.

secure income

43 per cent of the portfolio is let to the UK government, mainly on long leases.

New Print
 House Sq
 Spring Ga
 Leicester
 Great Wes
 House
 Computer
 Cap Gerni
 Coventry I
 Carlow Hc
 Westmins
 Tower
 Cambridg
 House
 CI Tower
 Brent Hol
 Clifford's I
 Drury Lan
 Vista Offic
 Centre
 Chancel F
 Conoco Hc
 Tinworth I
 Dukes Ro
 Buspace S
 London Hc
 275 King S
 Ingram Hc
 80/84 Bon
 Satellite F
 Hollywood
 Nightclub
 86 Bondw

Deanery S
 Vauxhall V
 108
 Vauxhall V
 110
 Western F
 Holland P
 Avenue
 18/20 Mile

United Kingdom

OUR PRIMARY AIM IS TO PROVIDE OUR TENANTS WITH HIGH QUALITY, WELL MANAGED PREMISES.

Portfolio value up 6.4 per cent on a like for like basis.

Between December 2003 and 2004, on a like for like basis the UK portfolio increased in value by £28.4 million from £442.7 million to £471.1 million, an uplift of 6.4 per cent. This includes joint ventures and is net of acquisitions and disposals. Over the same period, the UK vacancy rate fell from 8.7 per cent to 7.2 per cent by area.

One Leicester Square was one of the contributors to the increase in value when

£353.27 per sq m (£32.82 per sq ft). 46 per cent of the rent will be contracted until 2025 and is to be reviewed annually in line with the Retail Price Index, starting from June 2007. The remainder of the estate is reviewable to open market value and is secured on leases expiring in 2010 and 2015.

Other key lettings achieved during the year include 2,038 sq m (21,937 sq ft) of refurbished office space let at the Vista Office Centre, Heathrow to the Metropolitan Police. The Police signed a 10 year lease with a break at the fifth year, at a rent of £148 per sq m. They now occupy approximately 20 per cent of the building.

At CI Tower in New Malden, the Flight Centre continued its expansion within the building, taking the entire 6th floor measuring 513 sq m

planning consent was granted at appeal in April 2004 for MTV to operate a television broadcast studio from the lower three floors of the building. This enabled us to complete the letting to their parent company, Viacom UK Ltd. The building is now fully let, generating a total rent of £1.7 million per annum.

At Spring Gardens, Vauxhall, planning consent was granted for the construction of a new "infill" office building of 855 sq m (9,203 sq ft) to be built between the existing units 3 and 4. Raising the total amount of office space on the estate to 15,914 sq m (171,298 sq ft), this consent is important in that it has enabled us to grant a new 20 year lease covering nearly half the estate to the tenant, the Home Office.

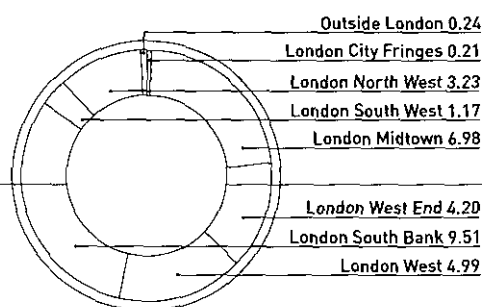
Upon completion at the end of 2005, the total rent payable by the Home Office will increase to £5.4 million per annum, equivalent to

(5,522 sq ft). The lease expires in 2014 and is at a rent of £210 per sq m.

Finally, at Westminster Tower, where we have recently completed an imaginative refurbishment of the entrance hall, we have been successful in letting the entire 12th floor to Overseas Exhibition Services Ltd. Extending to 288 sq m (3,100 sq ft), the floor has excellent views of the River Thames and the Houses of Parliament, and the rent achieved of £290 per sq m represents an all time high for the building.

During the year, we added two properties to the portfolio worth £7.2 million and realised sales of £0.4 million. At the year end, our interest in our two joint ventures London Bridge Tower and New London Bridge House were valued at £40.8 million, an increase of 13 per cent. We will continue to hold our

NET RENT BY LOCATION (£m)



participation in these joint ventures at valuation, based on current investment value.

We made two noteworthy acquisitions during the year, the first being Quayside Lodge, William Morris Way, SW6. This £5.7m acquisition completed in June and the building is expected to provide a yield in excess of 8.6 per cent once fully let. Of particular interest is this building's location, as it directly faces the River Thames and is adjacent to the new Imperial Wharf development. A small leisure and residential building, 35 Albert Embankment, SE1 was added to the portfolio in the second half of the year, for which we paid £1.4m.

The only property sold during the year was a former nightclub building at Foxes' Lane, Wolverhampton. This was sold at auction in

completion scheduled for the end of 2005.

Planning consent was obtained in May for the conversion of the top two floors at Ingram House, John Adam Street, WC2 from office to residential use. These five apartments will be completed during the first quarter of 2005.

Much hard work has been done during 2004 on the detailed design and pre-letting of the London Bridge Tower project with our joint venture partners. Since the end of the year, we have announced the first pre-letting to Shangri-La Hotels of approximately 20 per cent of the building at just under 18,500 sq m (199,134 sq ft). We look forward to making further progress with our partners in the months ahead.

The outlook for 2005 is positive. We will continue our focus on reducing the vacancy

Vacancy rate fell from 8.7 per cent to 7.2 per cent at 31 December 2004.

November and achieved £0.4 million, exceeding expectations.

In September, planning consent was granted for the refurbishment and over-cladding of Great West House and Computer House, on the Great West Road overlooking the A4. Approximately 45 per cent is currently vacant and with this planning consent in place we are now able to implement this £8.5 million refurbishment at a time when demand is improving and rents are showing signs of recovery. The works are underway with

rate, increasing rents and enhancing the value of our assets. The refurbishment of Great West House and elsewhere could prove timely as confidence returns to the occupational markets.

We will continue to make strategic acquisitions where we feel we can add value through active management and refurbishment.

Sweden

HIGHLIGHTS

- **31,878 sq m (343,135 sq ft)** – space let at Solna in the year.
- **ICA Maxi** – opening 9,400 sq m (101,182 sq ft) supermarket at Solna in May 2005 and will occupy 14,700 sq.m (158,230 sq ft) of offices in the summer.
- **At Lövgärdet** – all 1,280 apartments are fully let along with 42,527 sq m (457,761 sq ft) of commercial space.

long-term relationships

We establish long-term relationships with our tenants and other business partners

Sweden

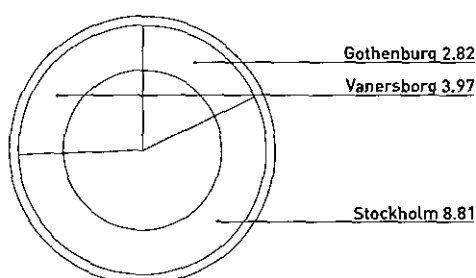
THE REBUILDING AND REFURBISHMENT OF SOLNA BUSINESS PARK IS THE LARGEST CONSTRUCTION PROJECT IN GREATER STOCKHOLM.

We offer flexible facilities including the latest technological innovations to our tenants.

Lettable space throughout the portfolio has been significantly reduced through the active management of Solna Business Park. All the apartments at Lövgärdet are fully let and vacant space at Vänerparken continues to be minimal.

SOLNA BUSINESS PARK The 150,000 sq m (1.6 million sq ft) development is enhanced by a 62 room hotel, conference centre, business centre, one of the largest gyms in Stockholm and extensive restaurant and café facilities. The opening, which is due in late May 2005 of the 9,340 sq m (100,536 sq ft) ICA MAXI supermarket, is evidence of the complete transformation that this development has made to the Solna region.

NET RENT BY LOCATION (€m)



In total during the year we have let 31,878 sq m (343,135 sq ft) of space. Fräsaren 11 is now substantially let and the complex as a whole is 86 per cent let. The highlight of the year was the letting of 24,096 sq m (259,369 sq ft) of space to ICA at Fräsaren 12 representing 86 per cent of the available space in that property which is undergoing extensive refurbishment.

This letting is one of the largest Sweden has seen in recent years. Of the remaining 19,273 sq m (207,455 sq ft) of space to let at this development, 10,139 relates to Smeden which is also undergoing an extensive refurbishment including major façade works along its 250 metre frontage due for completion in the early part of the summer. The vacant space which includes offices and retail areas is attracting considerable interest from potential tenants.

LÖVGÅRDET, GOTHENBURG All 1,280 apartments are fully let as is the 42,527 sq m (457,761 sq ft) of commercial space. This is testament to our active management of the development and our ongoing programme of maintenance works to provide our tenants with a safe, secure and pleasant environment in which to live and work.

VÄNERPARKEN Our property is considered by the municipality of Vänersborg as a key element for the provision of facilities and services to the local community. In addition to its offices, Vänerparken provides hospital services, leisure facilities, including a marina and swimming pool, and a university for the town. The university has recently further extended its lease for two years from 2006 until 2008.

Improving the local environment.

Continental Europe

HIGHLIGHTS

- **5 properties acquired** – providing 21,693 sq m (233,503 sq ft) of well let office space on yields of between 8.8 and 11.4 per cent.
- **Low vacancy rate** – at 5.7 per cent.

**pro-active
management**

We have close relationships with our tenants and letting teams.

Edouard E
Rue N 2001
Lotus
Le Sigma
Charente
Forum
Lord Byron
Bellevue
Le Quatuor
Petits Ch
Le Debus
Mission
Marchand
Villa Ange
Front de F
Columbus
Equinoxe
La Madele
Rue Natio
Capitaine
Guynemer
Paul Dour

Rhône Al
Park Aven
D'Aubigny
Philippe A
Petits Hôt
Le Chorus
Edouard V
Rue Pierr
Timbaud
Marcel Po

Le Foch
Rue de la
Santos Du
Solférino
Général L
Stephens
Fontaineb
Abbé Hazi

Continental Europe

LEASE INDEXATION GENERATED AN UPLIFT OF 3.4 PER CENT IN RENTAL INCOME.

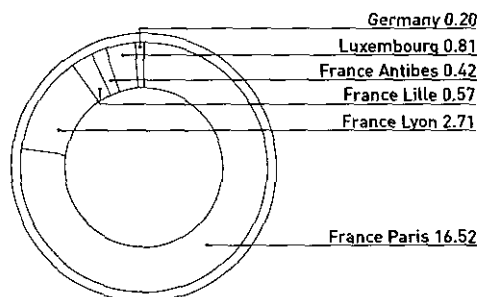
New leases and lease renewals covering 18 per cent of the portfolio.

Economic growth is expected to remain stable in France, where the majority of our properties are situated, at an expected long-term growth in GDP of 2.25 per cent. The French take-up rate of new lettings was 12.8 per cent above that experienced in 2003. One significant factor influencing this increased demand has been a downwards adjustment in

Expected Rental Values. Investment levels at €12 billion (£8.5 billion) was 20 per cent above that predicted at the start of the year. The mass of capital available, principally from French, German and US investors coupled with the substantial yield gap between prime real estate yields of 5.3 per cent and low long term bank base rates, have ensured that commercial properties have remained an attractive investment.

The portfolio was enhanced by five newly acquired properties at a cost of €45.0 million (£30.8 million) representing net lettable space of 21,693 sq m (233,503 sq ft), all are well let and were purchased on yields of between 8.8 per cent and 11.4 per cent. Four of the properties are situated in the Paris suburbs and one in Luxembourg.

NET RENT BY LOCATION (£m)



The profitable sale of Seine Defense, a 2,346 sq m (25,252 sq ft) vacant property in Courbevoie, was completed in June 2004 for €11.0 million (£7.4 million).

The vacancy rate of the portfolio remains low at 5.7 per cent, compared to the national average of 6.3 per cent, reflecting our policy of pro-active management and close liaison with our tenants and letting teams.

During the year, new leases and lease renewals accounted for a total of 26,275 sq m (282,824 sq ft) representing 18 per cent of the portfolio. The new rentals generated from these transactions was €5.6 million (£4.0 million) compared to previous rental levels of €5.7million (£4.0 million).

Lease indexation generated additional income of €0.7 million (£0.5 million) during the year equating to an uplift of 3.4 per cent. The resultant overall uplift in rental income from lease restructuring and indexation was 2.4 per cent.

Our programme of works to upgrade and improve our properties continues apace. We remain committed to ensuring our properties are well cared for and concentrate in particular on entrance foyers, common parts and upgrading lifts. During the year refurbishments were carried out in respect of Rue de la Ferme, Sigma and Debussy.

Strong asset portfolio.

DIRECTORS, OFFICERS and ADVISERS

Directors

Sten Mortstedt (Executive Chairman)
Thomas Thomson BA (Chief Executive and Vice Chairman)
Dan Bäverstam (Chief Financial Officer)
Steven Board FCCA (Chief Operating Officer)
Per Sjöberg (Group Development Director)
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

One Citadel Place
Tinworth Street
London SE11 5EF

Registered Number

2714781

Registered Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office

Computershare Services plc
P O Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Clearing Bank

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

Financial Advisers

Williams de Broë plc
6 Broadgate
London EC2M 2RP

Joint Stockbrokers

Williams de Broë plc
6 Broadgate
London EC2M 2RP

KBC Peel Hunt
11 Old Broad Street
London EC2N 1PH

CLS Holdings plc on line:

www.cls Holdings.com

e-mail:

enquiries@cls Holdings.com

PORTFOLIO

UNITED KINGDOM → Ingram House → 22 Dukes Road → Brent House → Drury Lane → Westminster Tower → Conoco House → New Printing House Square → Vista Office Centre → CI Tower → Carlow House → Cap Gemini → Great West House → Cliffords Inn → Coventry House → Western House → Spring Gardens → Cambridge House → London House → 2 Deanery Street → One Leicester Square → Quayside Lodge → Chancel House → Buspace Studios → 80/84 & 86 Bondway → Satellite House ←← **SWEDEN** → Solna Business Park → Vänerparken → Gothenburg ←← **CONTINENTAL EUROPE** → Abbé Hazard → Marcel Pourtout → Solférino → Columbus → Equinoxe II → Philippe Auguste → Général Leclerc → Paul Doumer → Lord Byron → Rhône Alpes → Forum → Rue de la Ferme → Petits Hôtels → Mission Marchand → Edouard Vaillant → Rue Pierre Timbaud → Bellevue → Villa Angelica → Front de Parc → Rochefoucauld → Santos Dumont → Rue Nationale → Le Debussy → Le Sigma → Lotus → Charenton Bercy → Petits Champs → D'Aubigny → Le Chorus → Le Quatuor → Fontainebleau → Edouard Belin → Capitaine Guynemer → Le Foch → La Madeleine → Rueil 2000 → Park Avenue → Le Gauguin → Le Sirius → Jean Jaurès → Eugène Ruppert → Georges Clémenceau ←←

2004

SCHEDULE OF GROUP PROPERTIES

Properties UK	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,295	283,046	Offices	1996
Spring Gardens	Tinworth Street, London SE11	Freehold	15,205	163,671	Offices	1990
Leicester Square	1 Leicester Square, London WC2	Freehold	3,350	36,060	Cinema/Retail/ Leisure	1999
Great West House	Great West Road, Brentford, Middx TW8 9DF	Freehold	8,596	92,524	Offices	2005
Computer House	Great West Road, Brentford, Middx	Freehold	5,792	62,347	Offices	2005
Cap Gemini	95 Wandsworth Rd, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/Industrial	1995
Property value £10m – £20m						
Coventry House	21/24 Coventry St. & 35a Haymarket, London SW1	Freehold	620	6,674	Restaurant/ Residential/ Advertising	2002
Carlrow House	Carlrow Street, London NW1	Freehold	4,454	47,944	Offices/Residential	1989
Westminster Tower	3 Albert Embankment, London SE1 7SP	Freehold	4,477	48,192	Offices	2004
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,638	71,453	Offices	1991/1998
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,579	81,582	Offices	2002
Brent House	349/357 High Road, Wembley, Middx HA9	Freehold	9,128	98,256	Offices	1995
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,075	33,100	Offices/Residential	1993
Drury Lane	167/172 Drury Lane, London WC2	Freehold	2,962	31,884	Retail/Offices/ Theatre	1999
Vista Office Centre	Salisbury Road, Hounslow, Middx	Freehold	9,523	102,504	Offices	1999
Property value < £10m						
Chancel House	Neasden Lane, London NW10	Freehold	7,017	75,538	Offices	1990
Conoco House	200 Great Dover Street, London SE1	Leasehold	3,377	36,345	Offices	1960's
Tinworth Street, 2/10	2/10Tinworth Street, London SE11	Freehold	1,264	13,598	Industrial/Offices	Early 1900's
Dukes Road	22 Dukes Road	Freehold	1,067	11,485	Offices	1980's
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,361	Studio/Workshops/ Offices	2001
London House	271/273 King St, Hammersmith, London W6	Freehold	1,426	15,351	Business Centre	2001
275 King Street	275/281 King Street, London W6	Freehold	1,895	20,399	Offices	1999
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,347	14,499	Offices	2001
80/84 Bondway	80/84 Bondway, London SE11	Freehold	1,636	17,641	Offices	Early 1900's
Satellite House	15/23 Baches Street London N1	Freehold	1,450	15,604	Offices	1980
Hollywood Nightclub	Princess Street, Ipswich, Suffolk, IP1 1SB	Freehold	1,951	21,000	Nightclub	1999
86 Bondway	86 Bondway, London SE11	Freehold	891	9,590	Offices	2001
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/Residential	1988
Vauxhall Walk, 108	108 Vauxhall Walk, London SE11	Freehold	600	6,456	Car parking	Early 1900's
Vauxhall Walk, 110	110 Vauxhall Walk, London SE11	Freehold	790	8,500	Industrial/Offices	1990
Western House	5 Glasshouse Walk, London SE11	Freehold	538	5,791	Offices	1900's
Holland Park Avenue	London W11	Freehold	–	–	Residential	1997
18/20 Miles Street	18/20 Miles Street, London SE11	Freehold	152	1,636	Offices	2001
Quayside Lodge	William Morris Way, London SW6 2UZ	Freehold	3,049	32,815	Offices	1989
Rivers	35 Albert Embankment, London SE11	Freehold	531	5,716	Leisure	Early 1900's
UK Properties at 31 December 2004			Sub total	150,299	1,617,848	
Properties Sweden						
Property value > £20m						
Vänerparken	Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,354	488,202	Offices/Education/ Residential/Leisure/ Hospital	Various
Solna	Fräsaren 11, Fräsaren 12, Smeden 1, Sliparen1, Sliparen 2	Freehold	128,053	1,378,396	Offices/Industrial/ Retail/Residential	Various
Lövgärdet Business	Lövgärdet, Gothenburg	Freehold	42,608	458,644	Offices/Education	1960's
Lövgärdet Residential	Lövgärdet, Gothenburg	Freehold	70,632	760,301	Residential/retail	1960's
Swedish Properties at 31 December 2004			Sub total	286,647	3,085,543	

SCHEDULE OF GROUP PROPERTIES

Properties	Continental Europe	Address	Freehold/ Leasehold	Area m ²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m							
Edouard Belin		1 Avenue Edouard Belin, 92500 Rueil Malmaison, Paris	Freehold	9,849	106,017	Offices	1991
Property value £10m - £20m							
Rueil 2000		15/21 Avenue Edouard Belin, 92500 Rueil-Malmaison, Paris	Freehold	7,419	79,857	Offices	1991
Lotus		41 rue du Capitaine Guynemer, 92400 Courbevoie, Paris	Freehold	6,026	64,865	Offices	1977
Le Sigma		Place de Belgique, 90 Bld de L'Europe, 92250 La Garenne Colombes, Paris	Freehold	6,575	70,775	Offices	1993
Charenton Bercy		2 rue du Nouveau Bercy, 94220 Charenton	Freehold	5,227	56,265	Offices	1994
Property value < £10m							
Forum		27/33 rue Maurice Flandin, 69003 Lyon	Freehold	6,910	74,381	Offices	1989
Lord Byron		2 rue Lord Byron, 75008 Paris	Freehold	560	6,028	Offices	1929
Bellevue		95/97Bis rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,834	Offices	1988
Le Quatuor		168 Avenue Jean Jaurès, 92120 Montrouge, Paris	Freehold	5,131	55,231	Offices	1991
Petits Champs		48 rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,376	Offices	1972
Le Debussy		77/81 Boulevard de la République, 92250 la Garenne Colombes, Paris	Freehold	4,206	45,274	Offices	1992
Mission Marchand		56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,635	28,364	Offices	1993
Villa Angelica		58/60 Avenue Général Leclerc, 92340 Bourg la Reine, Paris	Freehold	3,736	40,215	Offices	2002
Front de Parc		109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,222	Offices	1989
Columbus		1 Rond Point de L'Europe, 92250 La Garenne-Colombes, Paris	Freehold	3,162	34,037	Offices	1990
Equinoxe II		1 bis Avenue du 8 Mai, 1945, St Quentin en Yvelines, Paris	Freehold	4,235	45,587	Offices	1995
La Madeleine		105 Avenue de la Republique 59110 Lille	Freehold	4,030	43,379	Offices	1979
Rue Nationale		96 rue Nationale, 59000 Lille	Freehold	2,243	24,144	Offices	1975
Capitaine Guynemer		53/55 rue de Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	1,893	20,377	Offices	1993
Paul Doumer		147 Avenue Paul Doumer, 92500 Rueil Malmaison, Paris	Freehold	3,489	37,557	Offices	1998
Rhône Alpes		235 Cours Lafayette, 69006 Lyon	Freehold	3,657	39,365	Offices	1993
Park Avenue		81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,737	Offices	1988/89
D'Aubigny		27 rue de la Villette, 69003 Lyon	Leasehold	4,316	46,459	Offices	1989
Philippe Auguste		83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,610	17,330	Offices	1995
Petits Hôtels		20/22 rue des Petits Hôtels, 75010 Paris	Freehold	2,001	21,539	Offices	1994
Le Chorus		2203 chemin de St Claude, Nova Antipolis 06600 Antibes	Freehold	4,333	46,642	Offices	1990
Edouard Vaillant		28/30 rue Edouard Vaillant, 92300 Levallois Perret, Paris	Freehold	1,706	18,364	Offices	1996
Rue Pierre Timbaud		2 rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,123	Offices	1994
Marcel Pourtout		5 Boulevard Marcel Pourtout, 92500 Rueil Malmaison, Paris	Freehold	2,251	24,230	Offices	1990
Le Foch		62 Avenue Foch, 92250 la Garenne Colombes, Paris	Freehold	1,613	17,363	Offices	1992
Rue de la Ferme		14 rue de la Ferme, 92100 Boulogne, Paris	Freehold	1,101	11,851	Offices	1991
Santos Dumont		23 Avenue Louis Breguet, 78140 Velizy	Freehold	3,701	39,839	Offices	1991
Solférino		16 rue de Solférino, 92100 Boulogne, Paris	Freehold	1,046	11,259	Offices	1991
Général Leclerc		58 Avenue Général Leclerc, 92100 Boulogne, Paris	Freehold	525	5,651	Offices	1992
Stephenson		18 Rue Stephenson, 75018 Paris	Freehold	538	5,790	Offices	1994
Georges Clémenceau		2 boulevard Georges Clémenceau 92400 Courbevoie	Freehold	1,972	21,226	Offices	1972
Fontainebleau		108 Avenue de Fontainebleau, 94270 le Kremlin Bicêtre, Paris	Freehold	517	5,565	Offices	1989
Abbé Hazard		8/10, rue de l'Abbé Hazard, 92100 Nanterre, Paris	Freehold	532	5,726	Offices	1990
Le Gauguin		47 Allée des Impressionnistes, 93420 Villepin	Freehold	4,900	52,744	Offices	1989
Le Sirius		9/11 rue Jean Mazet, 94200 Ivry Sur Seine	Freehold	7,088	76,297	Offices	1989
Jean Jaurès		120 rue Jean Jaurès, 92300 Levallois Penet	Freehold	4,035	43,434	Offices	1993
Eugène Ruppert		16 rue Eugène Ruppert, 424 53 Luxembourg	Freehold	3,698	39,806	Offices	1991
Schanzenstrasse		Schanzenstrasse 76, Dusseldorf	Freehold	3,095	33,315	Offices	1990
Continental Europe Properties at 31 December 2004				Sub total	148,404	1,597,459	
TOTAL ALL PROPERTY					585,350	6,300,850	

PORTFOLIO

UNITED KINGDOM



One Leicester Square
London WC2
Major leisure development

2004

Westminster Tower
London SE1

Conoco House
London SE1

22 Dukes Road
London WC1

Chancel House
London NW10

New Printing House Square
London WC1

Quayside Lodge
London SW6
Freehold offices

Carlow House
London NW1
Office and residential
investment in Camden

Cliffords Inn
Fetter Lane, London EC4
Freehold offices and
residential investments

CI Tower
New Malden KT3
Substantial multi-tenanted
office investment

Satellite House
London N1

Cap Gemini
South Bank
London SW8
Mixed office and
industrial investment

Coventry House

London SW1
Sign, restaurant and flats

Great West House

Brentford, Middx TW8
Multi-Tenanted offices located
near the A4/M4 interchange

Western House

London SE11
Freehold offices

Drury Lane

London WC2
Office, retail and leisure investment

Brent House

Wembley, Middx HA9

London House

London SW6
Business Centre

Ingram House

London WC2
Freehold offices and residential

2 Deanery Street

London W1
Freehold offices

Spring Gardens

London SE11
Substantial office business park

Cambridge House

London W6
Freehold offices

Vista Office Centre

Middx TW4
Offices, situated close to Heathrow,
substantial refurbishment during 2000

New London Bridge House

London SE1
Offices

PORTFOLIO

SWEDEN

2004

Solna Business Park

Stockholm, Sweden

Offices and retail accommodation
undergoing major refurbishment

Solna Business Park

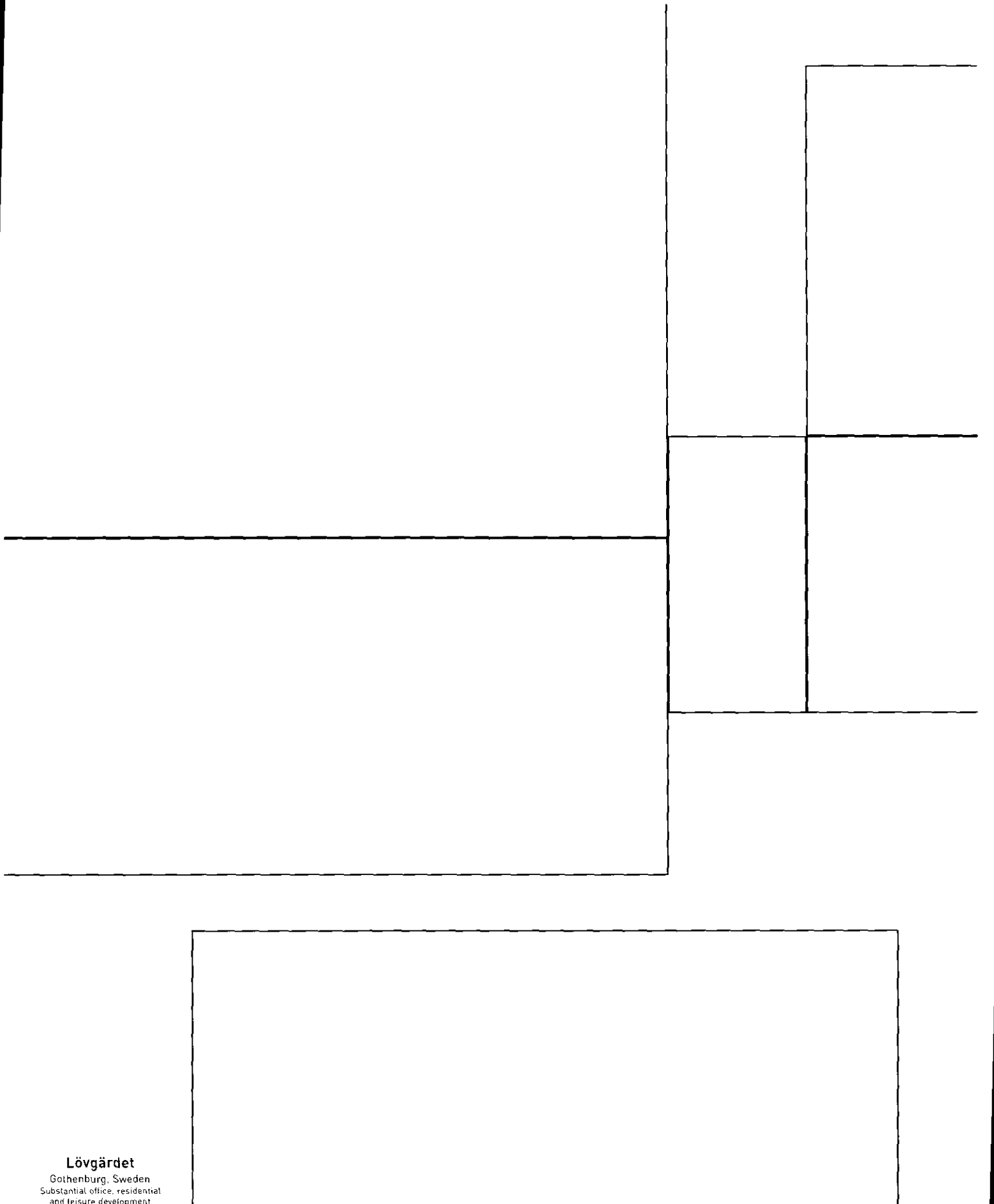
Stockholm, Sweden
Recently refurbished space occupied
by Coop in January 2004

Solna Business Park

Stockholm, Sweden
Offices, retail, hotel, gym and
restaurant



Vänerparken
Vänersborg, Sweden
Substantial office, residential
and leisure development



Lövgärdet
Gothenburg, Sweden
Substantial office, residential
and leisure development

PORTFOLIO

FRANCE

Lord Byron

2 rue Lord Byron,
75008 Paris
Acquired October 1999

Sirius

9/11 rue Jean Mazet,
94200 Ivry Sur Seine
Acquired September 2004

Général Leclerc

58 Avenue Général Leclerc,
92100 Boulogne, Paris
Acquired June 2002

Bellevue

95/97 bis rue de Bellevue
92100 Boulogne, Paris
Acquired October 1999

2004

Abbé Hazard

8/10 rue de l'Abbé Hazard
92100 Nanterre, Paris
Acquired June 2002

Philippe Auguste

83/85 Avenue Philippe
Auguste, 75011 Paris
Acquired December 1997

Solférino

16 rue de Solférino,
92100 Boulogne, Paris
Acquired June 2002

Fontainebleau

108 Avenue de Fontainebleau
94270 le Kremlin Bicêtre, Paris
Acquired June 2002

Columbus

1 rond point de L'Europe
92250 La Garenne-
Colombes, Paris
Acquired July 1997

Rhône Alpes

235 cours Lafayette, 69006, Lyon
Acquired December 1997

Park Avenue

81 Boulevard de Stalingrad
69100 Villeurbanne, Lyon
Acquired July 1997

Forum

27/33 rue Maurice Flandin
69003 Lyon
Acquired July 1997

Le Chorus

2203 chemin de St Claude
Nova Antipolis, 06600 Antibes
Acquired January 2001

Rue de la Ferme

14 rue de la Ferme
92100 Boulogne, Paris
Acquired June 2002

D'Aubigny

27 rue de la Villette
69003 Lyon
Acquired July 1997

Petits Champs

48 rue Croix des Petits Champs
75001 Paris
Acquired April 1998

Villa Angelica

58/60 Avenue Général Leclerc
92340 Bourg la Reine, Paris
Acquired October 2002

Petits Hôtels

20/22 rue des Petits Hôtels
75010 Paris
Acquired May 1998

Capitaine Guynemer

53/55 rue du Capitaine Guynemer
92400 Courbevoie, Paris
Acquired July 1998

Edouard Belin

1 Avenue Edouard Belin
92500 Rueil Malmaison, Paris
Acquired April 1999

Edouard Vaillant

28/30 rue Edouard Vaillant
92300 Levallois-Perret, Paris
Acquired December 1998

Le Quatuor

168 Avenue Jean Jaurès
92120 Montrouge, Paris
Acquired June 2002

Le Foch

62 Avenue Foch, 92250
la Garenne Colombes, Paris
Acquired June 2002

Mission Marchand

56 Boulevard de la Mission Marchand
92400 Courbevoie, Paris
Acquired July 1997

Rueil 2000
15/21 Avenue Edouard Belin,
92500 Rueil Malmaison, Paris
Acquired December 1998

Rue Pierre Timbaud
2 rue Pierre Timbaud
92230 Gennevilliers, Paris
Acquired October 2001

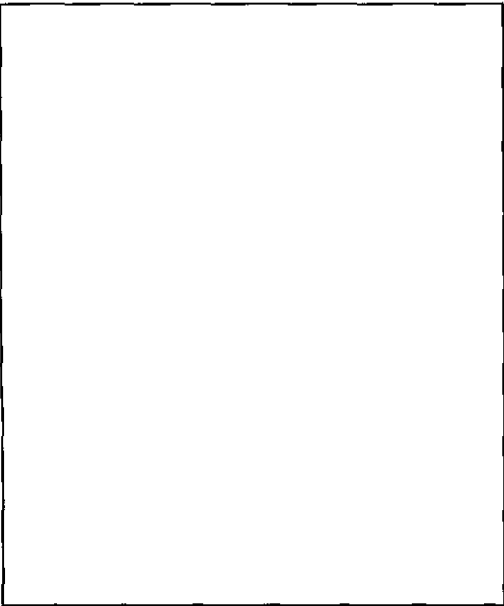
Rue Nationale
96 rue Nationale,
59000 Lille
Acquired September 2001

Lotus
41 rue du Capitaine Guynemer
92400 Courbevoie, Paris
Acquired July 1998

Santos Dumont, Velizy (Block C, D and E)
23 Avenue Louis Breguet
78140 Velizy, Paris
Acquired May 1998

Charenton Bercy
2 rue du Nouveau Bercy
94220 Charenton, Paris
Acquired July 1998

Rue Stephenson
75018 Paris
Acquired November 2003



Front de Parc

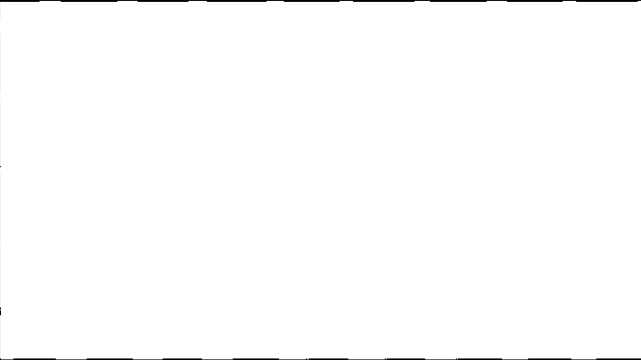
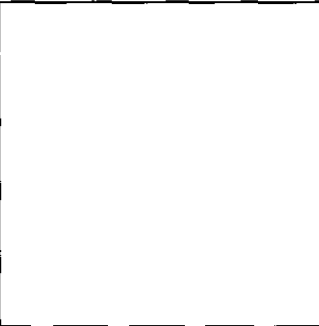
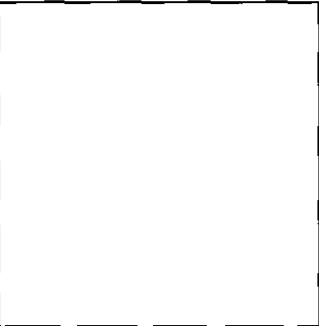
109 Boulevard de Stalingrad
69100 Villeurbanne, Lyon
Acquired July 1997

Le Debussy

77/81 Boulevard de la République,
92250 La Garenne Colombes, Paris
Acquired June 2002

La Madeleine

105 Avenue de la République
59110 Lille
Acquired September 2001



Le Sigma

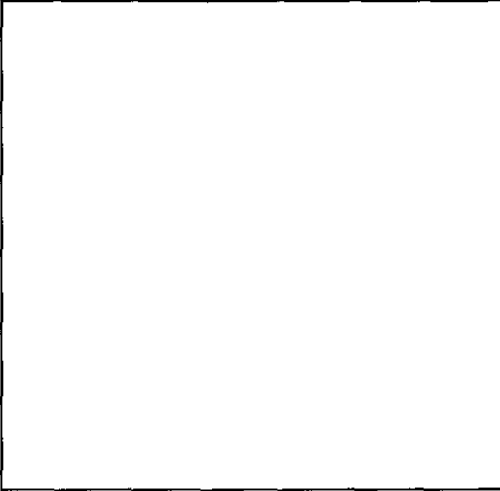
Place de Belgique
92250 La Garenne
Colombes, Paris
Acquired December 1997

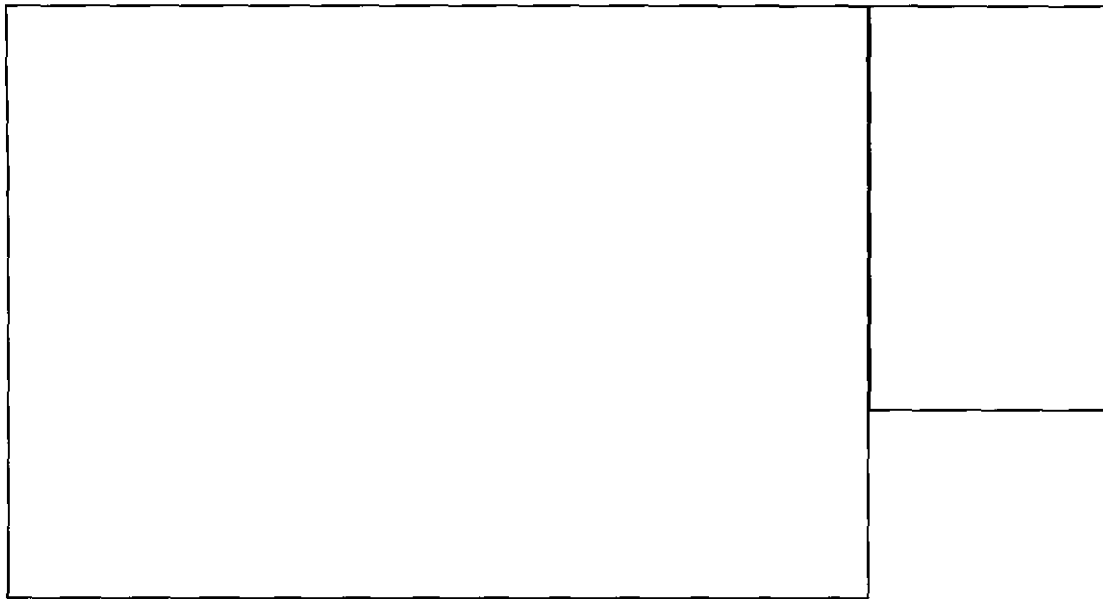
Jean Jaurès

120 rue Jean Jaurès, 93300 Levallois Penet
Acquired 2004

Le Gauguin

47 Allée des Impressionistes, 93420 Villepin
Acquired 2004





Georges Clémenceau

Courbevoie, Paris
Acquired February 2004.

16 rue Eugene Ruppert

L-2453 Luxembourg
Acquired January 2004.

Marcel Pourtout

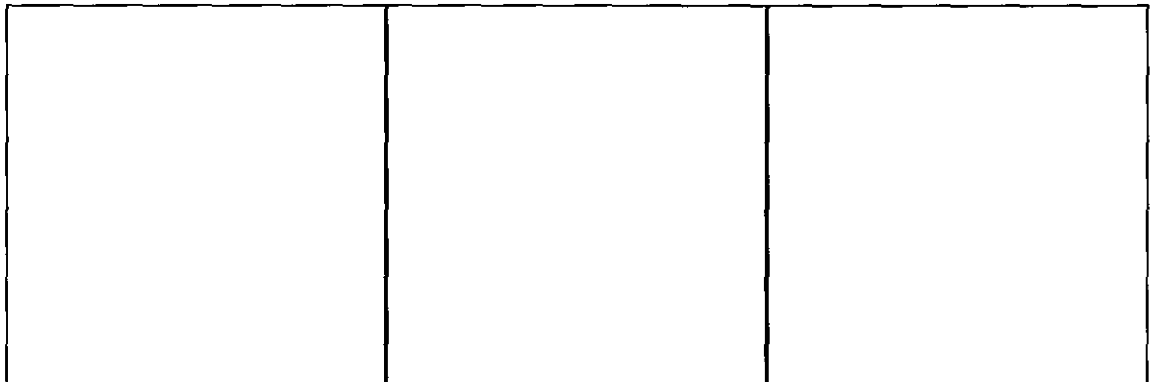
5 Boulevard Marcel Pourtout
92500 Rueil Malmaison, Paris
Acquired December 2000

Equinoxe II

1 bis Avenue du 8 Mai 1945
78280 St Quentin en Yvelines, Paris
Acquired October 1997

Paul Doumer

147 Avenue Paul Doumer,
92500 Rueil Malmaison, Paris
Acquired March 1999



DIRECTORS' REPORT

for the year ended 31 December 2004

The Directors present their report and the audited financial statements for the year ended 31 December 2004. 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 65.

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 2004 the Company distributed £6,412,286 to shareholders (equivalent to 7.5 pence per share) by way of tender offer buy-back completed in November 2004 (2003: distribution of £5,842,935 or 6.5 pence per share).

The Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2004. It is proposed, therefore, that the Company offers to buy 1 in 41 of the shares registered in the name of each eligible shareholder at a price of 485 pence per share. This compares with a mid-market price of 431.0 pence per share on 31 March 2005 (2003: 1 in 36 shares at 380 pence per share).

The resulting distribution to shareholders will be £9,919,196 or 11.8 pence per share, which will be made in May 2005. 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 2004 will have received a total return of 19.3 pence per share (2003: 17.1 pence per share).

4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made tender-offer purchases totalling 4,082,066 of its own shares at a cost of £15,676,268, a weighted average of 384 pence per share. This represents £1,020,516.50 in nominal value, or 4.65 per cent of the brought forward called up share capital. Shares purchased during the November tender offer have been retained as Treasury shares.

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 2004 Annual General Meeting the Company was authorised to make market purchases of up to 8,532,617 ordinary shares. Since last year's Annual General Meeting the Company has not made market purchases of shares and therefore still has authority to purchase 8,532,617. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 8,181,780 shares.

5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2004 was carried out by Allsop & Co for the UK and Sweden, and DTZ Debenham Tie Leung for France, which produced an open market value of £981.6 million (2003: £882.4 million). On the basis of these valuations net assets per share amounted to 508.5 pence (2003: 439.2 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 2004.

6 DIRECTORS

The current Directors of the Company are shown on page 32. Anna Seeley resigned from the Board on 23 November, 2004.

A statement of Directors' remuneration and their interests in shares and share options of the Company is set out in the Directors' Remuneration Report on pages 59 to 63.

DIRECTORS' REPORT

for the year ended 31 December 2004

6 DIRECTORS (continued)

Biographical details of the Executive and Non-Executive Directors are set out below:

Executive Directors:

Sten Mortstedt, aged 65, has a consistent track record during a period of over 40 years, of building profitable and sustainable businesses both within the field of property and in a wide variety of other commercial sectors. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years he had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which he successfully floated on the Stock Exchange in Stockholm, in 1981.

Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987 and took the Company to a listing on the main market of the London Stock Exchange in 1994. Since that time, as Executive Chairman he has been a driving force in this pan-European Group in generating growth in profits and asset values.

In addition to his focus on property, he has been commercially active in a number of investment areas outside the property arena and has seen a number of the companies in which he has invested through to successful stock exchange listings or trade sales.

He runs his global interests from his residence in Switzerland.

Tom Thomson, aged 54, has a BA (Hons) in law from Kent University and qualified as a solicitor with Reynolds Porter Chamberlain in 1976. From 1979 to March 1994 he was a partner with Taylor Walton Solicitors. He was Company Secretary and solicitor to CLS from its inception in 1983 until 2001, initially as a partner in Taylor Walton and since 1994 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004.

Dan Bäverstam, aged 49, graduated from Stockholm School of Economics in 1979 and subsequently completed a Business Studies course at CERAM Sophia Antipolis in France. He began his career with Wermlandsbank and PK Bank in Sweden. He then became Assistant Treasurer of AB Astra, now Astra Zeneca, responsible for foreign exchange and interest rate management. In 1987 he moved to the UK and became General Manager of the Treasury Operations of Svenska Finans International, part of the Svenska Handelsbanken. He joined CLS in October 1991 and is responsible within CLS for corporate financing and treasury operations and for the Group's French property acquisitions. He became Chief Financial Officer on 5 October 2001.

Steven Board, aged 50, joined the Company in December 1998 and is Chief Operating Officer with overall responsibility for the Group's *Europe-wide financial and IT systems, financial reporting and personnel and administration matters*. Prior to joining the Company he worked for St. George Developments, part of the Berkeley Group plc as Finance Director. He previously held directorships within Alfred McAlpine PLC and senior management positions within British Telecommunications plc. He qualified as an accountant in 1980. He joined the Board on 25 February 2003.

Per Sjöberg, aged 43, graduated from Stockholm University with a Bachelor degree in Business Administration. He is also an engineer and has experience of a number of large development projects globally. Before joining CLS Per worked as an independent consultant, and set up his own consultancy company in 1996. He has been responsible for property development activities at the Group since 1 November 2001 and was appointed to the main board as Group Development Director on 6 February 2004.

Non-Executive Directors:

James Dean, aged 50, 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 and Savills Commercial and is also a director of Cosalt plc, Daniel Thwaites Plc and a number of private companies. He joined the Board on 9 April 1999.

Dr Keith Harris, aged 51, 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. He joined the Board on 28 April 1994.

Thomas Lundqvist, aged 60, 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 Group where he was a board member.

Bengt Mortstedt, aged 56, 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.

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.

DIRECTORS' REPORT

for the year ended 31 December 2004

6 DIRECTORS (continued)

The Board recognises that Keith Harris and Thomas Lundqvist, having served for more than 9 years as Directors, no longer meet the criteria for independence set out in the Combined Code. After careful review, it is the opinion of the Board that they remain independent of the management of the Company, having regard to their financial independence and other commercial interests. It is the Board's view that they add significant value to the operation of the Company through their combined wisdom and varying experience and as such it is currently not appropriate to change a successful team. However, as recommended under the Combined Code, Keith Harris, Bengt Mortstedt and Thomas Lundqvist will retire annually. All three Directors will seek re-election to the Board at the Annual General Meeting.

In accordance with the Articles of Association, Tom Thomson and Dan Bäverstam will retire at the Annual General Meeting and seek re-election to the Board. The Board recommends to the shareholders the re-election of the retiring Directors who have all contributed to the continuing financial success of the Company.

7 SUBSTANTIAL SHAREHOLDERS

In addition to the interest of the Mortstedt family referred to in note 8 of the Directors' Remuneration Report, the Company has been notified of interests which at 31 March 2005 represented 3 per cent or more of the Company's issued share capital.

	No. of shares	%
Stichting Pensioenfonds ABP	3,057,217	3.65

8 CORPORATE GOVERNANCE

The Chief Operating Officer takes responsibility for the Company's Corporate Governance policy.

Combined Code

As reported to shareholders last year, the Company has undertaken a review of its corporate governance arrangements in light of the introduction of revisions to the Combined Code introduced in 2003. The Board supports the principles of good governance as set out in the Combined Code 2003 and incorporated into the rules of the UK Listing Authority. Save as identified and explained below, the Board considers that it has complied with all the provisions of the 2003 Code.

The Board

The Board currently comprises five Executive Directors, including the Chairman, and four Non-Executive Directors. One Non-Executive Director left the Board during the year. The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. Due to the structure of the Company it is considered that it is not appropriate to change the successful Board composition at present.

During the year, the Chairman has conferred with the Non-Executive Directors without the other Executive Directors present.

All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and are subject to re-election at least every three years. Non-Executive Directors are appointed for a specific term of office which provides for their removal in certain circumstances, including under section 303 of the Companies Act. The Board does not automatically re-nominate Non-Executive Directors for election by shareholders. The terms of appointment of the Non-Executive Directors can be obtained by request to the Company Secretary.

The Board has appointed Keith Harris to be the Senior Independent Director. As recommended by the Code, Keith Harris is available to shareholders who cannot appropriately approach either the Chairman or the Chief Executive about a company matter. As Senior Independent Director, Keith Harris is also involved in succession planning and advises the Chairman as required.

The Board's 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. Matters reserved for Board decisions include strategic long-term objectives and capital structure of major transactions. The implementation of board decisions and day to day operations of the Group are delegated to management.

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. The views of shareholders are sought in meetings held variously by the Chairman, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, and are reported back to the Board. The Board is also advised of the views of shareholders as received by the Company's brokers.

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

DIRECTORS' REPORT

for the year ended 31 December 2004

8 CORPORATE GOVERNANCE (continued)

The Board met five 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. The board has a formal schedule of matters specifically reserved to it for decision, which has been updated during the year; other decisions are dealt with as day-to-day matters by management. 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.

Although no specific formal meeting of the Non-Executive Directors without the Chairman and Executive Directors took place, informal discussions between Non-Executive Directors were held throughout the year.

During the year, the Chairman has undertaken a process of review of the Board, its Committees and Directors as recommended by the Combined Code. This process included assessing the contribution to the Group of each individual Board member. The results of this review have been discussed with the Chairman of the Audit Committee and reported to the Board. The performance of the Chairman was reviewed by the Non-Executive Directors.

The attendance of Directors at meetings during the year is set out below:

	Board	Audit Committee	Remuneration Committee
Number of meetings held	5	2	1
Mr S Mortstedt	5	-	-
Mr T Thomson	5	-	-
Mr D Bäverstam	5	-	-
Mr S Board	5	-	-
Mr P Sjöberg (appointed February 2004)	5	-	-
Dr K Harris	5	2	1
Mr J Dean	5	2	1
Mr T Lundqvist	5	2	-
Mr B Mortstedt	5	-	-
Mrs A Seeley (resigned November 2004)	2	-	-

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 the Committees can be obtained by contacting the Company Secretary at the Registered Office.

The Board is assisted by the following committees:

The Audit Committee comprises three Non-Executive Directors (Keith Harris (Chairman), James Dean and Thomas Lundqvist) and has met twice during the year. 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. During the year, the terms of reference of the Committee have been updated to reflect current best practice, including authority to:

- Recommend the appointment, re-appointment and removal of the external auditor
- Ensure the objectivity and independence of the auditors including occasions when non-audit services are provided
- Ensure appropriate 'whistle-blowing' arrangements are in place

The Non-Executive directors may seek information from any employee of the Group and obtain external professional advice at the expense of the Company if considered necessary. Due to the relatively low number of personnel employed within the Group, the nature of the business and the current control and review systems in place, the Board has decided not to establish a separate internal audit department.

The Remuneration Committee comprises two Non-Executive Directors, James Dean and Keith Harris, and has met once during the year. 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. Full details of the Committee's work are given in the Remuneration Report on pages 59 to 63.

The Board of Directors has considered the appointment of a separate Nomination Committee, as recommended by the 2003 Code, however due to the size and nature of the Company, this function is carried out by the members of the Remuneration Committee with the Executive Chairman.

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 Chief Executive, who is responsible for implementing the strategy and day to day running of the Group. He is assisted by the Chief Financial Officer and Chief Operating Officer. The Board has approved a written statement of the division of responsibilities between the Executive Chairman and the Chief Executive.

DIRECTORS' REPORT

for the year ended 31 December 2004

8 CORPORATE GOVERNANCE (continued)

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 misstatement or loss. These procedures have operated for the entire financial year and up to the date of approval of the annual Report and Accounts. 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 that there has been no material misstatement 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 4 to 31 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.

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 website.

The Chairman, the Vice Chairman and Chief Executive and other senior management have regular meetings with institutional shareholders, all shareholders are welcome to attend the Company's Annual General Meeting and to arrange individual meetings by appointment. The views received at such meetings are fed back to the Board.

Business Ethics

The Board recognises the importance of the Company's responsibilities as an ethical employer and views matters in which the Company interacts with the community both socially and economically as the responsibility of the whole board.

Health & Safety

It is a primary concern of the Board that the Company manages its activities in such a manner as to ensure that the health and safety of its employees, tenants, advisors, contractors and the general public is not compromised.

DIRECTORS' REPORT

for the year ended 31 December 2004

8 CORPORATE GOVERNANCE (continued)

Environmental Issues

The Board is aware of the Company's environmental impact and therefore seeks to both minimise adverse effects and enhance positive effects. The Company encourages recycling and energy conservation. Our major refurbishment project in Sweden received a 'P' mark award thereby ensuring our tenants receive a quality system for air, temperature, light, damp, noise, emissions from materials, static electricity and magnetic fields.

Compliance with the Combined Code

With the exception of the absence of a Nominations Committee the Company has complied throughout the financial year with the provisions of the Combined Code

9 EMPLOYEES

The Directors believe that the Group's employees are a source of competitive advantage. The Directors recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain employees of the highest calibre. The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexual orientation or is disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified. Entry into and progression within the Group are solely determined by the application of job criteria, personal aptitude and competence.

It is the Group's policy to apply best practice in the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised in the business and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment.

All staff are informed of matters concerning their interest as employees and the financial and economic factors affecting the business. Established management communication channels have been supplemented by direct presentations to staff by Directors to explain developments of particular significance.

10 SHARE CAPITAL

Changes in share capital are shown in note 21. At 31 December 2004 there were share options for 585,000 shares outstanding (2003: 879,000). Details of the Directors' share options are shown in the Directors' Remuneration Report.

11 CHARITABLE CONTRIBUTIONS

The contributions made by the Group during the year for charitable purposes were £5,058 (2003: £42,150).

12 INSURANCE OF DIRECTORS

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

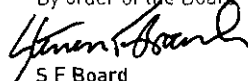
13 SUPPLIER PAYMENT POLICY

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 49 days total invoices received for the year as a whole (2003: 31 days). The Company has no trade creditors (2003: nil).

14 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
31 March 2005

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2004

The report on remuneration of the Directors for the year ended 31 December 2004 is set out below and has been prepared in accordance with the applicable statutory regulations.

Certain sections of this report are subject to statutory audit, as required by the Directors' Remuneration Report Regulations 2002. Those sections are indicated in the section title. All other sections have not been audited.

1. THE WORK OF THE REMUNERATION COMMITTEE

The Board has appointed a Remuneration Committee that comprises James Dean (Chairman) and Keith Harris who are both considered to be independent Non-Executive Directors. The remit of the Committee is to consider and recommend to the Board:

- a. The remuneration of the Executive Directors, including performance related bonuses
- b. The administration of the Company's share option schemes

The Committee has maintained the same membership throughout the year, and has held one formal meeting during the period. In addition, the members of the Committee have had informal contact as necessary throughout the year. The Committee received advice from the Executive Chairman, Sten Mortstedt.

2. REMUNERATION POLICY

The Company's policy on remuneration is to set overall remuneration packages at a level sufficient to attract, retain and incentivise high calibre staff with a view to enhancing long-term shareholder value.

Executive Directors

Consistent with this policy, emoluments awarded to Executive directors are intended to be competitive and comprise a mix of both performance and non-performance related remuneration. This is designed to incentivise directors and to align their interests with those of shareholders, whilst adhering to the goals of Corporate Governance.

The Remuneration Committee conducts an annual analysis of the remuneration and emoluments of the Directors against a group of 10 appropriate quoted real estate companies. In all cases, this analysis showed that, whilst the performance of CLS was in the upper quartile of the review group, the remuneration of the Directors was in the third quartile.

The Board does not anticipate any significant change to its remuneration policy in the year ending 31 December 2005.

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Board, having received the recommendations of the Executive Directors. Their remuneration consists of fees for their services to the Board and any additional services such as chairing Board committees.

Basic salaries

The basic salaries of the Executive Directors are reviewed annually as at 1 January. The annual review takes account of similar positions in a range of comparable companies as indicated above.

Performance-Related Remuneration

The performance-related element, if any, of each Executive Director's remuneration is determined after taking into account the performance of the individual and the performance of the Company, together with the emoluments of the individual, compared to those in the comparator group mentioned above.

Sten Mortstedt does not receive a performance-related element in respect of his remuneration as the Remuneration Committee considers that the size of his shareholding in the Company gives an adequate link to performance.

No Non-Executive Director receives a performance-related element of their remuneration.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2004

2. REMUNERATION POLICY (continued)

During the year ended 31 December 2004, the apportionment of remuneration between performance-related and non-performance related elements was as follows;

Director	Performance-related	Non Performance-Related
Sten Mortstedt	Nil	100%
Tom Thomson	40%	60%
Dan Bäverstam	53%	47%
Steven Board	48%	52%
Per Sjöberg	Nil	100%
James Dean	Nil	100%
Keith Harris	Nil	100%
Thomas Lundqvist	Nil	100%
Bengt Mortstedt	Nil	100%
Anna Seeley*	Nil	100%

* Anna Seeley resigned from the Board on 23rd November, 2004.

3. DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2004, the remuneration received by the Directors was as set out in the table below.

	2004 Fee as Director £000	2004 Salary £000	2004 Other fees £000	2004 Benefits in kind £000	2004 Total emol- uments £000	2004 Defined contri- bution pension £000	2004 Other pension- related £000	2004 Total Remun- eration £000	2003 Total Remun- eration £000
Executive									
Sten Mortstedt (Executive Chairman)	-	160	287	-	447	-	-	447	393
Tom Thomson (Vice-Chairman and Chief Executive)	-	215	-	3	218	11	155	384	339
Dan Bäverstam (Chief Financial Officer)	-	160	-	3	163	6	190	359	314
Steven Board ⁽¹⁾ (Chief Operating Officer)	-	150	-	3	153	8	150	311	220
Per Sjöberg ⁽²⁾ (Group Property Director)	-	56	107	-	163	-	-	163	-
Non-Executive									
James Dean (Non-Executive Director)	30	-	-	-	30	-	-	30	27
Keith Harris (Non-Executive Director)	30	-	-	-	30	-	-	30	27
Thomas Lundqvist (Non-Executive Director)	25	-	-	-	25	-	-	25	22
Bengt Mortstedt (Non-Executive Director)	25	-	-	-	25	-	-	25	22
Anna Seeley ⁽³⁾ (Non-Executive Director)	5	4	-	-	9	-	-	9	77
2004	115	745	394	9	1,263	25	495	1,783	1,441
2003	98	693	243	7	1,041	25	375	1,441	

This table is audited

⁽¹⁾ Steven Board was appointed as a Director on 28 February 2003.

⁽²⁾ Per Sjöberg was appointed as a Director on 6 February 2004 and his remuneration is shown from that date. The amount shown as other fees relates to charges made for his services relating to development projects for the Group, by a company in which he was an employee.

⁽³⁾ Anna Seeley was an Executive Director until 5 February 2004. She resigned from the Board on 23 November 2004.

The benefits provided to Executive directors are permanent health and medical insurance, and pension contributions under the Company's Group Benefit Scheme of which three Directors were members (2003: four). No car is provided to any Director (2003: nil)

DIRECTORS' REMUNERATION REPORT

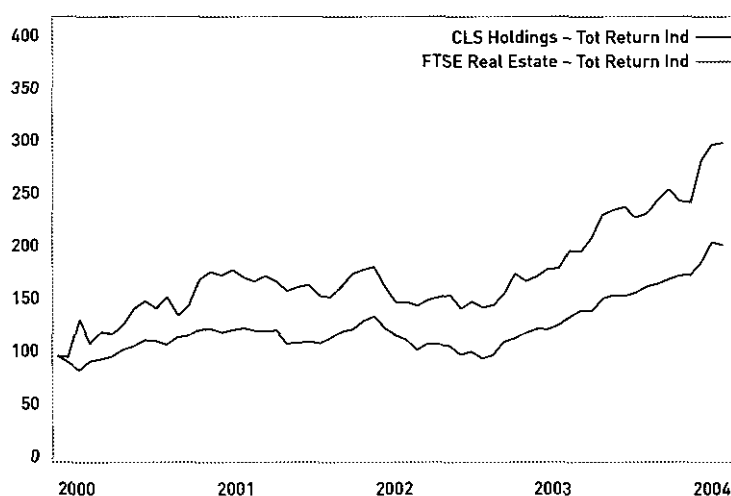
for the year ended 31 December 2004

4. 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 (2003: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2003: 5 per cent). An additional performance-related element was contributed by the Company, and is shown in the table above as other pension.

5. SHARE PERFORMANCE GRAPH

For the period 1 January 2000 to 31 December 2004 the total shareholder return in respect of CLS Holdings plc has shown a return of 201 per cent compared to 108 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.



6. SHARE OPTIONS (AUDITED)

The Board has delegated to the Remuneration Committee the authority to grant options under the Company's 1994 Executive Share Option Scheme (an Inland Revenue Approved scheme) and under the Company's Unapproved Share Option Scheme.

As ten years have elapsed since the adoption of the 1994 Executive Share Option Scheme, no new options can be granted. After careful review, the Board does not currently intend to seek the approval of the shareholders for the adoption of a new Inland Revenue Approved scheme.

Share options have normally been awarded to Executive Directors on the commencement of employment, and there is no policy to provide options to Directors on an annual basis. It is current policy not to provide share options to Non-Executive Directors.

The exercise of share options granted under the Schemes is conditional upon the satisfaction of performance criteria, namely the growth in the net assets of the Group being at least equivalent to the growth of the All Properties Capital Growth Index maintained by Investment Property Databank Limited.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2004

6. SHARE OPTIONS (AUDITED) (continued)

Details of options held by Directors are set out below.

Director	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	No. at 1 Jan 2004	Granted in year	Exercised in year	Market price at exercise (pence)	Lapsed in year	No. at 31 Dec 2004
Sten Mortstedt unapproved	23.07.97	23.07.00	22.07.04	166.66	69,000	-	(69,000)	316.75	-	-
Tom Thomson approved	20.12.01	20.12.04	19.12.11	212.50	14,000	-	-	-	-	14,000
unapproved	20.12.01	20.12.04	19.12.08	212.50	436,000	-	-	-	-	436,000
					450,000	-	-		-	450,000
Dan Bäverstam approved	15.06.94	15.06.97	14.06.04	108.00	60,000	-	(60,000)	315.50	-	-
Approved	23.05.96	23.05.99	22.05.06	98.00	36,000	-	(36,000)	344.25	-	-
unapproved	23.07.97	23.07.00	22.07.04	166.66	69,000	-	(69,000)	318.75	-	-
					165,000		(165,000)		-	-
Per Sjöberg (1) unapproved	20.12.01	20.12.04	19.12.08	212.50	26,000	-	-	-	-	26,000
unapproved	11.04.03	20.12.04	19.12.10	194.50	14,000	-	-	-	-	14,000
					40,000	-	-		-	40,000
Bengt Mortstedt unapproved	23.07.97	23.07.00	22.07.04	166.66	36,000	-	(36,000)	316.75	-	-

This table is audited.

⁽¹⁾ As from 6th February 2004, the date of appointment of Per Sjöberg as a Director.

No other Directors were granted options over the shares of the Company or other Group entities. None of the terms or conditions of the share options were varied during the year.

Notional gains on the exercise of options during 2004 were as follows:

Director

Sten Mortstedt £103,562.10

Dan Bäverstam £318,092.10

Bengt Mortstedt £54,032.40

None of the above Directors made gains on the exercise of options in 2003

The notional gains were calculated by applying the difference between the exercise price and the share price on the exercise date to the number of options exercised.

The highest, lowest, average mid-market share price in the year are detailed under 'Share Capital' on page 15. The year end share price was 407.0 pence.

7. DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company have service contracts in force. There is no provision in the contract of any Executive Director for contractual termination payments, save those payments normally due under employment law.

In accordance with best practice, Non-Executive Directors are not appointed on service contracts, but there are letters of appointment in place for each Non-Executive Director. All of the Non-Executive Directors are appointed until such time as they are re-elected. If they fail to be re-elected their terms of appointment will cease.

During the period, Anna Seeley resigned as a Director. No termination payment was made in respect of her resignation.

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2004

7. DIRECTORS' SERVICE CONTRACTS (continued)

Details of the service contracts/letters of appointment of those who served as Directors during the year are as follows:

Name	Contract date	Notice period
Sten Mortstedt	28.04.94	1 year
Tom Thomson	01.10.01	1 year
Dan Bäverstam	01.10.94	1 year
Steven Board	02.12.98	1 year
Per Sjöberg	06.02.04	3 months
James Dean	09.04.99	6 months
Keith Harris	28.04.94	6 months
Thomas Lundqvist	20.12.98	6 months
Bengt Mortstedt	18.12.98	6 months
Anna Seeley ⁽¹⁾	05.02.04	3 months

⁽¹⁾ As at Anna Seeley's resignation on 23 November 2004.

8. INTERESTS IN SHARES

The interests of the Directors in the ordinary shares of 25p each in the capital of the Company were:

	31 December 2004 Ordinary shares of 25p	31 December 2003 Ordinary shares of 25p
Sten Mortstedt	36,908,551	38,638,433
Tom Thomson	116,447	122,120
Dan Bäverstam	142,513	37,209
Steven Board	76,491	80,218
Per Sjöberg (1)	-	-
James Dean	24,685	25,888
Keith Harris	8,005	8,394
Thomas Lundqvist	95,796	100,465
Bengt Mortstedt	5,846,819	6,095,787
Anna Seeley ⁽²⁾	7,768	7,989

⁽¹⁾ As from Per Sjöberg's date of appointment on 6 February 2004.

⁽²⁾ As at Anna Seeley's resignation on 23 November 2004.

All of the above interests in shares were held beneficially for the Directors concerned. There have been no changes to the holdings shown above between the 31 December 2004 and the date of this report.

9. LONG-TERM INCENTIVE SCHEME

The Company does not operate a long-term incentive scheme.

10. WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board,

James Dean

James Dean
Chairman
Remuneration Committee
31 March 2005

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CLS HOLDINGS PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses, the reconciliation of group historical cost profits and losses, the reconciliation of movements in group 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 and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The Directors are also responsible for preparing the Directors' remuneration report.

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 misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, the un-audited part of the Directors' remuneration report, the Chairman's statement and the financial review.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 judgments 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and of 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

31 March 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Gross rental income (including joint ventures)		74,406	70,723
Less: Joint ventures		(2,619)	(1,421)
Service charge income		6,401	5,699
Turnover from property activities		78,188	75,001
Turnover from non-property activities		5,524	4,657
Total turnover (continuing operations)	1,2,3	83,712	79,658
Service charge expenses		(13,293)	(12,589)
Cost of sales of non-property activities		(4,076)	(2,007)
Other income		66,343	65,062
		1,117	1,253
Administrative expenses		67,460	66,315
Net property expenses		(14,845)	(15,437)
		(3,911)	(4,179)
Other operating gains/(losses)		(18,756)	(19,616)
		1,534	(1,406)
Group operating profit (continuing operations)		50,238	45,293
Share of joint ventures' operating profit (continuing operations)		2,491	1,343
Share of associates' operating loss (continuing operations)		(201)	(258)
Operating profit including joint ventures and associates		52,528	46,378
Gains from sale of investment property		464	1,932
Profit on ordinary activities before interest		52,992	48,310
Interest receivable and similar income:			
Group		1,779	2,135
Joint ventures		22	3
Interest payable and similar charges:	4		
Group		(34,217)	(31,777)
Joint ventures		(1,824)	(1,098)
Profit on ordinary activities before taxation	3,6	18,752	17,573
Tax on profit on ordinary activities:			
Group – current	8	(292)	(655)
– deferred	8,20	(1,097)	591
Joint ventures		(304)	(21)
Profit on ordinary activities after taxation	9	17,059	17,488
Equity minority interest		1,078	1,285
Retained profit for the year	23	18,137	18,773
Basic Earnings per Share	11	21.1p	20.7p
Diluted Earnings per Share	11	20.9p	20.5p

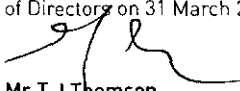
CONSOLIDATED BALANCE SHEET

at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Tangible assets	12	986,600	889,289
Investments:			
Interest in joint ventures:			
Share of gross assets		47,049	38,337
Share of gross liabilities		(33,201)	(29,838)
	13	13,848	8,499
Interest in associates	13	3,010	3,225
Other investments	13	171	171
		1,003,629	901,184
Current assets			
Debtors – amounts falling due after more than one year	14	3,096	3,695
Debtors – amounts falling due within one year	14	10,480	7,976
		13,576	11,671
Investments	15	10,492	3,963
Cash at bank and in hand	16	56,680	56,693
		80,748	72,327
Creditors: amounts falling due within one year	17	(57,199)	(53,249)
Net current assets		23,549	19,078
Total assets less current liabilities		1,027,178	920,262
Creditors: amounts falling due after more than one year	18	(593,718)	(529,575)
Provisions for liabilities and charges	20	(7,078)	(5,713)
Net Assets		426,382	384,974
Capital and reserves			
Called up share capital	21	21,374	21,911
Share premium account	23	69,284	68,928
Revaluation reserve	23	265,289	222,022
Capital redemption reserve	23	12,302	11,693
Other reserves	23	27,717	28,096
Profit and loss account	23	32,394	33,224
Total equity shareholders' funds		428,360	385,874
Equity minority interests		(1,978)	(900)
Capital employed		426,382	384,974

The financial statements on pages 65 to 87 were approved by the Board of Directors on 31 March 2005 and were signed on its behalf by:


Mr S A Mortstedt
Director


Mr T J Thomson
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Net cash inflow from operating activities	24	45,162	52,432
Returns on investments and servicing of finance			
Interest received		1,693	1,678
Interest paid		(31,493)	(29,235)
Issue costs on new bank loans		(2,018)	(1,216)
Interest rate caps purchased		(1,234)	(225)
Net cash outflow from returns on investments and servicing of finance		(33,052)	(28,998)
Taxation		(539)	(1,391)
Capital expenditure and financial investment			
Purchase and enhancement of properties		(67,509)	(22,604)
Sale of investment properties		8,486	23,562
Sale/(purchase) of other fixed assets		484	(4,208)
Net cash outflow for capital expenditure and financial investment		(58,539)	(3,250)
Acquisitions and disposals			
Investment in associate/joint venture		(1,751)	(6,664)
Purchase of subsidiary undertaking		-	(1,814)
Cash acquired on purchase of subsidiary undertaking		-	572
Net cash (outflow)/inflow before use of liquid resources and financing		(48,719)	10,887
Management of liquid resources			
Cash released from short term deposits		7,526	2,004
Financing			
Issue of ordinary share capital		428	474
New loans		111,313	25,485
Repayment of loans		(45,195)	(29,230)
Purchase of own shares		(15,795)	(17,212)
Net cash inflow/(outflow) from financing		50,751	(20,483)
Increase/(decrease) in cash	25	9,558	(7,592)

STATEMENT OF GROUP TOTAL RECOGNISED GAINS & LOSSES

for the year ended 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	18,137	18,773
Unrealised surplus/(deficit) on revaluation of properties	34,199	(3,035)
Share of joint venture unrealised surplus on revaluation of properties	4,699	-
Release of revaluation deficit on property disposal	-	20
Currency translation differences on foreign currency net investments	817	15,091
Other recognised gains relating to the year	39,715	12,076
Total recognised gains and losses relating to the year	57,852	30,849

RECONCILIATION OF GROUP HISTORICAL COST PROFITS & LOSSES

for the year ended 31 December 2004

	2004 £000	2003 £000
Reported profit on ordinary activities before taxation	18,752	17,573
Realisation of property revaluation (deficits)/gains of previous years	(3,172)	3,432
Historical cost profit on ordinary activities before taxation	15,580	21,005
Historical cost profit for the year retained after taxation and minority interests	14,965	22,205

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

for the year ended 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	18,137	18,773
Other recognised gains relating to the year	39,715	12,076
New share capital issued	428	474
Reduction in minority interest	-	(237)
Purchase of own shares	(15,676)	(17,036)
Expenses of share issue/purchase of own shares	(118)	(176)
Net additions to shareholders' funds	42,486	13,874
Opening shareholders' funds	385,874	372,000
Closing shareholders' funds	428,360	385,874

COMPANY BALANCE SHEET

at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed Assets			
Investments	13	78,978	62,072
Current Assets			
Debtors – amounts falling due within one year	14	70,052	33,142
Current asset investments	15	–	67
Cash at bank and in hand	16	1,626	25,415
		71,678	58,624
Creditors: amounts falling due within one year	17	(7,758)	(342)
Net Current Assets		63,920	58,282
Total Assets Less Current Liabilities		142,898	120,354
Net Assets		142,898	120,354
Capital and Reserves			
Called up share capital	21	21,374	21,911
Share premium account	23	69,284	68,928
Capital redemption reserve	23	12,302	11,693
Other reserves	23	4,599	4,599
Profit and loss account	23	35,339	13,223
Total Equity Shareholders' Funds		142,898	120,354

The financial statements on pages 69 to 87 were approved by the Board of Directors on 31 March 2005 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr T J Thomson
Director

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

1 PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention *modified by the revaluation of investment properties*. Compliance with SSAP 19 "Accounting for investment properties" requires a departure from the requirements of the Companies Act 1985 relating to depreciation and amortisation and an explanation of the this departure is given in (g) below. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

(a) 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. Two group companies have different balance sheet dates to CLS Holdings Plc: WightCable Limited at 30 June and WightCable North Limited at 29 January. Their results have been included for the year to 31 December based on interim financial statements.

(b) 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 (2003: £3.2 million and £15.7 million).

Goodwill arising on the acquisition of the associates is written off to the profit and loss account over a period of 20 years, as this is considered to be the useful economic life of these assets.

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

The carrying value of goodwill is reviewed at the end of the first full year after acquisition and in periods where there has been an indication of impairment.

(c) 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.

(d) Turnover

Turnover comprises the total value of rents and service charge income receivable under operating 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. Turnover from cable operating companies comprises amounts invoiced, excluding VAT, trade discounts and intra-Group trading.

During the year the presentation of service charge income has been changed to include it in turnover on the face of the profit and loss account, rather than credited against the related expense. In addition the presentation of the gross profit of the cable companies has changed to show both turnover and cost of sales. This has had no impact on either the group operating profit or retained profit for either year. The comparatives have been re-presented accordingly.

(e) 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.

(f) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Depreciation

i) Investment properties

Freehold

In accordance with Statement of Standard Accounting Practice No 19 (SSAP 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:

Plant and machinery	over 4 to 15 years
---------------------	--------------------

(h) 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.

(i) 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.

(j) 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.

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 instruments and Directors' valuation regarding non-listed instruments. 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.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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 Financial Reporting Standard No. 9 (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.

(m) Pension costs

The Group operates a defined contribution pension scheme for all eligible employees. The pension costs charged to the profit and loss account represent the contributions payable.

(n) 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

	2004 £000	2003 £000
Gross rental income	74,406	70,723
Less: Joint ventures	(2,619)	(1,421)
Service charge income	6,401	5,699
	78,188	75,001
Turnover from cable operating companies	5,524	4,657
	83,712	79,658
Turnover	83,712	79,658
Continuing operations	83,712	79,658
Service charge expenditure	(13,293)	(12,589)
Cost of sales of cable operating companies	(4,076)	(2,007)
Fees from property related services	395	201
Lease variation and surrender income	5	325
Other income	717	727
	67,460	66,315
Continuing operations	67,460	66,315

3 SEGMENTAL REPORTING

	Turnover 2004 £000	Turnover 2003 £000	Profit before tax 2004 £000	Profit before tax 2003 £000	Net assets 2004 £000	Net assets 2003 £000
Geographical analysis						
UK	41,759	41,263	3,749	5,324	198,275	185,138
Sweden	23,103	20,856	3,331	1,252	110,139	96,081
Continental Europe	18,850	17,539	11,672	10,997	117,968	103,755
	83,712	79,658	18,752	17,573	426,382	384,974

Profit before tax for the UK segment includes gains on equity investment activities of £1,534,000 (2003: loss £1,406,000), profit of £689,000 (2003: £248,000) from the joint ventures, and turnover and gross profit from the cable operating companies of £5,524,000 and £1,448,000 respectively (2003: £4,657,000 and £2,650,000 respectively). Net assets in relation to current asset investments amounted to £10,492,000 (2003: £3,963,000).

Turnover by destination is not materially different to turnover by origin.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £000	2003 £000
Group		
On debentures	4,170	4,234
On bank loans	25,168	23,179
On finance leases	58	89
On other loans	3,199	2,884
Issue costs of loans	2,018	1,215
	34,613	31,601
Less: amounts capitalised	(396)	176
	34,217	31,777
Share of joint ventures – on bank loans	1,824	1,098

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 59 to 63.

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £000	2003 £000
This is stated after charging:		
Auditors' remuneration for audit services	260	234
Depreciation of tangible fixed assets		
– Owned assets	1,369	1,208
– Leased assets	–	420
Loss on disposal of fixed assets	327	2
Operating lease rentals – plant & machinery	82	165
Operating lease rentals – other (land & buildings)	620	760
Amortised goodwill	143	130
Impaired goodwill	1,500	–
Exceptional gain	2,704	–
Directors' emoluments	1,263	1,041

Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £5,000 (2003: £nil). Audit fees for the Company were £44,000 (2003: £42,375).

7 EMPLOYEE INFORMATION

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

	Property	Cable Companies	2004 Total	2003 Total
(a) Number of employees				
Male	39	61	100	110
Female	38	30	68	73
Total employees	77	91	168	183
	£000	£000	£000	£000
(b) Costs				
Wages & salaries	4,159	1,842	6,001	5,558
Social security costs	530	191	721	695
Other pension costs	169	52	221	248
	4,858	2,085	6,943	6,501

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £000	2003 £000
United Kingdom corporation tax at 30.0% (2003: 30.0%)	(549)	–
Overseas tax	(519)	(679)
Adjustment in respect of prior periods	776	24
	(292)	(655)
Deferred tax :		
Origination and reversal of timing differences in the UK	(1,097)	591
	(1,389)	(64)

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.

	2004 £000	2003 £000
Profit on ordinary activities before tax	18,752	17,573
Profit on ordinary activities before tax at standard rate of corporation tax in the UK of 30.0% (2003: 30.0%)	5,626	5,272
Adjustment in respect of foreign tax rates	62	84
Losses utilised	(3,159)	(2,351)
Expenses not deductible for tax purposes	1,629	1,721
Capital allowances in excess of depreciation	(3,321)	(5,199)
Difference on taxation treatment of disposals	(74)	303
Short term timing differences	71	176
Consortium relief adjustment	234	673
Adjustment in respect of prior periods	(776)	(24)
	292	655

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 £37,910,398 (2003: £426,877).

10 DIVIDENDS

No dividends have been paid or proposed for the year ended 31 December 2004 (2003: Nil).

As noted in the Directors' Report it is proposed that the Company buy back 1 in 41 shares at 485 pence per share in lieu of a final dividend (2003: 1 in 36 shares at 360 pence per share). The Company bought back 1 in 46 shares at 300 pence per share in lieu of an interim dividend (2003: 1 in 46 shares at 300 pence per share).

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

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. The calculation of basic and diluted EPS excludes shares held as Treasury Shares by the Company. 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	2004 Weighted average no. of shares (000's)	Per share amount, pence	Earnings £000s	2003 Weighted average no. of shares (000's)	Per share amount, pence
Basic EPS						
Earnings attributable to ordinary shareholders	18,137	86,114	21.1p	18,773	90,791	20.7p
Effect of dilutive securities						
Options	-	550	(0.2p)	-	879	(0.2p)
Diluted EPS	18,137	86,664	20.9p	18,773	91,670	20.5p

12 TANGIBLE FIXED ASSETS

	Investment Freehold property £000	Investment Long Leasehold property £000	Plant and Machinery £000	Total £000
Group				
Cost or valuation:				
at 1 January 2004	859,266	23,176	10,155	892,597
Exchange differences	5,610	47	17	5,674
Additions	67,547	66	1,545	69,158
Surplus on revaluation	32,921	1,278	-	34,199
Disposals	(8,349)	(2)	(2,181)	(10,532)
at 31 December 2004	956,995	24,565	9,536	991,096
Depreciation:				
At 1 January 2004	-	-	3,308	3,308
Exchange differences	-	-	10	10
Charge for the year	-	-	1,330	1,330
Disposals	-	-	(152)	(152)
at 31 December 2004	-	-	4,496	4,496
Net book value				
at 31 December 2004	956,995	24,565	5,040	986,600
Net book value				
at 31 December 2003	859,266	23,176	6,847	889,289

- (a) At 31 December 2004 all freehold and leasehold properties owned by the Group were re-valued 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 (for the UK and Swedish properties) and DTZ Debenham Tie Leung (for the Continental European properties), independent firms of Chartered Surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors.
- (b) The historical cost of the freehold and leasehold investment properties included at valuation is freehold: £669.3 million, leasehold: £24.3 million.
- (c) Included in leasehold properties are assets of £4.8 million which are held under finance leases (2003: £4.0 million)
- (d) The holding Company has no tangible fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

13 INVESTMENTS

		Joint Ventures £000	Associates £000	Shares in subsidiary undertakings £000	Other investments £000	Total £000
Fixed Asset Investments						
Group						
At 1 January 2004	- Goodwill	(1,566)	2,813	-	-	1,247
	- Other	10,065	412	-	171	10,648
Additions	- Goodwill	796	1,698	-	-	2,494
	- Other	(537)	-	-	-	(537)
Other movements		-	(212)	-	-	(212)
Amortisation of goodwill		-	(143)	-	-	(143)
Impairment of goodwill		-	(1,500)	-	-	(1,500)
Share of surplus on revaluation		4,699	-	-	-	4,699
Share of retained profit/(loss)		391	(58)	-	-	333
		13,848	3,010	-	171	17,029
At 31 December 2004	- Goodwill	(770)	2,868	-	-	2,098
	- Other	14,618	142	-	171	14,931
		13,848	3,010	-	171	17,029
Company						
Cost at 1 January 2004		-	-	65,570	-	65,570
Additions		-	-	16,906	-	16,906
Cost at 31 December 2004		-	-	82,476	-	82,476
Provision at 1 January 2004		-	-	(3,498)	-	(3,498)
Provision at 31 December 2004		-	-	(3,498)	-	(3,498)
Net Book Value at 31 December 2004		-	-	78,978	-	78,978
Net Book Value at 31 December 2003		-	-	62,072	-	62,072

The joint ventures are Teighmore Limited, incorporated in Jersey, of which the Group owns 33 1/3 per cent of the ordinary share capital (2003: 33 1/3 per cent), and New London Bridge House Limited, incorporated in England and Wales, of which the Group owns 50.0 per cent of the ordinary share capital (2003: 50.0 per cent). Both company's principal activity is commercial property investment.

The associates are Keronite Limited, a metals coating company, incorporated in England & Wales, of which the Group owns 46.1 per cent (2003: 38.1 per cent) of the ordinary share capital, and Lunarworks AB, an internet service provider incorporated in Sweden, of which the Group owns 45.1 per cent (2003: 39.1 per cent). These have been accounted for as associates as the Board believes that the Group exerts significant influence over their operations. At the year-end the Group was owed £827,000 by Keronite Limited (2003: £827,000) as a long-term loan, which is treated as part of the investment.

The parent company owns no shares in either Teighmore Limited, New London Bridge House Limited, Keronite Limited or Lunarworks AB.

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

14 DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Amounts falling due after more than one year				
Other debtors	3,096	3,695	-	-
Amounts falling due within one year				
Trade debtors	3,247	3,716	-	-
Amounts owed by subsidiary undertakings	-	-	69,695	31,353
Other debtors	4,920	1,903	90	24
Prepayments and accrued income	2,313	2,357	267	1,765
	10,480	7,976	70,052	33,142

15 CURRENT ASSET INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Shares and warrants	10,492	3,963	-	67

The listed shares and warrants, stated at the lower of cost and net realisable value, of £7,356,000 (2003: £611,000) relate to investments on the London, Swedish and Swiss Stock Exchanges. The market value of the listed investments at 31 December 2004 was £19,804,000 (2003: £717,000).

16 CASH AT BANK AND IN HAND

At 31 December 2004, Group cash balances with banks include £3.4 million (2003: £10.5 million) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (Company - nil, 2003: nil).

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Interest bearing :				
Debentures	570	512	-	-
Bank loans and overdrafts	16,038	15,312	-	-
Other loans	-	844	-	-
Obligations under finance leases	217	175	-	-
Amounts owed to subsidiary undertakings	-	-	7,080	-
Non interest bearing:				
Trade creditors	7,288	3,905	-	-
Other taxes and social security	1,657	2,128	(48)	-
Corporation tax	902	1,149	-	-
Other creditors	6,009	5,734	-	-
Accruals and deferred income	24,518	23,490	726	342
	57,199	53,249	7,758	342

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Debenture loans	38,038	38,608	-	-
Bank loans	535,630	465,541	-	-
Other loans	16,984	17,566	-	-
Obligations under finance leases	1,787	1,900	-	-
Other creditors	1,279	5,960	-	-
	593,718	529,575	-	-

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

19 ANALYSIS OF CORPORATE LOANS

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Debenture loans are repayable by instalments as follows:				
In one year or less or on demand	570	512	-	-
In more than one but not more than two years	634	570	-	-
In more than two but not more than five years	2,360	2,122	-	-
In more than five years	35,044	35,916	-	-
	38,608	39,120	-	-
Bank loans are repayable as follows:				
In one year or less or on demand	15,831	15,949	-	-
In more than one but not more than two years	93,701	56,655	-	-
In more than two but not more than five years	116,636	174,353	-	-
In more than five years – by instalment	325,198	234,040	-	-
– other than by instalment	5,179	4,657	-	-
	556,545	485,654	-	-
Un-amortised issue costs	(5,718)	(4,801)	-	-
	550,827	480,853	-	-
Other loans and net obligations under finance leases are repayable as follows:				
In one year or less or on demand	1,062	1,019	-	-
In more than one but not more than two years	1,065	1,026	-	-
In more than two but not more than five years	13,889	13,758	-	-
In more than five years – by instalment	-	1,128	-	-
– other than by instalment	3,816	3,554	-	-
	19,832	20,485	-	-
Un-amortised issue costs	(3)	-	-	-
	19,829	20,485	-	-

(a) The £38.6 million (2003: £39.1 million) of debenture loans represent amortising bonds which are repayable in equal half-yearly 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 debentures 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 2.8 per cent and 7.4 per cent and floating rates of LIBOR or equivalent, plus a margin ranging between 0.8 per cent and 1.8 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 £339.5 million (2003: £286.2 million) for bank loans and £nil million (2003: £nil million) for other loans.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

20 PROVISION FOR LIABILITIES AND CHARGES

	2004 Provision £000	2004 Amount un-provided £000	2003 Provision £000	2003 Amount un-provided £000
Group				
Deferred taxation is provided as follows:				
Capital allowances in excess of depreciation	13,688	-	11,482	-
Short-term timing differences	(1,008)	-	(820)	-
Future benefit of tax losses	(5,903)	-	(4,982)	-
Taxation on revaluation surplus/(deficit)	-	1,626	-	(2,419)
	6,777	1,626	5,680	(2,419)
Provision for forward foreign exchange losses	301	-	33	-
	7,078	1,626	5,713	(2,419)
At 1 January	5,680		12,979	
Acquired during the year	-		(6,708)	
Amount charged/(credited) to profit and loss	1,097		(591)	
	6,777		5,680	

No provision has been made nor asset recognised for deferred tax on gains or deficits on revaluing property to its market value, or on the un-remitted earnings of overseas subsidiaries. Such tax would only become payable if the property were sold without it being possible to claim other loss reliefs or the earnings were remitted to the UK. No tax is expected to be paid on these in the foreseeable future.

Losses of Enil (2003: £0.8 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 (2003: nil).

21 SHARE CAPITAL

[illegible]

Of the shares in issue, 1,644,176 shares with a nominal value of £411,044 are held as Treasury shares by the Company (2003: nil).

The consideration receivable for shares allotted in respect of options exercised was £428,298 (2003: £473,298).

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

22 OPTIONS IN SHARES OF CLS HOLDINGS PLC

Details of options in shares of CLS Holdings plc granted during 2004 are given in the Directors' Remuneration Report on page 62.

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 2004	68,928	222,022	11,693	28,096	33,224
Exchange difference	-	1,197	-	(379)	(1)
Shares issued	356	-	-	-	-
Share buybacks	-	-	609	-	(15,676)
Expenses of share buybacks	-	-	-	-	(118)
Release of revaluation deficit on property disposal	-	1,636	-	-	(1,636)
Revaluation deficit charged in year	-	1,536	-	-	(1,536)
Unrealised surplus on revaluation of properties	-	38,898	-	-	-
Retained profit for the year	-	-	-	-	18,137
At 31 December 2004	69,284	265,289	12,302	27,717	32,394
Company					
At 1 January 2004	68,928	-	11,693	4,599	13,223
Shares issued	356	-	-	-	-
Share buybacks	-	-	609	-	(15,676)
Expenses of share buybacks	-	-	-	-	(119)
Retained profit for the year	-	-	-	-	37,911
At 31 December 2004	69,284	-	12,302	4,599	35,339

24 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £000	2003 £000
Operating profit	50,238	45,293
Depreciation and amortisation	2,830	1,628
(Increase)/decrease in debtors	(1,670)	1,459
Increase in creditors	293	3,899
(Increase)/decrease in current asset investments	(6,529)	153
Net cash inflow from operating activities (continuing operations)	45,162	52,432

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

25 (a) ANALYSIS OF NET DEBT

	1 Jan 2004 £000	Cash Flow £000	Non-cash movement £000	Foreign Exchange £000	31 Dec 2004 £000
Net cash:					
Cash at bank and in hand	56,693	2,032	-	(2,045)	56,680
Less: deposits treated as liquid resources	(11,867)	7,526	-	-	(4,341)
	44,826	9,558	-	(2,045)	52,339
Liquid resources:					
Deposits included in cash	11,867	(7,526)	-	-	4,341
Debt:					
Debts falling due within one year	(16,668)	(35)	95	-	(16,608)
Finance leases falling due within one year	(175)	11	(52)	(1)	(217)
Debts falling due after more than one year	(521,715)	(66,281)	64	(2,720)	(590,652)
Finance leases falling due after more than one year	(1,900)	187	(69)	(5)	(1,787)
	(540,458)	(66,118)	38	(2,726)	(609,264)
Net debt	(483,765)	(64,086)	38	(4,771)	(552,584)
Cash at bank and in hand	56,693	2,032	-	(2,045)	56,680
Debts falling due within one year	(16,843)	(24)	43	(1)	(16,825)
Debts falling due after more than one year	(523,615)	(66,094)	(5)	(2,725)	(592,439)
	(483,765)	(64,086)	38	(4,771)	(552,584)

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

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

	2004 £000	2003 £000
Increase/(decrease) in cash in the period	9,558	(7,592)
Cash inflow from decrease in liquid resources	(7,526)	(2,004)
Cash (inflow)/outflow from (increase)/decrease in debt	(66,118)	3,745
Changes in net debt resulting from cash flows	(64,086)	(5,851)
Translation differences	(4,771)	(21,308)
Rolled-up interest	(881)	(469)
Capitalisation of issue costs	919	293
Acquisitions	-	(437)
Net debt at 1 January	(483,765)	(455,993)
Net debt at 31 December	(552,584)	(483,765)

26 CHANGES IN FINANCING

	2004 £000	2003 £000
(a) Loan finance		
Balance brought forward	540,458	521,643
Net cash inflow/(outflow)	66,118	(3,745)
Interest rolled-up	881	469
Capitalisation of issue costs	(919)	(293)
Foreign exchange movements	2,726	21,375
Other non-cash movements	-	1,009
Balance carried forward	609,264	540,458

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

26 CHANGES IN FINANCING (continued)

	2004 £000	2003 £000
(b) Share capital (including share premium account and capital redemption reserve)		
Balance brought forward	102,532	102,058
Shares issued	428	474
Balance carried forward	102,960	102,532

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 £101,473 (2003: £76,334) and there were no outstanding or prepaid contributions at the balance sheet date (2003: nil).

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.

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 2004 was:

	Total £ 000	Floating rate financial liabilities £ 000	Fixed rate financial liabilities £ 000
Financial liabilities			
- Sterling	282,445	80,092	202,353
- Swedish Kronor	153,569	63,474	90,095
- Euro	173,250	91,425	81,825
At 31 December 2004	609,264	234,991	374,273
Financial liabilities			
- Sterling	266,059	147,516	118,543
- Swedish Kronor	136,727	63,076	73,651
- Euro	137,672	73,519	64,153
At 31 December 2003	540,458	284,111	256,347

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. Where an interest rate swap has been entered into the resulting debt is re-classified as fixed rate.

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 £5.7 million have been offset against the balance of floating and fixed rate loans (2003: £4.8 million)

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

28 FINANCIAL INSTRUMENTS (continued)

b) Interest rate risk profile of financial liabilities

	Fixed rate financial liabilities	Weighted average period for which rate is fixed Years
	Weighted average interest rate %	
- Sterling	7.12	7.69
- Swedish Kronor	4.98	3.73
- Euro	3.96	3.26
At 31 December 2004	5.67	5.70
- Sterling	8.17	11.21
- Swedish Kronor	6.07	3.95
- Euro	4.65	2.94
At 31 December 2003	6.68	7.44

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 £136 million of debt at 5.5 per cent to 7.0 per cent expiring within 3 to 5 years (2003: £144 million at 6.0 per cent to 7.0 per cent expiring within 3 to 5 years), £79 million of SEK denominated debt at 4.5 per cent to 6.0 per cent expiring within 2 to 4 years (2003: £66 million at 5.0 per cent to 6.7 per cent expiring within 1 to 5 years), and £109 million of Euro denominated debt at 4.0 per cent to 7.0 per cent expiring within 1 to 5 years (2003: £94 million at 5.0 per cent to 7.0 per cent expiring within 1 to 5 years)

c) Interest rate risk of financial assets

	Cash at bank and in hand £000	Short-term deposits £000	2004 Total £000	Cash at bank and in hand £000	Short-term deposits £000	2003 Total £000
Sterling	13,592	4,712	18,304	29,744	11,146	40,890
Swedish Kronor	13,048	-	13,048	3,897	-	3,897
Euro	24,936	374	25,310	11,165	721	11,886
Other	18	-	18	20	-	20
At 31 December	51,594	5,086	56,680	44,826	11,867	56,693

Cash and 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 :

	2004 £000	2003 £000
Assets held as part of the financing arrangements of the Group:		
Interest-bearing debtors – fixed rate financial assets	-	1,899
Assets held or issued for treasury purposes:		
Interest rate caps and collars	2,568	2,331
	2,568	4,230

The fixed rate interest-bearing debtors represented a third party deferred interest loan which was repayable over a period of 24 years from the balance sheet date at a fixed rate of 7.0 per cent. This loan was repaid in full during the year. 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 2.7 years for Sterling caps, 3.4 years for SEK caps and 3.4 years for Euro caps.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

28 FINANCIAL INSTRUMENTS (continued)

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	2004 Total £000	Debt £000	Finance Leases £000	2003 Total £000
Within 1 year, or on demand	16,608	217	16,825	16,669	174	16,843
Between 1 and 2 years	94,292	220	94,512	57,343	181	57,524
Between 2 and 5 years	128,974	1,562	130,536	187,903	590	188,493
Over 5 years	367,386	5	367,391	276,469	1,129	277,598
	607,260	2,004	609,264	538,384	2,074	540,458

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:

	2004 Total £000	2003 Total £000
Expiring within 1 year	27,939	13,162
Expiring after 1 year	14,082	-
	42,021	13,162

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 2004 and 2003. 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.

	2004		2003	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	(16,825)	(16,825)	(16,843)	(16,843)
Long-term borrowings	(592,439)	(626,929)	(523,615)	(549,482)
Short-term deposits	4,904	4,904	11,867	11,867
Cash at bank and in hand	51,776	51,776	44,826	44,826
Interest bearing debtors	-	-	1,899	2,065
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate caps and collars	2,568	377	2,330	527
Financial instruments held for trading purposes				
Equity investments and other financial assets	10,595	23,034	4,058	4,235

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

28 FINANCIAL INSTRUMENTS (continued)

f) Fair values of financial assets and financial liabilities

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 1 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.

	Net foreign currency monetary assets				
	SEK £000	Euro £000	US \$ £000	Other £000	Total £000
2004					
Functional currency of Group operation:					
Sterling	400	(15,874)	576	43	(14,855)
Total	400	(15,874)	576	43	(14,855)
2003					
Functional currency of Group operation:					
Sterling	1,250	5,571	1,282	35	8,138
Total	1,250	5,571	1,282	35	8,138

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

28 FINANCIAL INSTRUMENTS (continued)

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 instruments used for hedging are not recognised and are effectively deferred in the balance sheet. 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 2004	1,807
Loss arising before 1 January included in current year expenditure	(1,108)
<i>Loss arising before 1 January not included in current year income and now deferred</i>	<i>699</i>
Loss arising in current year not included in current year expenditure and now deferred	1,491
Unrecognised gains and losses on hedges as at 31 December 2004	2,191
Of which :	
Gains and losses expected to be recognised in 2005	916
Gains and losses expected to be recognised in 2006 or later	1,275

i) Financial instruments held for trading purposes

	2004 £000	2003 £000
Net gain/(loss) included in profit and loss account	1,534	(1,406)
Fair value of financial assets held for trading at 31 December	23,034	4,235

29 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has annual commitments under non-cancellable operating leases of £0.05 million per annum for leases expiring within 1 year, £0.03 million for leases expiring in 2-5 years and £0.6 million per annum for leases that expire in more than five years (2003: £0.2 million within 2-5 years and £0.6 million in more than 5 years).

At 31 December 2004 the Company had guaranteed £98.8 million of Group Companies liabilities (2003: £107.9 million). Of the amount guaranteed, £9.9 million (2003: £34 million) is limited to a maximum annual liability of £2.1 million (2003: £19.8 million).

At 31 December 2004 the Group had no authorised but not contracted for financial commitments (2003: nil).

At 31 December 2004 the Group had £14.3 million of contracted capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2004

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 Vänérparken Investment AB, Solna Business Centre AB, Lövgärdet Residential AB and Lövgärdet Business AB which are incorporated in Sweden, Hamersley International BV which is incorporated in the Netherlands, and Hermalux SARL which is incorporated in Luxembourg.

CI Tower Investments Limited
CLSH Management Limited
Carlow House Limited
Great West House Limited
Hamersley International BV
Ingrove Limited
New London House Limited
New Printing House Square Limited
One Leicester Square Limited
Spring Gardens Limited

Three Albert Embankment Limited
Vauxhall Cross Limited
Vänérparken Investment AB
Vista Centre Limited
Solna Business Centre AB
Lövgärdet Residential AB
Lövgärdet Business AB
Citadel Holdings PLC
Hermalux SARL

The principal activity of each of these subsidiaries is property investment apart from CLSH Management Limited whose principal activity is property management, Hermalux SARL, Hamersley International BV and Solna Business Centre AB whose principal activity is a holding company. 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 and New London Bridge House Limited, joint ventures of the Group. At 31 December 2004 Teighmore Limited was owed £0.8 million by the Group (2003: £0.8 million) and New London Bridge House Limited owed £0.1 million (2003: was owed £0.1 million).

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £14,932 (2003: £15,105). A company owned by Sten Mortstedt also purchased accountancy services from Förvaltnings AB Klio during the year amounting to £19,900 (2003: £6,597).

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

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
Turnover and results					
Turnover	83,712	79,658	70,682	56,697	46,233
Group net rental income	64,895	62,412	59,421	50,176	40,215
Operating Profits	50,238	45,293	45,316	36,856	34,698
Share of profit of associated and joint venture undertakings	2,290	1,085	790	873	1,649
Gain/(loss) from sale of investment properties	464	1,932	(153)	524	2,969
Profit on Ordinary Activities Before Interest	52,992	48,310	45,953	38,253	39,316
Net interest payable and similar charges	(34,240)	(30,737)	(28,886)	(26,974)	(24,487)
Profit Before Taxation	18,752	17,573	17,067	11,279	14,829
Tax on ordinary activities – current	(596)	(676)	(648)	(938)	(11)
Tax on ordinary activities – deferred	(1,097)	591	(1,497)	(3,273)	(2,798)
Profit on ordinary activities after taxation	17,059	17,488	14,922	7,068	12,020
Equity minority interests	1,078	1,285	388	-	(7)
Retained Profit	18,137	18,773	15,310	7,068	12,013
Share buy backs paid and proposed	(15,676)	(14,607)	(14,007)	(12,120)	(10,541)
Net Assets Employed					
Fixed assets	1,003,629	901,184	857,152	732,582	674,084
Net current assets	23,549	19,078	35,558	19,500	19,958
	1,027,178	920,262	892,710	752,082	694,042
Non-current liabilities	(593,718)	(529,575)	(507,735)	(389,788)	(342,094)
Provision for liabilities and charges	(7,078)	(5,713)	(13,255)	(11,482)	(8,209)
Net Assets	426,382	384,974	371,720	350,812	343,739
Ratios					
Adjusted net assets per share	£5.17	£4.46	£4.09	£3.65	£3.26
Statutory net assets per share	£5.09	£4.39	£3.95	£3.53	£3.18
Earnings per share	21.1p	20.7p	15.7p	6.7p	11.9p
Gearing	131%	127%	124%	104%	89%
Interest cover	1.55	1.57	1.59	1.42	1.61

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

RECONCILIATION OF STATUTORY TO DISCLOSED ADJUSTED STATISTICS

	Statutory figure	Deferred tax adjustment	Adjusted figure
Net Assets	£426.4m	£6.8m	£433.2m
NAV per share	508.5p	8.1p	516.6p
Earning per share	21.1p	1.2p	22.3p
Diluted earnings per share	20.9p	1.2p	22.1p
Gearing	130.9%	(2.0)%	128.9%

CLS HOLDINGS PLC

One Citadel Place Tinworth Street London SE11 5EF

Tel: +44 (0)20 7582 7766

Fax: +44 (0)20 7582 2363

www.clsholdings.com