
91.50 Evans
364.50 Freeport Ls
374.50

ENHANCE

SHAREHOLDER

VALUE

Financial Highlights

- *NAV per share up 15% to 184.1p*
- *Profit before tax up 6% to £11.1 million*
- *Total shareholders' return 18.3%*
- *Total distribution to shareholders 10 pence per share an increase of 74%.*
- *Portfolio valued at £404.7 million*
- *Profit on sale of Properties £3.2 million*
- *Year end available cash of £29 million*

	1998	*1997*	
Net rental income	**£29.8m**	£30.5m	down 2%
Operating profit	**£26.6m**	£28.3m	down 6%
Profit before taxation	**£11.1m**	£10.5m	up 6%
Profit after taxation	**£10.1m**	£9.8m	up 3%
Earnings per share	**8.8p**	8.7p	
Distribution to shareholders			
Net dividend per share	**2.40p**	5.75p	
Share buy back paid	**3.13p**	–	
Share buy back proposed	**4.50p**	–	
	10.03p	5.75p	up 74%
Net asset value per share	**184.1p**	160.3p	up 15%
Cash & short term deposits	**£29.0m**	£18.9m	up 53%
Gearing	**93%**	104%	down 11%

THROUGH

ACTIVE

MANAGEMENT

Directors, Officers & Advisers

Directors
Sten Mörtstedt *(Executive Chairman)*
Glyn Hirsch LLB ACA *(Chief Executive)*
Bengt Mörtstedt Juris Cand † *(Non-Executive Director)*
Keith Harris PhD *†‡ *(Non-executive Director)*
Thomas Lundqvist *† *(Non-executive Director)*
James Dean FRICS *(Non-Executive Director)*
appointed 9th April 1999

* member of Remuneration Committee
† member of Audit Committee
‡ senior independent director

Company Secretary
Thomas J Thomson BA *(Solicitor)*

Registered Office
6 Spring Gardens
Tinworth Street
London SE11 5EH

Registered Number
2714781

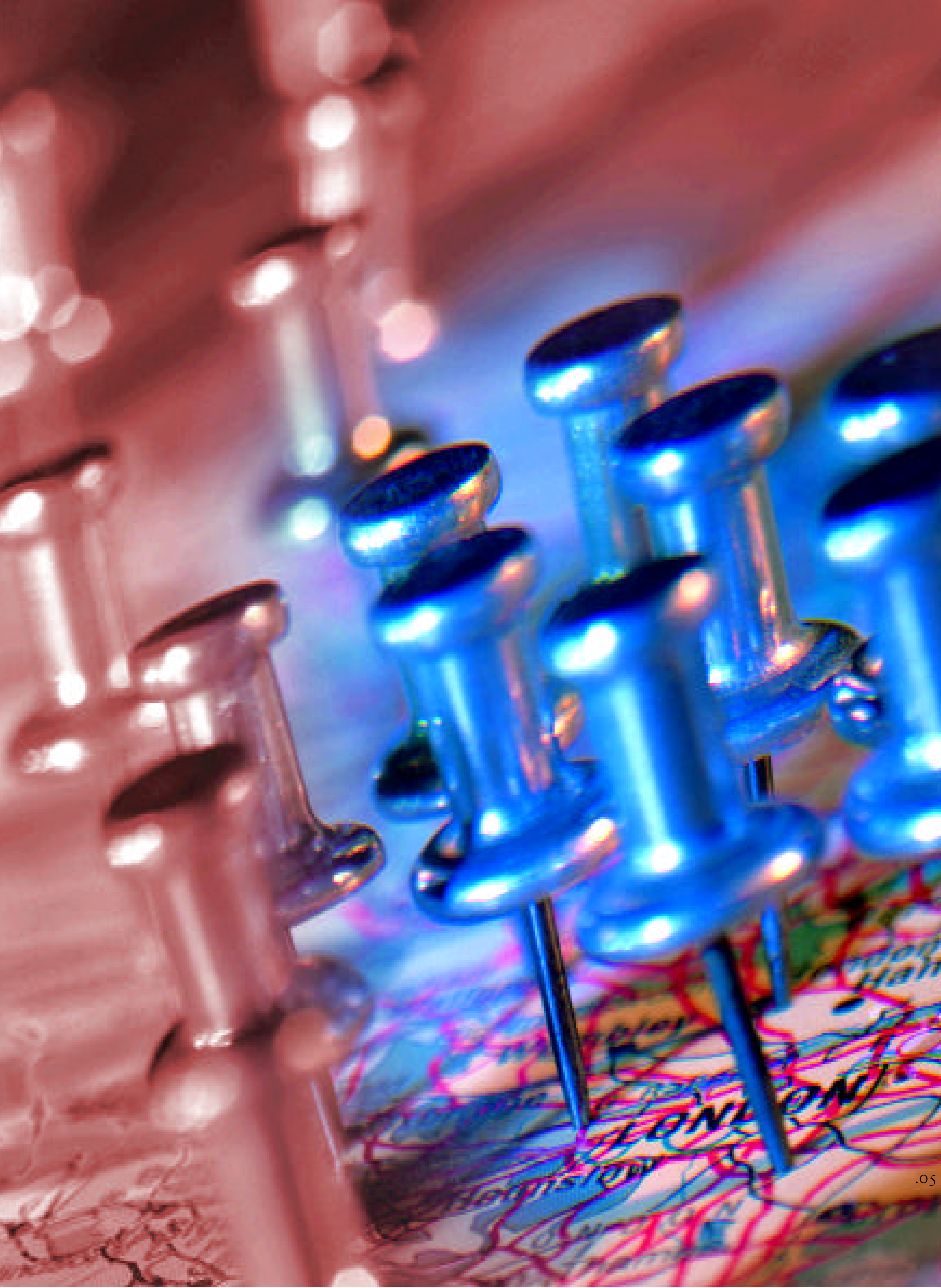
Registered Auditors
PricewaterhouseCoopers
Chartered Accountants
1 Embankment Place
London WC2N 6NN

Registrars and Transfer Office
Royal Bank of Scotland plc
Securities Services – Registrars
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

Stockbrokers
Sutherlands
Dashwood House
69 Old Broad Street
London EC2M 1NX

CLS Holdings plc on line:
www.clsholdings.com



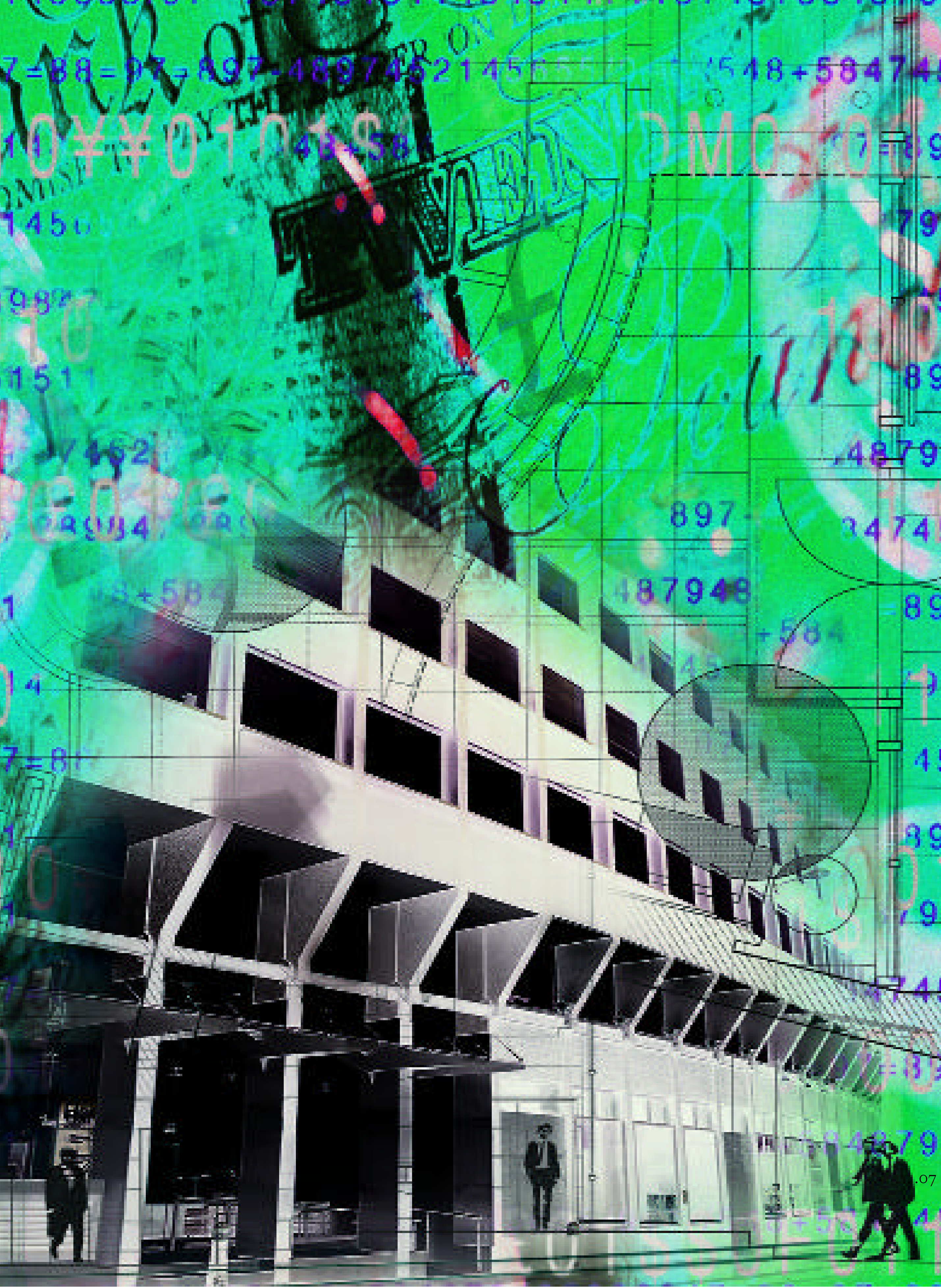
AND

STRATEGIC

ACQUISITIONS

Key Events in '98

- Sale of Princes Court for £14.5 million
- Sale of Southern House for £24.9 million
- Purchase of Vänerparken for £38.9 million
- Letting of Citadel House
- Dilapidations agreed at Conoco House of £0.8 million
- New lettings of £2.3 million
- Further development of business centre activities



PROVIDING

SECURE

LONG-TERM

GROWTH

Five Year Financial Summary

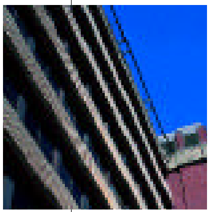
for the years ended 31 December

	1998 £000	1997 £000	1996 £000	1995 £000	1994 £000
Turnover and results					
Turnover	**32,533**	32,331	31,711	27,807	24,542
Operating Profit	**26,642**	28,298	27,974	23,761	18,850
Share of Profit of Associated Undertakings	**–**	–	–	–	45
Gain from sale of subsidiary	**465**	–	–	–	–
Gain from sale of investment properties	**2,131**	428	164	–	–
Profit on Ordinary Activities Before Interest	**29,238**	28,726	28,138	23,761	18,895
Net interest payable and related charges	**(18,184)**	(18,248)	(17,830)	(15,503)	(14,089)
Exceptional interest and financial income	**–**	–	–	–	7,430
Profit Before Taxation	**11,054**	10,478	10,308	8,258	12,236
Tax on ordinary activities	**(961)**	(726)	(871)	(360)	(4)
Profit For the Financial Year	**10,093**	9,752	9,437	7,898	12,232
Dividends	**(3,406)**	(6,473)	(6,070)	(5,530)	(3,318)
Retained Profit	**6,687**	3,279	3,367	2,368	8,914
Share buy backs paid and proposed	**(8,473)**	–	–	–	–
Net Assets Employed					
Fixed assets	**409,401**	378,013	365,006	335,384	297,686
Net current assets/(liabilities)	**9,840**	2,474	(2,402)	(16,140)	(10,158)
	419,241	380,487	362,604	319,244	287,528
Non-current liabilities	**(211,674)**	(199,364)	(207,213)	(181,468)	(156,792)
Provisions for liabilities and charges	**3**	–	–	–	–
	207,570	181,123	155,391	137,776	130,736
Ratios					
Net assets per share	**£1.84**	£1.60	£1.40	£1.30	£1.32
Earnings per share	**8.8p**	8.7p	8.7p	7.8p	15.7p
Gearing	**93%**	104%	128%	135%	114%
Interest cover	**1.55**	1.57	1.57	1.53	1.42

The results comply with the requirements of FRS3 and have been prepared on a consistent basis.

Significant Progress

The following three pages illustrate a number of our investment properties. Significant progress has been made through acquisitions, development and new lettings which are described in the Chairman's Statement and Property Review.



230 Blackfriars Road,
London SE1

Major refurbishment expected completion September 1999.

Main photo:
New Printing House Square,
214/236 Gray's Inn Road,
London WC1

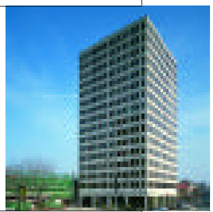
Major investment,
let to UK Government

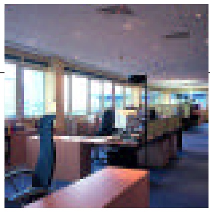
Vänerparken,
Vänersborg, Sweden

Acquired September 1998

1 Leicester Square,
London WC2

Major leisure development expected completion late summer 1999





Spring Gardens,
London SE11

Office Business Park

CI Tower
St. Georges Square,
New Malden, Surrey

Substantial
Multi-Tenanted
office investment

Brent House,
High Road, Wembley
Middlesex

Refurbished and
fully let in 1998

230 Blackfriars Road,
London SE1

Citadel House
Fetter Lane,
London EC4

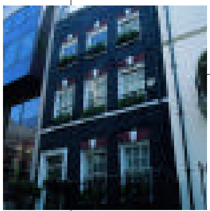
Fully refurbished
and let in 1998

Hoskyns House,
Wandsworth Road,
London SW8

Mixed office and
industrial investment

Great West House/Computer House,
Brentford, Middlesex

Multi-Tenanted offices located
near the A4/M4 interchange

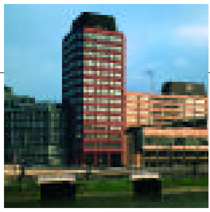


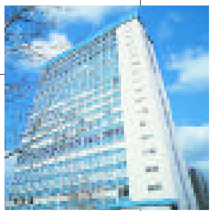
2 Deanery Street,
London W1

Freehold office investment
located in Mayfair

Westminster Tower
3 Albert Embankment,
London SE1

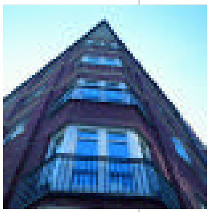
Multi-Tenanted office investment
opposite the Houses of Parliment





Spring Gardens Court,
79 Vauxhall Walk,
London SE11

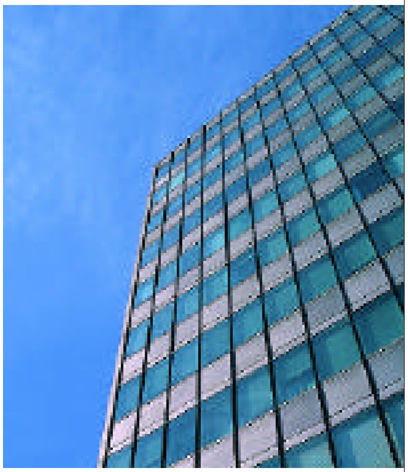
20 residential units
completed and sold in 1998

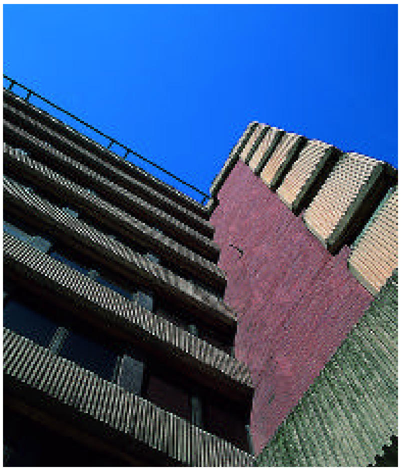


Vista Office Centre,
(formerly Hoechst House)
Salisbury Road, Hounslow

Refurbishment and marketing
of this major development
situated close to Heathrow
commenced in January 1999

Vista Office Centre,
Hounslow



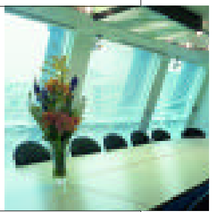


230 Blackfriars Road,
London SE1

Chancel House
London NW10

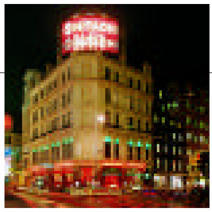
Predominantly let to
the UK Government

CitadelHouse
Fetter Lane,
London EC4



Coventry House,
London SW1

Refurbishment of the
residential flats expected to
complete, December 1999



RECORD NET ASSET VALUE PER SHARE

INTRODUCTION

The year ended 31 December 1998 was another successful year of organic growth and the Group is reporting record net asset value per share and increased profits.

The Group's long term performance is continuing to improve and the 1998 results show a total return to shareholders of 18.3% (£33.5 million) based on movement in shareholders' funds, dividends declared and share buy backs implemented during the year. This follows returns of 13.9% and 18.3% in 1996 and 1997 respectively.

RESULTS FOR THE YEAR

For the year ended 31 December 1998 the Group achieved a 5.5% increase in profit before tax to £11.1 million (1997: £10.5 million). Profit after tax was up by 3.5% to £10.1 million (1997: £9.8 million). Gross rental income, represented by rents, service charge and other income received from tenants, increased slightly to £32.5 million from £32.3 million in 1997. This increase would have been greater but for empty space in the course of refurbishment and the timing of acquisitions and disposals. The planned timing of our refurbishment programme was anticipated to cause a temporary reduction in rental income in 1998 and 1999.

Disposals during the year have ensured continuing growth in profits. These amounted to a total of £3.2 million of which £2.6 million related to investment properties and £0.6 million to trading properties.

At the year-end our portfolio was valued by Allsop & Co at £404.7 million and as at that date was producing net rental income of £30.3 million (on an annualised basis) equating to a yield of 7.5% per annum. This should increase to at least £36.8 million (8.8%) assuming the letting of vacant space following further investment on property improvements of approximately £14.7 million. The rental increase does not include any potential uplift from rental growth in the portfolio. Nearly all of this further investment will be bank financed leaving our cash resources available for further expansion.

As a result of increased rents, refurbishment and new lettings, we have achieved an improvement in the value of our London properties. In addition, the Swedish property market has continued to improve since our acquisition of Vänerparken, which was valued at the year end at £3.5 million above cost (a near 100% return on equity). These factors have resulted in a 14.8% increase in net assets per share to 184.1 pence (1997: 160.3 pence). This increase is calculated after taking into account a dividend payment of 2.4 pence per share for 1998 and the tender offer buy back of 3.1 pence net of tax, but does not include the 4.5 pence capital dividend currently proposed.

The Group has adopted the requirements of FRS 13, which deals with the extension of disclosure in relation to derivatives and other financial instruments. If loans were held at fair value, the notional after tax adjustment to NAV that could be made, would equate to a reduction of 20.4 pence per share. A substantial amount of this is attributable to one long term loan secured against a property with government covenanted income for the period of the loan, which is sufficient (without any increase in rent over the term of the lease) to cover both the interest and capital repayment of the loan. As set out in the deferred tax note 20, a tax liability of £15.1 million or 13.3 pence per share could arise on the sale of the entire portfolio at current valuations. If these sales were to take place, sensible tax planning would ensure that this tax liability would be significantly reduced. However, even if these two notional adjustments were taken into account the NAV would be 150.4 pence per share.

Gearing at 31 December 1998 was 93% (104% at 31 December 1997).

DIVIDEND

Since flotation, in May 1994, the Group has maintained a progressive dividend policy with the annual dividend distribution increasing from £5.53 million in 1995 to £6.47 million in 1997. Total cash distributions to shareholders, since flotation have amounted to £17.4 million.

We are focused on cash flow and profitability as a means of delivering shareholder value. With current share price levels at a considerable discount to net asset value your board believes there are significant benefits in distributing cash as capital dividends to shareholders by way of a tender offer buy back. The Board has therefore decided to recommend that instead of the payment of a final income dividend, the Company utilises a similar amount of cash for a tender offer buy back of 1 in 30 shares held at a price of 135 pence per share, which will enhance net asset value per share. This is equivalent in cash terms to a final net dividend of 4.5 pence per share. The Mörtstedt family have indicated their intention to take up the tender offer in respect of their shareholding.

Property Activities

We have continued to improve our portfolio through acquisitions, disposals, new lettings and refurbishment. Acquisitions during 1998 totalled £43.1 million, and annualised rents increased by £4 million per annum. During the same period disposals totalled £41.4 million and showed a profit of £2.6 million. The properties sold had a rental income of £3 million per annum. The net effect of acquisitions and disposals has been a significant increase in cash, since acquisitions required £4 million of our own equity and disposals realised £14 million. As reported at the interim stage all of our available residential units have been sold at a profit of £0.6 million. Our current refurbishment projects have considerable potential for further expected rental income of £4.3 million per annum, of which £2.2 million is already contracted. Progress is continuing with our planned retail leisure scheme at Vauxhall and we expect to submit a planning application shortly.

Strategy

Our aim remains to provide shareholders with high returns from a secure base. In 1998 total return to shareholders was 18.3%. We have made strategic acquisitions and disposals to enhance returns and by efficient financing have ensured cash is available for expansion. At the year end we held £29 million of cash reserves.

The success of Citadel Holdings plc, in which we hold 12.32% of its share capital and whose results were announced on 7th April 1999, has demonstrated our expertise in overseas markets. This together with Vänerparken illustrates the attractive investment opportunities available outside the UK. Our acquisition of Vänerparken shows the significant returns available from well financed investments with long term secure cash flows from strong tenants. We believe that there are considerable opportunities available from these types of investments outside the UK. In order to clearly define these non-UK investments we have formed a new wholly owned intermediate holding company and this will enable us to manage and account for our international investments separately from the core London portfolio. Our refurbishment programme provides a high return on investment and underpins further growth as well as upgrading the quality of our properties.

During the year we have taken the opportunity to strengthen our management team to ensure our refurbishment projects and acquisition programme is adequately resourced. Since the year end we have purchased 4,775,907 ordinary shares in the market at 111 pence per share for cancellation. The company now has 107,971,786 ordinary shares in issue prior to the proposed buyback.

Prospects

Interest rates are historically low, our rents are increasing and we are continuing to find attractive investment opportunities, both in London and overseas. Refinancing activities and disposals have put us in a strong cash position to move forward. Our refurbishment activities are creating significant contracted future rent increases.

The year has started extremely well with the receipt of £8 million from Hoechst UK Ltd for the surrender of their lease at the rebranded Vista Office Centre and the letting of Citadel House. This surrender is expected to generate a one-off profit in the first half of 1999 of at least £2.0 million. We have already let 48,000 square feet at the Vista Office Centre to produce income of £660,000 per annum, which demonstrates the increasing potential of this investment.

Board

Having been a non-executive Director since flotation, Sir David Rowe-Ham left the Board on 9 April 1999 and we wish to thank him for his contribution. He is replaced by James Dean FRICS, who is aged 44 and as a director of Savills PLC will bring additional property expertise to the Board.

I take this opportunity to thank my fellow Directors, our staff, professional advisers and shareholders for their support during the year.

Sten Mörtstedt
Executive Chaiman

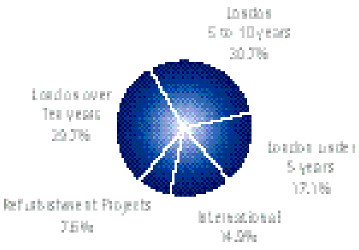
ORGANIC GROWTH

INTRODUCTION

During 1998 we have made significant progress with our portfolio through acquisitions, disposals and the enhancement of existing buildings. At the year end the group portfolio comprised 39 properties of 211,982sq m. (2,281,829sq.ft.) of which 198,117sq.m. (2,132,583sq. ft.) or 93.5% was fully let. At the year end our annualised net rental income was £30.3 million. On the basis of our year end portfolio valuation of the £404.7 million this gives an initial yield of 7.5%.

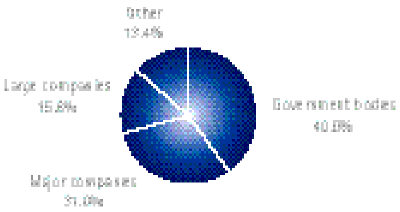
GROUP PROPERTY STRATEGY

Our aim is to generate significant returns on equity and our work with our existing portfolio and through acquisitions and disposals is focused on achieving this and consequently providing increased value for shareholders.



Length of Lease

ACQUISITION & DISPOSALS



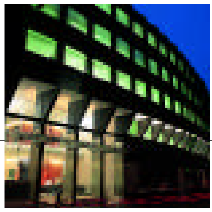
Tenant Mix

The market for London investments was particularly strong during the first 9 months of the year and we took the opportunity to sell a number of investment properties for a total of £41.4 million at an average yield of 7.9%. This provided a surplus over book value of £2.6 million. During the first half of the year we also sold our remaining available residential units at a total profit of £0.6 million. Our involvement in the residential market has proved profitable and timely.

In September we purchased Vänerparken in Vänersborg, Sweden for a total cost of SEK516.8 million (£38.9 million). The total net rent from the property at the date of acquisition was SEK 50.5 million (£3.8 million) which rises upwards annually in line with inflation representing a net yield of 9.8%. Of the income 80% is secured until 2015 and most of the remainder to 2006, all from Swedish government covenants. We have fixed our external funding for this investment at under 6% on SEK 460 million (£34.7 million). This provides a return of 48% per annum on our cash investment of £3.6 million.

In August we acquired Bus Space Studios, London W10 for £2.0 million. The property, which consists of a business centre, comprises 2,512 sq.m. (27,035 sq. ft.) and produced a net annual income of £195,943 per annum giving an initial yield of 9.87%. Since acquisition we have increased this to £223,171 per annum.

In December we acquired two freehold nightclub properties in Ipswich and Wolverhampton. Although these acquisitions were outside our usual geographical area for UK investments at the time of completion we were able to simultaneously sign new 25 year leases with a leisure operator at rents which rise annually with inflation. The initial yield on the acquisitions was 16.6%.



Portfolio Management

Last year we reported that we had agreed terms with NIG Skandia our tenant at Citadel House, Fetter Lane, London EC4 to enable us to refurbish the property. Our refurbishment is now completed and we have fully let the building. In September we announced the letting of the office space at a rent of £1,037,026 per annum – £336.38 per sq. m. (£31.25 per sq. ft.). Since the year end we have let the remaining space on the ground floor, basement and sub-basement to Whitbread Plc for a 25 year term at a rising rent which averages £194,000 over the first five years. Our total additional net income after completion of the refurbishment is £1.23 million per annum.

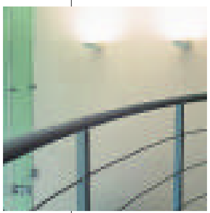
During 1998 we let 14,229 sq. m (153,160 sq. ft.) of the vacant space in the portfolio generating income for the Group of £2,324,126 per annum (although with rent free periods not all of this will become income producing until later in 1999). In particular we have let the remaining space at Brent House 3,215 sq. m. (34,600 sq. ft.) to Air France and Dialog Corporation.

At the year end the portfolio's annualised rent amounted to £30.3 million. The letting of vacant space following improvement will bring approximately £6.5 million of additional annual rental income. Of this amount, £3.9 million is already contracted.

We continue to make good progress on the redevelopment of One Leicester Square with the construction of a major new entertainment venue and anticipate completion of our works this Spring with the venue opening in the late Summer. We are currently commencing refurbishment at Conoco House SE1 and Coventry House SW1. These projects will require a further investment of approximately £11.4 million and once completed will contribute approximately an additional £4.3 million to annual rental income.

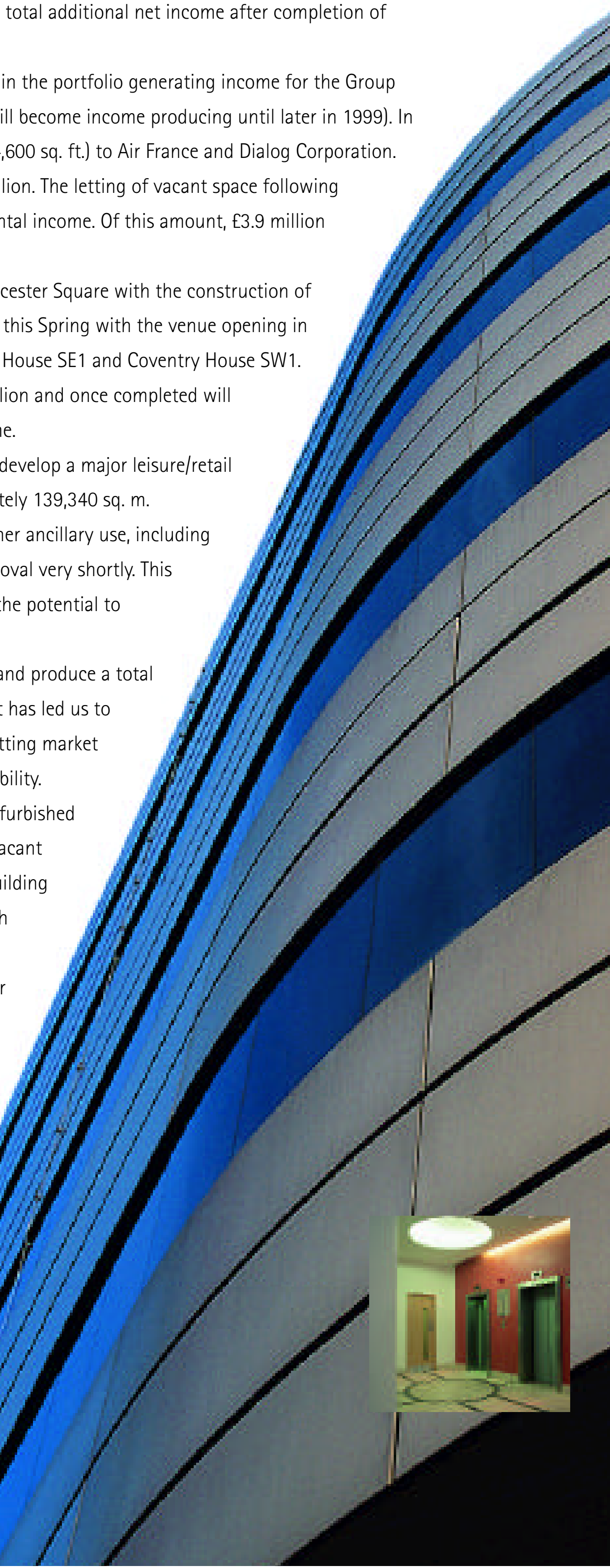
We have continued to work with the London Borough of Lambeth to develop a major leisure/retail development at Spring Gardens, Vauxhall. The scheme totalling approximately 139,340 sq. m. (1.5 million sq. ft.) of leisure and retail activities, a cinema complex and other ancillary use, including private and social housing should be formally submitted for planning approval very shortly. This demonstrates our ability to take a long term view of projects, which have the potential to generate significant returns.

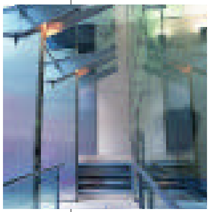
Our three business centres now comprise 5,346 sq. m. (57,731 sq. ft) and produce a total gross rent of £934,317 per annum. Our success in this sector of the market has led us to look at other centres and also the benefits of the short term letting market where we can achieve premium rents for giving occupiers flexibility.

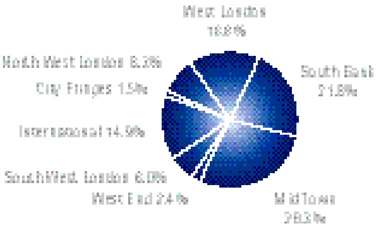


At Ingram House WC2 we have re-let three floors of unrefurbished accommodation within three months of the space becoming vacant on short term leases at very good rents. All the leases in the building now expire in 2001/2002, which gives us the ability to refurbish or redevelop the building.

During the year we have successfully completed a number of varied projects including the construction of 20 flats in SE11, the refurbishment of Citadel House EC4, and the refurbishment of both Cambridge House and Brent House for incoming tenants. All of these projects have provided us with excellent returns on the equity invested.







Portfolio by Location

Set out below is an analysis of the portfolio:

Property Type	*Area sq. m. (000's)*	*Area sq. ft. (000's)*	*Year end book value £m*	*Yield based on receivable rent %*	*Receivable rent £m*	*Rent contracted not yet receivable £m*	*ERV of unlet space £m*	*Yield based on receivable rent + potential rents %*
International	*48.6*	*523.5*	*45.5*	*9.90*	*4.5*	*–*	*–*	*9.90*
London Property let > 10 years	*45.7*	*491.3*	*126.2*	*7.13*	*9.0*	*1.6*	*–*	*8.40*
London Property let 5-10 years	*53.0*	*570.3*	*115.2*	*8.07*	*9.3*	*0.1*	*0.4*	*8.51*
London Property let < 5 years	*36.9*	*397.6*	*48.9*	*10.63*	*5.2*	*–*	*0.1*	*10.84*
Refurbishment Projects	*26.0*	*280.1*	*68.9*	*3.34*	*2.3*	*2.2*	*2.1*	*–*
Totals	*210.2*	*2,262.8*	*404.7*	*7.49*	*30.3*	*3.9*	*2.6*	*–*

The above table shows the categories of assets we own and the future potential available from new lettings and refurbishments.

FINANCIAL STRENGTH

Results

During the course of 1998 the Group has delivered record results with pre-tax profit of £11.1 million showing a growth of 5.5% over the previous year. The balance sheet has been further strengthened with net asset value increasing to 184.1 pence per share, an increase of 15%. Gearing has reduced by 11% to 93% and cash reserves of £29 million were held at the balance sheet date.

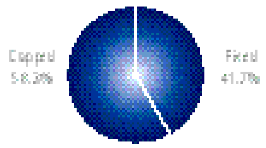
The underlying strength of the current year's results combined with the imaginative redevelopment of a number of significant properties provide the Group with a solid platform on which future growth will be based.

Net Rental Income

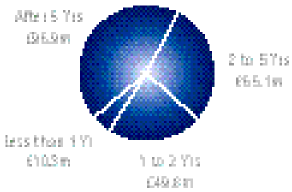
Due to the divestment of a number of properties during the year, net rental income has fallen slightly to £29.8 million. The acquisition in September 1998 of Vänerparken, a major Swedish property portfolio, significantly increased the contribution of international net rental income to £1.5 million.

Other Property Related Income

Other property related income increased by 53% to £2.7 million. The three main elements were a profit of £0.8 million relating to a dilapidation receipt at Conoco House, a profit of £0.6 million on the sale of our remaining available residential units and the management charge to Citadel Holdings plc of £0.5 million.



Debt by Category



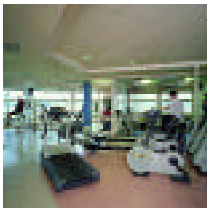
Debt Maturity Profile

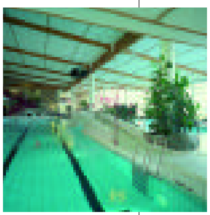
Administration Expenses

Administration expenses increased by £0.7 million to £3.4 million. This is mainly as a result of the addition of a number of senior staff, strengthening our team in the areas of development, international investment and finance. Of the annual increase, £0.2 million was recovered through an increased management charge to Citadel Holdings plc.

Net Property Expenses

Net property expenses increased by £1.2 million to £2.5 million. Of the increase, £0.3 million relates to business centre costs (business centre rents of £0.7 million are included in rental income). Also included is letting fees and non-recoverable costs in respect of vacant space being refurbished.





Gains from the Sale of Investment Property and the Sale of a Subsidiary Company

During the year a number of properties were sold, contributing £2.6 million to profit (1997 : £0.4 million), of which £1.7 million related to the sale of Princes Court.

Financial Costs

Net interest and financial charges at £18.2 million showed no increase over expenditure in 1997.

Increased interest payable and related charges at £20.3 million (1997 : £19.3 million), was partially offset by interest receivable and other financial income of £2.1 million (1997 : £1.0 million), of which £0.7 million related to treasury activities. The reduction in the base rate during the latter part of the year was reflected in the average cost of borrowing falling to 8.8% at 31 December 1998 (1997 : 9.7%).

A substantial development programme for a number of properties has been undertaken during the year. This has resulted in interest amounting to £ 0.7 million having been incurred on properties for which no rental income has been received for the duration of the works. The interest has been expensed through the profit and loss account as it is incurred.

Financial costs also include the depreciation of interest rate caps amounting to £0.8 million.

Taxation

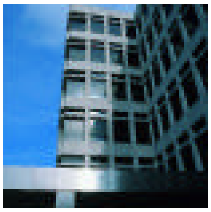
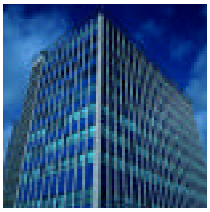
The Group's taxation charge is maintained at a relatively low rate as a result of substantial corporation tax losses brought forward in some subsidiaries and significant capital allowances on many of the Group's properties. These factors should continue to benefit the Group in the immediate future.

The Group has made a tax payment in order to utilise surplus ACT. The utilisation of ACT increases the tax losses which are available to be offset against future tax liabilities.

Financial Results by Location

The results of the Group analysed by location as set out below:

	Total £000's	*London £000's*	*International £000's*
Turnover	*32,533*	*30,985*	*1,548*
Operating expenses	*(5,891)*	*(5,418)*	*(473)*
Operating profit	*26,642*	*25,567*	*1,075*
Gains from sale of subsidiary	*465*	*465*	-
Gains from sale of investment properties	*2,131*	*2,131*	-
Net interest payable and related charges	*(18,184)*	*(17,544)*	*(640)*
Profit on ordinary activities before tax	*11,054*	*10,619*	*435*

Investment Properties

The investment property assets of the group have increased by 8.1% to £404.7 million (1997 : £374.4million) . During the year the quality of the portfolio was substantially improved with additional properties acquired at a cost of £43.1 million. Net cash received from the sale of investment properties amounted to £41.4 million.

Annualised rent at 31 December 1998 was £30.3 million equating to a yield of 7.5 %.

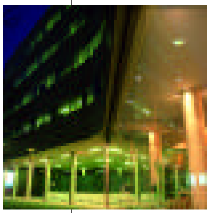
An analysis of the location of investment property assets and related loans is set out below :

	Total £m	*%*	*London £m*	*%*	*International £m*	*%*
Investment Properties	*404.7*	*100*	*359.2*	*88.8*	*45.5*	*11.2*
Loan	*(222.0)*	*100*	*(185.9)*	*83.7*	*(36.1)*	*16.3*
Equity Investment in properties	*182.7*	*100*	*173.3*	*94.8*	*9.4*	*5.2*
Equity as a Percentage of Investment	*45.1%*		*48.2%*		*20.6%*	

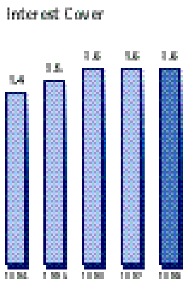
Debt Structure

Financial instruments are held by the Group principally to finance the acquisition of investment properties and to manage interest and exchange rate risk. In addition, various other financial instruments have arisen in the normal course of trading and the active management of Group treasury activities. The Group's management of treasury activities includes the purchase of shares and financial instruments together with investment in equity options and future contracts up to a specified amount approved by the Board. The activities of the Group are mainly financed through share capital and reserves and long term loans, which are secured against the properties to which they relate.

During the last three years, the Group has pursued a financial strategy in relation to its London based portfolio to raise floating rate long term loans linked to interest rate caps. Caps are normally purchased on a five year basis with interest capped at an average rate of 8.5% in order to provide protection against a rise in interest rates.



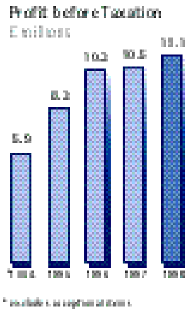
International property acquisitions have been financed through a combination of long term fixed rate loans at an average interest rate of 6% and floating rate loans which have been capped at 6%. In addition, the Group entered into forward foreign exchange commitments in order to hedge the receipts from overseas investments.



The net borrowings of the Group at 31 December 1998 were £189.8 million, an increase of £5.3 million over the previous year, reflecting the Group's active investment programme of £53.8 million compared to property sales in the year of £41.4 million.

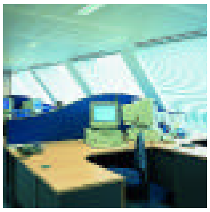
Of the net debt at 31 December 1998, £92.5 million (48%) represented fixed rate loans. The fair value of the Group's fixed rate debt was in excess of book value by an amount of £33.2 million, which net of tax at 31% equates to £23.0 million.

The contracted future cash flows from the properties securing the loans are sufficient to meet all interest payments and repay the loans in total over their term. Only £10.3 million (4.6%) of the Group's total debt of £222.0 million matures within the next 12 months with £96.9 million (43.7%) maturing after five years.



In order to protect the Group from movements in foreign currency, direct international property investments are matched with borrowings in the local currency.

At 31 December 1998, £36.1 million (79%) of overseas asset value was financed by local currency borrowings. These principally related to the acquisition of Vänerparken.



Dividend

An interim dividend of 2.4p per share was paid to shareholders during the course of the year. Your Board is recommending that in lieu of paying a cash dividend, an offer will be made to purchase 1 share for every 30 held, at a price of 135 pence per share. This will result in a final distribution of 4.5 pence per share. This equates to an overall return inclusive of the tender offer in November 1998 of 10.0 pence per share.

Corporate Structure

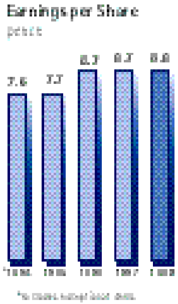
The strategy has been to continue for the most part, to hold individual properties within separate subsidiary companies, each with one loan on a non-recourse basis.

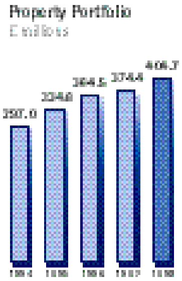
Year 2000

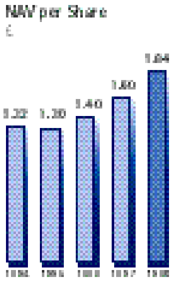
The management of the Group is addressing the risk arising from the Millenium date change as a matter of priority. Having taken professional advice, the Group's approach to its in house systems and those of its properties, where appropriate, is to carry out four essential steps. These are:

- taking an inventory of computer environments, applications and systems,
- testing microprocessor reliant equipment and computer systems and prioritising action,
- upgrading / replacing equipment and systems where necessary,
- verifying the result.

Additionally, the Group is assessing the risk that might be encountered in respect of tenants and suppliers. The cost of this work will be met from existing capital and revenue budgets and is not expected to be significant.







The Directors present their report and the audited financial statements for the year ended 31 December 1998. 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 unchanged from last year and are 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 28.

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

3 Dividends

On 27 November 1998 a net interim dividend of 2.4 pence per share was paid. In addition, under the tender offer completed in December the Company distributed £3,613,707 to shareholders (equivalent to 3.125 pence per share) by way of a buy back of 2,890,966 shares, representing 2.5% of the then issued share capital.

In lieu of paying a final cash dividend your Directors have decided to recommend a further tender offer under which the Company would offer to buy 1 in 30 of the shares registered in each shareholder's name at a price of 135 pence per share. This compares with the mid-market price of 119 pence per share on 12 April 1999.

This will result in a distribution to shareholders of £4,858,730 or 4.5 pence per share. When added to the interim net dividend paid in November 1998 and the tender offer buy back in December, this means that shareholders who have held shares since October 1998 and who take advantage of both tender offers will receive a total return of 10.0 pence per share.

The Directors believe that distribution via a share buy back rather than a cash dividend remains a tax effective way of returning capital to shareholders whilst at the same time increasing net asset value of the remaining shares.

4 Purchases of the Company's Shares

At last years Annual General Meeting the Directors were authorised to make market purchases up to 11,297,900 Ordinary Shares. The Directors stated in last years report that they would only exercise that authority if they considered it to be 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 as compared with their net asset value, in January 1999 the Company purchased a total of 4,775,907 shares at a price of 111pence per share.

5 Property Portfolio

A valuation of all the properties in the Group as at 31 December 1998 was carried out by Allsop & Co which produced an open market value of £404.7 million. On the basis of these valuations net assets per share amount to 184.1 pence. In view of the policy of revaluing properties annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 1998.

6 *Directors*

The Directors who served during the year are shown on page 4. Although the composition of the Board of Directors has remained unchanged throughout 1998, Bengt Mörtstedt gave up his executive role in the Company in September 1998 in order to devote his time to his personal interests, but he remains a non-executive Director. In accordance with the Articles of Association of the Company he retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Sir David Rowe-Ham retired from his directorship on 9 April 1999. Sir David has been a Director of the Company since its shares were admitted to the London Stock Exchange in May 1994 and was until December 1998 Chairman of the Audit Committee and a member of the Remuneration Committee. The Board wish to put on record their thanks to Sir David for his services to the Company over this period.

Also on 9 April 1999 James Dean (aged 44) was appointed a non-executive Director. James Dean's property experience – he has been a Director of Savills Plc since 1987 and before that was a partner of Savills from 1983 – will be of great benefit to the Group.

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

Keith Harris (aged 45) was appointed to the Board as a non-executive Director on 28 April 1994 and is the senior non-executive Director. He is Chairman of both the Audit Committee and the Renumeration Committee. He was Chief Executive of the Investment Banking Division of HSBC Investment Bank PLC until March 1999 and prior to that of Samuel Montagu & Co. Ltd. He formerly held directorships in Morgan Grenfell & Co. Limited, Drexel Burnham Lambert Holdings Limited and Apax Partners & Co. Corporate Finance Limited.

Bengt Mörtstedt holds a law degree from Stockholm University. He began his career as a junior judge of the Vaxjo district court and in 1974 he joined Citadellet AB, the Mörstedt family property company in Sweden. In 1984 he moved to the UK in order to evaluate the London property market before joining the Group in October 1987. He was appointed an Executive Director of the Company in July 1992, becoming a non-executive Director in September 1998.

Thomas Lundqvist (aged 54) joined the Board in November 1990 and had been Finance Director for the Group until stepping down from the position and becoming a non-executive Director on 1 October 1995. Prior to joining the Group, Mr Lundqvist worked for the Brown Boveri Group and from 1983 for the Svenska Finans International Group where he was a board member until moving to CLS in 1990.

The Board considers that apart from Bengt Mörtstedt, the non-executive Directors are independent of management and free from any business or other relationship with the Company which could materially interfere with the exercise of their independent judgement.

7 *Remuneration Policy*

The Board's policy is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive Directors. The Remuneration Committee which now comprises Keith Harris and Thomas Lundqvist consults the executive Directors on its proposals relating to remuneration, and has access to professional advice inside and outside the Company. The Board determines the remuneration of all non-executive Directors although none of the non-executive Directors participates in discussions concerning his own remuneration.

8 Director's Emoluments

Salaries and bonuses for executive Directors are reviewed annually, taking into account the performance of the individual and competitive market practice. The only benefits provided to any executive Director are permanent health and medical insurance. No car or pensions are provided for any executive Director. The Company does not operate a pension scheme.

The emoluments of the Directors of the Company for the years ending 31 December 1998 were as follows:

	1998 Fees as a Director £000	1998 Salary £000	1998 Bonus £000	1998 Benefits in kind £000	1998 Total £000	1997 Total £000
Sten Mörtstedt (Executive Chairman)	–	120	75	3	198	143
Glyn Hirsch (Chief Executive)	–	194	75	3	272	223
Bengt Mörtstedt (Executive Director)	–	56	–	2	58	93
Bengt Mörtstedt (Non-Executive Director)	4	–	–	–	4	–
Sir David Rowe-Ham (Non-Executive Director)	25	–	–	–	25	25
Keith Harris (Non-Executive Director)	20	–	–	–	20	20
Thomas Lundqvist (Non-Executive Director)	15	–	–	–	15	15
1998	64	370	150	8	592	519
1997	60	376	75	8	519	

Sten Mörtstedt and Glyn Hirsch are also Directors of Citadel Holdings plc and each hold options for 115,000 shares in that Company.

Of the executive Directors remuneration, a total of £92,800 has been recharged to Citadel Holdings plc under the management agreement.

During 1998 no Director received any pension contributions (1997: nil).

No Director waived emoluments in respect of the year ended 31 December 1998. (1997: nil).

9 Share Options

The Board has delegated to the Remuneration Committee the grant of options under the Company's 1994 Executive Share Option Scheme, an Inland Revenue Approved Scheme. The basis of the granting of these share options is similar to salary reviews. The exercise of share options granted under the Scheme is conditional upon the satisfaction of performance criteria based on the growth of the net assets of the Company.

i) Particulars of the holdings of the only Director holding options over ordinary shares are as follows:

Share option Schemes	No of Options at 1 January 1998	Lapsed during year	No of options at 31 December 1998	Exercise price per share	Exercisable date of options
Glyn Hirsch					
Inland Revenue approved Scheme	600,000	–	600,000	97p	13.06.98 – 13.06.2005
Non approved Scheme	400,000	–	400,000	97p	12.04.95 – 11.04.2002
	1,000,000	–	1,000,000	–	

9 Share Options *(continued)*

ii) The number of options granted and options which lapsed during the year were:

	Management Issued	Management Lapsed	Exercise price per share	Exercisable period of option
Inland Revenue approved Scheme	**110,000**	**80,000**	**107p–148.5p**	**15.04.2001 – 02.10.2008**

At the year end a total of 1,788,000 options remained outstanding. The middle market price of the Company's shares at the end of the financial year was 110 pence, and the range of market prices during the year was between 93.5 pence and 148.5 pence.

No options were exercised during the year. No consideration has been paid for any of the options granted.

10 Service Agreements

The notice period applicable for termination of the executive Directors' contracts is twelve months. Non-executive Directors have letters of appointment which are renewed every six months. There is no provision in any service contract for compensation on termination exceeding one years salary.

The Company's register of Directors interests, which is open for inspection at the registered office, contains full details of the Directors' shareholdings and share options.

11 Directors' Interests

The interests of the Directors and their families in the shares of the Company (including shares held by family trusts) as at 1 January 1998 and 31 December 1998 were as follows:

	1 January 1998 Ordinary Shares of 25p	31 December 1998 Ordinary Shares of 25p
Sten Mörtstedt	**45,153,369**	**44,085,713**
Glyn Hirsch	**11,207**	**11,244**
Bengt Mörtstedt	**8,720,811**	**7,684,526**
Keith Harris	**10,000**	**9,750**
Thomas Lundqvist	**107,717**	**108,077**

There have been no changes in the interests of the Directors or their families as set out above between 31 December 1998 and the date of this report.

12 Substantial Shareholdings

In addition to interests of the Mörtstedt family referred to in paragraph 11 of this report, the Company has been notified of or is aware of the following interests which at 31 March 1999 represented 3 per cent or more of the Company's issued share capital.

	No of Shares	%
*Dresdner Investments (UK) plc**	**18,354,902**	**16.99**
PDFM Limited	**10,682,441**	**9.89**
Fidelity International Limited	**4,477,166**	**4.15**
AIB Govett	**4,162,470**	**3.86**
Hermes Pension Management	**3,685,824**	**3.41**
NPI	**3,297,418**	**3.05**

* All non-beneficial interests, of which 18,234,399 shares are held in trust for the Mörtstedt family and form part of the holdings disclosed in paragraph 11 of this report.

13 *Corporate Governance*

Combined Code

In June 1998 the Combined Code ("the Code") was published by The London Stock Exchange. The Code is a combination of the recommendations of the three committees which have been established in recent years to report on corporate governance in the UK – the Cadbury, Greenbury and Hampel Committees. Under the Listing Rules of the London Stock Exchange companies are now required to include in their Annual Report statements as to the application of the Code.

The Board agrees with the Hampel Committee's statement that its overriding objective is the preservation and the greatest practical enhancement of the shareholders' investment, and fully endorses the principles of the Code provided they are not inconsistent with the achievement of this objective.

The Board considers that the Company has complied with the provisions of the Code since its publication, save that it was not until March 1999 that the Board formally nominated a senior independent director. The Company is also proposing to change its Articles of Association at the forthcomming Annual General Meeting so that every director of the Company, and not just non-executive directors, is subject to re-election at least once every three years, in order to comply with the provisions of the Code. The executive directors will accordingly be offering themselves for re-election at the Annual General Meeting. With regard to the requirements of the Code on internal control, until guidance is made available by the Institute of Chartered Accountants England and Wales Committee, the Board has limited its review to internal financial controls as allowed by The London Stock Exchange.

The Board

The Board currently comprises two executive and four non-executive directors. It meets 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. There is a division of responsibilities between the Executive Chairman, who is responsible for the overall strategy of the Group and the Chief Executive, who has responsibility for the strategy and day to day running of the Group.

Additionally, an executive committee comprising senior management meets weekly to discuss management issues relating to the Group.

The Board is assisted by the following committees:

The *Audit Committee* which comprises three non-executive directors. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the Auditors.

The *Remuneration Committee* which comprises two non-executive directors. The committee is responsible for determining the terms of service and remuneration of the executive directors and the granting of options under the Company's Executive Share Option Scheme.

As the Board comprises only six directors and the market capitalisation of the Company is relatively modest the Board has decided not to appoint a nomination committee for the time being. Any appointments to the Board are instead considered by the full Board.

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The Chairman and the Chief Executive have regular meetings with institutional shareholders.

Internal Financial Control

The Board acknowledges that the Directors are responsible for the Group's system of internal financial control and have established procedures which are designed to provide reasonable assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal financial control for the period. The Directors have recognised that such a system can only provide a reasonable and not absolute assurance against material misstatement or loss.

Following consideration and identification of the key business risks by the Board, the Group has been structured into four main operational areas of property investment, property management, development and finance. Set out on pages 12 to 20 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 at executive meetings. Parameters have been established for property investment decisions to be referred to the Board for approval. Two-yearly cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

Directors' Report

for the year ended 31 December 1998

14 Going Concern

The financial statements which appear on pages 28 to 50 are prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

15 Share Capital

Changes in share capital are shown in Note 21.

16 Charitable contributions

The contributions made by the Group during the year for charitable purposes were £1,070 (1997: £650).

17 Insurance of Directors

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

18 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 trade creditors of the Company, CLS Holdings plc, were owed the equivalant of 31 days (1997: 21 days) of purchases.

19 Auditors

Our auditors, Coopers & Lybrand merged with Price Waterhouse on 1 July 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors to the Group will be proposed at the forthcoming annual general meeting.

By order of the Board

T J Thomson
Company Secretary
19 April 1999

Report of the Auditors

to the members of CLS Holdings plc

We have audited the financial statements on pages 28 to 50, which have been prepared under the historical cost convention, as modified by the revaluation of properties, and the accounting policies set out on pages 33 and 34.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 25 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules 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.

We review whether the statement on page 25 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
19 April 1999

Consolidated Profit and Loss Account

for the year ended 31 December 1998

	Notes	1998 £000	1997 £000
Turnover			
Net rental income		**29,792**	30,535
Other property related income		**2,741**	1,796
	2, 3	**32,533**	32,331
Administrative expenses		**(3,397)**	(2,728)
Net property expenses		**(2,494)**	(1,305)
		(5,891)	(4,033)
Operating Profit		**26,642**	28,298
Gains from sale at subsidiary		**465**	–
Gains from sale of investment properties		**2,131**	428
Profit on Ordinary Activities Before Interest		**29,238**	28,726
Interest receivable and financial income		**2,080**	1,017
Interest payable and related charges	*4*	**(20,264)**	(19,265)
Profit on Ordinary Activities Before Taxation	3, *6*	**11,054**	10,478
Tax on Profit on Ordinary Activities	*8*	**(961)**	(726)
Profit For The Financial Year	*9*	**10,093**	9,752
Dividends	*10*	**(3,406)**	(6,473)
Retained Profit For The Year	*23*	**6,687**	3,279
Earnings per share	*11*	**8.8p**	8.7p
Diluted earnings per share	*11*	**8.8p**	8.7p

The results in the consolidated profit and loss account derive from continuing operations.

Consolidated Balance Sheet

at 31 December 1998

	Notes	1998 £000	1997 £000
Fixed Assets			
Tangible assets	12	**404,966**	373,719
Investments	13	**4,435**	4,294
		409,401	378,013
Current Assets			
Stocks – trading properties	14	**83**	1,385
Debtors – amounts falling due after more than one year	15	**2,597**	3,203
Debtors – amounts falling due within one year	15	**4,735**	4,349
Investments	16	**3,217**	211
Cash at bank and in hand		**28,975**	18,944
		39,607	28,092
Creditors: *amounts falling due within one year*	17	**(29,764)**	(25,618)
Net Current Assets		**9,843**	2,474
Total Assets Less Current Liabilities		**419,244**	380,487
Creditors: *amounts falling due after more than one year*			
Bank and other loans	18	**(211,674)**	(199,364)
Net Assets		**207,570**	181,123
Capital and Reserves			
Called up share capital	21	**28,187**	28,245
Share premium account	23	**49,211**	46,098
Revaluation reserve	23	**80,707**	63,705
Capital redemption reserve	23	**723**	–
Other reserves	23	**19,010**	18,892
Profit and loss account	23	**29,732**	24,183
Total Equity Shareholders' Funds		**207,570**	181,123

The financial statements on page 28 to 50 were approved by the Board of Directors on 19 April 1999 and were signed on its behalf by:

Mr S A Mörtstedt
Director

Mr G V Hirsch
Director

Consolidated Cash Flow Statement

for the year ended 31 December 1998

	Notes	1998 £000	1997 £000
Net cash inflow from operating activities	*24*	**28,389**	28,294
Returns on investments and servicing of finance			
Interest received		**2,020**	976
Interest paid		**(18,730)**	(18,848)
Interest rate caps purchased		**(51)**	(281)
Net cash outflow from returns on investments and servicing of finance		**(16,761)**	(18,153)
Taxation paid		**(899)**	(893)
Capital expenditure			
Purchase and enhancement of properties		**(51,352)**	(2,242)
Sale of investment properties		**41,392**	11,730
Disposal of other fixed assets		**53**	–
Purchase of other fixed assets		**(296)**	(4,362)
Net cash (outflow)/inflow from capital expenditure		**(10,203)**	5,126
Acquisitions and disposals			
Sale of subsidiary undertaking		**2,803**	–
Equity dividends paid		**(3,517)**	(3,128)
Cash (outflow)/inflow before management of liquid resources and financing		**(188)**	11,246
Management of liquid resources			
Cash (placed)/released on short term deposits		**(10,324)**	596
Current asset investments		**(1,576)**	(9)
Net cash (outflow)/inflow from the management of liquid resources		**(11,900)**	587
Financing			
Share buyback		**(3,614)**	–
Expenses paid in connection with share issue		**(9)**	(6)
New loans		**51,733**	21,968
Repayment of loans		**(36,310)**	(30,049)
Net cash inflow/(outflow) from financing		**11,800**	(8,087)
(Decrease)/increase in cash		**(288)**	3,746

Statement of Total Recognised Gains & Losses

for the year ended 31 December 1998

	1998 £000	1997 £000
Profit for the financial year	**10,093**	9,752
Unrealised surplus on revaluation of properties	**19,478**	18,770
Realised surplus on revaluation of properties	**–**	1,000
Currency translation differences on foreign currency net investments	**118**	(408)
Other recognised gains relating to the year	**19,596**	19,362
Total gains and losses recognised since last annual report	**29,689**	29,114

Reconciliation of Historical Cost Profits & Losses

for the year ended 31 December 1998

	1998 £000	1997 £000
Profit for the financial year	**10,093**	9,752
Realisation of property revaluation gains and losses of previous years	**2,476**	(1,243)
Historical cost profit for the financial year	**12,569**	8,509

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 1998

	1998 £000	1997 £000
Profit for the financial year	**10,093**	9,752
Dividends	**(3,406)**	(6,473)
	6,687	3,279
Other recognised gains relating to the year	**19,596**	19,362
New share capital issued	**3,787**	3,097
Share buyback	**(3,614)**	–
Expenses of share issue	**(9)**	(6)
Net additions to shareholders' funds	**26,447**	25,732
Opening shareholders' funds	**181,123**	155,391
Closing shareholders' funds	**207,570**	181,123

Company Balance Sheet

at 31 December 1998

	Notes	1998 £000	1997 £000
Fixed Assets			
Investments	13	**19,955**	21,720
Current Assets			
Debtors – amounts falling due within one year	15	**70,892**	79,065
Cash at bank and in hand		**17,102**	7,367
		87,994	86,432
Creditors: *amounts falling due within one year*	17	**(7,826)**	(16,716)
Net Current Assets		**80,168**	69,716
Total Assets Less Current Liabilities		**100,123**	91,436
Net Assets		**100,123**	91,436
Capital and Reserves			
Called up share capital	21	**28,187**	28,245
Capital redemption reserve	23	**723**	–
Share premium account	23	**49,211**	46,098
Other reserves	23	**4,599**	4,599
Profit and loss account	23	**17,403**	12,494
Total Equity Shareholders's Funds		**100,123**	91,436

The financial statements on page 28 to 50 were approved by the Board of Directors on 19 April 1999 and were signed on its behalf by:

Mr S A Mörtstedt
Director

Mr G V Hirsch
Director

1 Principal Accounting Policies

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

(a) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties held as fixed assets. FRS 11 "Impairment of fixed assets and goodwill" came into effect for these financial statements but has not impacted on results. FRS 12 "Provisions, contingent liabilities and contingent assets" has been adopted early but has had no impact on the results of the Group. FRS13 "Derivatives and other financial instruments: disclosure" has been adopted early by the Group. FRS 14 "Earnings per share", has been adopted and, consequently, basic and diluted earnings per share have been calculated in accordance with the new methodology. Comparative basic and diluted earnings per share for 1997 have been recalculated on the same basis.

(b) Basis of consolidation

The Group financial statements consolidate the accounts of CLS Holdings plc and all its subsidiary undertakings drawn up to 31 December each year. Two Group companies Blackberry Limited and New Printing House Square Limited have balance sheet dates of 30 September and 30 November respectively. It was not considered necessary to bring these into line with the rest of the group on acquisition however the appropriate adjustments have been made on the basis management accounts. No profit and loss account is presented for CLS Holdings plc as permitted by Section 230 of the Companies Act 1985. The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties held as fixed assets. The Group has adopted the revised FRS1 Cash Flow Statements.

(c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past goodwill was written off to other reserves. In circumstances where the purchase consideration is less than the attributable net asset value at the date of acquisition, the difference is treated as a 'reserve arising on consolidation' and is included within other reserves. In accordance with FRS10 "Goodwill and intangible assets" previous years negative goodwill has not been recapitalised in the balance sheet. No goodwill arose during the year.

(d) Foreign currencies

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

(e) Turnover

Turnover comprises the total value of rents receivable under operating leases, including reverse premiums paid by tenants on surrender of leases, and property-related services provided during the year, excluding VAT and intra-Group trading. Rents received in advance are shown as deferred income in the balance sheet.

(f) Income from property sales

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

(g) Properties

i) Investment properties

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

ii) Stocks: Trading properties

Trading properties are stated at the lower of cost or net realisable value. Cost includes purchase price, stamp duty, legal fees and introduction on purchase fees.

iii) 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 departure from the principal activities of the business. Consequently 1997 figures have been restated to reflect this.

1 *Principal Accounting Policies (continued)*

(h) Depreciation

i) Investment properties

Freehold

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

Leasehold

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

ii) Other tangible fixed assets

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

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

(i) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced. It is calculated at the rate at which it is estimated that tax will be payable.

(j) Leases

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

(k) Financial Instruments

Interest Rate Caps

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

Shares and Options

Shares and options are held on the balance sheet at the lower of cost and net realisable value. 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.

2 *Property and other income*

	1998 £000	1997 £000
(a) Turnover by major activity		
Net rental income	**29,792**	30,535
Fees from property related services	**1,584**	757
Lease variation and surrender income	**291**	1,403
Other property related income	**1,875**	2,160
Total property related income	**31,667**	32,695
Other income	**866**	636
Turnover	**32,533**	33,331
Diminution in value due to lease surrender	**–**	(1,000)
	32,533	32,331

The proceeds from the sale of trading properties were £2,198,350 (1997: £1,909,224)

3 Segmental Reporting

	Turnover 1998 £000	Turnover 1997 £000	Profit before tax 1998 £000	Profit before tax 1997 £000	Net asset 1998 £000	Net asset 1997 £000
Turnover by geographical analysis						
London	**30,985**	31,996	**10,619**	10,544	**197,671**	179,709
International	**1,548**	335	**435**	(66)	**9,899**	1,414
	32,533	32,331	**11,054**	10,478	**207,570**	181,123

Further segmental analysis is provided in the Financial Review on page 19.

4 Interest payable and related charges

	1998 £000	1997 £000
On debentures	**4,704**	4,703
On bank loans	**13,939**	12,912
On other loans	**1,621**	1,650
	20,264	19,265

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 Director's report on pages 23 to 24.

6 Profit on ordinary activities before taxation

	1998 £000	1997 £000
This is stated after charging:		
Auditors' remuneration	**95**	79
Depreciation of tangible fixed assets	**168**	172
Directors' emoluments	**592**	519

Fees paid to the auditors in respect of other services were £25,000 (1997: nil). audit fees for the Company were £22,994 (1997: £21,800).

7 Employee information

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

		1998	1997
(a)	*Number of employees*	**27**	25

		1998 £000	1997 £000
(b)	*Costs*		
	Salaries	**1,429**	1,079
	Social security	**116**	99
		1,545	1,178

8 Tax on ordinary activities

	1998 £000	1997 £000
United Kingdom corporation tax at 31% (1997: 31.5%)	**–**	–
Overseas deferred taxation	**(3)**	–
Under/(over) provision in respect of prior years	**401**	(100)
Irrecoverable advance corporation tax	**563**	826
	961	726

The under provision in respect of prior years is shown net of the utilisation of surplus advance corporation tax previously written off of £694,000. The taxation charge for the year has been reduced by corporation tax losses brought forward and by the capital allowances on fixed plant and machinery in properties held as investments. In accordance with the Group's accounting policy, no deferred tax has been provided in respect of capital allowances either on those investment properties which there is no intention to sell or where there is a current intention to sell as no clawback of capital allowances arise.

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 £8,523,332 (1997: £2,769,047).

10 Dividends

	Pence per share	1998 £000	Pence per share	1997 £000
Dividends on ordinary shares:				
Scrip enhancement final dividend 1997		**631**		–
Interim paid	**2.4**	**2,775**	2.30	2,575
Final proposed	**–**	**–**	3.45	3,898
	2.4	**3,406**	5.75	6,473

11 Earnings per ordinary share

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

	1998 Earnings £000	1998 Weighted average no of shares	1998 Per share amount, pence	1997 Earnings £000	1997 Weighted average no of shares	1997 Per share amount, pence
Basic EPS						
Earnings attributable to ordinary shareholders	**10,093**	**114,300**	**8.8p**	9,751	111,498	8.7p
Effect of dilutive securities						
Options	**–**	**423**	**–**	–	271	–
Diluted EPS	**10,093**	**114,723**	**8.8p**	9,751	111,769	8.7p

12 Tangible fixed assets

	Investment Freehold Property £000	Investment leasehold property £000	Leasehold premium £000	Leasehold improvements £000	Plant and Machinery £000	Total £000
Group						
Cost or valuation:						
Opening balance						
at 1 January 1998	353,178	20,225	30	8	2,107	375,548
Exchange differences	(345)	–	–	–	–	(345)
Additions	53,471	291	–	–	145	53,907
Surplus on revaluation	19,028	450	–	–	–	19,478
Disposals	(28,835)	(12,761)	–	–	(66)	(41,662)
At 31 December 1998	**396,497**	**8,205**	**30**	**8**	**2,186**	**406,926**
Depreciation:						
At 1 January 1998	–	–	30	8	1,791	1,829
Charge for the year	–	–	–	–	168	168
Disposals	–	–	–	–	(37)	(37)
At 31 December 1998	**–**	**–**	**30**	**8**	**1,922**	**1,960**
Net book value at						
at 31 December 1998	396,497	8,205	–	–	264	404,966
Net book value						
at 1 January 1998	353,178	20,225	–	–	316	373,719

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

(b) At 31 December 1998 all freehold and leasehold properties owned by the consolidated Group were revalued at their open market value taking into account their condition and tenancies existing at that date. The property valuations were carried out by Allsop & Co, an independent firm of Chartered surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institute of Chartered Surveyors.

(c) The historical cost of the freehold and leasehold investment properties included at valuation is £326 million.

(d) All leasehold properties are held under long leases.

13 Investments

	Shares in subsidiary undertakings £000	Other investments £000	Total £000
Group			
At 1 January 1998	–	4,294	4,294
Additions	–	151	151
Disposal	–	(10)	(10)
At 31 December 1998	–	4,435	4,435
Company			
At 1 January 1998	18,319	4,000	22,319
Additions	51	22	73
Disposals	(338)	–	(338)
Cost at 31 December 1998	18,032	4,022	22,054
Provision at 1 January 1998	(599)	–	(599)
Movement on provision	(1,500)	–	(1,500)
Provision at 31 December 1998	(2,099)	–	(2,099)
Net book value at 31 December 1998	15,933	4,022	19,955
Net book value at 1 January 1998	17,720	4,000	21,720

A list of subsidiary undertakings is shown in Note 31.

Other investments include 4,077,610 ordinary shares in Citadel Holdings plc held at cost. The market value at 31 December 1998 was £4,220,326.

They also include Gilts at a cost of £187,684. Market value at 31 December 1998 was £190,827.

Staplebrook Investments Limited was disposed of by the Group on 22 April 1998, it generated a profit of £16,265 to the date of sale and a gain on disposal of £465,000.

14 Stocks

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Trading properties	83	1,385	–	–

15 Debtors

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Amounts falling due after more than one year				
Other debtors	2,594	3,203	–	–
Deferred taxation (note 20)	3	–	–	–
	2,597	3,203	–	–

15 Debtors *(continued)*

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Amounts falling due within one year				
Trade debtors	**1,604**	1,156	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**70,568**	78,305
Other debtors	**1,361**	1,204	**97**	667
Prepayments and accrued income	**1,770**	1,989	**227**	93
	4,735	4,349	**70,892**	79,065

16 Current asset investments

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Equity investments and other financial instruments	**2,536**	211	**–**	–
Other investments	**681**	–	**–**	–
	3,217	211	**–**	–

Equity investments and other financial instruments which are stated at cost £2,536,967 relate to listed investments on the London & Swedish Stock Exchanges. The market value at 31 December 1998 was £2,549,846.

Other investments which are stated at cost relate to a 33% share in the capital of Teighmore Limited, an investment company which owns the freehold of Southwark Towers, London Bridge. This has not been accounted for on an equity basis as it is held for resale.

17 Creditors: Amounts falling due within one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Interest bearing:				
Debentures	**301**	271	**–**	–
Bank loans and overdrafts	**9,747**	6,780	**–**	–
Other loans	**250**	250	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**6,514**	11,640
Non interest bearing:				
Trade creditors	**1,660**	855	**62**	48
Amounts due to clients	**726**	–	**–**	–
Corporation tax	**–**	–	**–**	–
Advance corporation tax payable	**1,059**	1,006	**1,059**	1,006
Other taxes and social security	**1,033**	958	**–**	–
Other creditors	**897**	156	**–**	2
Accruals and deferred income	**14,091**	11,444	**191**	122
Dividends payable	**–**	3,898	**–**	3,898
	29,764	25,618	**7,826**	16,716

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

18 Creditors: Amounts falling due after more than one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Debenture loans	**40,690**	40,991	**–**	–
Bank loans	**157,162**	144,300	**–**	–
Other loans	**13,822**	14,073	**–**	–
	211,674	199,364	**–**	–

19 Analysis of corporate loans

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Debenture loans are repayable by instalments as follows:				
In one year or less or on demand	**301**	271	**–**	–
In more than one year but not more than two years	**335**	301	**–**	–
In more than two years but not more than five years	**1,248**	1,122	**–**	–
In more than five years	**39,107**	39,568	**–**	–
	40,991	41,262	**–**	–
Bank loans are repayable as follows:				
In one year or less or on demand	**9,747**	6,780	**–**	–
In more than one year but not more than two years	**49,049**	34,500	**–**	–
In more than two years but not more than five years	**62,021**	80,180	**–**	–
In more than five years – by instalment	**43,354**	27,158	**–**	–
– other than by instalment	**2,738**	2,462	**–**	–
	166,909	151,080	**–**	–
Other loans are repayable as follows:				
In one year or less or on demand	**250**	250	**–**	–
In more than one year but not more than two years	**250**	250	**–**	–
In more than two years but not more than five years	**1,860**	1,623	**–**	–
In more than five years – by instalment	**11,712**	12,200	**–**	–
– other than by instalment	**–**	–	**–**	–
	14,072	14,323	**–**	–

(a) The £41.0 million (1997: 41.3 million) of debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1,175,839 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%. The debentures 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 5.8% and 9.17% and floating rates of LIBOR or STIBOR plus a margin ranging between 0.7% and 1.5%. 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 which 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 11% and 11.635%. 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 £63,365,203 (1997: £41,890,366) and £12,200,000 (1997: £12,200,000) for bank loans and other loans respectively.

20 Deferred taxation

	1998 Provision £000	1998 Amount unprovided £000	1997 Provision £000	1997 Amount unprovided £000
Group				
Deferred taxation is provided as follows:				
Capital allowances in excess of depreciation	**–**	**12,010**	(15)	12,138
Other short term timing differences	**(3)**	**–**	15	–
Future benefit of tax losses	**–**	**(6,281)**	–	(6,887)
Taxation on revaluation surplus	**–**	**12,434**	–	10,940
	(3)	**18,163**	–	16,191
Less: advance corporation tax	**–**	**(3,103)**	–	(3,235)
	(3)	**15,060**	–	12,956

	£000
Balance at 1 January 1998	–
Movement during the year	(3)
Balance at 31 December 1998	**(3)**

No provision has been made for further tax which could arise if subsidiary or associated undertakings are disposed of, or investment properties included in fixed assets are disposed of, or overseas companies were to remit dividends to the UK. Except as referred to in note 8 there is no present intention to take any of these actions. No taxation liability is expected to arise on these disposals.

No deferred tax liability arose relating to the Company (1997: nil).

21 Share capital

	1998 £000	1997 £000
(a) *Authorised and issued as at 31 December*		
Authorised 1,600,000,000 Ordinary Shares of 25p each	**40,000**	40,000
Alloted, called up and fully paid		
112,979,451 Ordinary Shares of 25p each	**–**	28,245
112,747,693 Ordinary Shares of 25p each	**28,187**	–

	Nominal value £000	Number of Ordinary Shares of 25 p each '000
(b) *Allotments of issued capital*		
Opening share capital	**28,245**	**112,979**
Allotted in lieu of 1997 final cash dividend	**665**	**2,660**
Cancelled pursuant to Tender Offer	**(723)**	**(2,891)**
	28,187	**112,748**

22 *Options in shares of CLS Holdings plc*

Details of options in shares of CLS Holdings plc granted during 1998 are given in the Directors Report on pages 23 and 24.

23 *Share premium account and reserves*

	Share premium account £000	Capital Redemption Reserve £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
Group					
At 1 January 1998	46,098	–	63,705	18,892	24,183
Exchange difference	–	–	–	118	–
Shares issued in lieu of dividends	3,122	–	–	–	–
Share buyback	–	723	–	–	(3,614)
Expenses of share issue	(9)	–	–	–	–
Transfer on disposal of properties	–	–	(2,476)	–	2,476
Unrealised surplus on revaluation of properties	–		19,478	–	–
Retained profit for the year	–	–	–	–	6,687
At 31 December 1998	**49,211**	**723**	**80,707**	**19,010**	**29,732**
Company					
At 1 January 1998	46,098	–	–	4,599	12,494
Shares issued in lieu of dividends	3,122	–	–	–	–
Share buyback	–	723	–	–	(3,614)
Expenses of share issue	(9)	–	–	–	–
Loss for the year	–	–	–	–	8,523
At 31 December 1998	**49,211**	**723**	**–**	**4,599**	**17,403**

24 *Reconciliation of operating profit to net cash inflow from operating activities*

	1998 £000	1997 £000
Continuing activities		
Operating profit	**26,642**	28,298
Depreciation	**169**	172
Associated cost of lease surrender	**–**	1,000
(Increase)/Decrease in debtors	**(432)**	25
Increase/(Decrease) in creditors	**722**	(1,069)
Decrease/(Increase) in stocks	**1,302**	(132)
Profit on sale of fixed assets	**(14)**	–
Net cash inflow from operating activities	**28,389**	28,294

25(a) Analysis of net debt

	1 Jan 1998 £000	Cash Flow '000	31 Dec 1998 '000
Net cash:			
Cash at bank and in hand	**18,944**	**10,031**	**28,975**
Less: deposits treated as liquid resources	**(7,668)**	**(10,324)**	**(17,992)**
	11,276	**(293)**	**10,983**
Bank overdraft	**(5)**	**5**	**–**
	11,271	**(288)**	**10,983**
Liquid resources:			
Deposits included in cash	**7,668**	**10,324**	**17,992**
Current asset investments	**211**	**3,006**	**3,217**
	7,879	**13,330**	**21,209**
Debt:			
Debts falling due within one year	**(7,296)**	**(3,002)**	**(10,298)**
Debts falling due after more than one year	**(199,364)**	**(12,310)**	**(211,674)**
	(206,660)	**(15,312)**	**(221,972)**
Net debt	**(187,510)**	**(2,270)**	**(189,780)**
Cash at bank and in hand	**18,944**	**10,031**	**28,975**
Current asset investments	**211**	**3,006**	**3,217**
Bank overdraft	**(5)**	**5**	**–**
Debts falling due within one year	**(7,296)**	**(3,002)**	**(10,298)**
Debts falling due after more than one year	**(199,364)**	**(12,310)**	**(211,674)**
	(187,510)	**(2,270)**	**(189,780)**

Liquid resources are short term deposits or current asset investments that are readily convertible into known amounts of cash.

25(b) Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
(Decrease)/Increase in cash in the period	**(288)**	3,746
Cash outflow/(inflow) from increase in liquid resources	**13,330**	(587)
Cash (inflow)/outflow from (increase)/decrease in debt	**(15,423)**	8,069
Changes in net debt resulting from cash flows	**(2,381)**	11,228
Translation differences	**387**	248
Capitalised interest	**(276)**	(248)
Net debt at January	**(187,510)**	(198,738)
Net debt at 31 December	**(189,780)**	(187,510)

26 Changes in financing

	1998 £000	1997 £000
(a) Loan finance		
Balance brought forward	**206,665**	215,726
Net cash inflow/(outflow)	**15,423**	(8,069)
Interest capitalised	**276**	248
Foreign exchange movements	**(387)**	(248)
	221,977	207,657
Decrease in bank overdrafts	**(5)**	(992)
	221,972	206,665

	1998 £000	1997 £000
(b) Share capital (including premium)		
Balance brought forward	**74,343**	71,252
Expenses of share issue	**(9)**	(6)
Shares issued for non cash consideration	**3,787**	3,097
Balance carried forward	**78,121**	74,343

27 Major non-cash transactions

During the year 2,659,208 new Ordinary shares in CLS Holdings plc were issued in lieu of cash dividends equating to £3,786,713, as set out in note 21.

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

The following tables provide an analysis of the Group's interest rate risks in relation to its financial liabilities as at 31 December 1998. These are analysed, by principal currency, to show separately those liabilities at fixed interest rates, those at floating interest rates and those on which no interest is payable.

28 *Financial Instruments* (continued)

i)

	Total £000's	Floating rate financial liabilities £000's	Fixed rate financial liabilities £000's	Financial liabilities on which no interest is paid £000's
Currency				
Financial liabilities				
– Sterling	185,851	121,224	64,627	–
– Swedish Kronor	35,508	8,268	25,841	1,399
– EU currencies (excluding Sterling)	2,012	–	2,012	–
At 31 December 1998	**223,371**	**129,492**	**92,480**	**1,399**
Financial liabilities				
– Sterling	204,706	139,183	65,523	–
– EU currencies (excluding Sterling)	1,959	–	1,959	–
At 31 December 1997	206,665	139,183	67,482	–

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.

ii)

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
– Sterling	10.72	19.7	–
– Swedish Kronor	5.98	14.8	0.2
– EU currencies (excluding Sterling)	7.79	15.2	–
At 31 December 1998	**9.33**	**18.2**	**0.2**
Sterling			
– Financial liabilities	10.89	21.1	–
– EU currencies (excluding Sterling)	8.32	16.4	–
At 31 December 1997	10.81	21.0	–

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR 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 £101 million at 8 to 10% expiring between 1 and 5 years and SEK 112 million at 6% expiring in 5 years.

28 *Financial Instruments (continued)*

c) Interest rate risk of financial assets

The following table provides an analysis of the Group's financial assets as at 31 December 1998. These are analysed by principal currency.

	Cash at bank and in hand £000's	Short-term deposits £000's	1998 Total £000's	Cash at bank and in hand £000's	Short-term deposits £000's	1997 Total £000's
Currency						
– *Sterling*	**6,643**	**17,992**	**24,635**	10,854	7,668	18,522
– *Swedish Kronor*	**4,181**	**–**	**4,181**	329	–	329
– *EU currencies (excluding Sterling)*	**159**	**–**	**159**	93	–	93
At 31 December	**10,983**	**17,992**	**28,975**	11,276	7,668	18,944

Short term deposits are invested at floating market rates in both Jersey and the UK. The Group have adopted a strategy of very short term maturities on deposits to capitalise on the negative yield curve.

In addition the following other financial assets were held:

	1998 £000	1997 £000
Assets held as part of the financing arrangements of the group		
Interest bearing debtor	**1,870**	1,840
Assets held or issued for treasury purposes:		
Equity investments and other financial instruments	**3,065**	212
Interest rate caps	**1,655**	2,432
	6,590	4,484

The interest bearing debtor represents a third party deferred interest loan which is repayable over a period of 29 years from the balance sheet date at a fixed rate of 7.0%.

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 £m	Other financial liabilities £m	1998 Total £m	Debt £m	Other financial liabilities £m	1997 Total £m
Within 1 year, or on demand	**10,298**	**1,399**	**11,697**	7,301	–	7,301
Between 1 and 2 years	**49,634**	**–**	**49,634**	35,051	–	35,051
Between 2 and 5 years	**65,129**	**–**	**65,129**	82,925	–	82,925
Over 5 years	**96,911**	**–**	**96,911**	81,388	–	81,388
	221,972	**1,399**	**223,371**	206,665	–	206,665

Other financial liabilities relate to defered income in respect of financial instruments held for treasury purposes.

28 *Financial Instruments* (continued)

e) Borrowing facilities

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

	Floating rate £m	1998 Total £m	1997 Total £m
Expiring within 1 year	**–**	**–**	–
Expiring between 1 and 2 years	**3,219**	**3,219**	–
Expiring in more than 2 years	**–**	**–**	–
	3,219	**3,219**	–

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 1998 and 1997. 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.

	1998 Book value £000's	1998 Fair value £000's	1997 Book value £000's	1997 Fair value £000's
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	**(10,298)**	**(10,298)**	7,301	7,301
Long-term borrowings	**(211,674)**	**(244,950)**	199,364	208,015
Other financial liabilities	**(1,399)**	**(928)**	–	–
Short-term deposits	**17,992**	**17,992**	7,668	7,668
Cash at bank and in hand	**10,983**	**10,983**	11,276	11,276
Equity investments and other financial assets	**4,935**	**5,816**	2,052	2,772
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate caps	**1,655**	**142**	2,432	unavailable
Forward foreign currency contracts	**–**	**(17)**	–	–

A fair value comparative figure for interest rate caps could not be obtained from the banks concerned. As at 31 December 1997, £125 million of the groups floating rate debt was covered by interest rate caps with rates of between 8% to 10%. None of these caps expired during the year to 31 December 1998.

Summary of methods and assumptions

Forward foreign currency contracts and interest rate caps

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 and other financial instruments

Fair value is based on market price of comparable instruments at the balance sheet date.

28 *Financial Instruments* *(continued)*

Long-term interest bearing debtor

The fair value of this asset has been calculated by discounting expected cash flows at the prevailing interest rate of 8.77% (1997: 9.68%).

Long-term borrowings

The fair value of the Group's bonds has been estimated using quoted market prices. In the case of bank loans and other loans, the fair value approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.

g) Currency exposures

As explained on page 19 of the financial review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group either borrows in the local currencies of its main operating units. Gain 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 retranslation 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/(liabilities)			
	Sterling £m	Swedish Kronor £m	EU currencies £m	Total £m
1998				
Functional currency of Group operation:				
Sterling	–	3,384	66	3,450
Swedish Kronor	–	–	–	–
EU currencies (excluding Sterling)	(125)	–	–	(125)
Total	**(125)**	**3,384**	**66**	**3,325**
1997				
Functional currency of Group operation:				
Sterling	–	–	18	18
SEK	–	–	–	–
EU currencies (excluding Sterling)	(87)	–	–	(87)
Total	**(87)**	**–**	**18**	**(69)**

h) Hedges

As explained in the financial review on page 19 the Group's policy is to hedge the following exposures:

– Interest rate risk – using interest rate caps

– Currency risk – using forward foreign currency contracts

Gains and losses on instruments used for hedging are not recognised and are effectively deferred and amortised in the balance sheet as the book value of a cap differs from its fair value. Changes in the fair value of forward foreign exchange contracts arise due to movements in the exchange rate. These are matched with the change in value of the foreign net asset investment.

28 Financial Instruments (continued)

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.

	Unrecognised losses £000's	Deferred losses £000's	Total net losses £000's
Unrecognised gains and losses on hedges as at 31 December 1998	(17)	(1,513)	(1,530)
Of which:			
Gains and losses expected to be recognised in 1999	(17)	(661)	(678)
Gains and losses expected to be recognised in 2000 or later	–	(852)	(852)

Estimates of the fair value of interest rate caps could not be obtained as at 31 December 1997, therefore unrecognised gains and losses arising during the year and in prior periods could not be quantified.

i) Financial instruments held for trading purposes

The Group trades in financial instruments as part of its treasury activities.

29 Commitments and contingent liabilities

At 31 December 1998 the Group had an authorised but not contracted for financial commitment, amounting to £0.5 million. The Group had no annual commitments under non-cancellable operating leases which expire in more than five years.

The Group has an outstanding forward foreign exchange contract hedging Swedish Kronor revenues, maturing within one year, amounting to SEK40 million at a rate of SEK13.4: £1. The Group, through its wholly owned subsidiary One Leicester Square Limited, is committed to spend a further £2.9 million during 1999 to complete shell and core works at Leicester House (1997: Nil). The Company has no capital commitments (1997: Nil).

As of 31 December 1998 the Company had guaranteed £25.0 million of Group Companies' liabilities.

30 Post balance sheet events

There are no post balance sheet events.

31 Investment in Group undertakings

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

Blackberry Limited	New Printing House Square Limited
CI Tower Investments Limited	One Leicester Square Limited
CLSH Management Limited	Spring Gardens Limited
Carlow House Limited	Three Albert Embankment Limited
Durnvale Limited	Vauxhall Cross Limited
Great West House Limited	Vänerparken Investments KB
Ingrove Limited	

The principal activity of each of these subsidiaries is property investment apart from that of CLSH Management Limited which is property management.

The Group has no associated undertakings. To comply with the Companies Act 1985 a full list of subsidiaries will be filed with the Companies neat annual return.

32 *Related Party Transactions*

CLS Holdings plc ("CLS") continues to retain its investments in Citadel Holdings plc ("Citadel"). During the year CLS elected to receive the enhanced scrip dividend of 22,610 shares in respect of the Citadel 1997 year end and as at 31 December 1998 held a total of 4,077,610 shares in Citadel (12.32% of the issued share capital. 1997: 12.12%).

Management Agreement

CLSH Management Limited, a wholly owned subsidiary of CLS, continued to render management services to Citadel.

CLSH Management Limited are paid an amount equal to a fair and reasonable allocation of its central overheads and are reimbursed all third party costs and expenses incurred in providing the services, but do not charge any additional fees. The total value of fees for 1998 was £482,096. It is not intended that the executive directors of Citadel will be paid a salary by Citadel but they have been granted share options under the Citadel Share Option Scheme.

CLSH Management also had current account balances with the Citadel Group whereby the former was owed £103,399 as at 31 December 1998.

Relationship Agreement

CLS, Sten and Bengt Mörtstedt and Citadel have conditionally entered into a relationship agreement which is designed, interalia to regulate any conflicts arising between CLS and Citadel in relation to investment opportunities, which arise whether in France or elsewhere. CLS has agreed that no member of its Group will invest in property in France without that opportunity first being made available to Citadel.

Warrant Agreement

Last year CLS also conditionally entered into a Warrant Agreement whereby CLS was granted Performance Warrants which gave it the ability to subscribe for a further 8 million ordinary shares in Citadel (representing 19.46% of the enlarged share capital following such subscription) in specified periods up to seven years from the date of the agreement subject to the achievement by Citadel of certain performance targets. If Citadel achieves a return on shareholders funds (per share) of 15% compound per annum from its Admission to the AIM as derived from the audited accounts or if Citadel shareholders receive that return through the combination of the appreciation in the Citadel share price and dividends paid, the Performance Warrants will become exercisable. CLS will be able to subscribe for 4 million ordinary shares at the issue price of 100p and a further 4 million shares at 115p. This is calculated to give CLS additional benefits if the performance targets are met. As at 31 December 1998 the Warrant Agreement was exercisable, however CLS currently has no intention to exercise the Warrants.

Options in Citadel Shares granted to CLS directors

Two CLS directors benefit from share options in Citadel as described in the Directors Report on page 23.

Directors Interests in Citadel

The directors' interests in the shares of Citadel were as follows:

	1998	1997
Sten Mörtstedt	**7,063,161**	7,023,997
Glyn Hirsch	**20,671**	20,557
Bengt Mörtstedt	**1,679,074**	1,669,763
Sir David Rowe-Ham	**5,000**	–
Thomas Lundqvist	**5,027**	–

Other Transactions

On 23 September 1998 Spring Gardens III Limited, a wholly owned susidiary of CLS, sold two flats for £145,000 and £106,000 to Charlotta Mörtstedt and Emma Mörtstedt respectively. Spring Gardens III Limited earned a profit of £86,717 from the sale.

Schedule of Group properties

Property UK Properties	Address	Freehold/Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
Brent House	349-357 High Road, Wembley, Middx HA9	Freehold	9,137	98,356	Offices	1995
Buspace Studios	10 Conlan Street, London,W10	Freehold	2,512	27,035	Studios/ workshops	
Cambridge House	100 Cambridge Grove, London W6 OLE	Freehold	6,617	71,222	Offices	1991
Carlow House	Carlow Street, London NW1	Freehold	4,327	46,580	Offices/ Residential	1989
Chancel House	Neasden Lane, London NW10 2XE	Freehold	7,017	75,538	Offices	1990
CI Tower	High Street, New Malden, Surrey KT3 4HH	Freehold	7,572	81,511	Offices	1992
Citadel House	5-11 Fetter Lane, London EC4	Freehold	4,465	48,064	Offices	1977
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,134	33,737	Offices/ Residential	1993
Club UK	The Studio, Fox's Lane, Wolverhampton, West Midlands WV1 1PA	Freehold	2,139	23,027	Nightclub	
Coventry House	21/24 Coventry Street & 35A Haymarket, London SW1	Freehold	955	10,278	Restaurant/ Residential/ Advertising Signage	1992
Conoco House	230 Blackfriars Road, London SE1	Leasehold	5,575	60,010	Offices	1995 (Part)
Coombe Hill House	Raynes Park, New Malden	Freehold	3,437	37,000	Offices	1990
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/ Residential	Late 1988
Drury Lane	Drury Lane, London WC2	Freehold	2,963	31,899	Offices/ Theatre/ Retail	1994
Dukes Road	22 Dukes Road, London WC1	Freehold	1,155	12,437	Offices	1980's
Great West House/	Great West Road,	Freehold	8,556	92,103	Offices	1989
Computer House	Brentford, Middx TW8 9DF	5,706	61,421	Offices	1989	
Hoechst House	Salisbury Road, Hounslow, Middx	Freehold	10,355	111,462	Offices	1992
Holland Park Avenue	142/144 Holland Park Avenue, London W11	Freehold	275	2,956	Showroom/ Offices/ Residential	1996 (Proposed)
Hollywood Nightclub	Princess Street, Ipswich, Suffolk IP1 1SB	Freehold	1,951	21,000	Nightclub	
Hoskyns House	95 Wandsworth Road, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/ Residential/ Industrial	1995
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,328	14,295	Offices	1989
Larkhall Lane	157 Larkhall Lane, London SW4	Freehold	3,338	35,934	Industrial Retail/ Restaurant	1994

Schedule of Group properties

Property UK Properties	Address	Freehold/Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
Leicester House	1 Leicester Square, London WC2	Freehold	2,689 (Existing)	28,948 (Existing)	Cinema/ Leisure	1999 (Proposed)
London House	271/273 King Street Hammersmith London W6 9LZ	Freehold	1,389	14,951	Business Centre	1924
New Printing House Square	214/236 Gray's Inn Road, London WC1	Freehold	26,438	284,585	Offices	1996 (Proposed)
Satellite House	15-23 Baches Street London N1	Freehold	1,450	15,604	Offices	1980
Scriptor Court	155 and 157 Farringdon Road, EC1	Leasehold	1,584	17,052	Offices	1980's
Spring Gardens	Tinworth Street, London SE11	Freehold	14,516	156,249	Offices	1989
Spring Gardens III	Tinworth Street/) inc. Vauxhall Walk/) and Glasshouse Walk/) areas London SE11	Freehold	4,505	48,488	Industrial/ Offices	Early 1900's
Vauxhall Street, Oval Business Centre	142-170 Vauxhall Street, London SE11	Freehold	3,186	34,294	Offices	1990
Westminster Tower	3 Albert Embankment, London SE1 7SP	Freehold	4,462	48,033	Offices	Early 1983
U.K. PROPERTY AT 31.12.98		Sub Total	163,351	1,758,355		

International Properties	Address	Freehold/Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
Schanzenstrasse	Schanzenstrasse 76 Dusseldorf, Germany	Freehold	3,095	33,315	Offices	1990
Vänerparken	Lasarettet No 2, Vänerparken, Vänersborgs Kommun, Sweden	Freehold	43,222	465,254	Offices/ Residential/ Leisure	
Westbahnhof	Kasseler Strasse, Frankfurt am Main, Germany	Freehold	2,314	24,905	Industrial	Various
		Sub Total	48,631	523,474		
ALL PROPERTY TOTAL 31.12.98			211,982	2,281,829		

Notes: The figures in this schedule are net lettable areas.