CLS HOLDINGS PLC

IS AN INVESTMENT COMPANY AIMING TO

ENHANCE SHAREHOLDER VALUE THROUGH ACTIVE MANAGEMENT AND STRATEGIC INVESTMENT PROVIDING SECURE LONG TERM GROWTH.

FINANCIAL HIGHLIGHTS

- NAV PER SHARE UP 33 PER CENT TO 243.9 PENCE
- PROFIT BEFORE TAX UP 53 PER CENT TO £16.9 MILLION
- TOTAL SHAREHOLDERS' RETURN 23.6 PER CENT
- TOTAL DISTRIBUTION TO SHAREHOLDERS 7.5 PENCE PER SHARE
- PORTFOLIO VALUED AT £499.2 MILLION
- PROFIT FROM INVESTMENT DIVISION £4.6 MILLION
- PROFIT FROM LEASE SURRENDERS £3.3 MILLION
- YEAR END AVAILABLE CASH UP 25 PER CENT TO £36 MILLION

	1999	1998	
Net rental income	**£33.7m**	£28.8m	up 17%
Operating profit	**£32.2m**	£26.6m	up 21%
Profit before taxation	**£16.9m**	£11.1m	up 53%
Profit after taxation	**£14.8m**	£10.1m	up 47%
Earnings per share	**14.0p**	8.8p	up 58%
Distribution to shareholders			
Net dividend per share	**–**	2.40p	
Share buy back paid	**2.85p**	3.13p	
Share buy back proposed	**4.67p**	4.50p	
	7.52p	10.03p	down 25%
Net asset value per share	**243.9p**	184.1p	up 33%
Cash & short term deposits	**£36.1m**	£29.0m	up 25%
Gearing	**100.7%**	93%	

BUSINESS HIGHLIGHTS

- FORMATION OF INVESTMENT DIVISION
- HOECHST LEASE SURRENDER FOR £8.0 MILLION
- ACQUISITION OF COLNE HOUSE, WATFORD AT INITIAL YIELD OF 10 PER CENT
- COMPLETION OF LETTINGS AT ELAN HOUSE, EC4
- £34.5 MILLION ACQUISITION OF SOLNA BUSINESS PARK, SWEDEN
- AEGIS LEASE SURRENDER FOR £1.85 MILLION
- COMPLETION OF LETTINGS AT 230 BLACKFRIARS ROAD, SE1 TO AMERICAN EXPRESS AND MEDICAL DEFENCE UNION
- COMPLETION AND LETTING OF LEISURE DEVELOPMENT AT ONE LEICESTER SQUARE
- FIRST MAJOR LETTING AT SOLNA BUSINESS PARK TO THE SWEDISH POST OFFICE OF UP TO SEK 14.2 MILLION (£1.0 MILLION) PER ANNUM

RECORD PROFIT AND

THE GROUP ENJOYED ANOTHER SUCCESSFUL YEAR AND THE RESULTS SHOW OUR CONTINUED PROGRESS. THE TOTAL RETURN TO SHAREHOLDERS DURING THE YEAR WAS 23.6 PER CENT (£49.0 MILLION) BASED ON MOVEMENT IN SHAREHOLDERS' FUNDS AND SHARE BUY-BACKS IMPLEMENTED DURING THE YEAR. THE GROUP ACHIEVED A 53.0 PER CENT INCREASE IN PRE-TAX PROFITS TO £16.9 MILLION.

Net assets of the group increased from £207.6 million to £248.7 million, giving a 32.5 per cent increase in net assets per share to 243.9 pence (1998: 184.1 pence). At the year end the post-tax FRS13 adjustment amounted to 10.2 pence per share, down from 20.4 pence. Rental income, represented by rents, service charge and other income received from tenants increased by 17.3 per cent to £33.7 million. This increase would have been greater but for the empty space in the course of refurbishment. Gearing at the year end was 100.7 per cent.

The Company's share price has improved by 23 per cent during 1999 but still remains at an even greater discount to net asset value than at last year end, despite a strong property market. In these circumstances your Board continues to believe in the benefits of distributing cash as capital dividends by way of a tender offer buy-back in lieu of a cash dividend. The Board has therefore decided to recommend a tender offer buy-back of 1 in 45 shares at a price of 210 pence per share, which will further enhance net asset value per share.

During the year the main achievements in the property field have been lease surrenders at Vista Office Centre and New London House, the successful completion of our refurbishments of 230 Blackfriars Road and One Leicester Square, and the acquisition of Solna Business Park in Stockholm. A full account of the group's property activities appears in the Property Review.

Additionally £4.6 million of our pre-tax profits have been derived from our expanding investment division, as compared with £0.7 million in 1998. Further details of our investments are set out in the Investment Review.

During the year the group increased its shareholding in Citadel Holdings plc from 12.3 per cent to 17.4 per cent. The strong performance of that company continues, thus increasing the value of our performance warrants. These have not been included as an asset in our balance sheet.

We made no significant investments in 1999 in UK property assets apart from the acquisition of Colne House, Watford at £6.7 million. Although we have looked at a number of opportunities we do not believe that the yields at which many properties are being sold provide attractive opportunities for a significant increase in investment returns in the near future. We have therefore sought to maximise returns from our existing portfolio through active management and new lettings. At the year end only 5.7 per cent of our UK property portfolio was unlet.

During the coming year we will continue to seek further property investments in the office sector both inside and outside the UK which can offer significant returns to the group. We are pleased that currently less than 0.9 per cent of our rental income is derived from retail property. We also plan to commence three new developments in the UK on property we already own, comprising

NET ASSET VALUE

over 100,000 square feet of predominantly office use. We envisage further investment in Solna Business Park to increase the lettable space which we believe will generate considerable additional rent and profit.

We also intend to continue to expand our investments outside the property industry. The combination of stable and increasing cash returns from our core property activities combined with astute investments in the telecommunications and high technology sectors has produced attractive returns for shareholders and the Board believes that these will continue.

It is in conjunction with the development of our investment business that we are delighted to announce the appointment of Patrik Gransäter to the Board as an additional non-executive director. He is a founder of Speed Ventures AB, an established Swedish venture fund company, and his knowledge of and contacts in the Swedish financial market will be of great benefit to this part of our business.

The current year has started well, we are close to letting Drury Lane and Vista is progressing satisfactorily.

In September 1998 we invested £0.1 million in shares in Microcosm and at 31 December 1999 this investment was carried in the balance sheet at cost. In January 2000 our shares in Microcosm were exchanged for shares in Conextant Systems (a NASDAQ listed company with a market capitalisation in excess of US$10 billion) and these shares have now been sold for £1.6 million. The profit from this transaction will be included in the results for the first half of the year ended 31 December 2000.

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

Sten Mörtstedt
Executive Chairman

HIGH QUALITY REFURBI

DURING 1999 WE HAVE CONTINUED TO ENHANCE OUR PORTFOLIO THROUGH HIGH QUALITY REFURBISHMENT AND ACQUISITION. AT THE YEAR END THE PORTFOLIO COMPRISES 44 BUILDINGS WHICH ARE PREDOMINANTLY OFFICES, TOTALLING 341,100 SQ.M. (3,696,603 SQ.FT.) OF WHICH 90 PER CENT TOTALLING 306,760 SQ.M. (3,302,000 SQ.FT.) IS LET OR PRE-LET. OUR ANNUALISED NET RENTAL INCOME CURRENTLY TOTALS £37.7 MILLION PER ANNUM AND THIS PRODUCES A 7.6 PER CENT YIELD ON THE PORTFOLIO OF £499.2 MILLION. APPROXIMATELY £397.5 MILLION (79.6 PER CENT) IS LOCATED IN THE UK AND £101.7 MILLION (20.4 PER CENT) IS IN SWEDEN AND GERMANY.

STRATEGY We continue to target above average returns on equity whilst exposing our shareholders to lower than average risk.

PORTFOLIO CHANGE The London market strengthened further this year with competitive demand increasing in both the occupational and investment markets. Recent interest rate increases have not had any perceptible impact on confidence.

In the face of increasing rents and falling yields we have not found any reason to dispose of any properties but have researched numerous acquisitions.

In March we bought Colne House, Watford for £6.4 million which showed an initial yield of 10 per cent after costs. The 2,381 sq.m. (25,629 sq.ft.) building is let in its entirety to Hitachi Europe Ltd. for a term expiring in 2010. The entire property is sublet to a subsidiary of Cable & Wireless plc thereby offering active management possibilities.

The major acquisition of the year was the purchase of the now renamed Solna Business Park in North Stockholm. This property, on a 12.9 acre site, is located in between the city centre and the airport and totals 112,900 sq.m. (1.215 million sq.ft.) of office, distribution and warehouse accommodation in four adjacent buildings. At purchase the net income totalled £2.1 million p.a. (SEK 28.4 million) and on the total acquisition price of £34.3 million (SEK 463 million) shows a net initial yield of 6.1 per cent reflecting the fact that approximately 30,000 sq. m. of space was un-let. Since acquisition we have agreed a street improvement scheme with the local authority and we have announced the letting of 8,295 sq.m. (96,071 sq.ft.) to the Posten Sverige AB (IT department of the Swedish Post Office) increasing the rent by £0.7 million per annum (SEK 9.7 million).

We have advanced plans for this complex over the coming years which will eventually include the conversion of most of the industrial space to offices and planning permitting, an additional floor, which could provide a further 18,618 sq.m. (200,000 sq.ft.). We hope to achieve this in one of the buildings in the first quarter of 2000. Our goal, through active management, environmental improvement and tenant relationships, is to increase the rent from £4.0 million per annum to approximately £8.9 million per annum. (SEK122.6 million).

In October we purchased a small freehold office in King Street, Hammersmith adjacent to one of our serviced offices, London House. This 1,895 sq.m. (20,399 sq.ft.) building is currently let at £0.3 million p.a. and shows a net initial yield of 9.8 per cent. In the medium term it provides us with the opportunity to expand the Business Centre or to undertake a complete redevelopment of the site should this be the more profitable solution.

We continue to work with the London Borough of Lambeth on the 140,000 sq.m. (1.5 million sq.ft.) development at Spring Gardens, Vauxhall and we are making progress towards an outline planning application.

SHMENT & ACQUISITION

PORTFOLIO MANAGEMENT Over the last year we have agreed a number of rent reviews ahead of expectations to increase the rental income by £0.3 million p.a.. We have moved several tenants within our portfolio of buildings to facilitate our refurbishment plans.

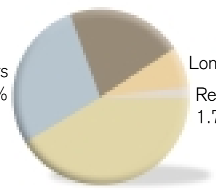
Our refurbishment focus this year has been at One Leicester Square, Vista Office Centre in Hounslow, 230 Blackfriars Road and Coventry House (near Piccadilly Circus). The developments at One Leicester Square and 230 Blackfriars Road were completed during the year and will increase the portfolio rent by £3.7 million p.a. on an annualised basis.

We expect that the refurbishment of 17 apartments at Coventry House will be finished during 2000. These will be made available to let.

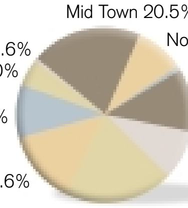
During 1999 we let a further 6,163 sq.m. (66,348 sq.ft.) throughout the portfolio following minor refurbishment to generate an additional annualised income of £1.0 million p.a..

We have Business Centres in four locations now, totalling 6,474 sq.m. (69,686 sq.ft.). Gross revenues total £1.2 million per annum and we are actively appraising suitable acquisitions.

1999 has been an active year. We have invested £14.0 million in our refurbishment programme in the UK and have increased rents by £3.7 million per annum. At this stage we anticipate investing up to an additional £21 million in the properties at Solna and a further £3.7 million on the UK portfolio and we are considering extending a number of our buildings this year if planning consent can be achieved. This expenditure should result in a rental increase of £4.9 million per annum in Solna and a further £0.5 million p.a. in the UK.



Length of Lease



Rental Income by Portfolio 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	173.7	1,895.1	101.7	8.06	8.2	0.7	4.9	*11.25
London Property let > 10 years	58.0	624.7	186.9	7.01	13.1	1.7	–	7.92
London Property let 5-10 years	53.1	571.6	122.0	7.47	9.1	0.2	0.8	8.28
London Property let < 5 years	38.9	418.7	56.3	10.47	5.9	–	0.1	10.66
Refurbishment Projects	17.4	186.9	32.3	4.43	1.4	0.2	1.6	*8.89
Totals	**341.1**	**3,697.0**	**499.2**	**7.55**	**37.7**	**2.8**	**7.4**	***9.14**

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

* Yields based on receivable rent and potential rents have been calculated on the assumption that year end book values will increase by anticipated refurbishment expenditure of £21.0 million for international assets and £3.7 million in respect of refurbishment projects.

AN EMPHASIS ON AC

TIVE INVESTMENT

One Leicester Square,
London WC2

ONE LEICESTER SQUARE 2,689 SQ.M. (28,946 SQ.FT.) THE EXTENSION AND REFURBISHMENT OF ONE LEICESTER SQUARE IS NOW COMPLETE AND FULLY LET. THE MAJORITY OF THE PROPERTY NOW COMPRISES A BAR, CLUB, RESTAURANT AND NIGHTCLUBS, OPERATED BY THE BIG BEAT GROUP LIMITED. THE CLUB OPENED TO GREAT ACCLAIM ON 9.9.99 AND IS WIDELY CONSIDERED TO BE THE MOST INNOVATIVE AND ATTRACTIVE NIGHT-SPOT IN LONDON.

FOCUSSING ON STRA

THE REFURBISHMENT OF 230 BLACKFRIARS ROAD 5,604 SQ.M. (60,319 SQ.FT.) COMMENCED IN EARLY 1999 AND DURING THE COURSE OF THE YEAR WORKS WERE COMPLETED AND THE PROPERTY WAS FULLY LET. THE BUILDING WAS STRIPPED BACK TO FRAME AND CONSTRUCTED TO A FULL CITY SPECIFICATION.

THE BUILDING HAS BEEN LET TO AMERICAN EXPRESS, WHO HAVE TAKEN THE FOURTH TO THE SEVENTH FLOORS AND THE MEDICAL DEFENCE UNION WHO OCCUPY THE GROUND TO THIRD FLOORS.

TEGIC INVESTMENT

230 Blackfriars Road,
London SE1

PROVIDING SECURE

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

LONG TERM GROWTH

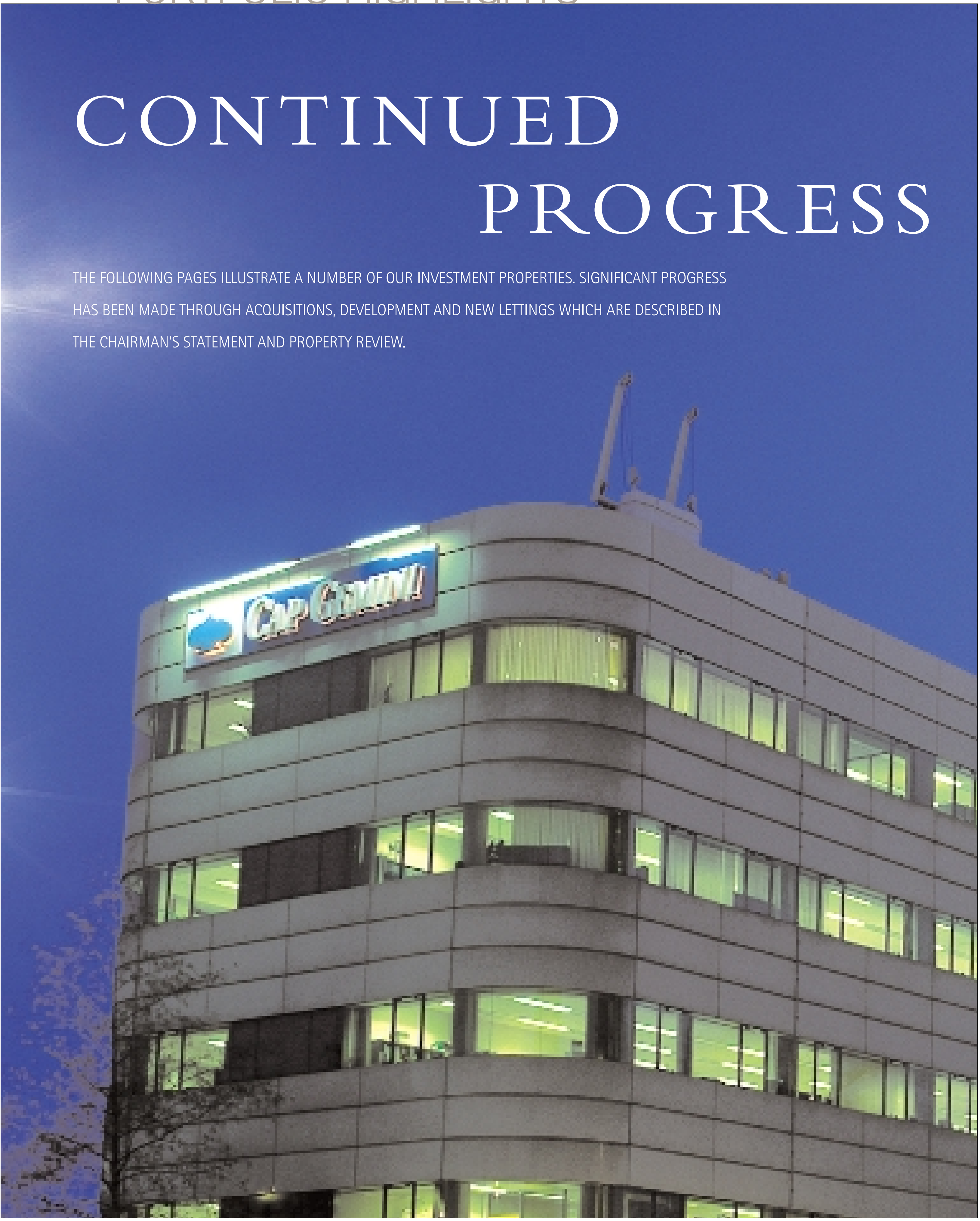
THE FIRST PHASE OF THE VISTA REFURBISHMENT IS COMPLETE AND COMPRISES A NEW RECEPTION HALL, A STATE OF THE ART GYM, A NEW RESTAURANT, A SPORTS MULTI COURT AND 966 SQ.M. (10,400 SQ.FT.) OF THE VACANT OFFICE ACCOMMODATION. PHASE 2 IS NOW UNDERWAY AND THIS INCLUDES A 20 METRE INDOOR SWIMMING POOL. UPON COMPLETION OF THESE WORKS THIS PROPERTY WILL OFFER AN ATTRACTIVE RANGE OF FACILITIES TO TENANTS.

SINCE TAKING THE SURRENDER FROM HOECHST WE HAVE LET 4,278 SQ.M. (46,050 SQ.FT.) AT A RENT OF £0.7 MILLION P.A. WE HAVE ALSO CONVERTED ONE OF THE FLOORS INTO A BUSINESS CENTRE WHICH IS NOW FULLY OCCUPIED AND WE ARE CURRENTLY IN THE PROCESS OF CONVERTING A FURTHER FLOOR.

LETTING OF THE UPGRADED ACCOMMODATION HAS COMMENCED AND WE HOPE THAT BY THE END OF 2000 A RENTAL INCREASE OF £0.3 MILLION P.A. SHOULD BE ACHIEVED AFTER A FURTHER INVESTMENT OF £0.5 MILLION ON TWO FLOORS. THIS FOLLOWS THE SURRENDER OF THE OCCUPATIONAL LEASE ON THE BUILDING IN 1998 FOR £8.0 MILLION AS REPORTED AT THE INTERIM STAGE.

CONTINUED PROGRESS

THE FOLLOWING 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.



PORTFOLIO HIGHLIGHTS

2 Deanery Street,
London W1

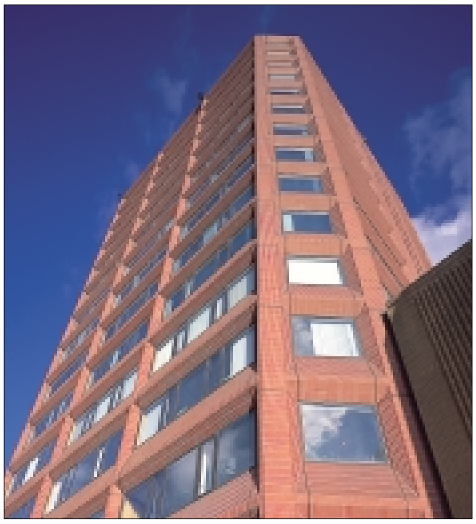
Freehold office investment located in Mayfair.

Main photo:
230 Blackfriars Road,
London SE1

Recently completed office refurbishment, fully let.

One Leicester Square,
London WC2

Recently completed and pre-let major leisure development.



Westminster Tower,
London SE1

Multi-Tenanted office investment opposite the Houses of Parliament.

New Printing House Square,
London WC1

Major investment let to UK Government.

Cambridge House,
London W6

Freehold offices

Elan House,
Fetter Lane, London EC4

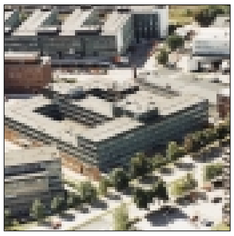
Fully refurbished and let in 1998.

Cliffords Inn,
Fetter Lane, London EC4

Freehold offices and residential investment.

Vänerparken,
Vänersborg, Sweden

Substantial office, residential and leisure development in Sweden.



Solna Business Park,
Stockholm, Sweden

Major office, industrial and retail complex acquired in June 1999.

C I Tower,
New Malden, Surrey

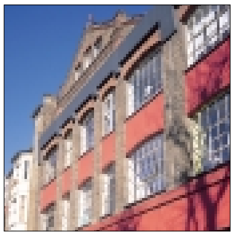
Substantial multi-tenanted office investment.

Vista Office Centre,
Middx TW4

Offices, situated close to Heathrow, substantial refurbishment nearing completion.

Vauxhall Walk,
London SE11

Mixed offices and industrial.



22 Dukes Road,
London WC1

Freehold offices

Chancel House,
London NW10

Freehold offices

Brent House,
Wembley, Middx HA9

Refurbished and fully let in 1998.

Main photo:
Coventry House,
London SW1

Restaurant, and flats undergoing refurbishment.

Ingram House,
London WC2

Freehold offices

Cap Gemini
South Bank, London SW8

Mixed office and industrial investment.

Colne House,
Watford WD1

Freehold offices acquired in March 1999.

Western House,
London SE11

Freehold offices

142–170 Vauxhall Street
London SE11

Freehold offices

Drury Lane,
London WC2

Office, retail and leisure investment.

Spring Gardens,
London SE11

Substantial office business park.

Great West House,
Brentford, Middx TW8

Multi-Tenanted offices located near the A4/M4 interchange.

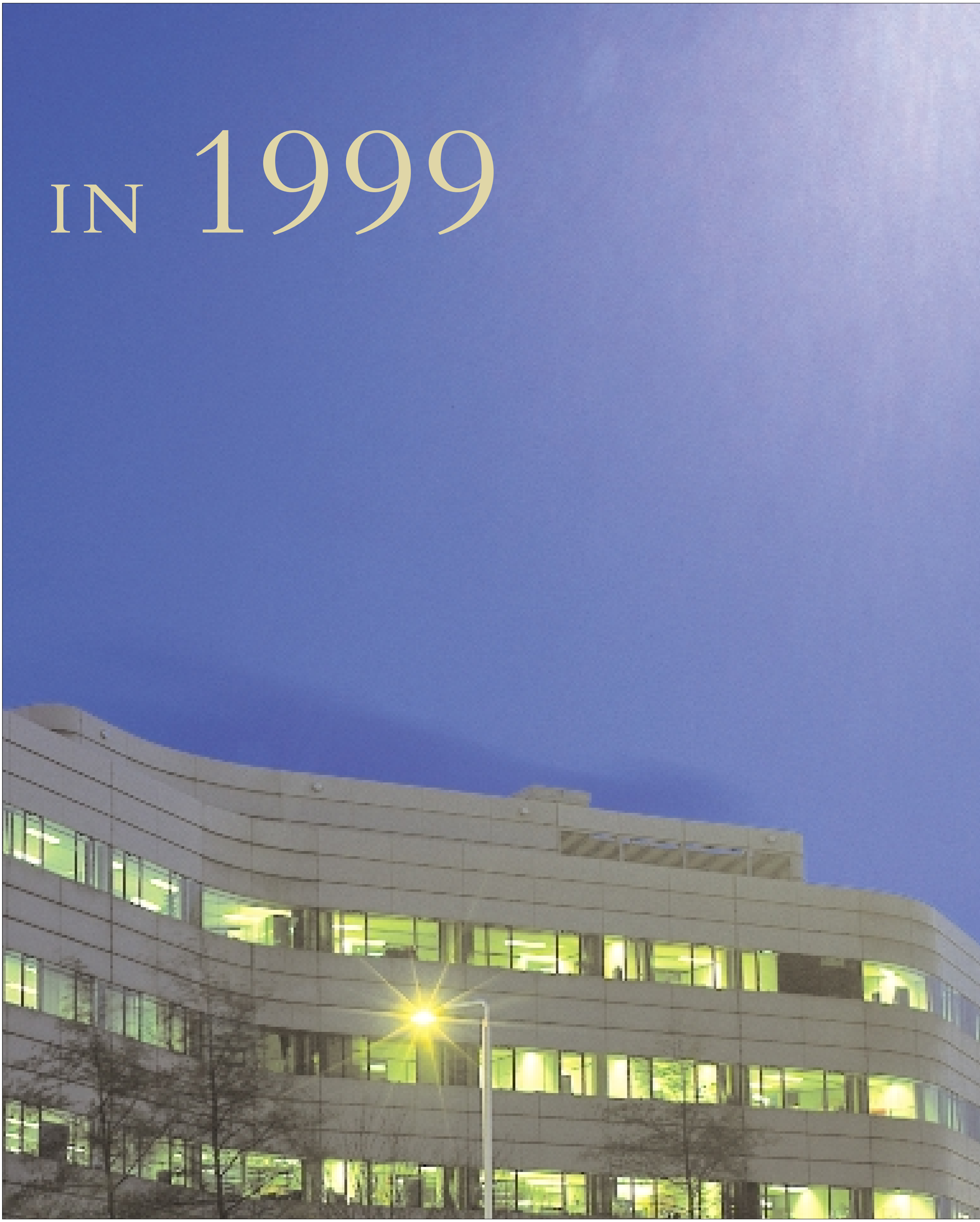
Coombe Hill House,
New Malden SW20

Office development situated on the A3.

Carlow House,
London NW1

Office and residential investment in Camden.

IN 1999



FINANCIAL STRENGTH

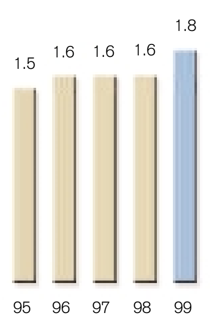
THE RESULTS FOR THE YEAR HAVE SHOWN SUBSTANTIAL GROWTH, WITH PRE-TAX PROFIT AMOUNTING TO £16.9 MILLION SHOWING AN INCREASE OF 53.0 PER CENT OVER THE PREVIOUS YEAR. THE BALANCE SHEET HAS CONTINUED TO STRENGTHEN WITH NET ASSET VALUE INCREASING TO 243.9 PENCE PER SHARE, AN INCREASE OF 32.5 PER CENT. GEARING HAS INCREASED TO 100.7 PER CENT AND CASH RESERVES OF £36.1 MILLION WERE HELD AT THE BALANCE SHEET DATE.

A number of redevelopment and refurbishment projects have been successfully completed during the year, principally One Leicester Square and 230 Blackfriars Road, and the revenue from these properties, together with our new acquisition, will underpin further growth in the Group's core property activities.

During 1999 the Group has developed its investment division to incorporate trading in covered share options and share investments within the IT and telecommunications sector. These activities have made a contribution to profits of £4.6 million of which £1.7 million was reported in the first half of the year (1998: £0.7 million).

In May 1999 the Group increased its shareholding in Citadel Holdings plc from 12.3 per cent to 17.4 per cent. As a consequence of its increased influence in this Company, the Group has treated it as an associate company and has included its share of the results of Citadel, on a pro-rata basis. The Group has also included its share of the results of its joint venture in Teighmore Limited (the company that owns Southwark Towers), from 1 October 1999, in which it has a 25 per cent share of profits.

There have been no sales of property during the year, in 1998 gains from sale of investment properties and subsidiaries amounted to £2.6 million.

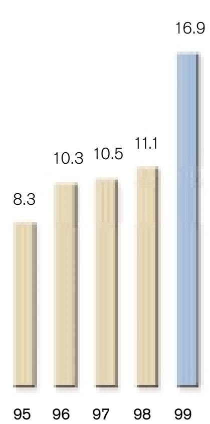


Interest Cover

NET RENTAL INCOME Rental income at £33.7 million has been restated to include the effect of service charge income and expenditure, a net expense of £2.4 million (1998: £1.0 million). This reflects an increasing proportion of the portfolio, mainly relating to Swedish properties, being invoiced at an all inclusive rent.

The increase in net rental income of £5.0 million is mainly the result of revenue generated by Solna Business Centre in the second half and a full year contribution from the Vänerparken property portfolio acquired in September 1998. The increase also reflects the inclusion of the Group's share of joint venture and associate company turnover, amounting to £1.2 million.

OTHER PROPERTY RELATED INCOME Other property related income of £4.9 million showed an increase of £2.2 million over the previous year. The three main elements included a profit of £2.5 million on the surrender of a lease at Vista Office Centre, a profit of £0.8 million on the surrender of a lease at New London House and the management charge to Citadel Holdings plc of £0.8 million.



Profit before Taxation
£ millions

ADMINISTRATIVE EXPENDITURE Administrative expenditure increased by £1.4 million to £4.8 million. The principal reasons for this increase were:

- The inclusion of Solna Business Centre results in the second half and Vänerparken for the full year resulted in an increase in administrative expenditure of £0.6 million over the previous year.
- Costs of £0.2 million relating to new computer systems, partly in preparation for year 2000.
- An increase in personnel costs of £1.0 million, reflecting staff and directors' bonuses and a strengthening of the management team. This included the addition of a number of senior staff in late 1998 and 1999, in the areas of development, international investment and finance. Of the annual increase in staff costs, £0.2 million was recovered within the management charge to Citadel Holdings plc.

NON RECOVERABLE PROPERTY EXPENSES Non recoverable property expenses amounted to £1.4 million of which £0.5 million related to properties undergoing refurbishment.

FINANCIAL COSTS Net interest and financial charges at £15.3 million showed a decrease of £2.9 million over net expenditure in 1998.

Interest receivable and financial income at £5.7 million, included interest receivable of £1.6 million, £4.6 million in respect of our investment division and foreign exchange losses of £0.5 million. This is dealt with in more detail in our investment review.

Interest payable and related charges at £21.0 million (1998: £20.3 million) included for the first time associate and joint venture interest payable of £0.6 million. Also included were interest costs of £0.9 million in respect of the acquisition of Solna Business Park. During the year a number of loans were refinanced and the related legal and arrangement fees are being amortised over the duration of the loans. The overall reduction in the base rate during 1999 and the low funding cost for the Solna acquisition was reflected in the average cost of borrowing falling to 7.5 per cent at 31 December 1999 (1998: 8.8 per cent). The average cost of borrowing for the UK portion of our debt was 8.5 per cent and 5.8 per cent for the international element.

A substantial development programme for a number of properties has been undertaken during the year, principally at One Leicester Square, 230 Blackfriars Road and Vista Office Centre. This has resulted in interest amounting to £1.1 million having been incurred at One Leicester Square and 230 Blackfriars Road for which minimal rental income was recognised during the first nine months of the year. The interest has been expensed through the profit and loss account as it was 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 voluntary tax payment of £2.0 million in order to utilise surplus ACT. The utilisation of ACT increases the tax losses that are available to be offset against future tax liabilities.

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

	Total £m	*Property London £m*	*Property International £m*	*Investment Division £m*
Net rental and other income (excluding associate / JV)	*37.4*	*31.7*	*5.7*	*–*
Operating expenses	*(6.2)*	*(5.0)*	*(1.2)*	*–*
Operating profit	*31.2*	*26.7*	*4.5*	*–*
Associate / JV operating profit	*1.0*	*0.2*	*0.8*	*–*
Treasury operations	*4.6*	*–*	*–*	*4.6*
Net interest payable and related charges	*(19.9)*	*(16.2)*	*(3.7)*	*–*
Profit on ordinary activities before tax	*16.9*	*10.7*	*1.6*	*4.6*

INVESTMENT PROPERTIES The investment property assets of the Group, including plant and machinery, have increased by 23.4 per cent per cent to £499.8 million (1998: £405.0 million). During the year the quality of the portfolio was substantially improved through refurbishment and redevelopment, the costs of which amounted to £14.0 million.

Annualised rent at 31 December 1999 was £37.7 million (1998: £30.3 million) equating to a yield of 7.6 per cent (1998: 7.5 per cent).

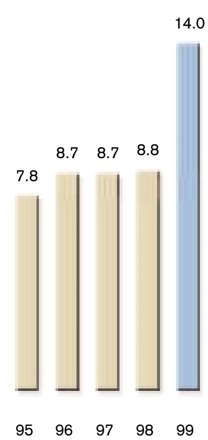
An analysis of the location of investment property assets and related loans is set out below:

1999	Balance Sheet £m	Total Other £m	London Property £m	%	International Property £m	%	Property £m	%
Investment Properties	499.8	–	499.8	100%	398.1	79.7%	101.7	20.3%
Loan	(285.4)	–	(285.4)	100%	(223.3)	78.2%	(62.1)	21.8%
Other	34.3	34.3	–	–	–		–	
Equity Investment	248.7	34.3	214.4	100%	174.8	81.6%	39.6	18.4%
Equity as a Percentage of Investment			42.9%		43.9%		38.9%	

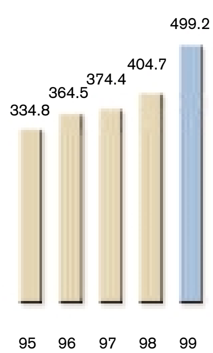
	£m	£m	£m	£m	£m
Opening Equity	207.6	24.9	182.7	173.3	9.4
Increase during 1999	41.1	9.4	31.7	1.5	30.2
Closing Equity 1999	248.7	34.3	214.4	174.8	39.6

The increase in equity for London properties of £1.5 million would have been substantially higher were it not for the fact that we have extracted equity by way of refinancing some properties during the year. This has been utilised within investments and other assets.

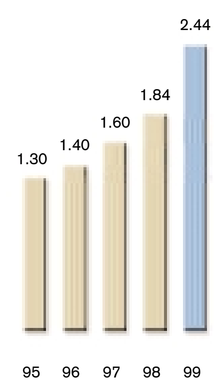
DEBT STRUCTURE Financial instruments are held by the Group principally to finance holdings of investment properties and to manage interest and exchange rate risk. This has been accomplished by borrowing in local currencies from reputable lending institutions, the purchase of interest rate hedging instruments and securing fixed rate borrowing arrangements. The Group has thereby hedged all of its interest rate exposure.



Earnings per share
Pence



Property Portfolio
£ millions



NAV per share
£

In addition, various other financial instruments have arisen in the normal course of business and the active management of the Group's treasury activities.

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.

The Group has continued to pursue 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 medium term basis with interest capped at an average rate of 7.6 per cent 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 5.8 per cent and floating rate for which the average interest charge in 1999 was 4.75 per cent. In addition, the Group entered into forward foreign exchange contracts in order to hedge its foreign currency translation exposure.

The net borrowings of the Group at 31 December 1999 were £245.1 million, an increase of £56.4 million over the previous year, reflecting the Group's active refurbishment programme and the acquisition of new properties.

Of the net debt at 31 December 1999, £105.1 million (42.9 per cent) represented fixed rate loans.

Non-interest bearing debt amounted to £22.5 million (1998: £19.5 million).

The Group has adopted the requirements of FRS 13, which addresses among other things, disclosure in relation to derivatives and other financial instruments. The numerical disclosures for derivatives and other financial instruments are shown in Note 28. If our loans were held at fair value then the Group's fixed rate debt at the year end would be in excess of book value by an amount of £14.9 million (1998: £33.2 million) which net of tax at 30 per cent (1998: 31 per cent) equates to £10.4 million (1998: £23 million). 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 our interest obligations.

The contracted future cash flows from the properties securing the loans are sufficient to meet all interest and ongoing loan repayment obligations. Only £11.5 million (4.0 per cent) of the Group's total debt of £285.5 million matures within the next 12 months with £103.2 million (36.1 per cent) maturing after five years.

At 31 December 1999, £62.5 million (61.5 per cent) of overseas asset value was financed by local currency borrowings. These principally related to the acquisition of Vänerparken and Solna Business Centre.

DISTRIBUTION At the half year the Company stated its intention to recommend a distribution to shareholders by way of a tender offer buy-back in lieu of an interim dividend. This was fully taken up in November 1999.

With the current share price remaining at a considerable discount to net asset value, your Board is proposing a further tender offer buy-back of shares in lieu of paying a cash dividend, on the basis of 1 in 45 at a price of 210 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 4.67 pence, yielding a total distribution in cash terms of 7.52 pence per share for the year (1998: 10.0 pence). In 1998 we were one of the first UK companies to propose a tender offer buy-back of shares. This was implemented in addition to the 1998 interim dividend.

At 31 December 1998 there were 112,747,693 ordinary shares in issue. Since that date the Company has purchased 9,407,284 shares in the market for cancellation and completed the 1998 year end and 1999 interim tender offer buy-backs of 5,192,218 shares. This has involved a total cash expenditure of £20.3 million. The current number of shares in issue at today's date is 98,355,191 and should the current tender offer buy back be fully taken up, the number of shares in issue would be further reduced by 2,185,670 to 96,169,521.

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 During the year ended 31 December 1999 the Group made considerable efforts to ensure that neither the systems operating within its properties nor its domestic computer systems would be adversely affected by the millennium date change. Costs incurred amount to £0.1 million. No issues have been noted to date. We continue to monitor our significant customers, vendors and service providers and to date we have no information that indicates that significant vendors may be unable to sell to the entity, or significant customers may be unable to purchase from the Company, or significant service providers may be unable to provide services to the Company, as a result in each case of year 2000 problems, such that the potential financial effect of which would cause significant uncertainty about the Company's going concern status.

DEVELOPMENT OF IN

WE COMMENCED INVESTING OUTSIDE PROPERTY IN JANUARY 1998. OUR INITIAL OBJECTIVE WAS TO ENHANCE CASH RETURNS ON THE GROUP'S FREE CASH RESOURCES BY USING THE BOARD'S INVESTMENT EXPERTISE AND KNOWLEDGE OF THE HIGH TECHNOLOGY AND INTERNET INDUSTRY. SINCE THEN THE BOARD'S CONTACTS HAVE ENABLED THE GROUP TO MAKE A SERIES OF INVESTMENTS IN BUSINESSES IN THIS FIELD PRIOR TO, OR AT THE TIME OF, FLOTATION, WITH A PARTICULAR EMPHASIS ON THE SWEDISH MARKET.

Our investments have produced attractive returns to shareholders. In 1998 our investment division made profits of £0.7 million; in 1999 these profits increased to £4.6 million (£1.7 million of which was reported in the first half).

Our investments are held in the balance sheet at the lower of cost or net realisable value. At 31 December 1999 this amounted to £4.6 million. The Directors believe that the current value of these investments is significantly higher than this figure. Indeed, already this year we have made a profit of £1.5 million on the disposal of our investment in Microcosm Communications Ltd which cost £0.1 million and was held at the year end at cost. This profit will be included in our results for the year ending 31 December 2000.

We have a management team with experience in these types of investments and have formed an Investment Committee comprising Sten Mörtstedt, Glyn Hirsch, Keith Harris and Patrik Gransäter to advise on and to approve significant non-property investments.

Sten Mörtstedt has had thirty years' experience of stock market and capital management; prior to joining CLS Glyn Hirsch was for eleven years a corporate finance director at Phillips & Drew (later UBS Limited) and is a non-executive director of Liontrust Asset Management plc and Glotel plc; and Keith Harris was Chief Executive of the Investment Banking Division of HSBC until last year and is currently the Chairman of Sports Internet Group plc and Chairman elect of Talisman House plc. Patrik Gransäter's experience is set out in the Chairman's Statement.

A listing of our key technology investments is set out below.

Listed Companies	Country		
Autofill	Sweden	–	Automated car refuelling
Cell Networks	Sweden	–	Provider of strategy, design and technical services related to e-business solutions
Effnet	Sweden	–	Develops and sells high speed routers and firewalls
Hagströmer & Qviberg Fondkommission	Sweden	–	Swedish stockbroker with technology specialisation
Iquity Systems	Sweden	–	Development and licensing of systems solutions and business concepts for communication via telephony and the internet
Novestra	Sweden	–	Invests in smaller Nordic IT and e-commerce companies with high potential for growth
PC Express	Sweden	–	Sales and support for Internet PC sales

VESTMENT DIVISION

	Listed Companies	Country		
→	*Pronyx*	*Sweden*	–	*IT consultancy specialising in production processes*
→	*Readsoft*	*Sweden*	–	*Software company specialising in automated data capture solutions*
→	*Sectra*	*Sweden*	–	*Medical imaging, security and wireless communications*
→	*Softronic*	*Sweden*	–	*Insurance industry technology management system*
→	*Spray Ventures*	*Sweden*	–	*Swedish supplier of low cost internet access*

	Unlisted Companies	Country		
→	*Artisan Software Tools*	*UK*	–	*Developing software tools to aid development of technical systems*
→	*Breakertech Technologies*	*UK*	–	*Protection of digitally distributed information*
→	*Easy Travel*	*Sweden*	–	*Internet system selling travel tickets*
→	*Eighteen Global*	*UK*	–	*Golf product retailing over the internet*
→	*Gecko Software*	*UK*	–	*Development of software build to function in conjunction with existing major Management Framework Platform providers – Cabletron.*
→	*Mactive*	*Sweden*	–	*Software packages for efficient production of sale and distribution of paper based and digital publications.*
→	*Microcosm Communications*	*UK*	–	*Fibre-optics*
→	*Nordic Sensor Technology*	*Sweden*	–	*Biotechnology – electronic smell detection and electronic tongue, for quality control purposes*
→	*Power Channel*	*UK*	–	*Access providers for internet via TV*
→	*YAC.COM*	*UK*	–	*Voice, e-mail and fax forwarding service*
→	*Yellowrent.com*	*Sweden*	–	*Internet residential letting provider*

DIRECTORS, OFFICERS AND 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)
Patrik Gransäter (Non-executive Director)

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

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

FINANCIAL ADVISERS
HSBC Investment Bank plc
Vintners Place
68 Upper Thames Street
London EC4 3BJ

STOCKBROKERS
Charterhouse Securities Limited
1 Paternoster Row
London EC4M 7DH

CLS Holdings plc on line: www.clsholdings.com
e-mail: enquiries@clsholdings.com

The Directors present their report and the audited financial statements for the year ended 31 December 1999. The Chairman's Statement should be read in conjunction with this report.

1 PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the investment in, development and management of commercial properties and the investment in shares of high technology and internet companies.

2 REVIEW OF BUSINESS

The consolidated profit and loss account for the year is set out on page 34.

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

In lieu of paying an interim cash dividend in 1999 the Company distributed £2,947,344 to shareholders (equivalent to 2.8 pence per share) by way of tender offer buy-back completed in November.

The Directors continue to believe that distributions that are share buy-backs remain a more advantageous method of returning capital to shareholders as not only are they tax effective but they also enhance the Net Asset Value of the remaining shares.

Accordingly your Directors have again decided to recommend a further tender offer instead of paying a final cash dividend for 1999. It is proposed that the Company offers to buy one in forty-five of the shares registered in each shareholder's name at a price of 210 pence per share. This compares with a mid-market price of 171.5 pence per share on 14 March 2000.

This will result in a distribution to shareholders of £4,589,907 or 4.7 pence per share. When added to the distribution made under the November tender offer, this means that shareholders who have held shares since 1 January 1999 and who took advantage of both tender offers will have received a total return of 7.5 pence per share.

4 PURCHASES OF THE COMPANY'S SHARES

During the year the Company has made market purchases totalling 5,755,237 of its own shares at a weighted average price of 115.6 pence per share. This represents £1,438,809 in nominal value, or 5.1 per cent of the brought forward called up share capital.

The directors considered that the purchases were in the best interests of the shareholder in the light of 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.

At last year's Annual General Meeting the Company was authorised to make market purchases of up to 10,791,780 ordinary shares and at an Extraordinary General Meeting held on 24 November 1999 the Company was authorised to make further purchases of up to 1,593,159 shares. Since last year's Annual General Meeting the Company has made market purchases of 4,631,377 shares and therefore still has authority to purchase 7,753,562 shares. A resolution will be proposed at this Annual General Meeting to give the Company authority to make market purchases of up to 9,835,519 shares.

5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 1999 was carried out by Allsop & Co which produced an open market value of £499.2 million. On the basis of these valuations net assets per share amounts to 243.9 pence. In view of the policy of revaluing properties bi-annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 1999.

6 DIRECTORS

The current Directors of the Company are shown on page 26.

As announced in last year's report on 9 April 1999 Sir David Rowe-Ham retired from his non-executive Directorship.

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

Keith Harris (aged 46) 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 the Audit Committee. He is Chairman of the Sports Internet Group plc and Chairman elect of Talisman House plc. 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 (aged 51) 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 Mörtstedt 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 55) 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.

James Dean (aged 45) was appointed a non-executive Director on 9 April 1999. He was a director of Savills plc between 1997 and April 1999 (and prior to that a partner in the firm of Savills) and remains a director of Savills Financial Services Limited and Savills Finance Holdings plc. He also holds directorships in Property Internet and Daniel Thwaites plc. He is Chairman of the Remuneration Committee.

Patrik Gransäter (aged 37) joined the Board on 11 February 2000. He holds a degree in financial economics and macro economics from Stockholm University. He is a founder of Speed Ventures AB, a Swedish venture fund company which was founded in April 1998. He was a partner in the Swedish stockbrokers Hagströmer & Qviberg from 1993 to 1996 before becoming a partner in Cheuvreux de Virien Nordic from 1996 until 1998.

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 comprises James Dean and Keith Harris 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 year ending 31 December 1999 were as follows:

	1999 Fees as a Director £000	1999 Salary £000	1999 Bonus £000	1999 Benefits in kind £000	1999 Total £000	1998 Total £000
Sten Mörtstedt (Executive Chairman)	**–**	**125**	**325**	**3**	**453**	198
Glyn Hirsch (Chief Executive)	**–**	**202**	**200**	**2**	**404**	272
Bengt Mörtstedt (Executive Director)	**–**	**–**	**–**	**–**	**–**	58
Bengt Mörtstedt (Non-Executive Director)	**10**	**–**	**–**	**–**	**10**	4
Sir David Rowe-Ham (Non-Executive Director)	**7**	**–**	**–**	**–**	**7**	25
Keith Harris (Non-Executive Director)	**20**	**–**	**–**	**–**	**20**	20
Thomas Lundqvist (Non-Executive Director)	**15**	**–**	**–**	**–**	**15**	15
James Dean (Non-Executive Director)	**15**	**–**	**–**	**–**	**15**	–
	67	**327**	**525**	**5**	**924**	592
1998	64	370	150	8	592	

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 £95,800 has been recharged to Citadel Holdings plc under the management agreement.

During 1999 no Director received any pension contributions (1998: nil).

No Director waived emoluments in respect of the year ended 31 December 1999 (1998: nil).

Sten Mörtstedt may be entitled to receive a further bonus payment of £250,000 in 2001, contingent upon the continuing profitable performance of specified investments during the year ending 31 December 2000.

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 Scheme 1999	No of Options at 1 January	Lapsed during year 1999	No of Options at 31 December	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**

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	**87,000**	**20,000**	**110p – 138p**	**29.01.2002 – 27.10.2009**
Non-approved Scheme	**253,000**	**45,000**	**102.5p – 110p**	**29.01.2000 – 28.01.2006**

In addition a total of 162,000 options in respect of the Inland Revenue approved scheme were exercised during the year at prices between 97 pence and 108 pence per share.

At the year end a total of 1,901,000 options remained outstanding. No consideration has been paid for any of the options granted. The middle market price of the Company's shares at the end of the financial year was 135.5 pence, and the range of market prices during the year was between 101 pence and 154 pence.

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.

11 DIRECTORS' INTERESTS

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.

The interests of the Directors and their families in the shares of the Company (including shares held by family trusts) as at 1 January 1999 and 31 December 1999 were as follows:

	1 January 1999 Ordinary shares of 25p	31 December 1999 Ordinary shares of 25p
Sten Mörtstedt	**44,085,713**	**41,960,561**
Glyn Hirsch	**11,244**	**10,870**
Bengt Mörtstedt	**7,684,526**	**7,312,181**
Keith Harris	**9,750**	**9,280**
Thomas Lundqvist	**108,077**	**102,642**

There have been no changes in the interests of the Directors or their families as set out above between 31 December 1999 and the date of this report apart from the purchase by James Dean of 20,000 shares on 16 February 2000.

12 SUBSTANTIAL SHAREHOLDINGS

In addition to interests of the Mörtstedt family referred to a paragraph 11 of this report, the Company has been notified of or is aware of the following interests which at 1 March 2000 represented 3 per cent or more of the Company's issued share capital.

	1 Mar 00	% of ISC
Phillips & Drew	**5,881,808**	**5.77**
Hermes Pensions Management	**5,795,933**	**5.68**
AIB Govett Asset Management	**5,160,633**	**5.06**
Fidelity	**3,946,777**	**3.87**
Pershing International	**3,678,320**	**3.61**
Henderson Investors	**3,662,260**	**3.59**
Legal & General Investment Management	**3,327,507**	**3.26**
Barclays Global Investors	**3,064,771**	**3.00**

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.

In addition the Turnbull Committee issued a guidance ("the Guidance") in September 1999 as to how companies should implement the system of internal controls laid down by the Code. The transitional arrangements require that for the first accounting period ending on or after 23 December 1999 companies should, as a minimum, have established procedures to implement the recommendations contained in the Guidance so that those companies can fully comply with the Guidance for accounting periods ending on or after 23 December 2000.

The Board agrees with the Hampel Committee's statement that its overriding objective should be the preservation and the greatest practical enhancement of the shareholders' investment, and fully endorses the principles of the Code to the extent that 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 and not until May 1999 that the Company changed its articles of association 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 relation to the recommendations set out in the Guidance, the Board commissioned PricewaterhouseCoopers to review the current risk management and internal control activities operating within the Company. That firm made a number of recommendations which seek to integrate the assessment and control of business risk into the management process. The Board has accepted all of these recommendations and intends to implement them by 31 December 2000.

The Board

The Board currently comprises two executive and five 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 Board has decided not to establish a separate internal audit department.

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 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 1999. 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.

13 CORPORATE GOVERNANCE (continued)

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 five main operational areas of property investment, property management, development, finance and equity investment. Set out on pages 6 to 25 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 investment decisions to be referred to the Board for approval. Three-yearly cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

14 GOING CONCERN

The financial statements which appear on pages 34 to 57 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 22.

16 CHARITABLE CONTRIBUTIONS

The contributions made by the Group during the year for charitable purposes were £10,357 (1998: £1,070).

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 were owed the equivalent of 0 days total invoices received for the year as a whole (1998: 31 days).

19 AUDITORS

A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the forthcoming annual general meeting.

By order of the Board

T J Thomson
Company Secretary
24 March 2000

REPORT OF THE AUDITORS

to the members of CLS Holdings plc

We have audited the financial statements on pages 34 to 57.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 31, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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 31 reflects the Company's compliance with the seven 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 consider whether the board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 1999 and of the profit 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
24 March 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Notes	1999 £000	1998 £000 Restated
Net rental income (including associates & joint ventures)		**33,732**	28,758
Less: Joint venture		**(190)**	–
Associate		**(1,047)**	–
		32,495	28,758
Other property related income		**4,907**	2,741
	2, 3	**37,402**	31,499
Administrative expenses		**(4,791)**	(3,397)
Net property expenses		**(1,427)**	(1,460)
		(6,218)	(4,857)
Group operating profit		**31,184**	26,642
Share of joint ventures' operating profit		**184**	–
Share of associates' operating profit		**837**	–
Operating profit including joint ventures and associates		**32,205**	26,642
Gains from sale of subsidiary		**–**	465
Gains from sale of investment property		**–**	2,131
Profit on ordinary activities before interest		**32,205**	29,238
Interest receivable and financial income:			
Group		**5,675**	2,080
Joint Venture		**–**	–
Associate		**23**	–
Interest payable and related charges:	4		
Group		**(20,373)**	(20,264)
Joint Venture		**(173)**	–
Associate		**(444)**	–
Profit on ordinary activities before taxation	3, 6	**16,913**	11,054
Tax on Profit on ordinary activities:			
Group	8	**(2,121)**	(961)
Joint Venture		**–**	–
Associate		**(4)**	–
Profit for the financial year	9	**14,788**	10,093
Dividends	10	**–**	(2,775)
Retained profit for the year	24	**14,788**	7,318
Basic earnings per share	11	**14.0p**	8.8p
Diluted earnings per share	11	**13.9p**	8.8p

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

CONSOLIDATED BALANCE SHEET

at 31 December 1999

	Notes	1999 £000	1998 £000 Restated
Fixed assets			
Tangible assets	12	**499,847**	404,966
Investments:			
Interest in joint venture:			
Share of gross assets		**9,856**	–
Share of gross liabilities		**(9,165)**	–
	13	**691**	–
Interest in associate	13	**6,631**	–
Other Investments	13	**391**	4,435
		507,560	409,401
Current assets			
Stocks – trading properties	14	**–**	83
Debtors – amounts falling due after more than one year	15	**2,958**	2,597
Debtors – amounts falling due within one year	15	**5,754**	4,735
Investments	16	**4,326**	3,217
Cash at bank and in hand	17	**36,072**	28,975
		49,110	39,607
Creditors: *amounts falling due within one year*	18	**(33,984)**	(29,764)
Net current assets		**15,126**	9,843
Total assets less current liabilities		**522,686**	419,244
Creditors: *amounts falling due after more than one year*			
Bank and Other Loans	19	**(273,968)**	(211,674)
Net assets		**248,718**	207,570
Capital and reserves			
Called up share capital	22	**25,491**	28,187
Share premium account	24	**37,643**	37,522
Revaluation reserve	24	**117,589**	80,707
Capital Redemption Reserve	24	**3,460**	723
Other reserves	24	**18,977**	19,010
Profit and loss account	24	**45,558**	41,421
Total equity shareholders' funds		**248,718**	207,570

The financial statements on page 34 to 57 were approved by the Board of Directors on 24 March 2000 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 1999

	Notes	1999 £000	1998 £000
Net cash inflow from operating activities	*25*	**37,905**	28,389
Returns on investments and servicing of finance			
Interest received		**5,978**	2,020
Interest paid		**(17,660)**	(18,523)
Issue costs on new bank loans		**(1,635)**	(207)
Interest rate caps purchased		**(925)**	(51)
Net cash outflow from returns on investments and servicing of finance		**(14,242)**	(16,761)
Taxation		**(3,344)**	(899)
Capital expenditure and financial investment			
Purchase and enhancement of properties		**(59,892)**	(51,352)
Sale of investment properties		**–**	41,392
Disposal of other fixed assets		**17**	53
Purchase of other fixed assets		**(913)**	(296)
Purchase of own shares		**(14,695)**	(3,623)
Net cash outflow for capital expenditure and financial investment		**(75,483)**	(13,826)
Acquisitions and disposals			
Investment in associate undertaking		**(2,072)**	–
Sale of subsidiary undertaking		**–**	2,803
Equity dividends paid		**–**	(3,517)
Net cash outflow before use of liquid resources and financing		**(57,236)**	(3,811)
Management of liquid resources			
Cash released from/(placed on) short term deposits		**4,824**	(10,324)
Current asset investments		**(1,790)**	(1,576)
Financing			
Issue of ordinary share capital		**162**	–
New loans		**101,916**	51,733
Repayment of loans		**(35,955)**	(36,310)
Net cash inflow from financing		**65,961**	15,423
Increase/(decrease) in cash	*26*	**11,921**	(288)

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

for the year ended 31 December 1999

	1999 £000	1998 £000
Profit for the financial year	**14,788**	10,093
Unrealised surplus on revaluation of properties	**40,932**	19,478
Share of Associate unrealised surplus on revaluation of properties	**474**	–
Currency translation differences on foreign currency net investments	**(109)**	118
Share of Associate other reserves	**(404)**	–
Other recognised gains relating to the year	**40,893**	19,596
Total gains and losses recognised since last annual report	**55,681**	29,689

RECONCILIATION OF HISTORICAL COST PROFITS & LOSSES

for the year ended 31 December 1999

	1999 £000	1998 £000
Reported profit on ordinary activities before taxation	**16,913**	11,054
Realisation of property revaluation gains of previous years	**4,050**	2,476
Historical cost profit on ordinary activities before taxation	**20,963**	13,530
Historical cost profit for the year retained after taxation and dividends	**18,838**	9,163

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 1999

	1999 £000	1998 £000 Restated
Profit for the financial year	**14,788**	10,093
Dividends	**–**	(2,775)
	14,788	7,318
Other recognised gains relating to the year	**40,893**	19,596
New share capital issued	**162**	3,787
Purchase of own shares	**(14,468)**	(3,614)
Expenses of share issue/purchase of own shares	**(227)**	(9)
Net additions to shareholders' funds	**41,148**	27,078
Opening shareholders' funds	**207,570**	181,123
Prior year adjustment (Note 24)	**–**	(631)
Opening Shareholders' funds restated	**207,570**	180,492
Closing shareholders' funds	**248,718**	207,570

COMPANY BALANCE SHEET

at 31 December 1999

	Notes	1999 £000	1998 £000
Fixed assets			
Investments	13	**20,616**	19,955
Current assets			
Debtors – amounts falling due within one year	15	**62,784**	70,892
Current asset investments	16	**59**	–
Cash at bank and in hand	17	**8,991**	17,102
		71,834	87,994
Creditors: *amounts falling due within one year*	18	**(5,772)**	(7,826)
Net current assets		**66,062**	80,168
Total assets less current liabilities		**86,678**	100,123
Net assets		**86,678**	100,123
Capital and reserves			
Called up share capital	22	**25,491**	28,187
Capital redemption reserve	24	**3,460**	723
Share premium account	24	**37,643**	37,522
Other reserves	24	**4,599**	4,599
Profit and loss account	24	**15,485**	29,092
Total equity shareholders's funds		**86,678**	100,123

The financial statements on page 38 to 57 were approved by the Board of Directors on 24 March 2000 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.

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.

c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past, Goodwill was written off to other reserves. In circumstances where the purchase consideration was less than the attributable net asset value at the date of acquisition, the difference was treated as a "reserve arising on consolidation" and 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.

d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or at a contracted rate where appropriate, and the accounts of overseas subsidiaries are translated at the same rates. Differences on exchange arising from the 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 and service charge income receivable under operating leases, including reverse premiums paid by tenants on surrender of leases, and property-related services provided during the year, excluding VAT and intra-Group trading. Where there is a material rent free period and the amount is considered to be recoverable, the income is spread evenly over the period to the date of the first break. Rents received in advance are shown as deferred income in the balance sheet. The financial effect of including service charge income is explained in the Financial Review on page 20, 'Net Rental Income'.

f) Income from property sales

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

g) Properties

i) Investment properties

Investment properties are revalued bi-annually. Completed investment properties are stated at their open market value in their existing state. Surpluses or deficits arising on revaluation are reflected in the revaluation reserve. Revaluation deficits 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 material change to the portfolio or a departure from the principal activities of the business.

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 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 per cent – 25 per cent

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 used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap.

Shares, Warrants & Options

Shares, warrants and options are held on the balance sheet at the lower of cost and net realisable value. Profits are only recognised on shares once they are sold and on options when either the maturity date is reached or the exposure on the option is closed out. Income received on options which have not yet reached maturity is held as deferred income.

l) Issue costs of loans

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

m) Joint ventures and Associates

The Group's share of net assets of associated undertakings has been included in the accounts under the equity accounting method in compliance with FRS 9. Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual arrangement. The Group accounts include the appropriate share of the joint venture's results and retained reserves which have been included in the accounts on a gross equity basis in accordance with FRS 9. Negative goodwill arising on the acquisition of the associated undertaking and joint venture during the year has been included in the carrying amount for the associated undertaking and joint venture. Negative goodwill will be credited to the profit and loss when the investment in the associated undertaking and joint venture is sold.

2 PROPERTY AND OTHER INCOME

	1999 £000	1998 £000
Turnover by activity		
Rental income	**36,150**	29,792
Less: Joint venture	**(190)**	–
Associate	**(1,047)**	–
Service charge income	**2,869**	2,492
	37,782	32,284
Fees from property related services	**891**	1,585
Lease variation and surrender income	**9,668**	291
Other income	**699**	865
Turnover	**49,040**	35,025
Service charge expenditure	**(5,287)**	(3,526)
Diminution in value due to lease surrender	**(6,351)**	–
	37,402	31,499

The proceeds from the sale of trading properties were £ nil (1998: £2,198,350).

3 SEGMENTAL REPORTING

	Turnover 1999 £000	Turnover 1998 £000	Profit before tax 1999 £000	Profit before tax 1998 £000	Net assets 1999 £000	Net assets 1998 £000
Turnover by geographical analysis						
London	**43,348**	33,477	**15,349**	10,619	**199,330**	197,671
International	**5,692**	1,548	**1,564**	435	**49,388**	9,899
	49,040	35,025	**16,913**	11,054	**248,718**	207,570

During the year the Group acquired a property at Solna in Sweden which contributed to the results and net assets of the international segment.

Profit before tax for the London segment includes profit on financial instruments for trading purposes of £4,646,000 (1998: £688,000).

4 INTEREST PAYABLE AND RELATED CHARGES

	1999 £000	1998 £000
Group		
On debentures	**4,704**	4,704
On bank loans	**14,180**	13,939
On other loans	**1,328**	1,621
Amortisation of issue costs of loans	**161**	–
	20,373	20,264
Share of Joint Venture – on bank loans	**173**	–
Share of Associate – on bank loans	**444**	–

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 Directors' report on pages 27 to 32.

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £000	1998 £000
This is stated after charging:		
Auditors' remuneration	**142**	95
Depreciation of tangible fixed assets	**169**	168
Directors' emoluments	**924**	592

Fees paid to the auditors in respect of other services were £64,000 (1998: £25,000) audit fees for the Company were £34,000 (1998: £23,000).

7 EMPLOYEE INFORMATION

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

	1999	1998
a) *Number of employees*	**30**	27

	1999 £000	1998 £000
b) *Costs*		
Salaries	**2,251**	1,429
Social security	**212**	116
	2,463	1,545

8 TAX ON ORDINARY ACTIVITIES

	1999 £000	1998 £000
United Kingdom corporation tax at 30.25 per cent (1998: 31 per cent)	**–**	–
Overseas taxation	**1**	–
Overseas deferred taxation	**–**	(3)
Under provision in respect of prior years	**1,600**	401
Irrecoverable advance corporation tax	**520**	563
	2,121	961

The under provision in respect of prior years is shown net of the utilisation of surplus advance corporation tax previously written off of £2,910,000. 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 on investment properties as there is no intention to sell.

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 £1,088,000 (1998: £8,523,000).

10 DIVIDENDS

	Pence per share	1999 £000	Pence per share	1998 £000
Dividends on ordinary shares:				
Interim paid	–	–	2.4	2,775

As noted in the Directors' Report it is proposed that the Company buy back 1 in 40 shares at 185 pence per share in lieu of a final dividend.

11 EARNINGS PER ORDINARY SHARE

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

	Earnings £000	1999 Weighted average no of shares	Per share amount, pence	Earnings £000	1998 Weighted average no of shares	Per share amount, pence
Basic EPS						
Earnings attributable to ordinary shareholders	**14,788**	**105,773**	**14.0p**	10,093	114,300	8.8p
Effect of dilutive securities						
Options	**–**	**480**	**(0.1p)**	–	423	–
Diluted EPS	**14,788**	**106,253**	**13.9p**	10,093	114,723	8.8p

12 TANGIBLE FIXED ASSETS

	Investment Freehold Property £000	Investment long leasehold property £000	Leasehold premium £000	Leasehold improvements £000	Plant and Machinery £000	Total £000
Group						
Cost or valuation:						
Opening balance at 1 January 1999	396,497	8,205	30	8	2,186	406,926
Exchange differences	(1,720)	–	–	–	–	(1,720)
Additions	55,287	6,579	–	–	522	62,388
Surplus on revaluation	35,561	5,371	–	–	–	40,932
Disposals	(6,351)	(180)	–	–	(60)	(6,591)
At 31 December 1999	**479,274**	**19,975**	**30**	**8**	**2,648**	**501,935**
Depreciation:						
At 1 January 1999	–	–	30	8	1,922	1,960
Charge for the year	–	–	–	–	169	169
Disposals	–	–	–	–	(41)	(41)
At 31 December 1999	**–**	**–**	**30**	**8**	**2,050**	**2,088**
Net book value at at 31 December 1999	**479,274**	**19,975**	**–**	**–**	**598**	**499,847**
Net book value at 1 January 1999	396,497	8,205	–	–	264	404,966

12 TANGIBLE FIXED ASSETS (continued)

a) The holding Company has no tangible fixed assets.

b) At 31 December 1999 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 freehold: £369.7 million, leasehold: £11.7 million.

d) All leasehold properties are held under long leases.

13 INVESTMENTS

	Joint Venture £000	Associate £000	Shares in subsidiary undertakings £000	Other investments £000	Total £000
Fixed asset investments					
Group					
At 1 January 1999 – Goodwill	–	–	–	–	–
– Other	–	–	–	4,435	4,435
Additions – Goodwill	(1,590)	(2,169)	–	–	(3,759)
– Other	2,270	4,311	–	82	6,663
Transfer	–	4,077	–	(4,077)	–
Disposals	–	–	–	(49)	(49)
Share of retained profit	11	412	–	–	423
	691	6,631	–	391	7,713
At 31 December 1999 – Goodwill	**(1,590)**	**(2,169)**	**–**	**–**	**(3,759)**
– Other	**2,281**	**8,800**	**–**	**391**	**11,472**
	691	**6,631**	**–**	**391**	**7,713**
Company					
Cost at 1 January 1999	–	–	18,032	4,022	22,054
Additions	–	2,060	–	–	2,060
Transfer	–	4,022	–	(4,022)	–
Cost at 31 December 1999	**–**	**6,082**	**18,032**	**–**	**24,114**
Provision at 1 January 1999	–	–	(2,099)	–	(2,099)
Movement on provision	–	–	(1,399)	–	(1,399)
Provision at 31 December 1999	**–**	**–**	**(3,498)**	**–**	**(3,498)**
Net book value at 31 December 1999	**–**	**6,082**	**14,534**	**–**	**20,616**
Net book value at 1 January 1999	–	–	15,933	4,022	19,955

A list of principal subsidiary undertakings is shown in Note 31.

The joint venture is Teighmore Limited, a property investment company, of which the Group owns 25 per cent of the ordinary share capital (1998: 25 per cent). At 31 December 1998 this investment was shown in Note 16 as a current asset investment. This investment has been accounted for as a joint venture in the current year as it is no longer held for short term resale. The parent company owns no shares in Teighmore Limited.

The associate is Citadel Holdings plc, a property investment company, of which the Group owns 5,791,025 ordinary shares of 25 pence (1998: 4,077,610), representing 17.4 per cent of the issued share capital (1998: 12.3 per cent) and over which the Group now has significant influence following the resignation of a non-executive director. The parent company owns 5,735,390 ordinary shares of 25 pence (1998: 4,022,304) in Citadel Holdings plc, representing 17.2 per cent of the issued share capital (1998: 12.2 per cent). At 31 December 1998, this investment was shown above within Other Investments.

14 STOCKS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Trading properties	**–**	83	**–**	–

15 DEBTORS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Amounts falling due after more than one year				
Other debtors	**2,955**	2,594	**–**	–
Deferred taxation (Note 21)	**3**	3	**–**	–
	2,958	2,597	**–**	–

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Amounts falling due within one year				
Trade debtors	**1,904**	1,604	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**57,959**	70,568
Other debtors	**1,543**	1,361	**57**	97
Prepayments and accrued income	**2,307**	1,770	**4,768**	227
	5,754	4,735	**62,784**	70,892

Included within other debtors is an amount of £57,381 in respect of loans made to employees to exercise their share options.

16 CURRENT ASSET INVESTMENTS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Shares, Warrants and Options	**4,267**	2,536	**–**	–
Other investments	**59**	681	**59**	–
	4,326	3,217	**59**	–

The shares, warrants and options stated at cost of £4,266,805 (1998: £2,536,967) relate to listed investments on the London and Swedish Stock Exchanges. The market value at 31 December 1999 was £5,634,349 (1998: £2,549,846).

17 CASH AT BANK AND IN HAND

At 31 December 1999 Group cash balances with banks include £7.9 million of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (Company: £0.8 million).

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Interest bearing:				
Debentures	**335**	301	**–**	–
Bank loans and overdrafts	**11,160**	9,747	**–**	–
Other loans	**–**	250	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**5,000**	6,514
Non interest bearing				
Trade creditors	**613**	1,660	**–**	62
Amounts due to clients	**678**	726	**–**	–
Advance corporation tax payable	**–**	1,059	**–**	1,059
Other taxes and social security	**1,228**	1,033	**–**	–
Other creditors	**431**	897	**–**	–
Accruals and deferred income	**19,539**	14,091	**772**	191
	33,984	29,764	**5,772**	7,826

Details of debentures, bank loans and other loans are shown in Note 20.

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Debenture loans	**40,367**	40,690	**–**	–
Bank loans	**221,401**	157,162	**–**	–
Other loans	**12,200**	13,822	**–**	–
	273,968	211,674	**–**	–

Details of debentures, bank loans and other loans are shown in Note 20.

20 ANALYSIS OF CORPORATE LOANS

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Debenture loans are repayable by instalments as follows:				
In one year or less or on demand	**335**	301	**–**	–
In more than one but not more than two years	**373**	335	**–**	–
In more than two but not more than five years	**1,387**	1,248	**–**	–
In more than five years	**38,607**	39,107	**–**	–
	40,702	40,991	**–**	–

20 ANALYSIS OF CORPORATE LOANS (continued)

	Group 1999 £000	Group 1998 £000	Company 1999 £000	Company 1998 £000
Bank loans are repayable as follows:				
In one year or less or on demand	**11,160**	9,747	**–**	–
In more than one but not more than two years	**36,215**	49,049	**–**	–
In more than two but not more than five years	**131,777**	62,021	**–**	–
In more than five years – by instalment	**41,174**	43,354	**–**	–
– other than by instalment	**12,235**	2,738	**–**	–
	232,561	166,909	**–**	–
Other loans are repayable as follows:				
In one year or less or on demand	**–**	250	**–**	–
In more than one but not more than two years	**–**	250	**–**	–
In more than two but not more than five years	**976**	1,860	**–**	–
In more than five years – by instalment	**11,224**	11,712	**–**	–
	12,200	14,072	**–**	–

a) The £40.7 million (1998: £41.0 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 per cent. The debentures are secured by a legal charge over the property and securitisation of its rental income.

b) Interest on bank loans is charged at fixed rates ranging between 5.07 per cent and 9.17 per cent and floating rates of LIBOR or STIBOR plus a margin ranging between 0.75 per cent and 1.80 per cent. All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the Company 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 11.35 per cent and 11.65 per cent. The loans are secured by legal charges over the respective properties to which they relate.

The aggregate amount of loans repayable by instalments, any part of which falls due for repayment in more than five years is £88,952,568 (1998: £63,365,203) and £12,200,000 (1998: £12,200,000) for bank loans and other loans respectively.

21 DEFERRED TAXATION

	1999 Provision £000	1999 Amount unprovided £000	1998 Provision £000	1998 Amount unprovided £000
Group				
Deferred taxation is provided as follows:				
Capital allowances in excess of depreciation	**–**	**13,006**	–	12,010
Other short term timing differences	**(3)**	**(21)**	(3)	–
Future benefit of tax losses	**–**	**(7,574)**	–	(6,281)
Taxation on revaluation surplus	**–**	**16,623**	–	12,434
	(3)	**22,034**	(3)	18,163
Less: advance corporation tax	**–**	**–**	–	(3,103)
	(3)	**22,034**	(3)	15,060

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. There is no present intention to take any of these actions.

No deferred tax liability arises relating to the Company (1998: nil).

22 SHARE CAPITAL

	1999 £000	1998 £000
a) Authorised and issued as at 31 December		
Authorised 1,600,000,000 Ordinary Shares of 25 pence each	**40,000**	40,000
Allotted, called up and fully paid		
101,962,238 Ordinary Shares of 25 pence each (1998: 112,747,693)	**25,491**	28,187

	Nominal value £000	Number of Ordinary Shares of 25p each '000
b) Allotments of issued capital		
Opening share capital	**28,187**	**112,748**
Issue of new shares allotted under share option scheme	**41**	**162**
Cancellation pursuant to Market purchase	**(1,439)**	**(5,756)**
Cancelled pursuant to Tender Offer	**(1,298)**	**(5,192)**
	25,491	**101,962**

The consideration receivable for shares allotted was £162,000.

23 OPTIONS IN SHARES OF CLS HOLDINGS PLC

Details of options in shares of CLS Holdings plc granted during 1999 are given in the Directors' Report on pages 27 to 32.

24 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 1999 as previously stated	49,211	723	80,707	19,010	29,732
Prior year adjustment	(11,689)	–	–	–	11,689
At 1 January 1999 as restated	37,522	723	80,707	19,010	41,421
Exchange difference	–	–	–	(103)	(6)
Shares issued	121	–	–	–	–
Share buybacks	–	2,737	–	–	(14,468)
Expenses of share buybacks	–	–	–	–	(227)
Realised surplus on revaluation of properties	–	–	(4,050)	–	4,050
Unrealised surplus on revaluation of properties	–	–	40,932	–	–
Share of Associate retained reserves	–	–	–	70	–
Retained profit for the year	–	–	–	–	14,788
At 31 December 1999	37,643	3,460	117,589	18,977	45,558

24 SHARE PREMIUM ACCOUNT AND RESERVES (continued)

	Share premium account £000	Capital Redemption Reserve £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
Company					
At 1 January 1999 as previously stated	49,211	723	–	4,599	17,403
Prior year adjustment	(11,689)	–	–	–	11,689
At 1 January 1999 as restated	37,522	723	–	4,599	29,092
Shares issued	121	–	–	–	–
Share buybacks	–	2,737	–	–	(14,468)
Expenses of share buybacks	–	–	–	–	(227)
Profit for the year	–	–	–	–	1,088
At 31 December 1999	**37,643**	**3,460**	**–**	**4,599**	**15,485**

Prior year adjustment: during the year, the Company has taken advice over the accounting treatment of scrip and enhanced scrip dividends which had previously been treated as a reinvestment of capital with a credit to the share premium account. The Company has been advised that the legal form of these scrip dividends was a bonus issue of shares which should not result in the creation of any share premium. The accounting entries of past scrip dividends have been recalculated and as a result, an amount of £11.7 million has been transferred from share premium account to profit and loss account. Of this total £0.6 million related to the year ended 31 December 1998.

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

	1999 £000	1998 £000
Continuing activities		
Operating profit	**31,184**	26,642
Profit on lease surrender	**(3,317)**	–
Depreciation	**169**	169
Lease surrender income	**9,668**	–
Decrease/(increase) in debtors	**962**	(432)
(Decrease)/ increase in creditors	**(847)**	722
Decrease in stocks	**77**	1,302
Profit on sale of fixed assets	**9**	(14)
Net cash inflow from operating activities	**37,905**	28,389

26a) ANALYSIS OF NET DEBT

	1 Jan 1999 £000	Cash Flow £000	Non-cash changes £000	31 Dec 1999 £000
Net cash:				
Cash at bank and in hand	28,975	7,097	–	**36,072**
Less: deposits treated as liquid resources	(17,992)	4,824	–	**(13,168)**
	10,983	11,921	–	**22,904**
Liquid resources:				
Deposits included in cash	17,992	(4,824)	–	**13,168**
Current asset investments	3,217	1,790	(681)	**4,326**
	21,209	(3,034)	(681)	**17,494**
Debt:				
Debts falling due within one year	(10,298)	(1,197)	–	**(11,495)**
Debts falling due after more than one year	(211,674)	(62,294)	–	**(273,968)**
	(221,972)	(63,491)	–	**(285,463)**
Net debt	(189,780)	(54,604)	(681)	**(245,065)**
Cash at bank and in hand	28,975	7,097	–	**36,072**
Current asset investments	3,217	1,790	(681)	**4,326**
Debts falling due within one year	(10,298)	(1,197)	–	**(11,495)**
Debts falling due after more than one year	(211,674)	(62,294)	–	**(273,968)**
	(189,780)	(54,604)	(681)	**(245,065)**

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

Non-cash changes comprise a transfer from current asset investments to fixed asset investments.

26b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1999 £000	1998 £000
Increase/(decrease) in cash in the period	**11,921**	(288)
Cash (outflow)/inflow from decrease in liquid resources	**(3,715)**	13,330
Cash inflow from increase in debt	**(65,961)**	(15,423)
Changes in net debt resulting from cash flows	**(57,755)**	(2,381)
Translation differences	**1,622**	387
Capitalised interest	**(307)**	(276)
Issue costs capitalised	**1,155**	–
Net debt at January	**(189,780)**	(187,510)
Net debt at 31 December	**(245,065)**	(189,780)

27 CHANGES IN FINANCING

	1999 £000	1998 £000
a) Loan finance		
Balance brought forward	**221,972**	206,665
Net cash inflow	**65,961**	15,423
Interest capitalised	**307**	276
Issue costs capitalised	**(1,161)**	–
Foreign exchange movements	**(1,622)**	(387)
	285,457	221,977
Decrease in bank overdrafts	**–**	(5)
	285,457	221,972

	1999 £000	1998 £000
b) Share capital (including share premium account and capital redemption reserve)		
Balance brought forward as previously stated	**78,121**	74,343
Prior year adjustment (Note 24)	**(11,689)**	–
Balance brought forward as restated	**66,432**	74,343
Expenses of share issue	**–**	(9)
Shares issued	**162**	3,787
Balance carried forward	**66,594**	78,121

28 FINANCIAL INSTRUMENTS

a) Short-term debtors and creditors

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

b) Interest rate risk profile of financial liabilities

As explained on page 22 of the operating and financial review, in order to mitigate the effect of interest rate fluctuations the Group has purchased interest rate caps or secured fixed rate borrowings in respect of all of its debt.

The interest rate risk profile of the Group's financial liabilities at 31 December 1999 was:

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Currency				
Financial liabilities				
– Sterling	223,254	166,055	57,199	–
– Swedish Kronor	61,992	14,336	46,109	1,547
– Other EU currencies	1,764	–	1,764	–
At 31 December 1999	**287,010**	**180,391**	**105,072**	**1,547**
Financial liabilities				
– Sterling	185,851	121,224	64,627	–
– Swedish Kronor	35,508	8,268	25,841	1,399
– Other EU currencies	2,012	–	2,012	–
At 31 December 1998	223,371	129,492	92,480	1,399

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.

	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	8.46	21.6	–
– Swedish Kronor	5.80	10.1	0.2
– Other EU currencies	4.50	0.8	–
At 31 December 1999	**7.51**	**15.7**	**0.2**
– Sterling	10.72	19.7	–
– Swedish Kronor	5.98	14.8	0.2
– Other EU currencies	7.79	1.0	–
At 31 December 1998	9.33	18.2	0.2

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 £180 million at 6.5 per cent to 9 per cent expiring between 1 and 5 years. (1998: £101 million at 8 per cent to 10 per cent expiring between 1 and 5 years and SEK 112 million at 6 per cent expiring in 5 years).

28 FINANCIAL INSTRUMENTS (continued)

c) Interest rate risk of financial assets

	Cash at bank and in hand £000	Short-term deposits £000	1999 Total £000	Cash at bank and in hand £000	Short-term deposits £000	1998 Total £000
Currency						
– Sterling	**13,392**	**13,168**	**26,560**	6,643	17,992	24,635
– Swedish Kronor	**9,307**	**–**	**9,307**	4,181	–	4,181
– Other EU currencies	**205**	**–**	**205**	159	–	159
At 31 December	**22,904**	**13,168**	**36,072**	10,983	17,992	28,975

Short term deposits are invested at competitive rates in both Jersey and the UK, at a small discount to LIBOR.

In addition the following financial assets were held:

	1999 £000	1998 £000
Assets held as part of the financing arrangements of the group:		
Interest bearing debtor	**1,928**	1,870
Assets held or issued for treasury purposes:		
Equity investments and other financial instruments	**4,717**	3,065
Interest rate caps	**2,371**	1,655
	9,016	6,590

The interest bearing debtor represents a third party deferred interest loan which is repayable over a period of 28 years from the balance sheet date at a fixed rate of 7.0 per cent. Assets held for treasury purposes do not attract interest.

d) Maturity of financial liabilities

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

	Debt £000	Other financial liabilities £000	1999 Total £000	Debt £000	Other financial liabilities £000	1998 Total £000
Within 1 year, or on demand	**11,495**	**1,547**	**13,042**	10,298	1,399	11,697
Between 1 and 2 years	**36,588**	**–**	**36,588**	49,634	–	49,634
Between 2 and 5 years	**134,140**	**–**	**134,140**	65,129	–	65,129
Over 5 years	**103,240**	**–**	**103,240**	96,911	–	96,911
	285,463	**1,547**	**287,010**	221,972	1,399	223,371

Other financial liabilities relate to deferred 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:

	1999 Total £000	1998 Total £000
Expiring between 1 and 2 years	–	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 1999 and 1998. 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.

	1999 Book value £000	1999 Fair value £000	1998 Book value £000	1998 Fair value £000
Primary financial instruments held or issued to finance the Group's operations:				
Short term borrowings	**(11,495)**	**(11,495)**	(10,298)	(10,298)
Long term borrowings	**(273,968)**	**(288,856)**	(211,674)	(244,950)
Short term deposits	**13,168**	**13,168**	17,992	17,992
Cash at bank and in hand	**22,904**	**22,904**	10,983	10,983
Interest bearing debtor	**1,928**	**1,648**	1,870	1,870
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate caps	**2,371**	**1,013**	1,655	142
Forward foreign currency contracts	**–**	**–**	–	(17)
Financial instruments held for trading purposes				
Other financial liabilities	**(1,547)**	**(1,066)**	(1,399)	(928)
Equity investments and other financial assets	**4,717**	**6,026**	3,065	3,946

Summary of methods and assumptions

Interest rate cap and forward foreign currency contracts

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

Short term deposits and borrowings

The fair value of short term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.

Equity investments and other financial instruments

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

Long term interest bearing debtor

The fair value of this asset has been calculated by discounting expected cash flows at the prevailing interest rate.

Long term borrowings

The fair value for floating rate loans approximates to the carrying value reported in the balance sheet as payments are reset to market rates at intervals of less than one year. Fixed rate loans have been discounted at gilt rates, which were provided by the banks.

28 FINANCIAL INSTRUMENTS (continued)

g) Currency exposures

As explained in paragraph 3 on page 22 of the operating and financial review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows in the local currencies of its main operating units. 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 £000	SEK £000	Other EU currencies £000	Total £000
1999				
Functional currency of Group operation:				
Sterling	–	3,634	10	3,644
SEK	–	–	–	–
Other EU currencies	–	–	–	–
Total	**–**	**3,634**	**10**	**3,644**
1998				
Functional currency of Group operation:				
Sterling	–	3,384	66	3,450
SEK	–	–	–	–
Other EU currencies	(125)	–	–	(125)
Total	(125)	3,384	66	3,325

h) Hedges

As explained in the operating and financial review in paragraph 3 on page 23 the Group's policy is to hedge the following exposures:

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

Gains and losses on instruments used for hedging are not recognised and are effectively deferred in the balance sheet 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.

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 year's or later profit and loss account.

	Unrecognised losses £000	Deferred losses £000	Total net losses £000
Unrecognised gains and losses on hedges as at 1 January 1999	**17**	**1,513**	**1,530**
Change in value from 1 January to settlement	**–**	**(5)**	**(5)**
Gain arising before 1 January not included in current year income and now deferred	**–**	**(1,170)**	**(1,170)**
Loss arising before 1 January included in current year expenditure	**(17)**	**651**	**634**
Loss arising in current year included in current year expenditure	**–**	**157**	**157**
Loss arising in current year not included in current year expenditure and now deferred	**–**	**212**	**212**
Unrecognised gains and losses on hedges as at 31 December 1999	**–**	**1,358**	**1,358**
Of which:			
Gains and losses expected to be recognised in 2000	**–**	**631**	**631**
Gains and losses expected to be recognised in 2001 or later	**–**	**727**	**727**

28 FINANCIAL INSTRUMENTS (continued)

i) Financial instruments held for trading purposes

	1999 £000	1998 £000
Net gain included in profit and loss account	**4,646**	688
Fair value of financial instruments held for trading purposes at 31 December 1999	**6,026**	4,888

29 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 December 1999 the Group had an authorised but not contracted for financial commitment, amounting to £0.1 million (1998: £0.5 million). The Group had no annual commitments under non-cancellable operating leases which expire in more than five years.

As of 31 December 1999 the Company had guaranteed £41.2 million of Group companies' liabilities (1998: £25.0 million). Of the amount guaranteed, £31.0 million is limited to a maximum annual liability of £6.0 million.

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 Vanerparken Investments AB and Solna Business Centre AB which are incorporated in Sweden.

Brent House Limited
Brideglen Impex Limited
CI Tower Investments Limited
CLSH Management Limited
Carlow House Limited
Coventry House Limited
Durnvale Limited
Great West House Limited
Ingrove Limited
Mirenwest Limited
New Printing House Square Limited
One Leicester Square Limited
Rayman Finance Limited
Solna Business Center AB
Spring Gardens Limited
Three Albert Embankment Limited
Vauxhall Cross Limited
Vanerparken Investments AB
Vista Centre Limited

The principal activity of each of these subsidiaries is property investment apart from that of CLSH Management Limited which is property management, and Rayman Finance Limited and Bridglen Impex Limited, which is trading in financial instruments. To comply with the Companies Act 1985, a full list of subsidiaries will be filed with the Company's next Annual Return.

The acquisition of Solna Business Centre is considered to be the purchase of a property and not a business and as such fair value accounting and the calculation of goodwill is not required.

32 RELATED PARTY TRANSACTIONS

During the year the Company increased its investment in Citadel Holdings plc ("Citadel") by the purchase of 1,679,074 shares from Bengt Mörtstedt at a price of 124.5 pence per share and by receiving scrip dividend shares during the year of 34,341. Its total holding at 31 December 1999 was 5,791,025 representing 17.4 per cent of the issued share capital (1998: 12.3 per cent).

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 1999 was £750,000 (1998: £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 Limited also had current account balances with the Citadel Group whereby the former was owed £29,085 as at 31 December 1999 (1998: £103,399).

Relationship Agreement

CLS, Sten and Bengt Mörtstedt and Citadel have 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. In addition, one of the Citadel non-executive directors resigned during the year, this has resulted in CLS being in a position of significant influence.

Warrant Agreement

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 per cent 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 per cent 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 100 pence and a further 4 million shares at 115 pence. This is calculated to give CLS additional benefits if the performance targets are met. Since 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 29.

Directors Interests in Citadel

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

	31 December 1999	31 December 1998
Sten Mörtstedt	**7,105,334**	7,063,161
Glyn Hirsch	**20,790**	20,671
Bengt Mörtstedt	**–**	1,679,074
Thomas Lundqvist	**5,056**	5,027
James Dean	**–**	–

Other Transactions

New Malden House Limited, a wholly owned subsidiary of CLS Holdings plc, acts as an agent in respect of the collection of rental income and payment of loan interest for Teighmore Limited, a joint venture. At 31 December 1999 Teighmore was owed £678,000 by the Group (1998: £726,000).

FIVE YEAR FINANCIAL SUMMARY

for the years ended 31 December 1999

Turnover and results	1999 £000	1998 £000	1997 £000	1996 £000	1995 £000
Turnover	**49,040**	35,025	36,979	34,734	30,322
Operating profits	**31,184**	26,642	28,298	27,974	23,761
Share of profit of associated and joint venture undertakings	1,021	–	–	–	-
Gain from sale of subsidiary	–	465	–	–	–
Gain from sale of investment properties	–	2,131	428	164	-
Profit on ordinary activities before interest	**32,205**	29,238	28,726	28,138	23,761
Net interest payable and related charges	(15,292)	(18,184)	(18,248)	(17,830)	(15,503)
Profit before taxation	**16,913**	11,054	10,478	10,308	8,258
Tax on ordinary activities	(2,125)	(961)	(726)	(871)	(360)
Profit for the financial year	**14,788**	10,093	9,752	9,437	7,898
Dividends	–	(3,406)	(6,473)	(6,070)	(5,530)
Retained profit	14,788	6,687	3,279	3,367	2,368
Share buy backs paid and proposed	**(7,663)**	(8,473)	–	–	-
Net assets employed					
Fixed assets	507,560	409,401	378,013	365,006	335,384
Net current assets / (liabilities)	15,120	9,843	2,474	(2,402)	(16,140)
	522,680	419,244	380,487	362,604	319,244
Non-current liabilities	(273,962)	(211,674)	(199,364)	(207,213)	(181,468)
	248,718	207,570	181,123	155,391	137,776
Ratios					
Net assets per share	£2.44	£1.84	£1.60	£1.40	£1.30
Earnings per share	14.0p	8.8p	8.7p	8.7p	7.8p
Gearing	101%	93 %	104%	128%	135%
Interest cover	1.83	1.57	1.57	1.57	1.53

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

Turnover has been restated for prior years to include service charge income.

SCHEDULE OF GROUP PROPERTIES

Property UK Properties	Address	Freehold/Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
230 Blackfriars Road	230 Blackfriars Road, London SE1	Leasehold	5,604	60,319	Offices	1999
Brent House	349-357 High Road, Wembley, Middx HA9	Freehold	9,137	98,356	Offices	1995
Buspace Studios	10 Conlan Street, London, W10	Freehold	2,545	27,392	Studios/ Workshops/ Offices	1992
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,634	71,405	Offices	1991/1998
Cap Gemini South Bank	95 Wandsworth Road, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/ Industrial	1995
Carlow House	Carlow Street, London, NW1	Freehold	4,327	46,580	Offices/ Residential	1989
Chancel House	Neasden Lane, London NW10	Freehold	7,017	75,538	Offices	1990
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,572	81,511	Offices	1992
Cliffords Inn	Fetter Lane, London, EC4	Freehold	3,134	33,737	Offices/ Residential	1993
Club UK	The Studio, Fox's Lane, Wolverhampton, West Midlands WV1	Freehold	2,139	23,027	Nightclub	1999
Colne House	21 Upton Road Watford, Herts WD1	Freehold	2,381	25,629	Offices	1985
Computer House	Great West Road, Brentford, Middx TW8	Freehold	5,706	61,421	Offices	1989
Coombe Hill House	Raynes Park, New Malden, SW20	Freehold	3,437	37,000	Offices	1990
Coventry House	21/24 Coventry Street and 35a Haymarket, London SW1	Freehold	955	10,278	Restaurant/ Residential/ Advertising	1992
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/ Residential	1988
Drury Lane	167-172 Drury Lane, London WC2	Freehold	3,054	32,879	Retail/Offices/ Theatre	1999
Dukes Road	22 Dukes Road, London WC1	Freehold	1,155	12,437	Offices/Leisure	1989
Elan House	5-11 Fetter Lane, London EC4	Freehold	4,441	47,804	Offices	1999
Great West House	Great West Road, Brentford, Middx TW8	Freehold	8,556	92,103	Offices	1989
Holland Park Avenue	142/144 Holland Park Avenue London W11	Freehold	275	2,956	Showroom/ Offices	1997
Hollywood Nightclub	Princess Street. Ipswich, Suffolk IP1	Freehold	1,951	21,000	Nightclub	1999
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,328	14,295	Offices	1989
King Street	275/281 King Street, London W6	Freehold	1,895	20,399	Offices	1960's
Larkhall Lane	157 Larkhall Lane, London SW4	Freehold	3,338	35,934	Industrial	1994
Leicester Square	One Leicester Square, London WC2	Freehold	2,689	28,946	Cinema/Retail/ Leisure	1999
London House	271 /273 King Street, Hammersmith, London W6	Freehold	1,426	15,351	Business Centre	1994

SCHEDULE OF GROUP PROPERTIES

Property UK Properties	Address	Freehold/Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
New Printing House Square	214/236 Gray's Inn Road, London WC1	Freehold	26,438	284,585	Office	1996
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 Court	79/81 Vauxhall Walk, London SE11	Freehold	1,185	12,753	Residential	1998
Tinworth Street	2/10 & 12/14 Tinworth Street, London SE11	Freehold	1,263	13,598	Industrial/ Offices	Early 1900's
Vauxhall Street 142/170	142/170 Vauxhall Street London SE11	Freehold	3,186	34,294	Offices	1990
Vauxhall Walk 108	108 Vauxhall Walk, London SE11	Freehold	600	6,456	Industrial/ Offices	Early 1900's
Vauxhall Walk 110	110 Vauxhall Walk, London SE11	Freehold	790	8,500	Industrial/ Offices	1990
Vista Office Centre	Salisbury Road, Hounslow, Middx TW4	Freehold	9,956	107,168	Offices	1999
Western House	5 Glasshouse Walk, London SE11	Freehold	611	6,578	Offices	Early 1900's
Westminster Tower	3 Albert Embankment, London SE1	Freehold	4,467	48,081	Offices	1983
U.K. Property		Sub total	167,360	1,801,501		

European Property	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
Westbahnhof	Kasseler Strasse, Frankfurt am Main, Germany	Freehold	2,314	24,905	Offices/ Industrial/ Retail/ Residential	1950's
Vanerparken	Lasarettet No. 2, Vänerparken, Vänersborg, Sweden	Freehold	43,222	490,254	Offices/ Education/ Residential/ Leisure/ Hospital	Various
Solna	Frasaren 11, Frasaren 12, Smeden 1, Sliparen 2	Freehold	125,109	1,346,628	Offices/ Industrial/ Retail/ Residential	1960's
International Property		Sub Total	173,740	1,895,102		
All Property at 31 December 1999			**341,100**	**3,696,603**		

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

Designed and produced by **MAGEE**
Printed by First Impression