

2001

# CLS HOLDINGS PLC

Annual Report & Accounts

# CLS HOLDINGS PLC

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CLS IS A QUOTED PROPERTY  
COMPANY OPERATING  
SUCCESSFULLY IN THREE  
EUROPEAN MARKETS, THE UK,  
SWEDEN AND FRANCE.  
WE ARE CONFIDENT THAT OUR  
TRACK RECORD OF GROWTH IS  
SET TO CONTINUE AND WE  
REMAIN FIRMLY COMMITTED TO  
ACHIEVING A HIGH LEVEL OF  
RETURNS FOR SHAREHOLDERS.

# FINANCIAL

- NAV PER SHARE 365.0 PENCE UP 12.1 PER CENT
- TOTAL RETURN TO SHAREHOLDERS 15.4 PER CENT (BASED ON NAV PER SHARE AND DISTRIBUTIONS)
- INTENDED DISTRIBUTION OF 7.4 PENCE PER SHARE MAKING A TOTAL DISTRIBUTION TO SHAREHOLDERS OF 12.1 PENCE PER SHARE FOR THE YEAR
- PORTFOLIO VALUED AT £728.3 MILLION UP 8.5 PER CENT
- NET RENTAL INCOME (INCLUDING ASSOCIATE AND JV) £51.1 MILLION UP 21.3 PER CENT
- YEAR END AVAILABLE CASH £55.2 MILLION UP 41.3 PER CENT
- EQUITY INVESTMENTS WRITTEN DOWN BY £4.2 MILLION TO £6.3 MILLION

## HIGHLIGHTS

Key statistics	31 Dec 2001	31 Dec 2000		Other financial information	31 Dec 2001	31 Dec 2000	
NAV per share	<b>365.0p</b>	325.5p	Up 12.1%	Property portfolio	<b>£728.3m</b>	£671.4m	Up 8.5%
FRS 13 fair value adjustment (after tax)	<b>16.4p</b>	17.1p	Down 4.1%	Net asset value	<b>£362.3m</b>	£351.9m	Up 2.9%
NAV per share after fair value adjustment	<b>348.6p</b>	308.4p	Up 13.0%	Cash	<b>£55.2m</b>	£39.1m	Up 41.3%
Earnings per share	<b>9.8p</b>	14.6p	Down 33.3%	Gearing	<b>101.9%</b>	90.6%	Up 11.3%
Shares in issue ('000's)	<b>99,266</b>	108,129	Down 8.2%	Solidity (net assets as a ratio of gross assets)	<b>44.7%</b>	47.8%	Down 3.1%
Distribution per share from tender offer buy-backs	<b>12.1p</b>	9.6p	Up 25.7%	Net rental income (including associate and JV)	<b>£51.1m</b>	£42.1m	Up 21.3%
				Operating profit (including associate and JV)	<b>£37.7m</b>	£36.3m	Up 3.8%
				Net interest payable	<b>£27.0m</b>	£24.5m	Up 10.2%
				Core profit before taxation	<b>£13.7m</b>	£10.7m	Up 27.9%
				Profit before taxation	<b>£11.3m</b>	£14.8m	Down 23.9%
				Profit after taxation	<b>£10.3m</b>	£14.8m	Down 30.2%



# BUSINESS

- REFURBISHMENT AT SOLNA ON PROGRAMME, ON BUDGET AND 28 PER CENT PRE-LET
- REFINANCINGS RAISE £56.0 MILLION OF WHICH £47.4 MILLION RELATES TO UK PORTFOLIO
- ACQUISITION OF FOUR OFFICE BUILDINGS IN FRANCE AT A COST OF £11.0 MILLION COMPRISING 13,750 SQ.M AT AN INITIAL YIELD OF BETWEEN 9.2 PER CENT AND 10.6 PER CENT
- ACQUISITION OF 200 GREAT DOVER STREET, LONDON AT A COST OF £7.4 MILLION AND INITIAL YIELD OF 9.2 PER CENT

## HIGHLIGHTS



# CHAIRMAN'S STATEMENT

CLS Holdings plc is a British property company specialising in the purchase and management of secure long-term commercial investments. The Company was listed on the main market of the London Stock Exchange in 1994 and since then its development and growth have continued.

The Company's headquarters are in central London, with further offices located in Paris, Lyon and Stockholm. The majority of the property portfolio is located in these four cities.

Our first priority is to meet the requirements of our tenants by providing high quality premises incorporating the latest technical and IT facilities combined with efficient management services.

I am pleased to report that 2001 produced yet another increase in net asset value per share for the seventh successive year, up 12.1 per cent to 365.0 pence per share.

The return made to shareholders, based on the increased net asset value per share and tender offer buy-back distributions made during 2001, amounted to 15.4 per cent.

Gross rental income for the year increased by 19.3 per cent to £53.6 million, and the annual gross rental income at the year end from the Group's portfolio was £55.1 million.

Profit before tax decreased to £11.3 million (2000: £14.8 million) after taking into account losses, provisions and associated overheads of £8.9 million in respect of our equity investments.

The Company's share price as at 26 March was 241.0 pence, a discount to net asset value per share of 34.0 per cent (31 December 2000: 38.4 per cent). In these circumstances the Board continues to believe in the benefit of distributing cash as capital dividends by way of a tender offer buy-back. The Board therefore intends to recommend a tender offer buy-back of 1 in 40 shares at a price of 295 pence per share, giving a total distribution of 12.1 pence per share representing an increase of 25.7 per cent over the previous year and an annual compound rate of growth of 17.0 per cent over the last five years.

During the year we raised £56.0 million by refinancing 11 of our properties with floating rate long term loans hedged against adverse interest rate movements. Other highlights of the year were the pre-letting of 28 per cent of the available space in the substantially completed refurbishment of one of our buildings at Solna; the acquisition of four new properties in France for a total consideration of £11.0 million; the purchase of 200 Great Dover Street at a price of £7.4 million; and the sale of Scriptor Court for £3.0 million producing a profit of £0.4 million. In addition we have increased annual rents by way of new lettings or rent reviews by an aggregate of £2.4 million representing an average increase of 7.4 per cent on the rents previously payable; and annual indexation in respect of our French and Swedish portfolios provides an additional £0.7 million in rental income for 2002.

Although during the latter half of 2001 we have seen a weakening of tenant demand in some areas of London, our vacancy rate in respect of our UK portfolio is only 3.6 per cent and our average lease length (by rent payable) in the UK is in excess of 11 years. Our exposure to possible tenant default in the UK is reduced because 30 per cent of rental income is secured by government covenants.

The vacant space at Solna is currently generating a high level of interest and we hope to announce more pre-lettings in the near future. Tenant demand in France remains strong and there is a large reversionary element, with vacant space representing just 1.4 per cent of the portfolio.

We intend to utilise a proportion of the cash surplus from our refinancing activities for selective purchases in our three main markets of London, France and Sweden. Since the year end we have purchased a further office building at Solna Business Park in Stockholm and a portfolio in Gothenburg comprising 33,494 sq.m (359,926 sq.ft) commercial space and 1,282 residential apartments. We are also negotiating the purchase of further properties in France. The Group continues to concentrate on cash management and is projecting a substantial increase in cash generated

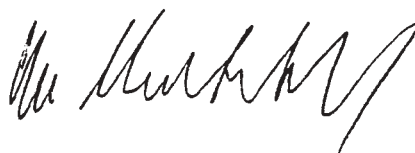
from core operating activities this year. The principal underlying drivers for this increase are:

- ✦ Anticipated reduced cost of borrowing due to lower interest rates compared to the previous year
- ✦ Letting of space at the newly refurbished development at Solna
- ✦ Increased rents due to indexation of 2.6 per cent in Sweden
- ✦ Increased rents due to indexation of at least 3.5 per cent in France
- ✦ Increased rental income through rent reviews, lease renewals and lease restructuring
- ✦ Acquisition of new properties during the year
- ✦ Lower administration costs

We anticipate that at the end of the year our gross annualised rental income will be £68 million (December 2001: £57.5 million) and net rental income of £62 million (December 2001: £51.1 million) based on the current portfolio. This increased income, coupled with our reduced exposure to any increase in interest rates as a result of our interest hedging policy, should constitute a firm financial platform for substantial profit growth during the year.

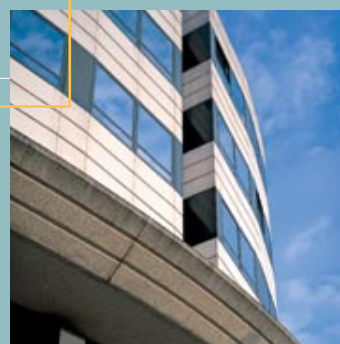
In October 2001 Glyn Hirsch resigned as Chief Executive after nearly six and a half years in that role and I would like to put on record my thanks for the valuable contribution he made to the Company during this period. Tom Thomson, who has worked for the Group for many years, became Vice Chairman and Acting Chief Executive.

I would like to take this opportunity to thank my fellow directors, our staff, advisors, bankers and shareholders for their support during the year.



Sten Mörtstedt  
Executive Chairman

*OUR FIRST PRIORITY IS TO  
MEET THE REQUIREMENTS  
OF OUR TENANTS BY  
PROVIDING HIGH QUALITY  
PREMISES INCORPORATING  
THE LATEST TECHNICAL  
AND I.T. FACILITIES  
COMBINED WITH EFFICIENT  
MANAGEMENT SERVICES.*



NET ASSET GROWTH HAS INCREASED FOR  
THE SEVENTH SUCCESSIVE YEAR.

# FINANCIAL REVIEW

*THE GROUP HAS CONTINUED TO DELIVER SOLID GROWTH DURING 2001 AND THE RESULTS INCLUDE A FULL YEAR'S CONTRIBUTION FROM THE FRENCH DIVISION, CITADEL HOLDINGS PLC, WHICH WAS ACQUIREDED IN SEPTEMBER 2000.*

The net asset value (NAV) per share increased by 12.1 per cent to 365.0 pence (December 2000: 325.5 pence). At the year end the post tax FRS 13 fair value adjustment amounted to 16.4 pence per share (December 2000: 17.1 pence). Over the last five years NAV per share has grown by 21.2 per cent compound per annum, or a total of 160.7 per cent. The organic growth in NAV per share over the same period (after allowing for NAV growth per share attributable to the purchase of shares on the market for cancellation) has been 137 per cent.

The return in the year to shareholders based on the increase in NAV per share and distributions by way of tender offer buy back was 15.4 per cent (December 2000: 37.5 per cent).

During the year the Company distributed £11.1 million (10.5 pence per share) to shareholders by way of tender offer buy-backs and purchased 6.6 million shares on the market for cancellation (6.1 per cent of the shares in issue as at 1 January 2001) at a cost of £14.3 million (representing an average cost per share of 217 pence). Since 1998 a total of £31.4 million has been returned to shareholders through tender offer buy-backs, and 18.9 million shares have been purchased for cancellation at a cost of £31.6 million, in all a total of £63.0 million.

Net assets grew by £10.4 million to £362.3 million in the year and was net of negative foreign exchange translation movements of £6.1 million (mainly relating to the Group's Swedish assets). Net asset growth was also net of the cost of tender offer buy back distributions and market repurchases made during the year totalling £25.4 million.

Gearing at the year end increased to 101.9 per cent (2000: 90.6 per cent). The purchase of shares in the market and tender offer buy-backs during the year had the impact of increasing gearing by 7 per cent and the adverse effect of foreign exchange translation of overseas net assets during 2001 further increased gearing by 1.5 per cent.

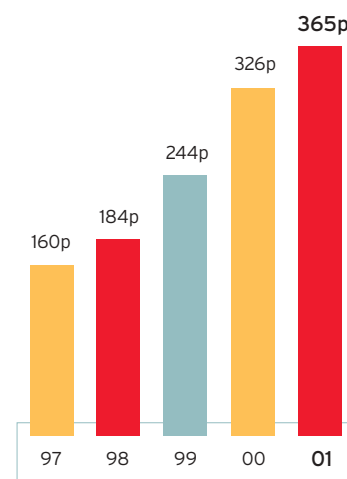
The Group held £55.2 million cash as at 31 December 2001 (December 2000: £39.1 million). The increase was largely attributable to refinancing the UK portfolio.

The equity investments of the Group have not performed well during 2001. We have sold most of our listed investments to avoid further exposure and made additional provisions against unlisted investments. The book value of our investments has now been reduced to £6.3 million, of which £5.6 million are unlisted investments and these are held at the lower of cost or written down value, in line with British Venture Capital

Association valuation guidelines. We do not intend to make any further investments in new ventures.

In January 2002 the Group made two further property acquisitions in Sweden comprising a mixed residential and commercial portfolio in Lövgårdet near Gothenburg and a mixed office and light industrial property adjoining our development at Solna, Stockholm. The increase in gross rentals from these acquisitions is £5.9 million, generating additional net operating cash flows of £2.9 million per annum.

*OVER THE LAST FIVE YEARS NAV PER SHARE HAS GROWN BY 21.2 PER CENT COMPOUND PER ANNUM.*

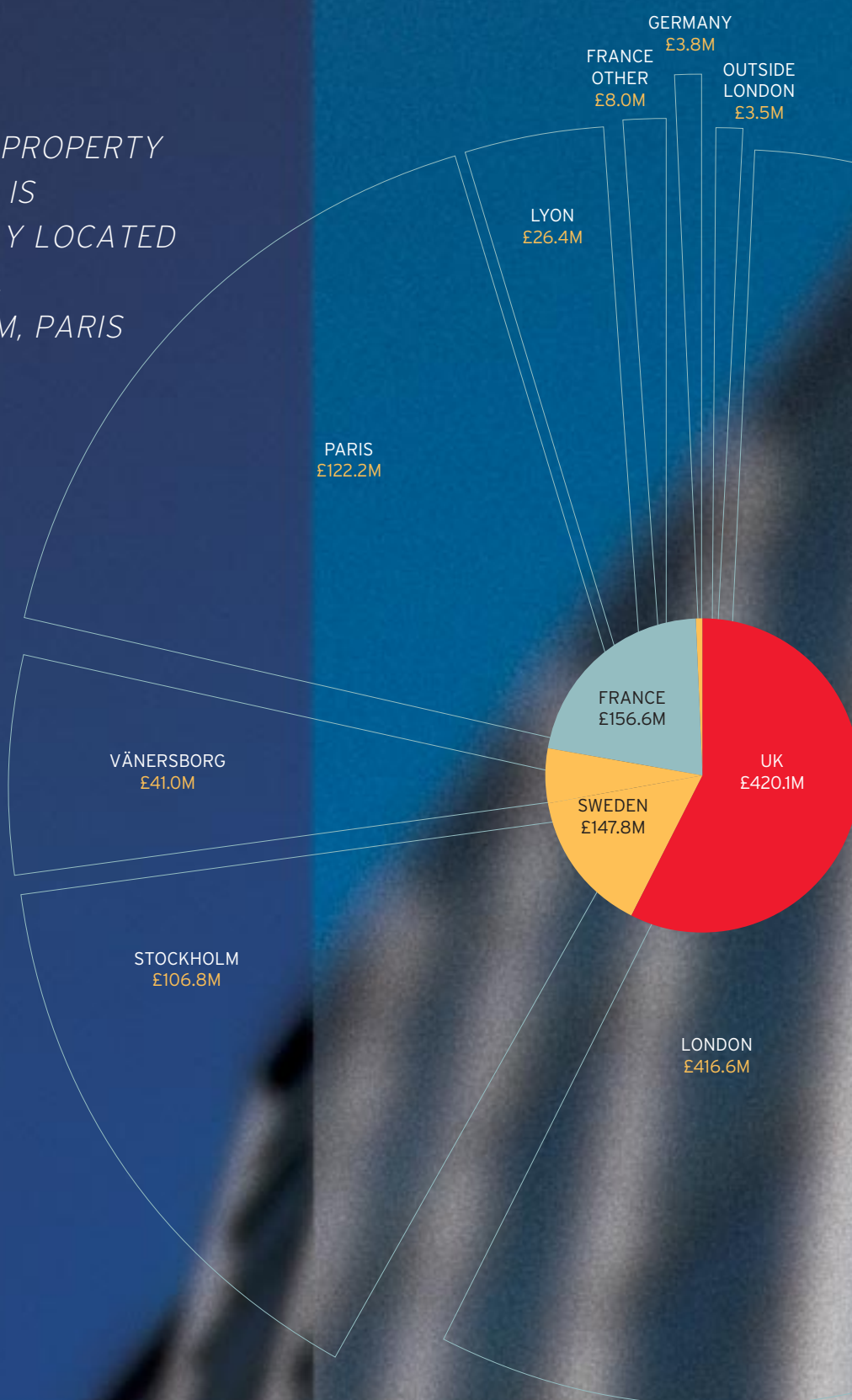


GROWTH IN NAV PER SHARE



## BOOK VALUE OF ASSETS BY LOCATION

THE GROUP'S PROPERTY  
PORTFOLIO IS  
PRINCIPALLY LOCATED  
IN LONDON,  
STOCKHOLM, PARIS  
AND LYON.



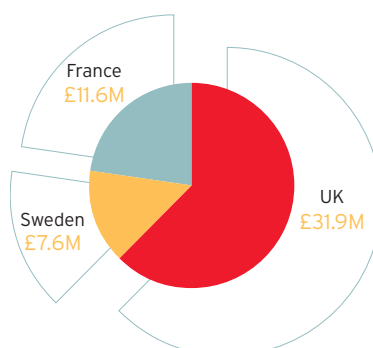
# FINANCIAL REVIEW (CONTINUED)

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

	£m
<b>Equity shareholders' funds at 31 December 2000</b>	<b>351.9</b>
<b>Direct investment</b>	
Income from investments in property	52.6
Losses and write downs in equity investments	(6.3)
Administrative expenses	(8.0)
Net interest payable	(27.0)
Profit before taxation	11.3
Taxation	(1.0)
Retained profit	10.3
<b>Indirect investment</b>	
Revaluations	30.3
Exchange and other movements	(6.1)
	24.2
<b>Increase in equity due to direct and indirect investment</b>	<b>34.5</b>
<b>Other equity movements</b>	
Capital distributions by tender offer buy-backs	(11.2)
Other share buy backs	(14.4)
Share Issues	1.5
<b>Equity shareholders' funds at 31 December 2001</b>	<b>362.3</b>

The Group's core profit has been calculated to show the profit arising solely from rental income. The elements included in the calculation are as follows:

	2001 £m	2000 £m
<b>Profit before tax</b>	<b>11.3</b>	14.8
<b>Deduct:</b>		
Equity investment (losses)/profit	<b>(6.3)</b>	0.6
Profit on sale of properties	<b>0.5</b>	3.2
Lease surrenders and variations	<b>0.8</b>	0.3
Profit on trading stock	<b>0.4</b>	-
Negotiated settlement in France	<b>2.6</b>	-
Fees re: aborted purchase	<b>(0.4)</b>	-
	<b>(2.4)</b>	4.1
<b>Core profit</b>	<b>13.7</b>	10.7



NET RENTAL INCOME BY LOCATION 2001

## REVIEW OF THE PROFIT AND LOSS ACCOUNT

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

	2001 Total £m	UK* £m	Sweden £m	France £m	Equity investments £m	2000 £m
Net rental income	51.1	31.9	7.6	11.6	-	42.1
Less associate/JV income	(0.9)	(0.9)	-	-	-	(1.9)
Other property related income	4.3	1.9	-	2.4	-	1.3
Net rental and property related income (excluding associate/JV)	54.5	32.9	7.6	14.0	-	41.5
Operating expenses	(11.3)	(6.6)	(1.7)	(1.7)	(1.3)	(7.4)
(Losses and write-downs)/profit from equity investments	(6.3)	-	-	-	(6.3)	0.6
Associate/JV operating profit	0.9	0.9	-	-	-	1.6
Operating profit	37.8	27.2	5.9	12.3	(7.6)	36.3
Gains from sale of investment properties	0.5	0.4	0.1	-	-	3.0
Net interest payable and related charges	(27.0)	(15.9)	(5.7)	(4.1)	(1.3)	(24.5)
Profit on ordinary activities before taxation	11.3	11.7	0.3	8.2	(8.9)	14.8
Profit on ordinary activities before taxation for the year ended 31 December 2000	14.8	11.0	2.1	1.7	1.7	16.9

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

**NET RENTAL INCOME** has increased by 21.3 per cent to £51.1 million and reflects the inclusion of French division rents of £11.6 million for a full year (December 2000: £3.4 million for four months). The second phase of the major refurbishment (35,892 sq.m; 383,039 sq.ft) currently nearing completion at Solna was not income producing during 2001.

**OTHER PROPERTY RELATED INCOME** of £4.3 million (2000: £1.3 million) comprised two main elements; a negotiated settlement of a property dispute in Paris amounting to £2.6 million and lease surrenders and variations at New London House and Vista Office Centre amounting to £0.8 million. In addition a profit of £0.4 million was realised on the sale of a property acquired for the purpose of trading.

**ADMINISTRATIVE EXPENDITURE** increased by £1.6 million to £8.0 million. Of this increase, expenditure amounting to £1.0 million is not expected to recur.

The principal reasons for the increase were:

- ✦ The inclusion of French division direct overhead expenditure for the full year amounted to £0.6 million (December 2000: £0.2 million, four months).
- ✦ Costs of £0.5 million in respect of professional fees mainly relating to the potential purchase of a substantial overseas portfolio that did not proceed.
- ✦ Costs of £0.5 million in respect of the reduction of UK based staff including the departure of Glyn Hirsch.

**NON RECOVERABLE PROPERTY EXPENSES** of £3.3 million (December 2000: £1.0 million) included an amount of £1.2 million depreciation of a short leasehold interest which had been held at a carrying value of £2.4 million. A provision for bad and doubtful debts was made, amounting to £0.5 million (December 2000: a recovery of £0.1 million) and this mainly related to two specific tenants. In addition fees of £0.3 million were incurred relating to the negotiation of rent reviews, the benefit of which is not expected until 2002.

# FINANCIAL REVIEW (CONTINUED)

OTHER OPERATING (LOSSES)/INCOME represents a combination of losses and write downs resulting from equity investment activities that amounted to £6.3 million. Poor investment markets adversely affected performance of our listed equity holdings which have been substantially reduced. Our remaining holding of unlisted investments which are held in our books at £5.6 million, have a current value of £10.5 million, utilising the British Venture Capital Association guidelines. We have provided against any holding where its carrying value is in doubt. An analysis of the results is set out below:

	2001 £m	2000 £m
(Losses)/profit relating to listed investments	(4.3)	2.3
Provisions against unlisted investments	(2.0)	(1.7)
	(6.3)	0.6

NET INTEREST AND FINANCIAL CHARGES amounted to £27.0 million and showed an increase of £2.5 million over net expenditure in 2000, reflecting the inclusion of the French division results for the whole year of £4.1 million (December 2000: £1.9 million, four months). Increased interest payable of £3.2 million, as a result of the re-financing of the UK portfolio during 2001 was more than offset by falling interest rates and higher interest receivable.

Interest cover at 1.42 times (December 2000: 1.61 times) was lower mainly as a result of losses incurred due to equity investment write-downs.

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

A breakdown of the net charge is set out below:

	2001 £m	2000 £m	Difference £m
Interest receivable	2.7	1.8	0.9
Foreign exchange	(0.5)	(0.4)	(0.1)
Interest receivable and similar income	2.2	1.4	0.8
Interest payable and similar charges	(29.2)	(25.9)	(3.3)
Net interest and financial charges	(27.0)	(24.5)	(2.5)

Interest payable and similar charges of £29.2 million (2000: £25.9 million) included joint venture interest of £0.9 million (2000: £0.6 million) relating to the Group's interest in Teighmore Limited, owner of Southwark Towers. Interest costs included £0.9 million incurred in respect of development loans relating to the refurbishment of Phase II at Solna Business Centre for which no rental income was received during 2001.

The average cost of borrowing for the Group at December 2001 is set out below:

December 2001	UK	Sweden	France	Total
Average interest rate on fixed rate debt	10.2%	6.1%	4.9%	7.7%
Average interest rate on variable rate debt	5.9%*	5.0%	4.4%	5.5%
Overall weighted average interest rate	7.0%	5.6%	4.6%	6.3%
December 2000				
Average interest rate on fixed rate debt	10.2%	6.2%	4.9%	7.7%
Average interest rate on variable rate debt	7.8%	5.0%	5.8%	7.1%
Overall weighted average interest rate	8.6%	5.9%	5.4%	7.4%

\* On the assumption that the UK interest rate remains at today's rate, the average interest rate on variable rate debt will fall during 2002 to 5.5 per cent (including cap amortisation of 0.4 per cent).

Interest payable and similar charges also include the depreciation of interest rate caps amounting to £0.6 million (2000: £0.9 million) and amortisation of issue costs of loans of £0.8 million (2000: £0.5 million).

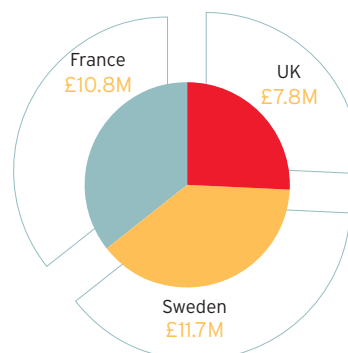
**TAXATION** The Group's taxation charge has benefited from substantial corporation tax losses brought forward in some subsidiaries, significant capital allowances on many of the Group's UK properties, and amortisation deductions in Sweden and France. These factors will have less effect in the future as corporation tax losses are used against expected profits and as allowances and amortisation deductions decrease.

## REVIEW OF THE BALANCE SHEET

**INVESTMENT PROPERTIES** The property assets of the Group (including plant and machinery) have increased by 8.6 per cent to £729.8 million (2000: £672.2 million). The net increase of £57.6 million included the addition of four new French properties (one in Antibes, two in Lille and one in Paris) at a cost of £11.0 million and one in Great Dover Street, London purchased for £7.4 million. This was offset by the sale of Scriptor Court, London (book value £2.6 million) and adverse foreign exchange translation movements of £13.9 million.

The revaluation gain of the Group's investment properties was as follows:

## REVALUATION OF PROPERTY 2001



Revaluation of property in 2001	2001 £m	2000 £m
UK	7.8	37.3
Sweden	11.7	18.9
France	10.8	17.4
<b>Total Revaluation</b>	<b>30.3</b>	<b>73.6</b>

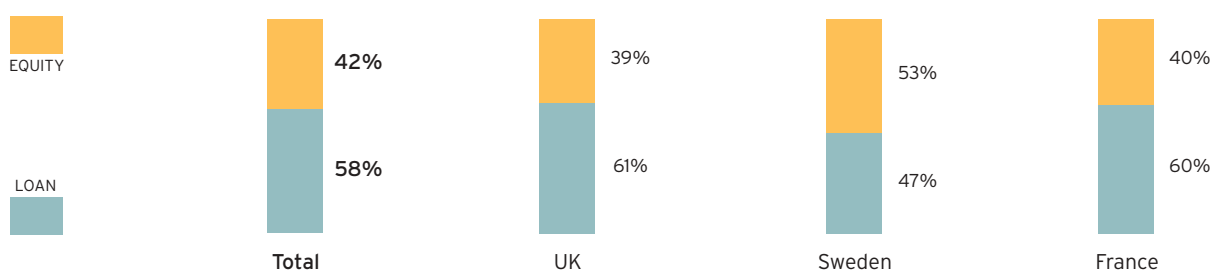
Annualised contracted rent receivable at 31 December 2001 was £57.5 million (2000: £52.5 million) equating to a yield of 7.9 per cent (2000: 7.8 per cent).

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

December 2001	Total Balance Sheet £m	%	UK+ £m	%	Sweden £m	%	France £m	%
Investment Properties	728.3	100.0	423.9	58.2	147.8	20.3	156.6	21.5
Loan	(421.1)	100.0	(257.5)	61.1	(69.2)	16.4	(94.4)	22.5
<b>Equity in Property Assets</b>	<b>307.2</b>	<b>100.0</b>	<b>166.4</b>	<b>54.2</b>	<b>78.6</b>	<b>25.6</b>	<b>62.2</b>	<b>20.2</b>
Other	55.1	100.0	49.7	90.2	0.5	0.9	4.9	8.9
Net Equity	362.3	100.0	216.1	59.6	79.1	21.8	67.1	18.5
<b>Equity in Property as a Percentage of Investment</b>	<b>42.2%</b>		<b>39.2%</b>		<b>53.2%</b>		<b>39.7%</b>	
	£m		£m		£m		£m	
Opening Equity	351.9		227.9		71.4		52.6	
<b>Increase during 2001</b>	<b>10.4</b>		<b>(11.8)*</b>		<b>7.7</b>		<b>14.5</b>	
Closing Equity 2001	362.3		216.1		79.1		67.1	

† Results relating to Germany were immaterial in the context of the overall results of the Group and have therefore been included within the UK. The following exchange rates were used to translate assets and liabilities at the year end: GBP/SEK 15.2667: GBP/Eur 1.6346.

\* Net assets were reduced by payments for share purchases and tender offer distribution which are included within the results of the UK.



## LOAN/EQUITY SPLIT OF PROPERTY ASSETS



# FINANCIAL REVIEW (CONTINUED)

**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 the respective local currencies from specialist property lending institutions, the purchase of interest rate hedging instruments and securing fixed rate borrowing arrangements. The Group has thereby hedged virtually all of its interest rate exposure and a significant proportion of its exchange rate exposure.

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

Net Interest Bearing Debt	Total £m	%	UK £m	%	Sweden £m	%	France £m	%
Fixed Rate Loans	(147.3)	100.0	(68.7)	46.6	(40.3)	27.4	(38.3)	26.0
Floating Rate Loans	(273.8)	100.0	(188.8)	69.0	(28.9)	10.5	(56.1)	20.5
	(421.1)	100.0	(257.5)	61.1	(69.2)	16.4	(94.4)	22.5
Bank and investments	56.3	100.0	46.0	81.7	4.9	8.7	5.4	9.6
Net Interest Bearing Debt	(364.8)	100.0	(211.5)	58.0	(64.3)	17.6	(89.0)	24.4
2000	(305.7)	100.0	(170.2)	55.7	(52.7)	17.2	(82.8)	27.1
Non interest bearing debt amounted to £29.8 million (December 2000: £27.5 million)								
Floating rate loan caps					Total %	UK %	Sweden %	France %
<b>2001</b>								
Percentage of net floating rate loans capped					99	100	100	93
Average interest rate at which loans are capped					6.6	6.6	6.3	6.8
<b>2000</b>								
Percentage of net floating rate loans capped					100	100	100	100
Average interest rate at which loans are capped					7.6	8.0	6.7	6.9

In relation to its London based portfolio the Group has continued to pursue a financial strategy to raise floating rate long term loans hedged against adverse interest rate movements by the acquisition of interest rate caps. Caps are normally purchased on a five year basis.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond, which has a current outstanding balance of £43.7 million at an interest rate of 10.8 per cent with a maturity date of 2025; including a zero coupon bond, with a current outstanding balance of £3.6 million, with matching interest rate and maturity date.

If interest rates were to rise to our cap ceilings the full year additional cost of borrowing would amount to £4.9 million.

Swedish property acquisitions have been financed through a combination of equity, long term fixed rate loans at an average interest rate of 6.1 per cent and floating rate loans for which the average interest rate in 2001 was 5.0 per cent. In addition, the Group entered into forward foreign exchange contracts in order to hedge its exposure to foreign currency transactions in relation to the refurbishment of Solna Business Park.

French property acquisitions have been funded by a mixture of equity and external bank finance. The bank funding has been raised long term (mainly fifteen years), 60 per cent of which is on a floating rate basis, hedged for the first five years against adverse interest rate movements by the acquisition of interest caps and 40 per cent of the loan book is fixed for five years at an average interest rate of 4.9 per cent.

The net borrowings of the Group at 31 December 2001 of £364.8 million showed an increase of £59.1 million over the previous year, reflecting the Group's programme of acquisitions and refinancings.

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 £23.2 million (2000: £26.3 million) which net of tax at 30 per cent equates to £16.2 million (2000: £18.4 million). A substantial amount of this is attributable to the long-term securitisation of New Printing House Square.

The contracted future cash flows from the properties securing the loans are currently sufficient to meet all interest and ongoing loan repayment obligations. Only £29.1 million (6.9 per cent) of the Group's total bank debt of £421.1 million is repayable within the next 12 months with £225.8 million (53.6 per cent) maturing after five years.

**SHARE CAPITAL** The share capital of the Company totalled £24.8 million at 31 December 2001, represented by 99,266,400 ordinary shares of 25 pence each, which are quoted on the main market of the London Stock Exchange.

As the shares continued to trade at a discount to NAV during the year, the Group maintained its strategy of buying back its own shares in the market for cancellation. During the year a total of 6.6 million shares, 6.1 per cent of opening shares, were purchased in the market and cancelled, at an average cost per share of 217 pence. This has involved a total cash expenditure of £14.3 million. A capital distribution payment by way of tender offer buy-back was made both in May and November of 2001 resulting in the purchase of 3.7 million shares and providing a distribution of £11.1 million to shareholders.

A total of 34.7 million shares has been purchased at a total cost of £63.0 million since the programme of buy backs started in 1998. The average cost of shares purchased for cancellation over this period was 182 pence per share.

The average mid-market price of the shares traded in the market during the year ended 31 December 2001 was 230 pence with a high of 259 pence in March 2001 and a low of 199 pence in January 2001.

Should the proposed tender offer buy back be fully taken up, the number of shares in issue would be reduced by 2,481,660 to 96,784,740.

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

	No of shares million 2001	No of shares million 2000
Opening shares	<b>108.1</b>	102.0
Tender offer buy back	<b>(3.7)</b>	(4.0)
Buybacks in the market for cancellation	<b>(6.6)</b>	(6.6)
Issued for Citadel portfolio	-	16.6
Shares issued for the exercise of options	<b>1.5</b>	0.1
Closing shares	<b>99.3</b>	108.1

In total 18.3 million shares were traded in the market during 2001. The share price at 26 February 2002 was 212.5 pence.

The share price of CLS increased by 6.0 per cent in the year to 31 December 2001 compared to a decrease of 8.7 per cent in the FTSE All Share Real Estate Index.

An analysis of the ownership structure at 31 December 2001 is set out below:

	Number of shares	Percentage of shares
Institutions	46,686,621	47.0
Private investors	613,071	0.6
Sten and Bengt Mörtstedt	49,810,963	50.2
Other	2,155,745	2.2
<b>Total</b>	<b>99,266,400</b>	<b>100.0</b>

The Company operates share option schemes to enable its staff to participate in the prosperity of the Group. At 31 December 2001 there were 1,269,200 options in existence with an average exercise price of 166 pence.

**DISTRIBUTION** As the current share price remains at a considerable discount to net asset value, your Board is intending to propose a further tender offer buy-back of shares in lieu of paying a cash dividend, on the basis of 1 in 40 shares at a price of 295 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 7.4 pence, yielding a total distribution in cash terms of 12.1 pence per share for the year (2000: 9.6 pence).

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

# PROPERTY REVIEW

WE CONTINUE TO FOCUS UPON LOW RISK HIGH RETURN PROPERTIES IN OUR CORE LOCATIONS OF LONDON, FRANCE AND SWEDEN. AT THE SAME TIME WE MANAGE THE PORTFOLIO WITH A VIEW TO MAXIMISING CAPITAL RETURNS.

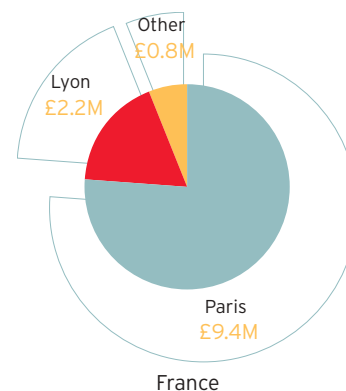
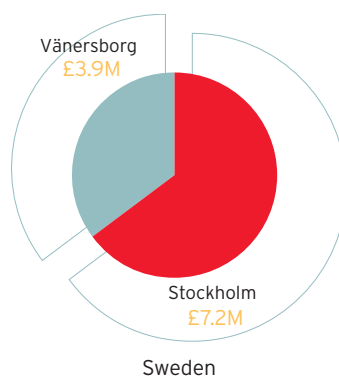
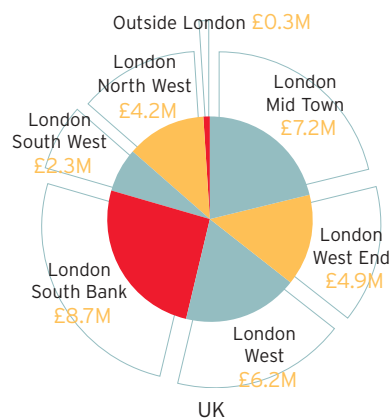
An analysis of contracted rent, book value and yields is set out below:

Region	Total Rent £000	%	Book Value £000	%	Yield on contracted rent	Yield When Fully Let
London Mid Town	7,198	12.5	96,850	13.3	7.4	
London West End	4,898	8.5	72,560	10.0	6.8	
London West	6,154	10.7	69,378	9.5	8.9	
London South Bank	8,747	15.2	110,430	15.2	7.9	
London South West	2,333	4.1	27,800	3.8	8.4	
London North West	4,235	7.4	39,600	5.4	10.7	
Outside London	345	0.6	3,495	0.5	9.9	
<b>Total UK</b>	<b>33,910</b>	<b>58.9</b>	<b>420,113</b>	<b>57.7</b>	<b>8.1</b>	<b>8.3*</b>
Germany	223	0.4	3,754	0.5	6.0	
<b>Total Germany</b>	<b>223</b>	<b>0.4</b>	<b>3,754</b>	<b>0.5</b>	<b>6.0</b>	<b>6.0</b>
Sweden Stockholm	7,205	12.5	106,768	14.7	6.7	
Sweden Vänersborg	3,894	6.8	41,070	5.6	9.5	
<b>Total Sweden</b>	<b>11,099</b>	<b>19.3</b>	<b>147,838</b>	<b>20.3</b>	<b>7.5</b>	<b>9.0**</b>
France Paris	9,372	16.3	122,166	16.8	7.7	
France Lyon	2,179	3.8	26,443	3.6	8.2	
France Other	756	1.3	7,986	1.1	9.5	
<b>Total France</b>	<b>12,307</b>	<b>21.4</b>	<b>156,595</b>	<b>21.5</b>	<b>7.9</b>	<b>8.0</b>
<b>Group Total</b>	<b>57,539</b>	<b>100.0</b>	<b>728,300</b>	<b>100.0</b>	<b>7.9</b>	<b>8.4</b>

Conversion Rates: GBP/SEK: 15.2667; GBP/Eur: 1.6346

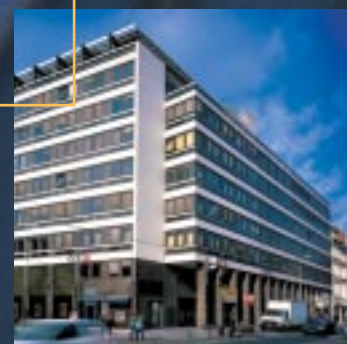
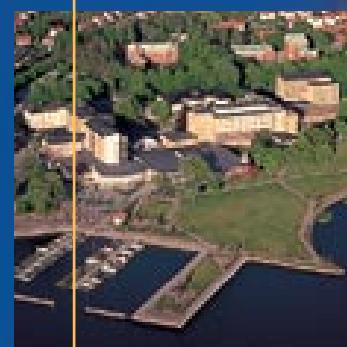
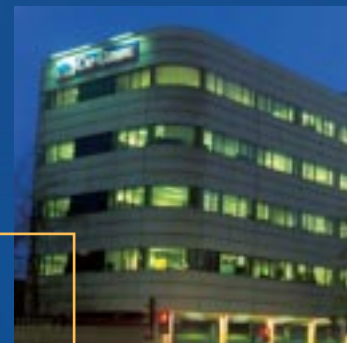
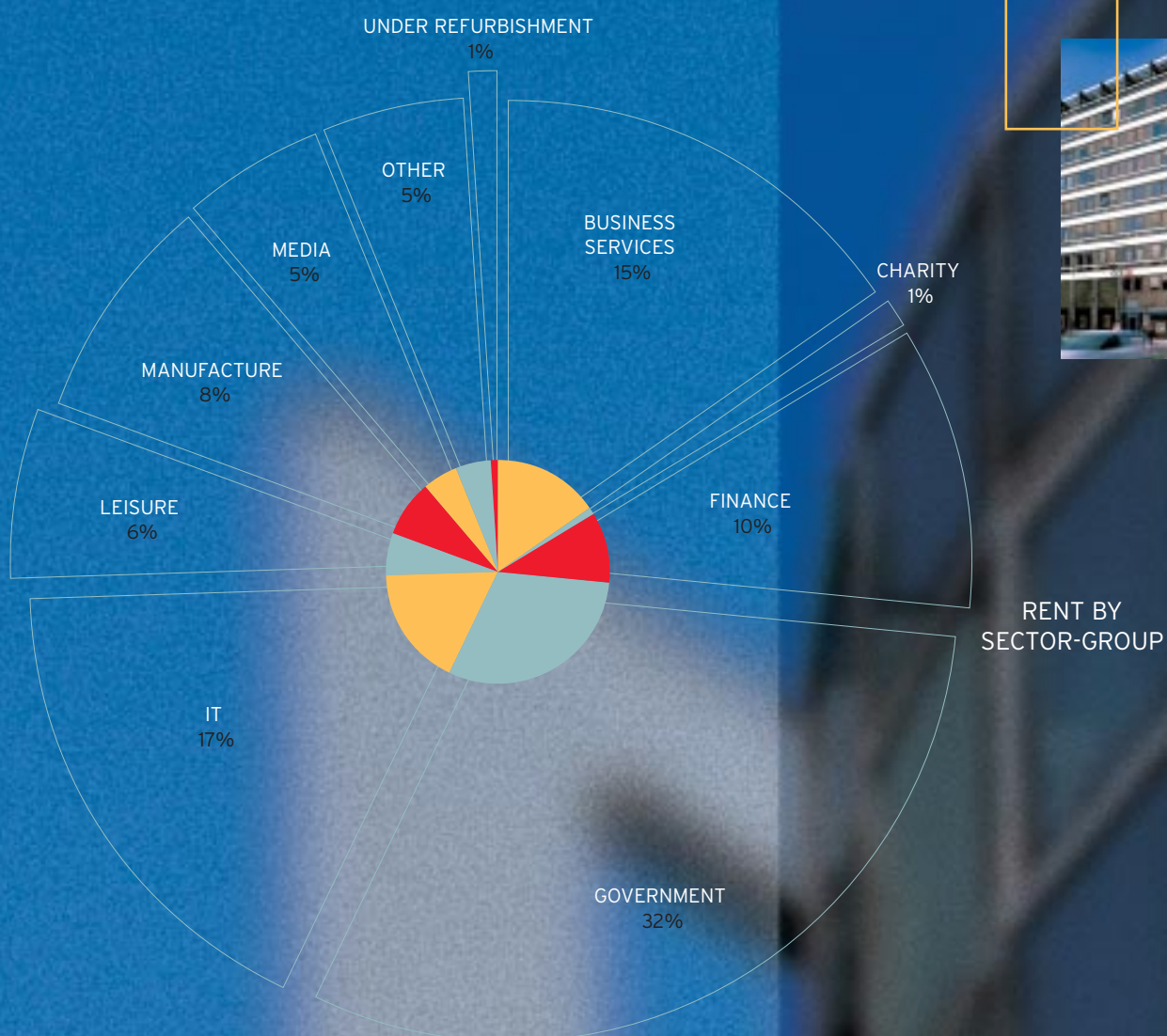
(\*) Yields based on receivable rent and potential rents have been calculated on the assumption that year end book values will increase by anticipated refurbishment expenditure of £3.9 million in respect of refurbishment projects in the UK.

(\*\*) Yields based on receivable rent and potential rents have been calculated on the assumption that year-end book values will increase by anticipated refurbishment expenditure of approximately £73.2 million in respect of refurbishment projects in Solna, Stockholm, Sweden.



RENT BY LOCATION

OUR STRATEGY IS TO  
TARGET ABOVE AVERAGE  
RETURNS ON EQUITY  
THROUGH ACQUISITION,  
ACTIVE MANAGEMENT,  
REFURBISHMENT, AND  
SELECTIVE SALES.





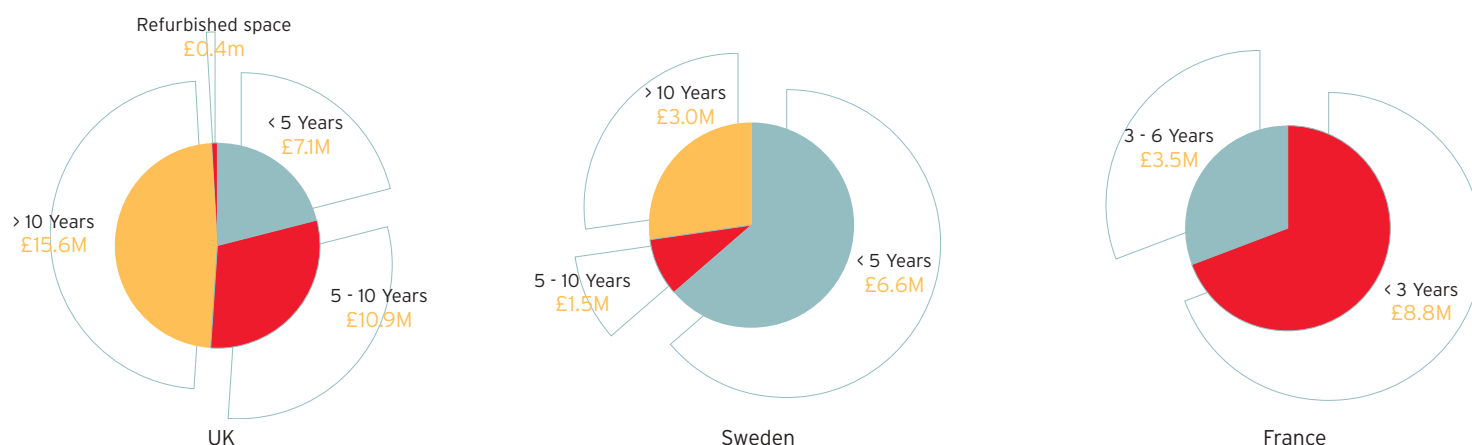
# PROPERTY REVIEW (CONTINUED)

Rent analysed by length of lease and location:

Description	Sq.m.	Sq.ft.	Contracted Aggregate Rental £000	Contracted but not income producing £000	Unlet space at ERV £000	Space under refurb. or with plan. consent at ERV £000	Total £000
UK < 5 years	36,088	388,419	7,119	–	–	–	7,119
UK 5 - 10 years	44,978	484,124	10,865	–	–	–	10,865
UK > 10 years	72,247	777,754	15,002	556	–	–	15,558
Refurbished space	1,719	18,500	–	368	–	250	618
Vacant	5,827	62,736	–	–	879	–	879
<b>Total UK</b>	<b>160,859</b>	<b>1,731,533</b>	<b>32,986</b>	<b>924</b>	<b>879</b>	<b>250</b>	<b>35,039</b>
Germany – let	4,216	45,382	223	–	–	–	223
Vacant	1,064	11,453	–	–	21	–	21
<b>Total Germany</b>	<b>5,280</b>	<b>56,835</b>	<b>223</b>	<b>–</b>	<b>21</b>	<b>–</b>	<b>244</b>
Sweden < 5 years	91,766	987,793	6,634	–	–	–	6,634
Sweden 5 - 10 years	10,025	107,912	–	1,485	–	–	1,485
Sweden > 10 years	29,378	316,233	2,980	–	–	–	2,980
Refurbished space	26,145	281,432	–	–	–	8,230	8,230
Vacant	9,729	104,726	–	–	510	–	510
<b>Total Sweden</b>	<b>167,043</b>	<b>1,798,096</b>	<b>9,614</b>	<b>1,485</b>	<b>510</b>	<b>8,230</b>	<b>19,839</b>
France < 3 years	78,104	840,725	8,804	–	–	–	8,804
France 3 - 6 years	25,697	276,607	3,503	–	–	–	3,503
Vacant	1,494	16,082	–	–	179	–	179
<b>Total France</b>	<b>105,295</b>	<b>1,133,414</b>	<b>12,307</b>	<b>–</b>	<b>179</b>	<b>–</b>	<b>12,486</b>
<b>Group Total</b>	<b>438,477</b>	<b>4,719,878</b>	<b>55,130</b>	<b>2,409</b>	<b>1,589</b>	<b>8,480</b>	<b>67,608</b>

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

We estimate that open market rents are approximately 17.0 per cent higher than current contracted rents receivable, which represents a potential increase of £9.8 million per annum. This excludes the additional rents we will receive as a result of our refurbishment programme. These increases are divided amongst the portfolio as follows:



CONTRACTED RENT BY LEASE LENGTH

The total potential gross rental income (comprising estimated rental value of contracted rentals, unlet space and refurbishment) of the portfolio is £77.4 million per annum.





# PROPERTY REVIEW (CONTINUED)

*DESPITE THE WELL DOCUMENTED DOWNTURN IN DEMAND FOR LONDON OFFICES IN THE LAST QUARTER OF 2001 WE HAVE SEEN NET INCREASES IN INCOME AND IN THE VALUE OF THE PORTFOLIO OVER THE YEAR AS A WHOLE.*

The majority of the increase has been achieved from restructuring leases, lease renewals and rent reviews at Spring Gardens, Brent House, Chancel House, and Vauxhall Cross.

We have also sold two properties in the year. Scriptor Court at Farringdon, which was purchased by the Company in 1996 for £0.9 million, was sold in June for £3.0 million (£0.4 million above book value). A residential apartment at Petersham House, Kensington held by us as trading stock was sold for £2.5 million, which resulted in a profit of £0.4 million.

In October we completed the purchase of 200 Great Dover Street, London SE1. The 3,377 sq.m (36,345 sq.ft) building was bought for £7.4 million giving an initial yield on purchase of 9.2% after costs. The property is let to Conoco Oil Ltd on a lease expiring in June 2011. The property offers a secure income at a high initial yield within an improving area.

In the course of rationalising our portfolio we have also obtained a number of early surrender premiums which amount to £0.8 million in one off payments.

In addition we have completed the extension to our serviced offices at Buspace Studios, Notting Hill, increasing its net lettable area to 3,150 sq.m (34,000 sq.ft) from 2,500 sq.m (27,000 sq.ft). The annualised rental income at the property has risen from £0.3 million at the end of 2000 to £0.5 million as at 31st December 2001.

Although at the end of the year the vacant space within our UK portfolio has increased to 3.6 per cent from 2.6 per cent at the end of 2000, and demand in general for offices in London is weaker than at this time last year, we are confident of further growth in rental income through rent reviews and lease restructuring. Core rental income should remain protected by the fact that only 4.8 per cent of our available space is affected by lease terminations or break options during the year. Furthermore, 80 per cent of our UK portfolio is leased to government tenants, major corporates and major partnerships. Additionally 72 per cent of our income is secured for more than 5 years.

At Southwark Towers, which is one third owned by us, a development agreement has been concluded with Railtrack plc and our application for planning permission for a new tower was resolved to be approved by the London Borough of Southwark on 11 March 2002.

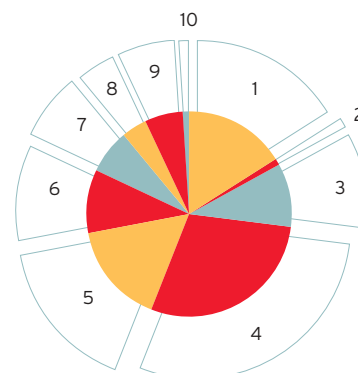
We also anticipate that the assignment of the occupational lease of One Leicester Square to Regent Inns plc will be completed shortly.

At New Printing House Square, the rent review was agreed at £5.4 million per annum in March 2002, representing an increase of £0.7 million per annum which is back-dated to July 2000.

We are due to complete the development of an 18 flat residential scheme at Coventry House, W1 in September 2002 and the planned letting of the flats should further increase rental value. In addition planning permission has been granted for the erection of a new illuminated sign on the roof of the building overlooking Piccadilly Circus and we hope that this will become operational later in the year.

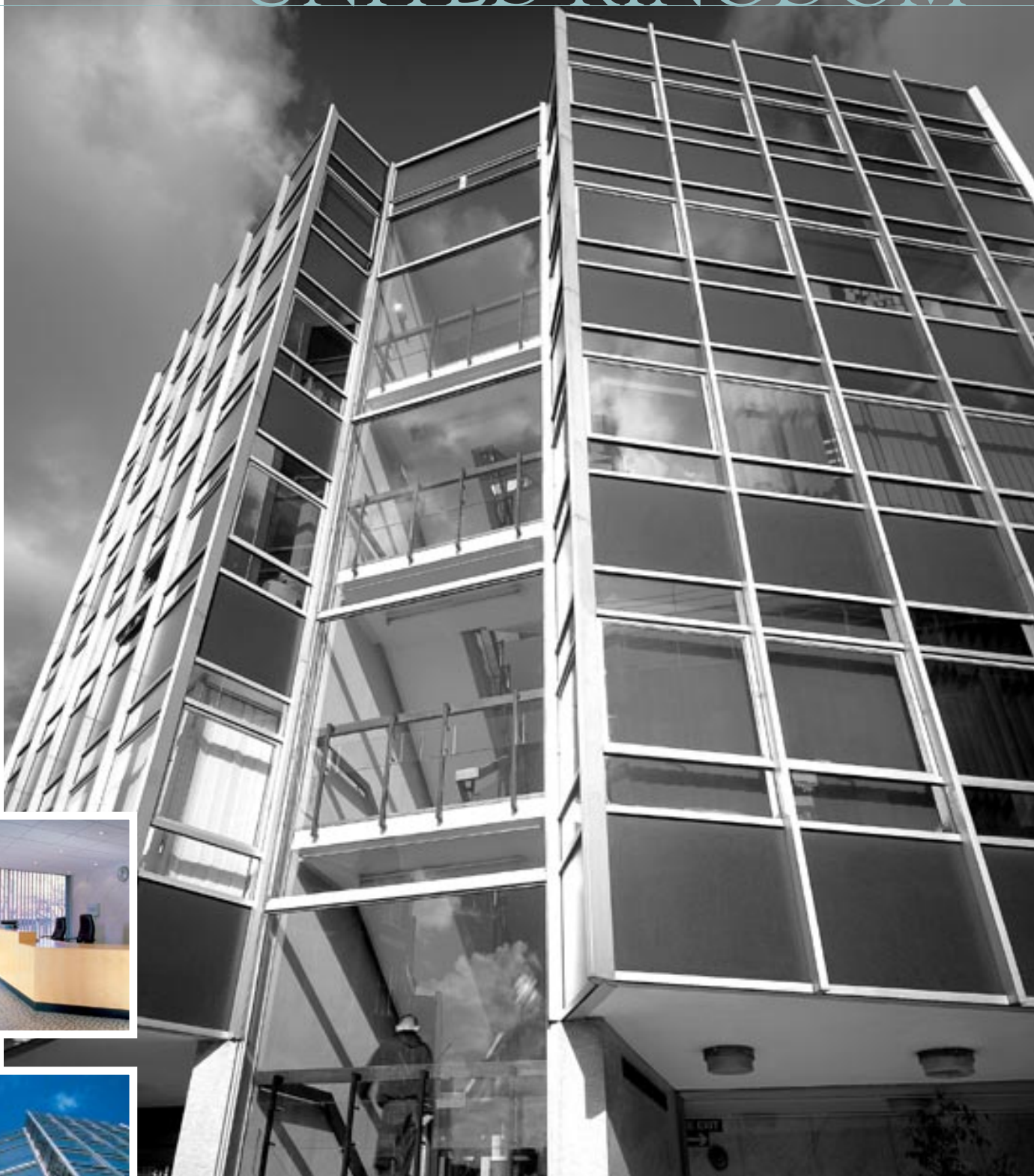
In the first half of the year the Group made a commitment to acquire a 25 per cent share in a leisure development in Portsmouth at a cost of £1.9 million including a loan of £1.4 million. The development was completed in December 2001 and is open and trading.

1	Business services	16%
2	Charity	1%
3	Finance	10%
4	Government	29%
5	IT	16%
6	Leisure	10%
7	Manufacture	7%
8	Media	4%
9	Other	6%
10	Under refurbishment	1%



RENT BY SECTOR UK

# UNITED KINGDOM



*72 PER CENT OF UK RENTAL INCOME IS SECURED FOR MORE THAN 5 YEARS.*

# PROPERTY REVIEW (CONTINUED)

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*SUBSTANTIAL PROGRESS HAS BEEN MADE IN THE REFURBISHMENT OF OUR PROPERTIES AT SOLNA, STOCKHOLM.*

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VÄNERPARKEN

At Vänerparken the refurbishment of a former empty building designed for the extension of areas to the existing local government tenant was completed on schedule and on budget in December 2001. The school moved in on a new lease expiring on 30th June 2006 at a rent of £0.2 million (SEK 2.4 million).

SOLNA BUSINESS PARK

Although tenant demand for offices in the central business district in Stockholm has weakened during the year there is still good demand in the Solna area.

Our phase 2 development comprising the refurbishment of the building known as Fräsaren 11 has remained on budget and on schedule. We have signed lease agreements with three new tenants covering 28% of the area at a level of rent which is among the highest in Solna, and we are negotiating with several potential new tenants. The three tenants take occupation in January, March and August 2002. The whole building is planned to be completed by the end of 2002.

The refurbished space at Fräsaren 11 now offers high quality accommodation coupled with excellent facilities. A large well equipped gym has been installed and a new apartment hotel will be ready at the end of the year together with a number of new shops and restaurants. We are confident that these facilities, together with the existing excellent network of communications, and the pricing of the property at rates considerably below offices in the centre of Stockholm, will lead to the remaining space in the building being let during the year.

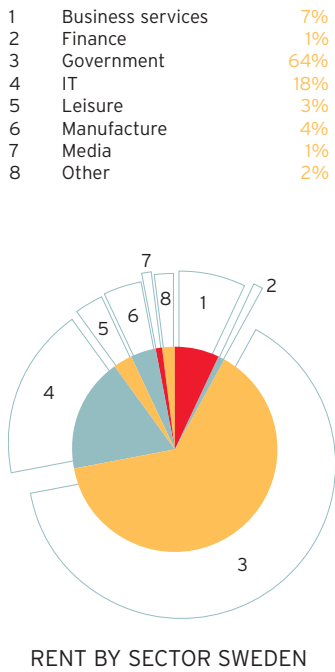
We are now commencing the utility study for Phase 3 of our planned redevelopment.

On 31 January 2002 we completed the acquisition of the fifth property in Solna Business Park. It is located close to our other properties and has development potential of 5,000 – 10,000 sq.m of office space. It comprises 4,862 sq.m (52,247 sq.ft), gives an initial yield of 9% and produces a gross annual rental of £0.3 million (SEK5.1 million).

GOTHENBURG

On 31 January 2002 we purchased a mixed residential and commercial property portfolio at Lövgärdet, Gothenburg. The residential element comprises 1,282 apartments which are fully let with a total area of 79,614 sq.m (855,532 sq.ft). The gross rental income generated, before all property related costs, is £3.6 million (SEK 53.4 million) per annum. The commercial properties (including a school) comprise 33,494 sq.m (359,926 sq.ft), which are fully let, mainly to Gothenburg Council, on leases maturing in 2012-2014. These generate a gross rental income of £2.0 million (SEK 29.3 million) per annum.

Gothenburg is the second largest city in Sweden, with a strong and expanding economy. Within Gothenburg the demand is accordingly strong for residential accommodation and we anticipate long term secure income.





# PROPERTY REVIEW (CONTINUED)

## THE PORTFOLIO COMPRISES WELL-LET MODERN OFFICE BUILDINGS IN PARIS, LYON, LILLE AND ANTIBES

and is let to 198 tenants on 266 leases and produces a gross income of £12.3 million (€20.1 million) per annum. The portfolio is 98.6 per cent let with 112 sq.m (1,206 sq.ft) vacant in Lyon, 614 sq.m (6,609 sq.ft) vacant in Paris, 301 sq.m (3,240 sq.ft) in Antibes and 467 sq.m (5,027 sq.ft) in Lille.

Since the acquisition of the Citadel portfolio by CLS the day to day management has not changed significantly and the reporting structure has been integrated within the rest of the Group.

As the portfolio has a large reversionary element our strategy is to accelerate rental increases by restructuring leases. During 2001, 9,506 sq.m (102,325 sq.ft) representing 9.1 per cent of the portfolio was renegotiated, leading to a rental increase of £543k (€887.6k), 56 per cent on the accommodation involved. Indexation contributed a further £421k (€688.2k).

Four new property investments were made during the year.

Two new freehold properties were bought during September in Lille, in the North of France. Lille is a well identified regional market which benefits from an excellent location and easy access by Eurostar from London, Brussels and Paris. Both properties were purchased on a net initial yield of 10.6 per cent.

One property is at 96, rue Nationale in the heart of the city of Lille close to the Town Hall office area, a 25 year old building of 2,243 sq.m (24,144 sq.ft) of offices with 52 car spaces. It is let on various leases expiring in the next 7 years with two major tenants, BNP-Paribas Group and the MEDEF which is the French Employer Union, and 6 other smaller tenants. The current rent is £171.8k (€280.8k). The second building is 105, Avenue de La République in La Madeleine area on the Grands Boulevards sector which is an office district very close to the well-known Euralille development next to the international train station. The building was constructed 23 years ago and comprises 4,008 sq.m (43,143 sq.ft) of offices with 136 car spaces, multi-let to 14 different tenants, including the French Inland Revenue. The current rent is £260.3k (€425.6k) and we received a one year guarantee from the vendor for a maximum sum of £20.1k (€34.3k) for 264 sq.m (2,842 sq.ft) which is currently unlet.

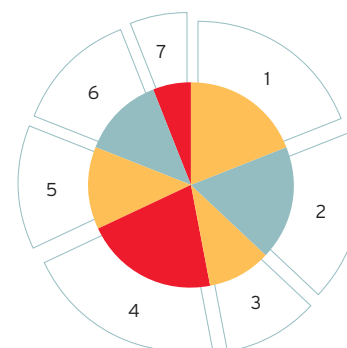
The freehold property, Chorus Nova-Antipolis, Antibes was acquired in early 2001 and comprises 4,333 sq.m (46,640 sq.ft) and 145 car parking spaces. The anchor tenant is an agency of the French government. The investment produced an initial yield of 9.7 per cent based on gross rent of £333k (€545k) and a purchase price inclusive of costs of £3.5 million (€5.5 million).

We also completed the purchase of a building in Genevilliers, a North-West suburb of Paris, 2 rue Pierre Timbaud. Genevilliers is a mixed activity and office area with very efficient transportation links to the West of Paris and all major suburbs. This freehold property is 7 years old and comprises 3,170 sq.m (34,123 sq.ft) with 37 car parking spaces and is let to a single tenant, Gaz de France, a Government body in charge of gas distribution in France. Current annual rent is £280.2k (€458.1k); at the purchase price of £2.8 million (€4.6 million) inclusive of all costs the acquisition shows a net initial yield of 9.3 per cent.

The French investment market was very active in 2001 and the volume of real estate investments reached a new record, signalling investor confidence in the market. For 2002, we intend to actively manage the portfolio and to buy new properties in line with our usual criteria. We keep close relationships with our tenants and intend to continue the restructuring of leases within the portfolio.

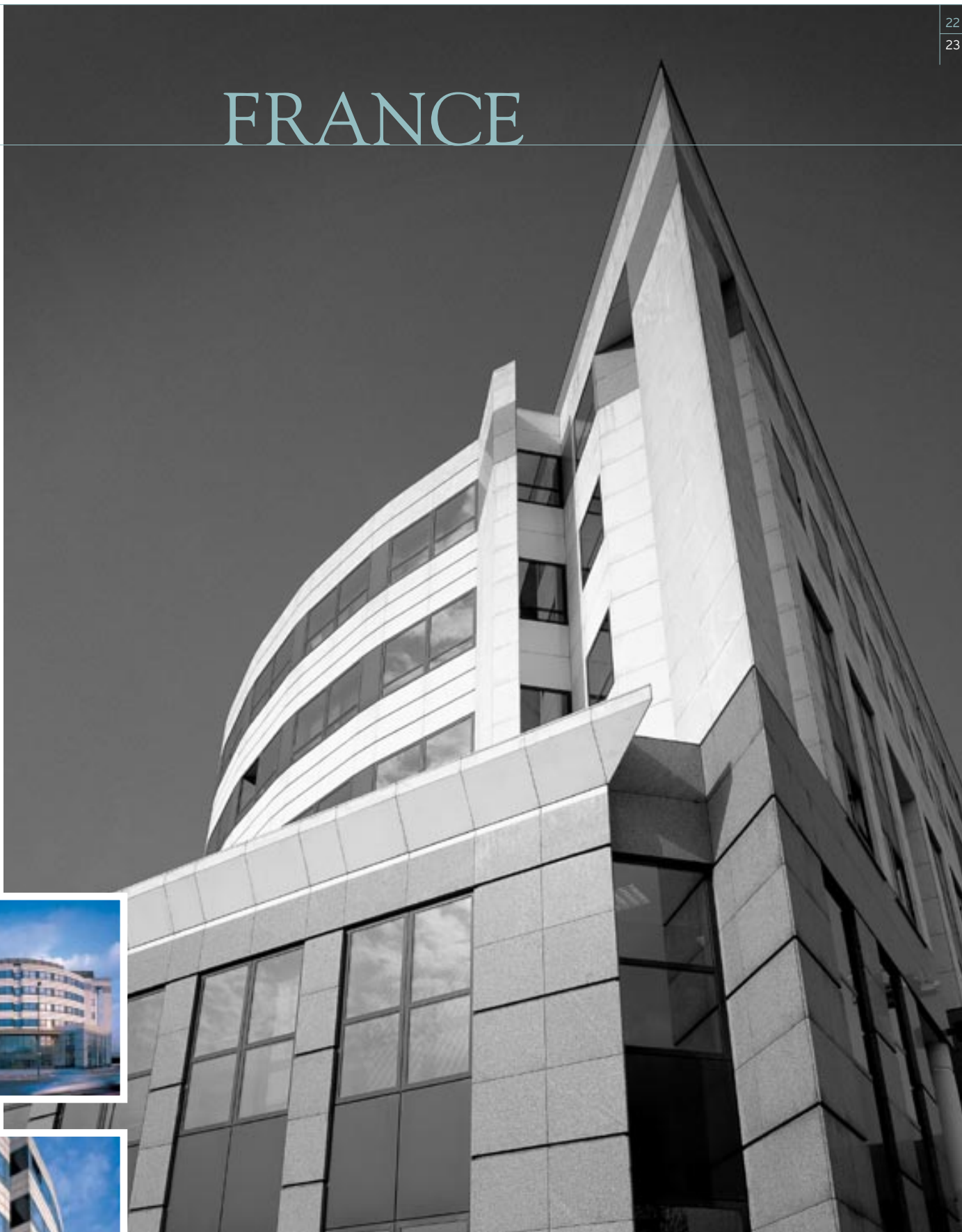
The renovation of common parts in several buildings in Lyon and Paris will also be carried out during the year.

1	Business services	19%
2	Finance	18%
3	Government	10%
4	IT	21%
5	Manufacture	13%
6	Media	13%
7	Other	6%



RENT BY SECTOR FRANCE

# FRANCE



# DIRECTORS, OFFICERS AND ADVISERS

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## **Directors**

Sten Mörtstedt (Executive Chairman)  
Thomas Thomson BA (Vice Chairman and Acting Chief Executive)  
Dan Bäverstam (Chief Financial Officer)  
Bengt Mörtstedt Juris Cand (Non-executive Director)  
Keith Harris PhD \*†‡ (Non-executive Director)  
Thomas Lundqvist † (Non-executive Director)  
James Dean FRICS \*† (Non-executive Director)

\* = member of Remuneration Committee

† = member of Audit Committee

‡ = senior independent director

## **Company Secretary**

Steven Board FCCA (Chief Operating Officer)

## **Registered Office**

One Citadel Place  
Tinworth Street  
London SE11 5EF

## **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

## **Joint Stockbrokers**

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

ING Barings Limited  
60 London Wall  
London EC2M 5TQ

Teather & Greenwood  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

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## **e-mail:**

[enquiries@clsholdings.com](mailto:enquiries@clsholdings.com)

# PORTFOLIO 2001



# Schedule of Group Properties

Properties UK	Address	Freehold/ Leasehold	Area m²	Area Sq.ft.	Use	Date of Construction/ Refurbishment
Brent House	349-357 High Road, Wembley, Middx HA9	Freehold	9,137	98,356	Offices	1995
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,353	Studio/Workshops/ Offices	2001
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,633	71,405	Offices	1991/1998
Cap Gemini	95 Wandsworth Rd, 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	7,353	79,154	Offices	1990
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,575	81,533	Offices	1992
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,180	34,237	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	Freehold	2,381	25,629	Offices	2000
Conoco House	200 Great Dover Street, London SE1	Leasehold	3,377	36,345	Offices	1960's
Coventry House	21/24 Coventry St. & 35a Haymarket, London SW1	Freehold	1,293	13,917	Restaurant/ Residential/ Advertising	2000
Coombe Hill House	Raynes Park, New Malden	Freehold	3,437	37,000	Offices	1990
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/Residential	1988
Drury Lane	167-172 Drury Lane, London WC2	Freehold	2,973	31,998	Retail/Offices/ Theatre	1999
Dukes Road	22 Dukes Road	Freehold	1,155	12,437	Offices	1980's
Elan House	5/11 Fetter Lane, London EC4	Leasehold	-	-	Offices	
Great West House	Great West Road, Brentford, Middx TW8 9DF	Freehold	8,568	92,231	Offices	2001
Computer House	Great West Road, Brentford, Middx	Freehold	5,711	61,451	Offices	1989
Holland Park Avenue	London W11	Freehold	275	2,956	Residential	1997
Hollywood Nightclub	Princess Street, Ipswich, Suffolk, IP1 1SB	Freehold	1,951	21,000	Nightclub	1999
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,327	14,295	Offices	2001
275 King Street	275/281 King Street, London W6	Freehold	1,895	20,399	Offices	1999
Larkhall Lane	157 Larkhall Lane, London SW4	Freehold	3,338	35,934	Industrial	1994
Leicester Square	1 Leicester Square, London WC2	Freehold	2,689	28,946	Cinema/Retail/ Leisure	1999
London House	271/273 King St, Hammersmith, London W6	Freehold	1,426	15,351	Business Centre	2001
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,439	284,585	Offices	1996
Satellite House	15-23 Baches Street London N1	Freehold	1,450	15,604	Offices	1980
Spring Gardens	Tinworth Street, London SE11	Freehold	15,585	167,749	Offices	1990
Spring Gardens Court	80 Vauxhall Walk, London SE11	Freehold	966	10,500	Residential	1998
Tinworth Street, 2/10	2/10Tinworth Street, London SE11	Freehold	1,264	13,598	Industrial/Offices	Early 1900's
Oval Business Centre	142/170 Vauxhall St, London SE11	Freehold	3,130	33,697	Offices	1990
Vauxhall Walk, 110	110 Vauxhall Walk, London SE11	Freehold	790	8,500	Industrial/Offices	1990
Vauxhall Walk, 108	108 Vauxhall Walk, London SE11	Freehold	600	6,456	Car parking	Early 1900's
Vista Office Centre	Salisbury Road, Hounslow, Middx	Freehold	9,829	105,741	Offices	1999
Western House	5 Glasshouse Walk, London SE11	Freehold	610	6,578	Offices	1900's
Westminster Tower	3 Albert Embankment, London SE1 7SP	Freehold	4,432	47,705	Offices	2001
UK Properties at 31 December 2001		Sub total	160,859	1,731,533		
Properties Germany	Address	Freehold/ Leasehold	Area m²	Area Sq.ft.	Use	Date of Construction/ Refurbishment
Schanzenstrasse	Schanzenstrasse 76, Dusseldorf	Freehold	3,095	33,315	Offices	1990
Westbahnhof	Kasseler Strasse, Bokenheim Frankfurt am Main	Freehold	2,185	23,520	Offices/Industrial/ Retail/Residential	1950's
German Properties at 31 December 2001		Sub total	5,280	56,835		



# Schedule of Group Properties

Properties	Sweden	Address	Freehold/ Leasehold	Area m <sup>2</sup>	Area Sq.ft.	Use	Date of Construction/ Refurbishment
Vänerparken		Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,240	486,975	Offices/Education/ Residential/Leisure/ Hospital	Various
Solna		Fräsaren 11, Fräsaren 12, Smeden 1, Sliparen 2	Freehold	121,803	1,311,121	Offices/Industrial/ Retail/Residential	Various
Swedish Properties at 31 December 2001			Sub total	167,043	1,798,096		

Properties	France	Address	Freehold/ Leasehold	Area m <sup>2</sup>	Area Sq. ft.	Use	Date of Construction/ Refurbishment
Bellevue		95/97Bis rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,833	Offices	1988
Capitaine Guynemer		53/55 rue de Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	1,893	20,376	Offices	1993
Charenton Bercy		2 rue du Nouveau Bercy, 94220 Charenton	Freehold	5,207	56,048	Offices	1994
Le Chorus		2203 chemin de St Claude, Nova Antipolis 06600 Antibes	Freehold	4,333	46,640	Offices	1990
Columbus		1 Rond Point de L'Europe, 92250 La Garenne-Colombes, Paris	Freehold	3,162	34,035	Offices	1990
D'Aubigny		27 rue de la Villette, 69003 Lyon	Leasehold	4,316	46,459	Offices	1989
Edouard Belin		1 Avenue Edouard Belin, 92500 Rueil Malmaison, Paris	Freehold	10,502	113,105	Offices	1991
Edouard Vaillant		28/30 rue Edouard Vaillant, 92300 Levallois Perret, Paris	Freehold	1,706	18,363	Offices	1996
Equinoxe II		1 bis Avenue du 8 Mai, 1945, St Quentin en Yvelines, Paris	Freehold	4,235	45,585	Offices	1995
Forum		27/33 rue Maurice Flandin, 69003 Lyon	Freehold	6,911	74,390	Offices	1989
Front de Parc		109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,199	Offices	1989
Gennevilliers		2 rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,121	Offices	1994
Grundig		5 Boulevard Marcel Pourtout, 92500 Rueil Malmaison, Paris	Freehold	2,270	24,434	Offices	1990
Lord Byron		2 rue Lord Byron, 75008 Paris	Freehold	560	6,028	Offices	1929
Lotus		41 rue du Capitaine Guynemer, 92400 Courbevoie, Paris	Freehold	6,026	64,863	Offices	1977
La Madeleine		105 Avenue de la Republique 59110 Lille	Freehold	4,008	43,142	Offices	1979
Mission Marchand		56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,635	28,363	Offices	1993
Park Avenue		81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,736	Offices	1988/89
Paul Doumer		147 Avenue Paul Doumer, 92500 Rueil Malmaison, Paris	Freehold	3,494	37,609	Offices	1998
Petits Champs		48 rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,375	Offices	1972
Petits Hotels		20-22 rue des Petits Hotels, 75010 Paris	Freehold	2,001	21,539	Offices	1994
Philippe Auguste		83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,610	17,330	Offices	1995
Rhone Alpes		235 Cours Lafayette, 69006 Lyon	Freehold	3,657	39,349	Offices	1993
Rue Nationale		96 rue Nationale, 59000 Lille	Freehold	2,243	24,143	Offices	1975
Rueil 2000		15/21 Avenue Edouard Belin, 92500 Rueil-Malmaison, Paris	Freehold	7,408	79,739	Offices	1991
Santos Dumont		23 Avenue Louis Breguet, 78140 Velizy	Freehold	3,701	39,837	Offices	1991
Le Sigma		Place de Belgique, 90 Bld de L'Europe, 92250 La Garenne Colombes, Paris	Freehold	6,575	70,773	Offices	1993
French Properties at 31 December 2001			Sub total	105,295	1,133,414		
TOTAL ALL PROPERTY				438,477	4,719,878		

# United Kingdom

## Conoco House

200 Great Dover Street  
London SE1

Acquired October 2001

## Cap Gemini

South Bank  
London SW8

Mixed office and industrial investment



## New Printing House Square

London WC1

Major investment let to UK Government



## Westminster Tower

London SE1

Multi-Tenanted office investment opposite  
the Houses of Parliament



## 142-170 Vauxhall Street

London SE11

Freehold Offices



2 Deanery Street  
London W1  
Freehold office investment located in Mayfair



Brent House  
Wembley, Middx HA9  
Refurbished and fully let in 1998



Ingram House  
London WC2  
Freehold offices

# United Kingdom

## One Leicester Square

London WC2

Major leisure development  
completed and let in 1999



## Colne House

Watford WD1

Freehold offices acquired in March 1999



## Spring Gardens

London SE11

Substantial office business park



## Cambridge House

London W6

Freehold offices

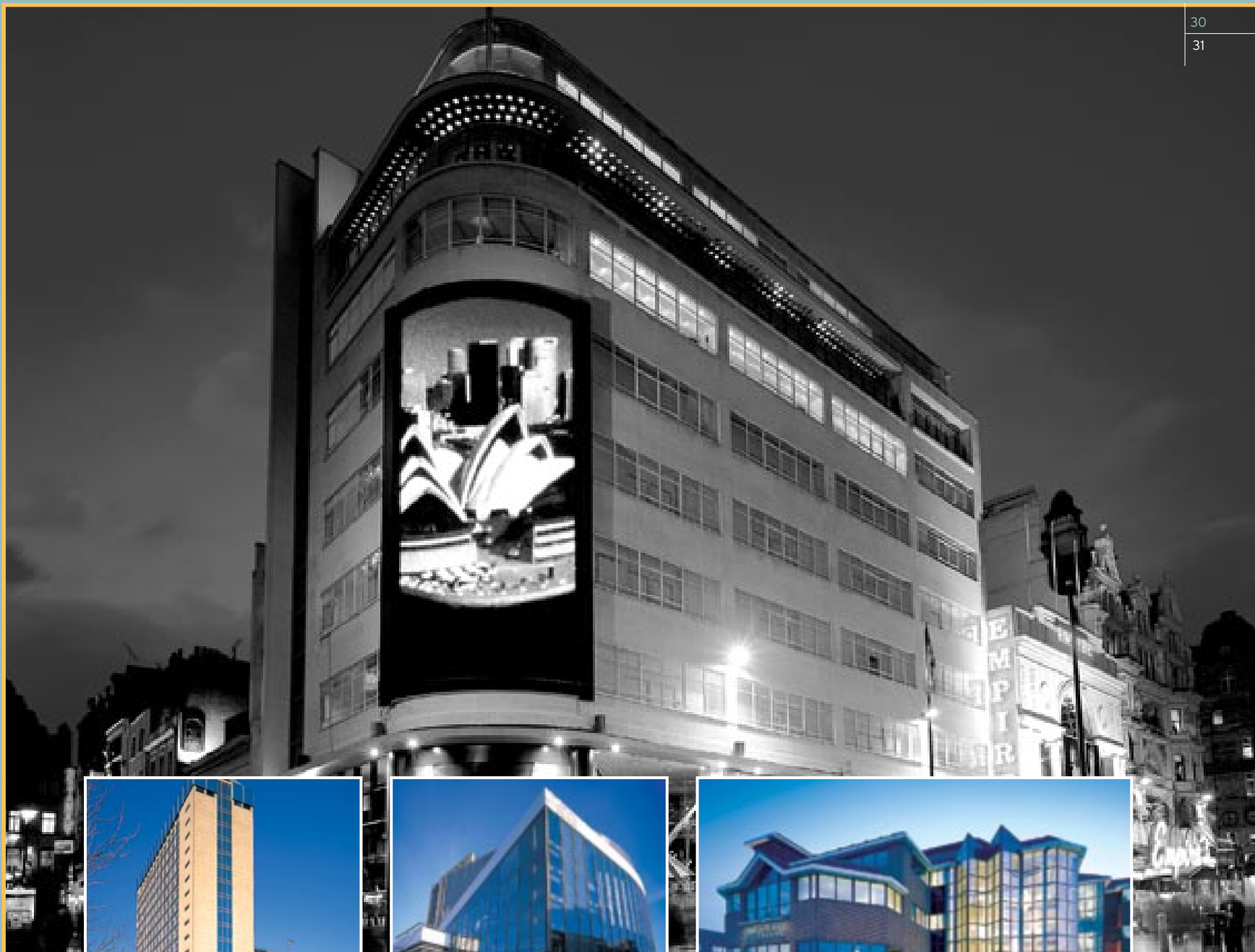


## London House

London W6

Business Centre





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



Drury Lane  
London WC2  
Office, retail and leisure investment



Coombe Hill House  
New Malden SW20  
Office development situated on the A3



# United Kingdom



22 Dukes Road  
London WC1  
Freehold offices

## Vista Office Centre

Middx TW4

Offices, situated close to Heathrow,  
substantial refurbishment during 2000



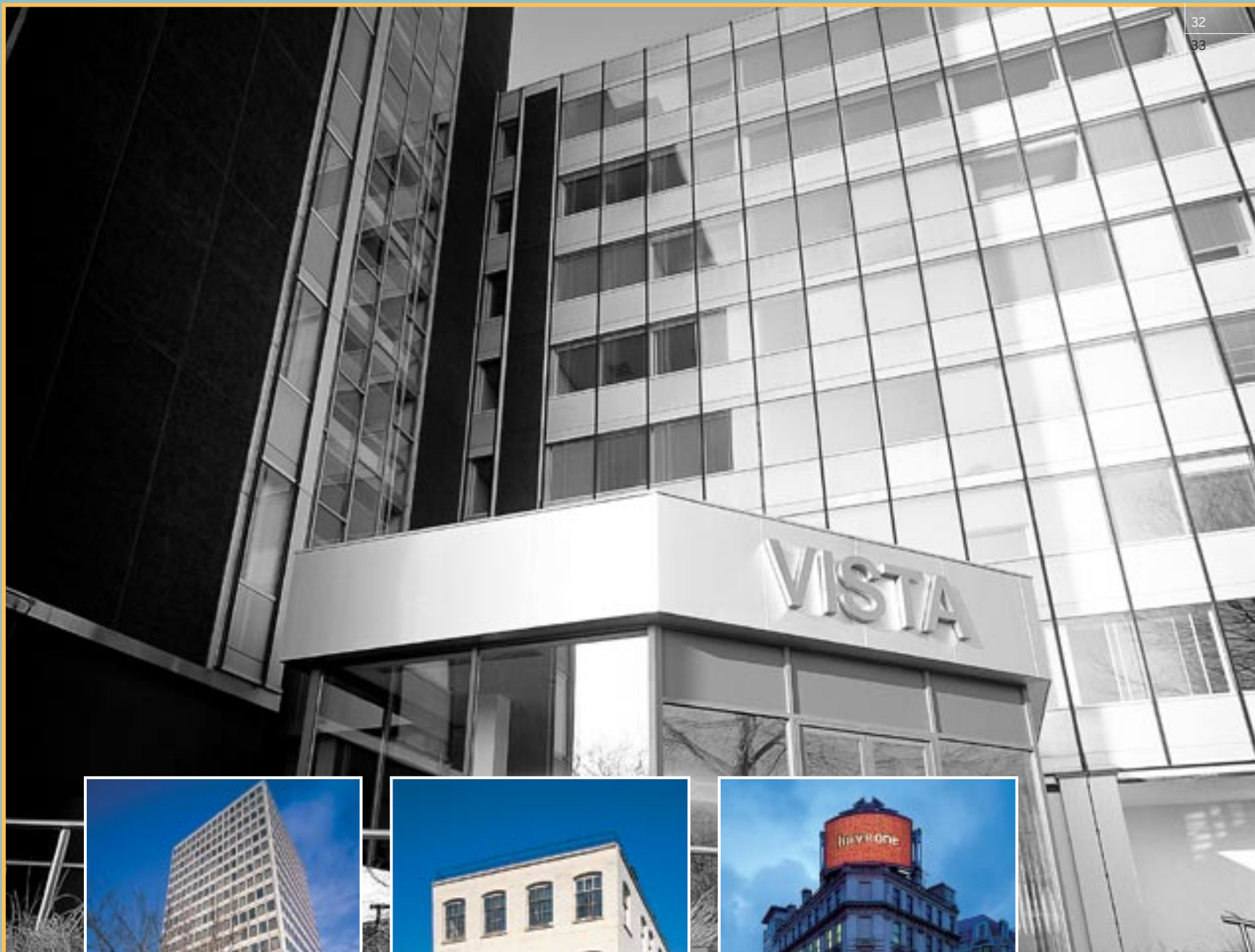
Carlow House  
London NW1  
Office and residential investment in Camden



Vista Office Centre  
Middx TW4  
Reception



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



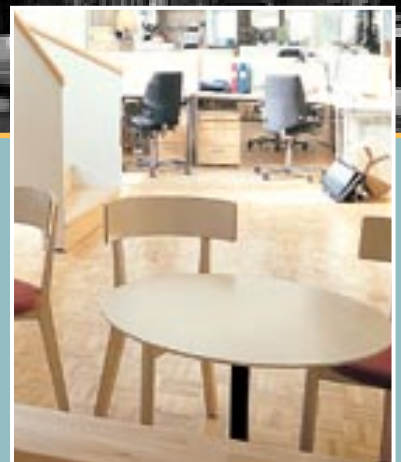
CI Tower  
New Malden, KT3  
Substantial multi-tenanted office investment



Western House  
London SE11  
Freehold offices



Coventry House  
London SW1  
Sign and restaurant, and flats undergoing refurbishment.



## Solna Business Park

Stockholm, Sweden

121,803 sq.m of offices and retail accommodation undergoing major refurbishment on a shared basis



## Swedish Post Office Computer Department

Phase 1 of the refurbishment  
completed in October 2000



# Sweden







## Vänerparken

Vänersborg, Sweden

Substantial office, residential and  
leisure development



# France

## La Madeleine

105 Avenue de la Republique  
59110 Lille

Acquired September 2001



### Le Sigma

Place de Belgique  
92250 La Garenne Colombes  
Paris

Acquired December 1997



### Philippe Auguste

83/85 Avenue Philippe Auguste  
75011 Paris

Acquired December 1997



### Charenton Bercy

2 rue du Nouveau Bercy  
94220 Charenton, Paris

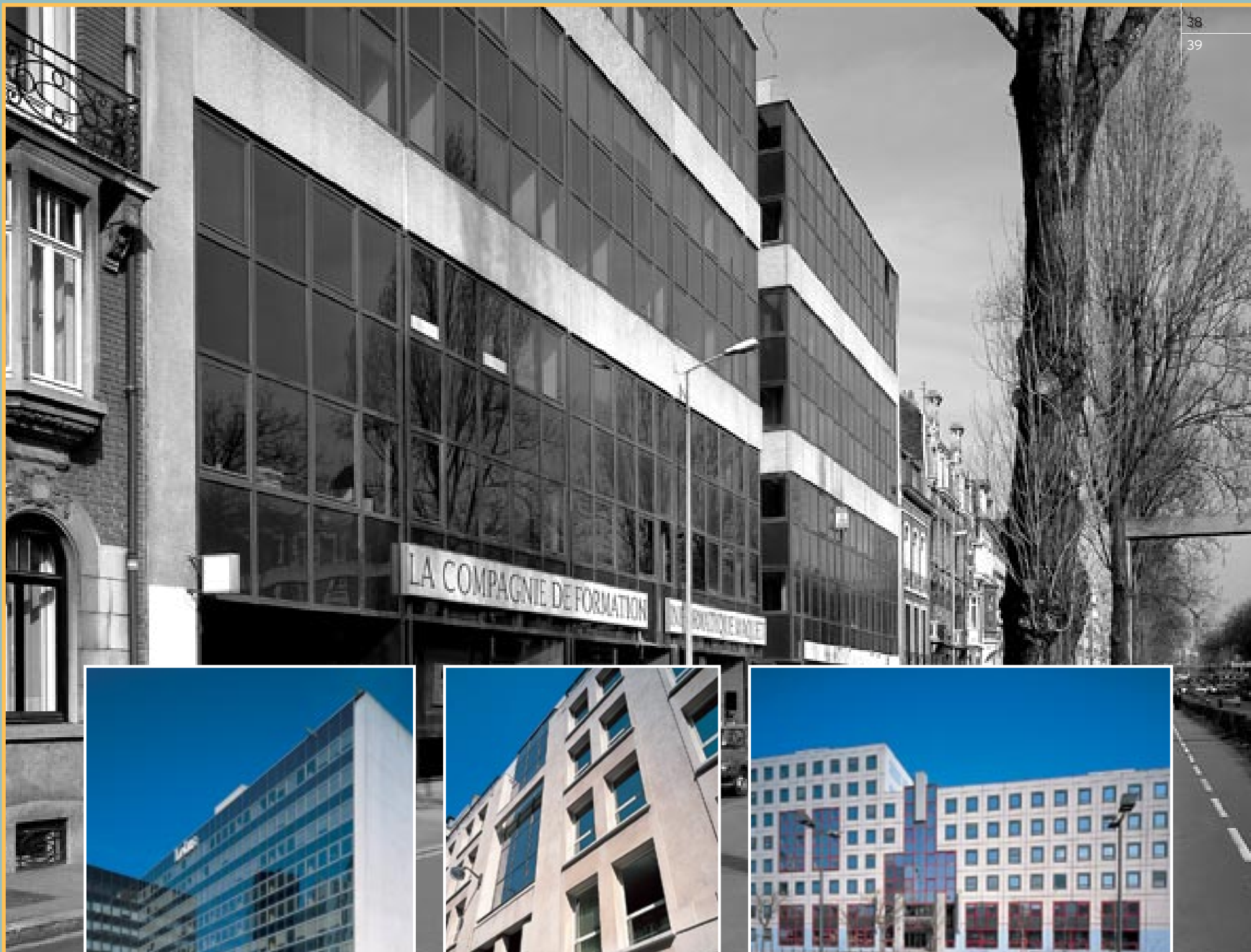
Acquired July 1998



### Park Avenue

81 Boulevard de Stalingrad  
69100 Villeurbanne , Lyon

Acquired July 1997

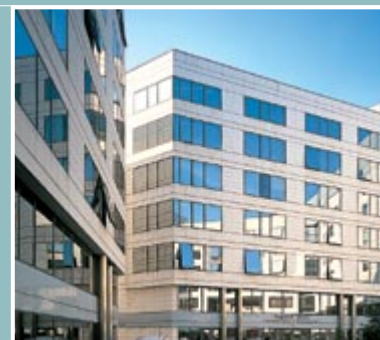


Petits Hotels  
20/22 rue des Petits Hotels  
75010 Paris  
Acquired May 1998

D'Aubigny  
27 rue de la Villette  
69003 Lyon  
Acquired July 1997

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

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





# France



## Bellevue

95/97 bis rue de Bellevue  
92100 Boulogne, Paris

Acquired October 1999

## Santos Dumont, Velizy (Block C, D and E)

23 Avenue Louis Breguet  
78140 Velizy, Paris

Acquired May 1998



## Edouard Vaillant

30 rue Edouard Vaillant  
92300 Levallois-Perret, Paris

Acquired December 1998



## Front de Parc

109 Boulevard de Stalingrad  
69100 Lyon

Acquired July 1997



## Rue Nationale

96 rue Nationale  
Lille 59000

Acquired September 2001

## Le Chorus

2203 chemin de St Claude  
Nova Antipolis  
06600 Antibes

Acquired January 2001



Capitaine Guynemer  
53/55 rue du Capitaine Guynemer  
92400 Courbevoie, Paris

Acquired July 1998



Edouard Belin  
1 Avenue Edouard Belin  
92500 Rueil Malmaison, Paris

Acquired April 1999



Petits Champs  
48 rue Croix des Petits Champs  
75001 Paris

Acquired April 1998



# France



## Equinoxe II

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

Acquired October 1997

## Grunding

5 Boulevard Marcel Pourtout  
92500 Rueil Malmaison, Paris

Acquired December 2000

## Columbus

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

Acquired July 1997



## Rhone Alpes

235 cours Lafayette,  
69006, Lyon

Acquired December 1997



## Lord Byron

2 rue Lord Byron  
75008 Paris

Acquired October 1999



## Gennevilliers

2 rue Pierre Timbaud  
92230 Gennevilliers, Paris

Acquired October 2001





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



Forum  
27/33 rue Maurice Flandin  
69003 Lyon  
Acquired July 1997



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



# Directors' Report

for the year ended 31 December 2001

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The Directors present their report and the audited financial statements for the year ended 31 December 2001. The Chairman's statement should be read in conjunction with this report.

## 1 PRINCIPAL ACTIVITIES

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

## 2 REVIEW OF BUSINESS

The consolidated profit and loss account for the year is set out on page 52.

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

## 3 DIVIDENDS

In lieu of paying an interim cash dividend in 2001 the Company distributed £4,887,816 to shareholders (equivalent to 4.75 pence per share) by way of tender offer buy-back completed in November.

Your Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2001. It is proposed that the Company offers to buy 1 in 40 of the shares registered in the name of each eligible shareholder at a price of 295 pence per share. This compares with a mid-market price of 241.0 pence per share on 26 March 2002.

The resulting distribution to shareholders will be £7,320,897 or 7.38 pence per share, which will be made in May 2002. When added to the distribution made under the November tender offer, shareholders who take advantage of both tender offers in respect of the financial year 2001 will have received a total return of 12.1 pence per share.

## 4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made market purchases totalling 6,580,665 of its own shares at a cost of £14,284,312, an average of 217 pence per share. This represents £1,645,166 in nominal value, or 6.1 per cent of the issued share capital at 1 January 2001.

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

At the Annual General Meeting held on 16 May 2001 the Company was authorised to make market purchases of up to 10,579,744 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 6,130,665 and therefore still has authority to purchase 4,449,079 shares. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 9,678,474 shares.

## 5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2001 was carried out by Allsop & Co. and DTZ Debenham Tie Leung, which produced an open market value of £728.3 million. On the basis of these valuations net assets per share amounted to 365.0 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 as at 31 December 2001.

## 6 DIRECTORS

The current Directors of the Company are shown on page 24.

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

Glyn Hirsch resigned as a Director and left the Group on 5 October 2001. Tom Thomson was appointed Vice Chairman and Acting Chief Executive on 5 October. Dan Bäverstam was appointed Director and Chief Financial Officer on the same date.

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

James Dean, aged 47, has worked for Savills plc since 1973, becoming a partner in 1983, and a director of Savills plc between 1987 and 1999. He remains a director of Savills Financial Services Limited and of Savills Financial Holdings PLC. He is also a director of Daniel Thwaites plc and a number of private companies.

Keith Harris, aged 48, was appointed to the Board as a non-executive Director on 28 April 1994. He is chairman of Seymour Pierce PLC, Radio First PLC and the Football League. Until March 1999, he was chief executive of Investment Banking at HSBC, prior to which he was chief executive of Samuel Montagu & Co Limited. He formerly held directorships in Morgan Grenfell & Co Limited, Drexel Burnham Lambert Holdings Limited and Apax Partners & Co Corporate Finance Limited.

Bengt Mörtstedt, aged 53, holds a Bachelor of Law Degree from Stockholm University. He began his career as a Junior Judge of the Växjö District Court and in 1974 he joined Citadellet AB, the Mörtstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the board of the Company as an executive director. He became a non-executive director in September 1998.



# Directors' Report

for the year ended 31 December 2001

## 6 DIRECTORS (continued)

Thomas Lundqvist, aged 57, joined the Board in November 1990 and had been Finance Director of the Group until retiring from the position and becoming a non-executive Director on 1 October 1995. Prior to joining CLS, Mr Lundqvist worked for the ASEA - Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken where he was a board member.

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

## 7 REMUNERATION POLICY

The Remuneration Committee endeavours to ensure that the remuneration packages offered to executive Directors are competitive and designed to attract, retain and motivate high quality executives capable of achieving the Company's goals. The Board determines the overall remuneration package of all non-executive Directors although none of the non-executive Directors participates in discussions concerning his own remuneration.

## 8 DIRECTORS' 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 and pension contributions under the Company's Group Benefit Scheme introduced in the latter part of 2000. No car is provided for any executive Director.

The emoluments of the Directors of the Company for the year ending 31 December 2001 were as follows:

	2001 Fee as a Director £000	2001 Salary £000	2001 Bonus £000	2001 Pension £000	2001 Benefits in kind £000	2001 Compensation for loss of office £000	2001 Total £000	2000 Total £000
<b>Sten Mörtstedt</b> (Executive Chairman)	–	134	210	–	–	–	344	851
<b>Thomas Thomson</b> (Vice Chairman and Acting Chief Executive)	–	52	28	3	–	–	83	–
<b>Glyn Hirsch</b> (Chief Executive - resigned 5 October 2001)	–	166	–	7	3	308	484	712
<b>Dan Bäverstam</b> (Executive Director)	–	28	30	1	1	–	60	–
<b>Bengt Mörtstedt</b> (Non-executive Director)	18	–	–	–	–	–	18	15
<b>Keith Harris</b> (Non-executive Director)	23	–	–	–	–	–	23	20
<b>Thomas Lundqvist</b> (Non-executive Director)	18	–	–	–	–	–	18	15
<b>James Dean</b> (Non-executive Director)	23	–	–	–	–	–	23	20
<b>Patrik Gransäter</b> (Non-executive Director - resigned 28 February 2001)	3	–	–	–	–	–	3	13
<b>2001</b>	<b>85</b>	<b>380</b>	<b>268</b>	<b>11</b>	<b>4</b>	<b>308</b>	<b>1,056</b>	1,646
2000	83	340	1,220	–	3	–	1,646	

No Director waived emoluments in respect of the year ended 31 December 2001 (2000: nil).

The emoluments of Thomas Thomson and Dan Bäverstam are shown from the date upon which their directorships commenced being 5 October 2001.

The highest paid director, after deducting compensation for loss of office but including gains made on the exercise of share options, was Glyn Hirsch.

The compensation for loss of office for Glyn Hirsch included his contractual entitlement to payment in lieu of 12 months notice.

Two directors are members of the Company's defined contribution pension scheme.



# Directors' Report

for the year ended 31 December 2001

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## 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 in the net assets of the Company.

### i) The particulars of Directors' holdings of options over ordinary shares are as follows:

	No. of options as at 1 Jan 2001	Exercised during year 2001	Issued during year 2001	No. of options as at 31 Dec 2001	Exercise price per share	Exercisable date of options
<b>Dan Bäverstam*</b>						
Inland Revenue Approved Scheme	60,000			60,000	108p	15.06.97 - 14.04.04
Inland Revenue Approved Scheme	36,000			36,000	98p	23.05.99 - 22.05.06
Non-approved Scheme	69,000			69,000	166.66p	23.07.00 - 22.07.04
<b>Glyn Hirsch</b>						
Inland Revenue Approved Scheme	600,000	(600,000)		Nil	97p	Exercised on 20.04.01
Non-approved Scheme	400,000	(400,000)		Nil	97p	Exercised on 20.04.01
Non-approved Scheme	69,000	(69,000)		Nil	166.66p	Exercised on 20.04.01
<b>Sten Mörtstedt</b>						
Non-approved Scheme	69,000			69,000	166.66p	23.07.00 - 22.07.04
<b>Bengt Mörtstedt</b>						
Non-approved Scheme	36,000			36,000	166.66p	23.07.00 - 22.07.04
<b>Thomas Thomson*</b>						
Inland Revenue Approved Scheme			14,000	14,000	212.5p	20.12.04 - 19.12.11
Non-approved Scheme	80,000			80,000	98p	03.05.99 - 02.05.03
Non-approved Scheme	24,000			24,000	166.66p	23.07.00 - 22.07.04
Non-approved Scheme			436,000	436,000	212.5p	20.12.04 - 19.12.08

\*Appointed as directors on 5 October 2001. Opening options are shown with effect from that date.

Glyn Hirsch exercised his options on 20 April 2001 and made a gain of £1,555,427. The gain was calculated at the exercise date, although the shares may have been retained. The market price of the shares at the date of exercise was 249 pence.

### ii) Total other options exercised, granted and lapsed during the year:

	Management exercised	Exercise price per share	Management lapsed	Management issued	Exercise price per share	Exercise period of options
Inland Revenue approved Scheme	33,000	107.0p	Nil	14,000	212.5p	20.12.04 - 19.12.11
Non-approved Scheme	253,800	102.5p - 171.6p	Nil	36,000	212.5p	20.12.04 - 19.12.08

At the end of the year a total of 1,269,200 options remained outstanding. The middle market price of the Company's shares at the end of the financial year was 212 pence, and the range of market prices during the year was between 259 pence and 199 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 year's salary.

# Directors' Report

for the year ended 31 December 2001

## 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 31 December 2000 and 31 December 2001 were as follows:

	31 December 2001 ordinary shares of 25p	31 December 2000 ordinary shares of 25p
Sten Mörtstedt	43,023,303	44,562,726
Tom Thomson	79,361	n/a
Bengt Mörtstedt	6,787,660	7,030,530
Keith Harris	8,615	8,923
James Dean	18,568	19,231
Thomas Lundqvist	111,866	115,868
Dan Bäverstam	37,510	n/a

There have been no changes in the interests of the Directors or their families as set out above between 31 December 2001 and the date of this report.

## 12 SUBSTANTIAL SHAREHOLDERS

In addition to the interest of the Mörtstedt family referred to in note 11 of this report, the Company has been notified of interests which at 13 March 2002 represented 3 per cent or more of the Company's issued share capital.

	13 March 2002	%
Fidelity Investment Services Limited	5,549,908	5.59
Govett Investment Management Limited	4,952,363	4.99

## 13 CORPORATE GOVERNANCE

### Combined Code

The Board supports the principles of good governance as set out in section 1 of the Combined Code and considers that during the year the Company has complied with the provisions of the Code as detailed below:

### The Board

The Board currently comprises three executive directors, including the Chairman, and four non-executive directors. It meets six times during the year and is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources. Directors are, where necessary, able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if and when required.

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

The Board is assisted by the following committees:

The Audit Committee, which comprises three non-executive Directors. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the Auditors. The Committee also reviews the independence and objectivity of the auditors. The Committee may seek information from any employee of the group and obtain external professional advice if necessary. Due to the relatively low number of personnel employed within the Group and the nature of the business the Board has decided not to establish a separate internal audit department. The members of the Audit Committee are as shown on page 24.

## 13 CORPORATE GOVERNANCE (continued)

### The Board (continued)

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

As the 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.

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

### Internal Control

The Board acknowledges that the Directors are responsible for the Group's system of internal control and have established procedures which are designed to provide reasonable assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal financial control for the period. Following the recommendation of a committee set up in 2000 to consider internal controls generally, the Board has complied with the guidance concerning internal control, which was formalised in October 2001. The Directors have recognised that such a system can only provide a reasonable and not absolute assurance of material misstatement or loss. The key elements of the process by which the system of internal control is monitored are as follows:

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

Set out on pages 4 to 13 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks. Quarterly and annual budgets are prepared for each area and monitored. Parameters have been established for investment decisions to be referred to the Board for approval. Three-yearly rolling cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

### Directors responsibilities

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

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

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

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

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

### Shareholder Relations

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

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

# Directors' Report

for the year ended 31 December 2001

## **14 GOING CONCERN**

The financial statements which appear on pages 52 to 75 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 £390 (2000: £1,613).

## **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 Group trade creditors were owed the equivalent of 29 days total invoices received for the year as a whole (2000: 30 days). For the Company, trade creditors were owed nil days (2000: 3 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

### **S F Board**

Company Secretary  
28 March 2002

# Report of the Auditors

to the members of CLS Holdings plc

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We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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. The other information comprises only the directors' report, the chairman's statement, the financial review and the property review.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules 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 2001 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

28 March 2002



# Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
<b>Net rental income (including associates &amp; joint ventures)</b>		<b>51,100</b>	42,112
Continuing operations		<b>50,562</b>	42,112
Acquisitions		<b>538</b>	–
Less: Joint venture (continuing operations)		<b>(924)</b>	(706)
Associate (continuing operations)		<b>–</b>	(1,191)
<b>Group net rental income</b>		<b>50,176</b>	40,215
Other property related income		<b>4,309</b>	1,315
	2,3	<b>54,485</b>	41,530
Administrative expenses		<b>(8,010)</b>	(6,358)
Net property expenses		<b>(3,318)</b>	(1,026)
		<b>(11,328)</b>	(7,384)
Other operating (losses)/income		<b>(6,301)</b>	552
<b>Group operating profit</b>		<b>36,856</b>	34,698
Continuing operations		<b>36,490</b>	34,698
Acquisitions		<b>366</b>	–
Share of joint ventures' operating profit (continuing operations)		<b>873</b>	690
Share of associates' operating profit (continuing operations)		<b>–</b>	959
<b>Operating profit including joint ventures and associates</b>		<b>37,729</b>	36,347
Gains from sale of investment property		<b>524</b>	2,969
<b>Profit on ordinary activities before interest</b>		<b>38,253</b>	39,316
Interest receivable and similar income:			
Group		<b>2,223</b>	1,353
Joint Venture		<b>17</b>	13
Associate		<b>–</b>	25
Interest payable and similar charges:	4		
Group		<b>(28,350)</b>	(24,772)
Joint Venture		<b>(864)</b>	(622)
Associate		<b>–</b>	(484)
<b>Profit on ordinary activities before taxation</b>	3,6	<b>11,279</b>	14,829
Tax on profit on ordinary activities:			
Group	8	<b>(938)</b>	46
Joint Venture		<b>–</b>	–
Associate		<b>–</b>	(57)
<b>Profit on ordinary activities after taxation</b>	9	<b>10,341</b>	14,818
Equity minority interest		<b>–</b>	(7)
<b>Retained profit for the year</b>	24	<b>10,341</b>	14,811
<b>Basic Earnings per Share</b>	11	<b>9.8p</b>	14.6p
<b>Diluted Earnings per Share</b>	11	<b>9.7p</b>	14.5p

# Consolidated Balance Sheet

at 31 December 2001

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	Notes	2001 £000	2000 £000
<b>Fixed assets</b>			
Tangible assets	12	<b>729,760</b>	672,150
Investments:			
Interest in joint venture:			
Share of gross assets		<b>15,257</b>	12,320
Share of gross liabilities		<b>(13,147)</b>	(10,547)
	13	<b>2,110</b>	1,773
Other Investments	13	<b>712</b>	161
		<b>732,582</b>	674,084
<b>Current assets</b>			
Stocks - trading properties	14	<b>-</b>	2,185
Debtors - amounts falling due after more than one year	15	<b>5,179</b>	2,363
Debtors - amounts falling due within one year	15	<b>11,740</b>	6,787
Investments	16	<b>6,275</b>	10,609
Cash at bank and in hand	17	<b>55,239</b>	39,100
		<b>78,433</b>	61,044
<b>Creditors: amounts falling due within one year</b>	18	<b>(58,933)</b>	(41,086)
<b>Net current assets</b>		<b>19,500</b>	19,958
<b>Total assets less current liabilities</b>		<b>752,082</b>	694,042
<b>Creditors: amounts falling due after more than one year</b>	19	<b>(389,788)</b>	(342,094)
<b>Net Assets</b>		<b>362,294</b>	351,948
<b>Capital and reserves</b>			
Called up share capital	22	<b>24,817</b>	27,032
Share premium account	24	<b>68,476</b>	67,293
Revaluation reserve	24	<b>202,022</b>	178,851
Capital redemption reserve	24	<b>8,675</b>	6,111
Other reserves	24	<b>19,657</b>	20,196
Profit and loss account	24	<b>38,647</b>	52,351
<b>Total equity shareholders' funds</b>		<b>362,294</b>	351,834
Equity minority interests		<b>-</b>	114
<b>Capital employed</b>		<b>362,294</b>	351,948

The financial statements on page 52 to 75 were approved by the Board of Directors on 28 March 2002 and were signed on its behalf by:

**Mr S A Mörtstedt**  
Director

**Mr T J Thomson**  
Director

# Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000 Restated
<b>Net cash inflow from operating activities</b>	25	<b>38,851</b>	29,085
<b>Returns on investments and servicing of finance</b>			
Interest received		2,627	1,753
Interest paid		(25,968)	(22,860)
Issue costs on new bank loans		(1,940)	(753)
Interest rate caps purchased		(2,275)	(72)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(27,556)</b>	(21,932)
<b>Taxation</b>		<b>(887)</b>	247
<b>Capital expenditure and financial investment</b>			
Purchase and enhancement of properties		(41,947)	(16,262)
Sale of investment properties		3,488	39,729
Purchase of other fixed assets		(1,609)	(123)
Purchase of own shares		(25,604)	(19,790)
<b>Net cash (outflow)/inflow for capital expenditure and financial investment</b>		<b>(65,672)</b>	3,554
<b>Acquisitions and disposals</b>			
Investment in joint venture		(331)	–
<b>Net cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(55,595)</b>	10,954
<b>Management of liquid resources</b>			
Cash released from/(placed on) short term deposits		12,732	(4,998)
<b>Financing</b>			
Issue of ordinary share capital		1,446	211
New loans		139,699	28,188
Repayment of loans		(69,577)	(35,916)
<b>Net cash inflow/(outflow) from financing</b>		<b>71,568</b>	(7,517)
<b>Increase/(decrease) in cash</b>	26	<b>28,705</b>	(1,561)

# Statement of Total Recognised Gains & Losses

for the year ended 31 December 2001

	2001 £000	2000 £000
Profit for the financial year	10,341	14,811
Unrealised surplus on revaluation of properties	30,344	72,602
Share of joint venture unrealised surplus on revaluation of properties	–	1,000
Currency translation differences on foreign currency net investments	(6,152)	658
Share of Associate other reserves	–	(10)
Other recognised gains relating to the year	24,192	74,250
Total gains and losses recognised since last annual report	34,533	89,061

## Reconciliation of Historical Cost Profits & Losses

For the year ended 31 December 2001

	2001 £000	2000 £000
Reported profit on ordinary activities before taxation	11,279	14,829
Realisation of property revaluation gains of previous years	1,559	11,769
Historical cost profit on ordinary activities before taxation	12,838	26,598
Historical cost profit for the year retained after taxation and dividends	11,900	26,580

## Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2001

	2001 £000	2000 £000
Profit for the financial year	10,341	14,811
Other recognised gains relating to the year	24,192	74,250
New share capital issued	1,532	33,842
Purchase of own shares	(25,344)	(19,617)
Expenses of share issue/purchase of own shares	(261)	(170)
Net additions to shareholders' funds	10,460	103,116
Opening shareholders' funds	351,834	248,718
<b>Closing shareholders' funds</b>	<b>362,294</b>	<b>351,834</b>



# Company Balance Sheet

at 31 December 2001

	Notes	2001 £000	2000 £000
<b>Fixed Assets</b>			
Investments	13	<b>57,472</b>	55,627
<b>Current Assets</b>			
Debtors - amounts falling due within one year	15	<b>58,276</b>	68,993
Current asset investments	16	<b>-</b>	33
Cash at bank and in hand	17	<b>34,632</b>	11,558
		<b>92,908</b>	80,584
<b>Creditors: amounts falling due within one year</b>	18	<b>(1,953)</b>	(4,071)
<b>Net Current Assets</b>		<b>90,955</b>	76,513
<b>Total Assets Less Current Liabilities</b>		<b>148,427</b>	132,140
<b>Net Assets</b>		<b>148,427</b>	132,140
<b>Capital and Reserves</b>			
Called up share capital	22	<b>24,817</b>	27,032
Share premium account	24	<b>68,476</b>	67,293
Capital redemption reserve	24	<b>8,675</b>	6,111
Other reserves	24	<b>4,599</b>	4,599
Profit and loss account	24	<b>41,860</b>	27,105
<b>Total Equity Shareholders' Funds</b>		<b>148,427</b>	132,140

The financial statements on page 56 to 75 were approved by the Board of Directors on 28 March 2002 and were signed on its behalf by:

**Mr S A Mörtstedt**  
Director

**Mr T J Thomson**  
Director

## 1 PRINCIPAL ACCOUNTING POLICIES

Financial Reporting Standard 18 – Accounting Policies, effective for accounting periods ending on or after 22 June 2001 has been adopted. The directors have reviewed the company's accounting policies and consider that the accounts are prepared in accordance with FRS 18. As a result, the cash flow has been restated, as shown in note 26.

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. Five group companies have different balance sheet dates to CLS Holdings PLC being SA Euler and SA Petits Champs at 31 May, SA Sutol and SA Solabel at 31 October, and Mohican Nominees Limited at 13 December. Their results have been included for the year to 31 December based on management accounts.

### c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past, goodwill was written off to other reserves. In circumstances where the purchase consideration was less than the attributable net asset value at the date of acquisition, the difference was treated as a "reserve arising on consolidation" and was included within other reserves. In accordance with FRS 10 "goodwill and intangible assets", which was adopted from the year ended 31 December 1998, previous years' negative goodwill was not re-capitalised in the balance sheet. The total amount of positive goodwill previously written off and negative goodwill previously credited, still included within other reserves is £3.2 million and £15.7 million respectively (2000: £3.2 million and £15.7 million).

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

### d) Foreign currencies

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

### e) Turnover

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

### f) Income from property sales

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

# Notes to Financial Statements

at 31 December 2001

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

### g) Properties

#### i) Investment properties

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

#### 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.

### h) Depreciation

#### i) Investment properties

##### Freehold

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

##### Leasehold

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

#### ii) Other tangible fixed assets

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

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

### i) Deferred taxation

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

### j) Leases

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

## 1 PRINCIPAL ACCOUNTING POLICIES (continued)

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

### 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 that appropriate share of the joint venture's results and retained reserves which have been included in the accounts on a gross equity basis in accordance with FRS 9.

### n) Pension costs

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

### o) Net rental income

The Group's net rental income comprises rental and service charge income less service charge expenditure.

## 2 PROPERTY AND OTHER INCOME

	2001 £000	2000 £000
Turnover by activity		
Rental income	53,634	44,949
Less: Joint venture	(924)	(706)
Associate	–	(1,191)
Service charge income	3,987	3,181
	56,697	46,233
Fees from property related services	41	91
Lease variation and surrender income	805	340
Other income	3,463	884
Turnover	61,006	47,548
Service charge expenditure	(6,521)	(6,018)
	54,485	41,530



# Notes to Financial Statements

at 31 December 2001

## 3 SEGMENTAL REPORTING

	Turnover 2001 £000	Turnover 2000 £000	Profit before tax 2001 £000	Profit before tax 2000 £000	Net assets 2001 £000	Net assets 2000 £000
<b>Geographical analysis</b>						
UK	<b>38,238</b>	35,594	<b>2,820</b>	11,030	<b>216,041</b>	227,968
Sweden	<b>8,738</b>	8,585	<b>271</b>	2,116	<b>79,135</b>	71,382
France	<b>14,030</b>	3,369	<b>8,188</b>	1,683	<b>67,118</b>	52,598
	<b>61,006</b>	47,548	<b>11,279</b>	14,829	<b>362,294</b>	351,948

Profit before tax for the UK segment includes losses on financial instruments for trading purposes before allocation of operating costs of £6,301,000 (2000: Profit £552,000) and profit of £26,000 (2000: £68,000) from the joint venture. Net assets in relation to financial instruments amounted to £6,275,000 (2000: £10,610,000).

	Continuing operations 2001 £000	Acquisitions 2001 £000	Total 2001 £000	Continuing operations 2000 £000	Acquisitions 2000 £000	Total 2000 £000
Group net rental income	<b>49,638</b>	<b>538</b>	<b>50,176</b>	40,215	-	40,215
Other operating (losses)/income	<b>(1,992)</b>	-	<b>(1,992)</b>	1,867	-	1,867
Operating expenses:						
Administrative	<b>(7,838)</b>	<b>(172)</b>	<b>(8,010)</b>	(6,358)	-	(6,358)
Net property	<b>(3,318)</b>	-	<b>(3,318)</b>	(1,026)	-	(1,026)
Operating profit	<b>36,490</b>	<b>366</b>	<b>36,856</b>	34,698	-	34,698

## 4 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £000	2000 £000
<b>Group</b>		
On debentures	<b>4,712</b>	4,700
On bank loans	<b>20,112</b>	16,769
On finance leases	<b>121</b>	38
On other loans	<b>2,573</b>	2,778
Amortisation of issue costs of loans	<b>832</b>	487
	<b>28,350</b>	24,772
Share of Joint Venture - on bank loans	<b>864</b>	622
Share of Associate - on bank loans	-	484

## 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 45 to 50.

# Notes to Financial Statements

at 31 December 2001

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## 6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001 £000	2000 £000
<b>This is stated after charging:</b>		
Auditors' remuneration	170	257
Depreciation of tangible fixed assets - Owned assets	319	247
- Leased assets	1,150	-
(Profit)/loss on disposal of fixed assets	(2)	50
Operating lease rentals - land & buildings	535	24
Operating lease rentals - other	23	15
Finance charges on Finance lease rentals	121	38
Directors' emoluments	1,056	1,646

Fees paid to the auditors in respect of other services were £nil (2000: £155,000) audit fees for the Company were £43,000 (2000: £95,000).

## 7 EMPLOYEE INFORMATION

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

	2001	2000
a) Number of employees	52	33
	2001 £000	2000 £000
b) Costs		
Salaries	3,008	2,970
Social security	257	142
Pension costs	95	-
	3,360	3,112

## 8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
United Kingdom corporation tax at 30.0% (2000: 30.0%)	(175)	(285)
Overseas taxation	(763)	(92)
Overseas deferred taxation	-	(3)
Irrecoverable advance corporation tax	-	426
	(938)	46

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 those investment properties for which 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 £40,359,000 (2000: £31,410,000).

## 10 DIVIDENDS

No Dividends have been paid or proposed for the year ended 31 December 2001 (2000: Nil).

As noted in the Directors' Report it is proposed that the Company buy back 1 in 40 shares at 295 pence per share in lieu of a final dividend.

# Notes to Financial Statements

at 31 December 2001

## 11 EARNINGS PER ORDINARY SHARE

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

	Earnings £000s	2001 Weighted average no. of shares	Per share amount, pence	Earnings £000s	2000 Weighted average no. of shares	Per share amount, pence
<b>Basic EPS</b>						
Earnings attributable to ordinary shareholders	10,341	106,054	9.8p	14,811	101,287	14.6p
<b>Effect of dilutive securities</b>						
Options	–	785	(0.1p)	–	791	(0.1p)
<b>Diluted EPS</b>	10,341	106,839	9.7p	14,811	102,078	14.5p

## 12 TANGIBLE FIXED ASSETS

Group	Investment freehold property £000	Investment long leasehold property £000	Investment short leasehold property £000	Leasehold premium £000	Leasehold improvements £000	Plant and machinery £000	Total £000
Cost or valuation:							
at 1 January 2001	653,272	15,765	2,400	30	8	2,297	673,772
Exchange differences	(13,513)	(335)	–	–	–	(30)	(13,878)
Additions	44,478	1	–	–	–	1,087	45,566
Surplus on revaluation	30,225	119	–	–	–	–	30,344
Disposals	(409)	(2,555)	–	–	–	(355)	(3,319)
<b>At 31 December 2001</b>	<b>714,053</b>	<b>12,995</b>	<b>2,400</b>	<b>30</b>	<b>8</b>	<b>2,999</b>	<b>732,485</b>
Depreciation:							
At 1 January 2001	–	–	–	30	8	1,584	1,622
Exchange differences	–	–	–	–	–	(16)	(16)
Charge for the year	–	–	1,150	–	–	319	1,469
Disposals	–	–	–	–	–	(350)	(350)
<b>At 31 December 2001</b>	<b>–</b>	<b>–</b>	<b>1,150</b>	<b>30</b>	<b>8</b>	<b>1,537</b>	<b>2,725</b>
<b>Net book value</b>							
<b>at 31 December 2001</b>	<b>714,053</b>	<b>12,995</b>	<b>1,250</b>	<b>–</b>	<b>–</b>	<b>1,462</b>	<b>729,760</b>
Net book value							
at 1 January 2001	653,272	15,765	2,400	–	–	713	672,150

- At 31 December 2001 all freehold and leasehold properties owned by the consolidated Group were revalued at their open market value taking into account their condition and tenancies existing at that date. The property valuations were carried out by Allsop & Co and DTZ Debenham Tie Leung, independent firms of Chartered Surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institute of Chartered Surveyors.
- The historical cost of the freehold and leasehold investment properties included at valuation is freehold: £519.5 million, leasehold: £25.1 million.
- Included in leasehold properties are assets of £2.9 million which are held under finance leases (2000: £3.0 million)
- The holding Company has no tangible fixed assets.

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## 13 INVESTMENTS

	Joint venture £000	Shares in subsidiary undertakings £000	Other investments £000	Total £000
Fixed Asset Investments				
<b>Group</b>				
At 1 January 2001 – Goodwill	(934)	–	–	(934)
– Other	2,707	–	161	2,868
	1,773	–	161	1,934
Additions – Goodwill	(271)	–	–	(271)
– Other	582	–	551	1,133
Share of retained profit	26	–	–	26
	2,110	–	712	2,822
<b>At 31 December 2001 – Goodwill</b>	<b>(1,205)</b>	<b>–</b>	<b>–</b>	<b>(1,205)</b>
– Other	<b>3,315</b>	<b>–</b>	<b>712</b>	<b>4,027</b>
	<b>2,110</b>	<b>–</b>	<b>712</b>	<b>2,822</b>
<b>Company</b>				
Cost at 1 January 2001	–	59,125	–	59,125
Additions	–	1,845	–	1,845
<b>Cost at 31 December 2001</b>	<b>–</b>	<b>60,970</b>	<b>–</b>	<b>60,970</b>
Provision at 1 January 2001	–	(3,498)	–	(3,498)
<b>Provision at 31 December 2001</b>	<b>–</b>	<b>(3,498)</b>	<b>–</b>	<b>(3,498)</b>
<b>Net Book Value at 31 December 2001</b>	<b>–</b>	<b>57,472</b>	<b>–</b>	<b>57,472</b>
Net Book Value at 1 January 2001	–	55,627	–	55,627

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

The joint venture is Teighmore Limited, a property investment company incorporated in Jersey, of which the Group owns 33  $\frac{1}{3}$  per cent of the ordinary share capital (2000: 25 per cent). The parent company owns no shares in Teighmore Limited. The adjustment to goodwill arises on the increase of the holding from 25 per cent to 33  $\frac{1}{3}$  per cent.

## 14 STOCKS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Trading properties	–	2,185	–	–



# Notes to Financial Statements

at 31 December 2001

## 15 DEBTORS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
<b>Amounts falling due after more than one year</b>				
Other debtors	5,179	2,363	–	–
<b>Amounts falling due within one year</b>				
Trade debtors	3,701	3,458	–	–
Amounts owed by subsidiary undertakings	–	–	55,809	64,855
Other debtors	6,422	1,410	–	–
Prepayments and accrued income	1,617	1,919	2,467	4,138
	11,740	6,787	58,276	68,993

## 16 CURRENT ASSET INVESTMENTS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Shares and Warrants	6,275	9,793	–	–
Other investments	–	816	–	33
	6,275	10,609	–	33

The listed shares and warrants stated at the lower of cost and net realisable value of £831,000 (2000: £5,193,000) relate to investments on the London and Swedish Stock Exchanges. The market value of the listed investments at 31 December 2001 was £1,059,000 (2000: £5,448,000).

Included within shares and warrants is an investment in Isle of Wight Cable & Telephone Company Limited, of which the Group owns 38.7% of the ordinary share capital after the exercise of warrants. This has not been accounted for as an associate as the company is in administration and consequently the Board does not believe that the Group exerts significant influence over its operations at present. The aggregate of the company's capital and reserves at its balance sheet date of 30 June 2001 was £7.6 million, and its loss for the year then ended was £2.6 million.

Also included above is an investment in Keronite Limited, of which the Group owns 21.2% of the ordinary share capital. This has not been accounted for as an associate as the Board does not believe that the Group exerts significant influence over its operations and will ultimately be sold. The aggregate of the company's capital and reserves at its balance sheet date of 31 March 2001 was £1.3 million, and its loss for the period then ended was £0.8 million.

## 17 CASH AT BANK AND IN HAND

At 31 December 2001, Group cash balances with banks include £0.6 million (2000: £3.6 million) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (Company £nil, 2000: £nil).

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## 18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Interest bearing:				
Debentures	414	373	–	–
Bank loans and overdrafts	28,566	13,083	–	–
Obligations under finance leases	140	138	–	–
Amounts owed to subsidiary undertakings	–	–	1,304	2,556
Non interest bearing:				
Trade creditors	3,180	2,106	–	14
Other taxes and social security	367	1,091	–	52
Corporation tax	1,460	698	–	–
Other creditors	4,020	4,426	–	–
Accruals and deferred income	20,786	19,171	649	1,449
	58,933	41,086	1,953	4,071

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

## 19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Debenture loans	39,581	39,994	–	–
Bank loans	331,506	284,309	–	–
Other loans	15,692	15,656	–	–
Obligations under finance leases	1,944	2,135	–	–
Other creditors	1,065	–	–	–
	389,788	342,094	–	–

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

# Notes to Financial Statements

at 31 December 2001

## 20 ANALYSIS OF CORPORATE LOANS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
<b>Debenture loans are repayable by instalments as follows:</b>				
In one year or less or on demand	414	373	–	–
In more than one but not more than two years	461	414	–	–
In more than two but not more than five years	1,716	1,543	–	–
In more than five years	37,404	38,037	–	–
	<b>39,995</b>	40,367	–	–
<b>Bank loans are repayable as follows:</b>				
In one year or less or on demand	29,098	13,478	–	–
In more than one but not more than two years	12,367	28,879	–	–
In more than two but not more than five years	146,139	150,131	–	–
In more than five years – by instalment	172,040	103,708	–	–
– other than by instalment	3,765	3,386	–	–
	<b>363,409</b>	299,582	–	–
Un-amortised issue costs	(3,338)	(2,190)	–	–
	<b>360,071</b>	297,392	–	–
<b>Other loans and net obligations under finance leases are repayable as follows:</b>				
In one year or less or on demand	140	138	–	–
In more than one but not more than two years	989	143	–	–
In more than two but not more than five years	3,005	2,999	–	–
In more than five years – by instalment	13,650	14,698	–	–
	<b>17,784</b>	17,978	–	–
Un-amortised issue costs	(8)	(49)	–	–
	<b>17,776</b>	17,929	–	–

- (a) The £40.0 million (2000: £40.4 million) of debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million with final repayment due January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at a fixed rate of 10.76 per cent. The 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 4.3 per cent and 9.2 per cent and floating rates of LIBOR or equivalent plus a margin ranging between 0.8 per cent and 1.7 per cent. All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.
- (c) Interest on other loans is charged at fixed rates ranging between 7.5 per cent and 11.6 per cent. The loans are secured by legal charges over the respective properties to which they relate.

The aggregate amount of loans repayable by instalments, any part of which falls due for repayment in more than five years is £214.3 million (2000: £173.3 million) for bank loans and £17.8 million (2000: £18.0 million) for other loans.

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## 21 DEFERRED TAXATION

	2001 Provision £000	2001 Amount unprovided £000	2000 Provision £000	2000 Amount unprovided £000
<b>Group</b>				
Deferred taxation is provided as follows:				
Capital allowances in excess of depreciation	–	<b>13,335</b>	–	12,325
Other short term timing differences	–	–	–	(15)
Future benefit of tax losses	–	<b>(1,853)</b>	–	(4,101)
Taxation on revaluation surplus	–	<b>7,796</b>	–	6,047
	–	<b>19,278</b>	–	14,256

No provision has been made for further tax that could arise if subsidiary or associated undertakings are disposed of, investment properties included in fixed assets are disposed of, or overseas companies were to remit dividends to the UK. There is no intention to take any of these actions at present.

No deferred tax liability arises relating to the Company (2000: nil).

## 22 SHARE CAPITAL

	2001 £000	2000 £000
a) Authorised and issued as at 31 December		
Authorised 160,000,000 Ordinary Shares of 25p each	<b>40,000</b>	40,000
Allotted, called up and fully paid		
99,266,400 Ordinary Shares of 25p each (2000: 108,128,651)	<b>24,817</b>	27,032
	Nominal value £000	Number of Ordinary Shares of 25p each 000s
b) Allotments of issued capital		
Opening share capital	<b>27,032</b>	<b>108,129</b>
Issue of shares allotted under share option scheme	<b>339</b>	<b>1,356</b>
Issue of shares pursuant to acquisition of the remaining minority interest in the Citadel Holdings portfolio	<b>9</b>	<b>36</b>
Cancellation pursuant to Market purchase	<b>(1,645)</b>	<b>(6,581)</b>
Cancelled pursuant to Tender Offer	<b>(918)</b>	<b>(3,674)</b>
	<b>24,817</b>	<b>99,266</b>

The consideration receivable for shares allotted in respect of options exercised was £1,445,155 and pursuant to the acquisition of the remaining minority interest in the Citadel Holdings portfolio was £86,675.

## 23 OPTIONS IN SHARES OF CLS HOLDINGS PLC

Details of options in shares of CLS Holdings plc granted during 2001 are given in the Directors Report on page 47.



# Notes to Financial Statements

at 31 December 2001

## 24 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
<b>Group</b>					
At 1 January 2001	67,293	178,851	6,111	20,196	52,351
Exchange difference	–	(5,614)	–	(539)	–
Shares issued	1,183	–	–	–	–
Share buybacks	–	–	2,564	–	(25,343)
Expenses of share buybacks	–	–	–	–	(261)
Realised surplus on revaluation of properties	–	(1,559)	–	–	1,559
Unrealised surplus on revaluation of properties	–	30,344	–	–	–
Retained profit for the year	–	–	–	–	10,341
<b>At 31 December 2001</b>	<b>68,476</b>	<b>202,022</b>	<b>8,675</b>	<b>19,657</b>	<b>38,647</b>
<b>Company</b>					
At 1 January 2001	67,293	–	6,111	4,599	27,105
Shares issued	1,183	–	–	–	–
Share buybacks	–	–	2,564	–	(25,343)
Expenses of share buybacks	–	–	–	–	(261)
Retained profit for the year	–	–	–	–	40,359
<b>At 31 December 2001</b>	<b>68,476</b>	<b>–</b>	<b>8,675</b>	<b>4,599</b>	<b>41,860</b>

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

	2001 £000	2000 £000 Restated
Operating profit	<b>36,856</b>	34,698
Depreciation	<b>1,469</b>	247
Increase in debtors	<b>(6,516)</b>	(660)
Increase in creditors	<b>2,450</b>	2,977
Decrease/(increase) in current asset investments	<b>2,409</b>	(6,042)
Decrease/(increase) in stocks	<b>2,185</b>	(2,185)
(Profit)/loss on sale of fixed assets	<b>(2)</b>	50
Net cash inflow from operating activities	<b>38,851</b>	29,085
Continuing operations	<b>38,587</b>	29,085
Acquisitions	<b>264</b>	–

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## 26a) ANALYSIS OF NET DEBT

	1 Jan 2001 £000 Restated	Cash flow £000	Non-cash movement £000	Foreign exchange £000	31 Dec 2001 £000
Net cash:					
Cash at bank and in hand	39,100	15,973	–	166	<b>55,239</b>
Less: deposits treated as liquid resources	(18,239)	12,732	–	–	<b>(5,507)</b>
	20,861	28,705	–	166	<b>49,732</b>
Liquid resources:					
Deposits included in cash	18,239	(12,732)	–	–	<b>5,507</b>
Debt:					
Debts falling due within one year	(13,456)	(1,359)	(14,235)	70	<b>(28,980)</b>
Finance leases falling due within one year	(138)	(6)	–	4	<b>(140)</b>
Debts falling due after more than one year	(339,959)	(68,892)	14,962	7,111	<b>(386,778)</b>
Finance leases falling due after more than one year	(2,135)	135	(1)	57	<b>(1,944)</b>
	(355,688)	(70,122)	726	7,242	<b>(417,842)</b>
Net debt	(316,588)	(54,149)	726	7,408	<b>(362,603)</b>
Cash at bank and in hand	39,100	15,973	–	166	<b>55,239</b>
Debts falling due within one year	(13,594)	(1,365)	(14,235)	74	<b>(29,120)</b>
Debts falling due after more than one year	(342,094)	(68,757)	14,961	7,168	<b>(388,722)</b>
	(316,588)	(54,149)	726	7,408	<b>(362,603)</b>

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

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

	2001 £000	2000 £000 Restated
Increase/(decrease) in cash in the period	<b>28,705</b>	(1,561)
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<b>(12,732)</b>	4,998
Cash (inflow)/outflow from (increase)/decrease in debt	<b>(70,122)</b>	8,480
Changes in net debt resulting from cash flows	<b>(54,149)</b>	11,917
Translation differences	<b>7,408</b>	(1,043)
Capitalised interest	<b>(380)</b>	(342)
Capitalisation/(amortisation) of Issue costs	<b>1,107</b>	(487)
Other non-cash movements	<b>(1)</b>	(77,242)
Net debt at 1 January as restated	<b>(316,588)</b>	(249,391)
Net debt at 31 December	<b>(362,603)</b>	(316,588)

On review of the accounting policy for financial instruments under FRS 18, the Directors consider that current asset investments, previously shown as liquid resources within net debt, are better shown as part of ordinary trading cash flows. The cash flow has therefore been restated as the Directors believe the new presentation better reflects the substance of the Group's activities.

The effect of the re-statement has been to increase the current year's operating cash flow by £2.4 million (2000: reduction £6.0 million) and to restate the opening balance of the prior year's net debt by £4.5 million.

# Notes to Financial Statements

at 31 December 2001

## 27 CHANGES IN FINANCING

	2001 £000	2000 £000
<b>a) Loan finance</b>		
Balance brought forward	355,688	285,463
Net cash inflow/(outflow)	70,122	(8,480)
Interest capitalised	380	342
(Capitalisation)/amortisation of issue costs	(1,107)	487
Foreign exchange movements	(7,242)	634
Other non-cash movements	1	77,242
Balance carried forward	417,842	355,688
	2001 £000	2000 £000
<b>b) Share capital (including share premium account and capital redemption reserve)</b>		
Balance brought forward	100,436	66,594
Shares issued	1,532	33,842
Balance carried forward	101,968	100,436

## 28 PENSIONS

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

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

## 29 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 12 of the financial review, in order to mitigate the effect of interest rate fluctuations the Group has purchased interest rate caps or secured fixed rate borrowings in respect of virtually all of its debt.

The interest rate risk profile of the Group's financial liabilities at 31 December 2001 was:

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Financial liabilities				
- Sterling	255,002	187,867	67,135	-
- Swedish Kronor	68,113	27,970	40,143	-
- Euro	94,727	55,417	39,310	-
<b>At 31 December 2001</b>	<b>417,842</b>	<b>271,254</b>	<b>146,588</b>	<b>-</b>
Financial liabilities				
- Sterling	206,954	139,639	67,315	-
- Swedish Kronor	58,548	13,472	43,507	1,569
- Euro	91,755	50,377	41,378	-
<b>At 31 December 2000</b>	<b>357,257</b>	<b>203,488</b>	<b>152,200</b>	<b>1,569</b>

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

Arrangement fees of £3.3 million have been offset against the balance of floating and fixed rate loans (2000: £2.2 million)

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## 29 FINANCIAL INSTRUMENTS (continued)

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

	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
- Sterling	10.33	16.2	-
- Swedish Kronor	6.09	5.0	-
- Euro	4.95	2.8	-
At 31 December 2001	7.69	9.5	-
- Sterling	10.32	17.9	-
- Swedish Kronor	6.17	8.7	0.2
- Euro	4.90	3.8	-
At 31 December 2000	6.37	11.4	0.2

Floating rate financial liabilities bear interest at rates based on relevant national LIBOR or equivalents, which are fixed in advance for periods of between one month and six months. Further protection from interest rate movement is provided by interest rate caps on £196 million of debt at 6 per cent to 9 per cent expiring within 1 to 5 years (2000: £140 million at 6.5 per cent to 9.0 per cent expiring within 4 years), €85 million at 6 per cent to 7 per cent expiring within 1 to 5 years (2000: €74 million at 6 per cent to 7 per cent expiring within 2 to 5 years) and SEK441 million at 6 per cent to 6.7 per cent expiring within 4 years.

### c) Interest rate risk of financial assets

	Cash at bank and in hand £000	Short- term deposits £000	2001 Total £000	Cash at bank and in hand £000	Short term deposits £000	2000 Total £000
Sterling	38,731	5,055	43,786	15,153	11,505	26,658
Swedish Kronor	5,652	-	5,652	4,841	-	4,841
Euro	5,338	452	5,790	857	6,734	7,591
Other	11	-	11	10	-	10
<b>At 31 December</b>	<b>49,732</b>	<b>5,507</b>	<b>55,239</b>	<b>20,861</b>	<b>18,239</b>	<b>39,100</b>

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

In addition the following financial assets were held:

	2001 £000	2000 £000
<b>Assets held as part of the financing arrangements of the Group:</b>		
Interest-bearing debtors fixed rate financial assets	2,024	1,937
floating rate financial assets	3,657	-
<b>Assets held or issued for treasury purposes:</b>		
Interest rate caps	2,797	1,590
	<b>8,478</b>	<b>3,527</b>

The fixed rate interest-bearing debtor includes a third party deferred interest loan of £2.0 million (2000: £1.9 million) which is repayable over a period of 26 years from the balance sheet date at a fixed rate of 7 per cent. The remaining balances are third party loans at floating rates of interest based on relevant LIBOR and base rates.

Assets held for treasury purposes do not attract interest.

The weighted average periods until maturity for interest rate caps, the financial assets on which no interest is paid, are 3.36 years for Sterling, 2.96 years for SEK and 2.36 years for Euro.

# Notes to Financial Statements

at 31 December 2001

## 29 FINANCIAL INSTRUMENTS (continued)

### d) Maturity of financial liabilities

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

	Debt £000	Finance leases £000	Other financial liabilities £000	2001 Total £000	Debt £000	Finance leases £000	Other financial liabilities £000	2000 Total £000
Within 1 year, or								
on demand	28,980	140	–	29,120	13,456	138	1,569	15,163
1 - 2 years	13,105	145	–	13,250	28,933	143	–	29,076
2 - 5 years	149,189	473	–	149,662	153,486	465	–	153,951
Over 5 years	224,484	1,326	–	225,810	157,540	1,527	–	159,067
	415,758	2,084	–	417,842	353,415	2,273	1,569	357,257

Other financial liabilities relate to deferred income in respect of financial instruments held for trading purposes.

### 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:

	2001 Total £000	2000 Total £000
Expiring within 1 year	2,500	2,500
Expiring within 1-2 years	13,821	–
	16,321	2,500

### 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 2001 and 2000. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of the methods and assumptions used for each category of financial instruments.

	Book value £000	2001 Fair value £000	Book value £000	2000 Fair value £000
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
Short-term borrowings	(29,120)	(29,120)	(13,594)	(13,594)
Long-term borrowings	(388,722)	(411,942)	(342,094)	(368,747)
Short-term deposits	5,507	5,507	18,239	18,239
Cash at bank and in hand	49,732	49,732	20,861	20,861
Interest bearing debtor	5,681	5,753	1,937	1,690
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Interest rate caps	2,797	1,916	1,590	116
<b>Financial instruments held for trading purposes</b>				
Other financial liabilities	–	–	(1,569)	(1,675)
Equity investments and other financial assets	6,404	6,587	11,073	11,203



## 29 FINANCIAL INSTRUMENTS (continued)

### f) Fair values of financial assets and financial liabilities (continued)

#### 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.
Long-term interest bearing debtor	The fair value of this asset has been calculated by discounting expected cash flows at the prevailing interest rate.
Long-term borrowings	The fair value for floating rate loans approximates to the carrying value reported in the balance sheet as payments are reset to market rates at intervals of less than one year. Fixed rate loans have been discounted at gilt rates, which were provided by the banks.

### g) Currency exposures

As explained in paragraph 1 on page 12 of the financial review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows in the local currencies of its main operating units. Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

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

	Net foreign currency monetary assets/(liabilities)			
	SEK £000	Euro £000	Other £000	Total £000
<b>2001</b>				
<b>Functional currency of Group operation:</b>				
Sterling	1,441	(966)	11	486
<b>Total</b>	<b>1,441</b>	<b>(966)</b>	<b>11</b>	<b>486</b>
<b>2000</b>				
<b>Functional currency of Group operation:</b>				
Sterling	414	(377)	–	37
<b>Total</b>	<b>414</b>	<b>(377)</b>	<b>–</b>	<b>37</b>

### h) Hedges

As explained in the financial review in paragraph 1 on page 12 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 years or later profit and loss account.

# Notes to Financial Statements

at 31 December 2001

## 29 FINANCIAL INSTRUMENTS (continued)

### h) Hedges (continued)

	Deferred losses £000
Unrecognised gains and losses on hedges as at 1 January 2001	1,474
Loss arising before 1 January not included in current year income and now deferred	25
Loss arising before 1 January included in current year expenditure	(997)
Loss arising in current year included in current year expenditure	(102)
Loss arising in current year not included in current year expenditure and now deferred	481
Unrecognised gains and losses on hedges as at 31 December 2001	881
Of which:	
Gains and losses expected to be recognised in 2002	779
Gains and losses expected to be recognised in 2003 or later	102

### i) Financial instruments held for trading purposes

	2001 £000	2000 £000
Net (loss)/gain included in profit and loss account	(6,301)	552
Fair value of financial assets held for trading at 31 December	6,587	11,203
Fair value of financial liabilities held for trading at 31 December	–	(1,675)
	6,587	9,528

## 30 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has annual commitments under non-cancellable property operating leases of £0.1 million per annum for leases expiring within 2 to 5 years and £0.4 million per annum for leases that expire in more than five years.

At 31 December 2001 the Company had guaranteed £84.3 million of Group Companies liabilities (2000: £27.1million). Of the amount guaranteed, £13.9 million (2000: £21.7 million) is limited to a maximum annual liability of £1.5 million (2000: £4.1 million).

At 31 December 2001 the Group had an authorised but not contracted for financial commitment of £1.0 million (2000: £1.1 million)

**31 INVESTMENT IN GROUP UNDERTAKINGS**

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

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

The principal activity of each of these subsidiaries is property investment apart from CLSH Management Limited which is property management, and Rayman Finance Limited and Brideglen 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 Mohican Nominees Limited and Panten SARL are considered to be the purchases of properties and not businesses and as such fair value accounting and the calculation of goodwill is not required.

**32 OTHER RELATED PARTY TRANSACTIONS**

CLSH Management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as agent in respect of the collection of rental income and payment of loan interest for Teighmore Limited, a joint venture of the Group. At 31 December 2001 Teighmore Limited was owed £0.7 million by the Group (2000: £0.7 million).

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mörtstedt. The total payable in the year was £13,000 (2000: £9,000).

**33 POST BALANCE SHEET EVENTS**

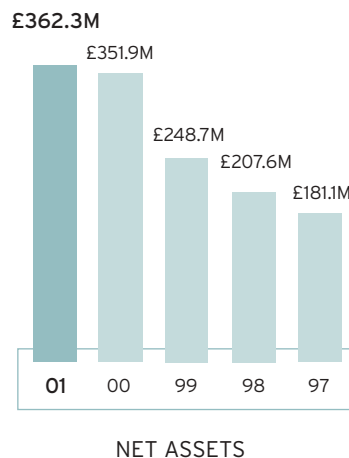
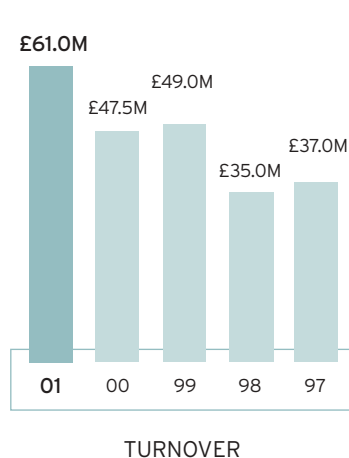
There are no post balance sheet events.

# Five Year Financial Summary

for the year ended 31 December

	2001 £000	2000 £000	1999 £000	1998 £000	1997 £000
<b>Turnover and results</b>					
<b>Turnover</b>	<b>61,006</b>	47,548	49,040	35,025	36,979
<b>Operating profits</b>	<b>36,856</b>	34,698	35,800	26,642	28,298
Share of profit of associated and joint venture undertaking	<b>873</b>	1,649	1,021	–	–
Gain from sale of subsidiary	–	–	–	465	–
Gain from sale of investment properties	<b>524</b>	2,969	–	2,131	428
<b>Profit on ordinary activities before interest</b>	<b>38,253</b>	39,316	36,821	29,238	28,726
Net interest payable and related charges	<b>(26,974)</b>	(24,487)	(19,908)	(18,184)	(18,248)
<b>Profit before taxation</b>	<b>11,279</b>	14,829	16,913	11,054	10,478
Tax on ordinary activities	<b>(938)</b>	(11)	(2,125)	(961)	(726)
<b>Profit for the financial year</b>	<b>10,341</b>	14,818	14,788	10,093	9,752
Equity minority interests	–	(7)	–	–	–
Dividends	–	–	–	(3,406)	(6,473)
<b>Retained profit</b>	<b>10,341</b>	14,811	14,788	6,687	3,279
<b>Share buy backs paid and proposed</b>	<b>(12,120)</b>	(10,541)	(7,663)	(8,473)	–
<b>Net assets employed</b>					
Fixed assets	<b>732,582</b>	674,084	507,424	409,401	378,013
Net current assets	<b>19,500</b>	19,958	15,262	9,843	2,474
	<b>752,082</b>	694,042	522,686	419,244	380,487
Non-current liabilities	<b>(389,788)</b>	(342,094)	(273,968)	(211,674)	(199,364)
<b>Net assets</b>	<b>362,294</b>	351,948	248,718	207,570	181,123
<b>Ratios</b>					
Net assets per share	<b>£3.65</b>	£3.26	£2.44	£1.84	£1.60
Earnings per share	<b>9.8p</b>	14.6p	14.0p	8.8p	8.7p
Gearing	<b>102%</b>	91%	101%	93%	104%
Interest cover	<b>1.42</b>	1.61	1.83	1.57	1.57

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







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