



CLS Holdings plc  
Annual Report & Accounts

2005



CLS AIMS TO ACHIEVE A HIGH LEVEL OF  
RETURN TO SHAREHOLDERS THROUGH  
REAL ESTATE INVESTMENT IN...

# THE UK SWEDEN, FRANCE AND GERMANY

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## FINANCIAL HIGHLIGHTS

20.1%

- Added value to shareholders 20.1 per cent based on increase in adjusted\* NAV per share and distributions in the year (19.7 per cent based on statutory NAV)

+16.2%

- Adjusted Net Asset Value (NAV) per share 606.9 pence, up 16.2 per cent (Statutory NAV per share 441.9 pence, up 14.4 per cent)

+40.9%

- Profit before tax £84.7 million, up 40.9 per cent, including £67.2 million of fair value gains on property

+18.1%

- Intended distribution by way of a tender offer buy-back of 1 in 42 shares at 600 pence being 14.3 pence per share making a total distribution to shareholders of 22.8 pence per share for the year, up 18.1 per cent

+7.2%

- Property portfolio valued at £1.1 billion, up 7.2 per cent

+2.5%

- Net rental income £69.3 million, up 2.5 per cent

+105.9%

- Year end cash £118.2 million up 105.9 per cent (December 2004: £57.4 million)





## BUSINESS HIGHLIGHTS

for  
2005

- Successful completion of our major refurbishment of Fräsaren 12 at Solna and the occupation by ICA Maxi supermarket in May 2005 and ICA headquarter offices in August 2005, in all 24,000 sq m (259,400 sq ft).
- Substantial investment programme initiated in Germany with the purchase of two office properties in Hamburg. Frohbösestrasse 12 was purchased for £2.5 million (€3.6 million) with a 15 year lease, generating a return on equity of 22.8 per cent. The second property, Jarrestrasse 8-10, was purchased for £8.6 million (€12.5 million) generating a return on capital employed of 23.2 per cent.
- Three new lettings at Solna covering 6,056 sq m (65,078 sq ft).
- An additional property, Yrket 3, bought at Solna Business Park, Stockholm for £5.1 million (SEK 70.0 million) giving a return on equity of 18.4 per cent after financing.
- Two office properties purchased in France, at 23 rue Raspail, Ivry sur Seine, Paris for £7.9 million (€11.6 million) giving a return on equity of 40.7 per cent and at 3 Allée du 1er Mai, Croissy Beaubourg for £3.4 million (€5.1 million) giving a return on equity of 29.1 per cent.
- Four smaller French office properties and vacant space sold for total proceeds of £6.4 million (€9.4 million).
- Extensive refurbishment at Great West House, Brentford substantially finished.
- Sale of Carlow House and New London House, Drury Lane for a total of £32.2 million, generating a profit on disposal of £1.5 million. The properties were originally purchased in 1995 for £11.5 million and 1994 for £10.5 million, respectively.
- Extension of leases to the Home Office at Spring Gardens. The entire estate now let for a term of 20 years.
- Re-financing of properties across the portfolio raised additional funding of £97.8 million.
- WightCable business assets sold and balancing tax allowances realised.

for  
2006

- Sale of Lövgärdet for £39.9 million (SEK 547 million) purchased in 2002 for £29.4 million (SEK 440 million).
- Exchanged on the purchase of Adlershof Tor, a 19,715 sq m (212,212 sq ft) retail and office building in Berlin and a new 19,466 sq m (209,532 sq ft) head office building in Munich.
- Sold Le 41, a 6,026 sq m (64,864 sq ft) property in Paris for £15.3 million (€22.3 million). It had been vacated by IBM in January 2005 and was originally purchased in 1998 for £7.4 million (€11.7 million).
- WightCable North business assets sold.

## 2005 RESULTS AT A GLANCE

	2005 £m	2004 £m
<b>PROFITS AND LOSSES SHOWN IN THE INCOME STATEMENT</b>		
Profit on letting of investment properties	23.1	24.0
Profit on sale of investment properties	1.9	0.5
Deficit arising from transfer in part interest of JV <sup>†</sup>	(1.1)	–
<b>Core property profit</b>	<b>23.9</b>	<b>24.5</b>
Equity investment division losses	(3.1)	(1.6)
Non-recurring legal costs in respect of JV <sup>†</sup>	(3.3)	–
<b>Underlying profit<sup>†</sup></b>	<b>17.5</b>	<b>22.9</b>
Fair value gains on investment properties	67.2	37.2
<b>Profit before taxation</b>	<b>84.7</b>	<b>60.1</b>
Current tax	(1.3)	(0.6)
Deferred tax	(21.9)	(16.1)
Loss on discontinued operations (sale of cable companies) <sup>‡</sup>	(6.2)	(4.0)
<b>Profit for the year</b>	<b>55.3</b>	<b>39.4</b>
<b>EQUITY MOVEMENTS SHOWN IN THE BALANCE SHEET</b>		
Foreign exchange translation loss	(7.7)	0.5
Fair value loss on listed investments	(10.4)	12.0
Tender offer buy-backs and market purchases	(19.0)	(15.8)
Acquisition of minority interest	1.3	–
Other	2.6	(2.9)
Balance sheet reserve movements in the year	(33.2)	(6.2)
<b>Change in net assets during the year</b>	<b>21.9</b>	<b>33.2</b>
Net assets at 1 January 2005 (restated under IFRS)	331.9	298.7
<b>Net assets at 31 December 2005</b>	<b>353.8</b>	<b>331.9</b>

<sup>†</sup> Two non-recurring items reduced underlying profit in 2005, these were a transfer of interest in our joint venture at New London Bridge House causing a deficit of £1.1 million and non-recurring legal fees in connection with our shareholding at our other joint venture, London Bridge Tower. The underlying profit from ongoing operations was therefore £21.9 million.

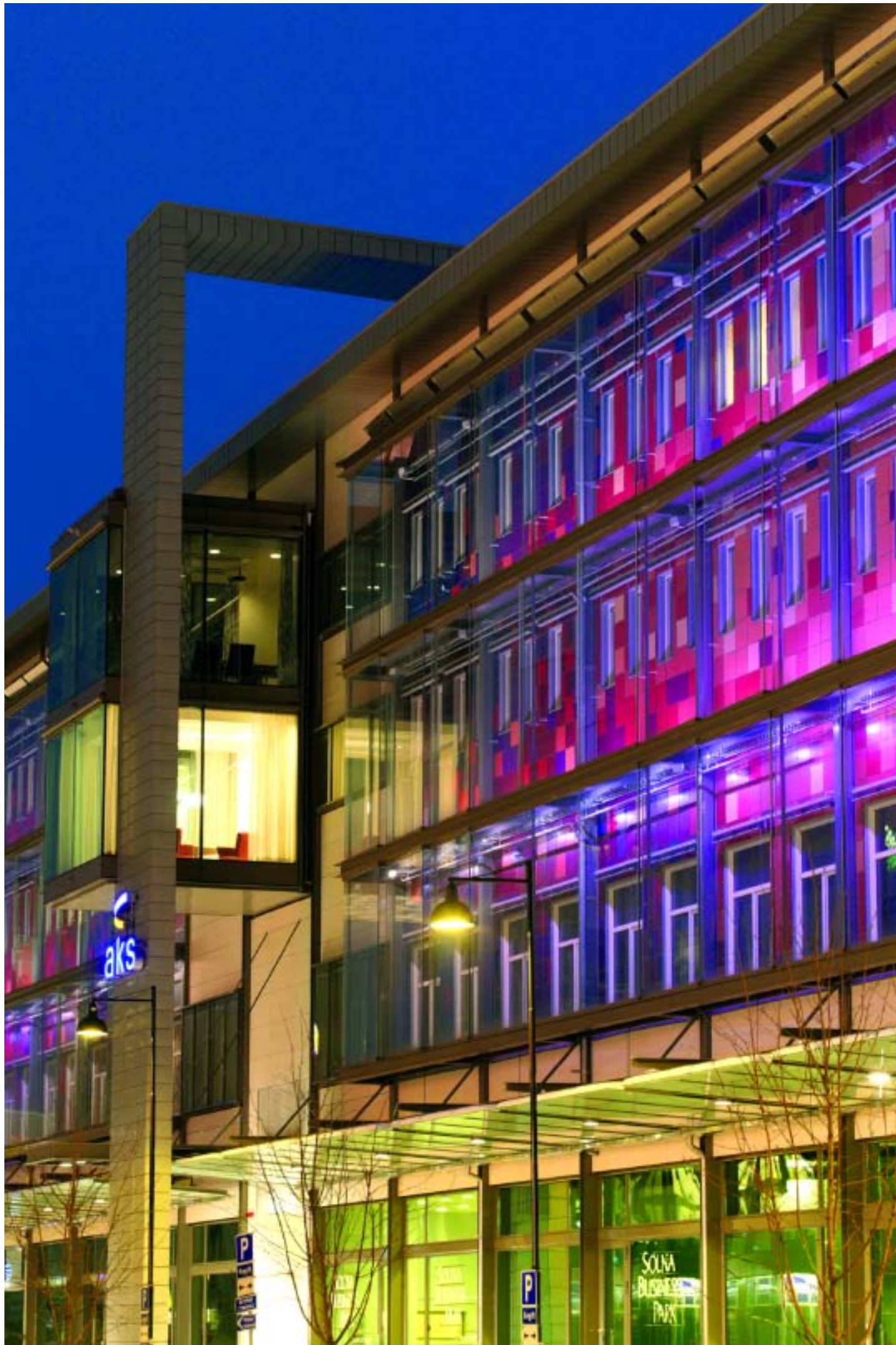
<sup>‡</sup> In early January 2006 further costs relating to the disposal of WightCable North were incurred, amounting to £2.1 million. We have been advised by our auditors that the prescriptive nature of the IFRS Accounting Standards prevent us from providing for these costs in 2005 and they have therefore been expensed in 2006.

## KEY STATISTICS AND OTHER FINANCIAL INFORMATION

	31 Dec 2005	31 Dec 2004	
<b>INCOME STATEMENT</b>			
Adjusted earnings per share on continuing operations *†	<b>19.7p</b>	25.9p	Down 23.9%
Earnings per share	<b>67.5p</b>	47.0p	Up 43.6%
Net rental income	<b>£69.3m</b>	£67.6m	Up 2.5%
Operating profit (excluding fair value gains on property)	<b>£54.9m</b>	£58.6m	Down 6.3%
Net interest payable	<b>£36.3m</b>	£34.1m	Up 6.5%
Underlying profit (excluding fair value gains on property)	<b>£17.5m</b>	£22.9m	Down 23.6%
Fair value gains on investment property	<b>£67.2m</b>	£37.2m	Up 80.6%
Profit before taxation	<b>£84.7m</b>	£60.1m	Up 40.9%
Profit for year	<b>£55.3m</b>	£39.4m	Up 40.4%
<b>BALANCE SHEET</b>			
Adjusted NAV per share*	<b>606.9p</b>	522.3p	Up 16.2%
Statutory NAV per share	<b>441.9p</b>	386.2p	Up 14.4%
Distribution per share from tender offer buy-backs	<b>22.8p</b>	19.3p	Up 18.1%
Property portfolio	<b>£1,096.4m</b>	£1,022.5m	Up 7.2%
Net asset value	<b>£353.8m</b>	£323.8m	Up 9.3%
Cash	<b>£118.2m</b>	£57.4m	Up 105.9%
Adjusted gearing*	<b>125.2%</b>	133.8%	Down 8.6%
Statutory gearing	<b>171.9%</b>	181.0%	Down 9.1%
Adjusted solidity* (net assets as a ratio of gross assets)	<b>38.7%</b>	39.0%	Down 0.3%
Statutory solidity	<b>27.9%</b>	28.5%	Down 0.6%
Shares in issue ('000's) (excluding treasury shares)	<b>80,058</b>	83,853	Down 4.5%
IAS 32 fair value adjustment after tax	<b>34.6p</b>	27.8p	Up 24.5%

\* IAS12 requires that a deferred tax provision be made in respect of the potential gain that would arise if properties were to be sold at valuation and for the potential clawback of UK capital allowances to the extent that these amounts are not covered by available tax losses. The calculation of this deferred tax liability has been carried out on the basis that the revaluation gains on the properties will be realised through receipt of net rents for the properties owned. As such the amount provided represents the maximum potential tax liability. Your Board considers it unlikely that this theoretical liability will ever crystallise because it takes no account of the way in which the Group would realise these gains. In particular the deferred tax provision takes no account of the way in which properties are expected to be sold, of the indexation allowance available when calculating a taxable capital gain in the UK or of elections available to ensure that deductions claimed previously for capital allowances are not reversed. The Board has complied with pronouncements from the APB and the UK Listing Authority in showing NAV and Earnings per share including the IAS 12 provision with equal prominence as the adjusted figures. The effect of IAS 12 has been excluded from those statistics that are indicated by an asterisk. At 31 December 2005 the IAS 12 deferred tax charge included in the profit and loss account was £21.9 million and the cumulative reduction to net assets was £132.1 million (31 December 2004: charge to tax of £16.0 million and reduction in net assets of £114.1 million respectively).

† In line with UK property industry practice adjusted earnings per share does not include gains on revaluations and deferred taxation.



# CHAIRMAN'S STATEMENT

## INTRODUCTION

I am pleased to report that the Company has grown from strength to strength during 2005.

We discuss our financial results in detail in the Financial Review, however I summarise below the key elements of our performance in the year.

Adjusted net asset value (NAV) per share has increased from 522.3 pence by 16.2 per cent to 606.9 pence, this having been achieved despite an adverse foreign exchange translation movement of 13.5 pence. The calculation of adjusted NAV is based on the net assets of the Group excluding the provision for deferred tax, amounting to £132.1 million, divided by the shares in issue (excluding treasury shares), being 80,057,687.

This is the tenth year in succession that our NAV per share has increased, showing an average growth rate of 16.6 per cent compound per annum.

Statutory NAV per share, which includes the full provision for deferred tax of £132.1 million as required by International Financial Reporting Standards (IFRS), increased from 386.2 pence by 14.4 per cent to 441.9 pence.

Profit before taxation, which under IFRS now includes the increase in the fair value of our property assets, increased from £60.1 million by 40.9 per cent to £84.7 million. The fair value increase in the property assets in the year was £67.2 million, an increase of 80.6 per cent on the uplift in the previous year.

## BUSINESS REVIEW 2005

The business has continued to perform consistently well across each of our divisions although market conditions have varied across operating regions.

**UK** – Investment yields have sharpened during 2005 with prime yields falling to below 5 per cent in the London market, less than the cost of borrowing in the UK. The weight of money in the market is likely to continue to exert downward pressure on investment yields. In late 2005 we took advantage of the strong market and sold Carlow House and New London House for £32.2 million at a profit of £1.5 million over and above the half year valuation. We continue to look for good quality assets with opportunities for growth although we will not sacrifice our underlying investment principles.

The main priority in the UK is to actively manage our existing properties to ensure maximum value is achieved. The letting market has continued to prove challenging, however despite space having become available at Vista Office Centre and Chancel House we have contained our UK vacancy rate at 5.3 per cent. In addition, a further 4,587 sq m (49,374 sq ft) is under refurbishment at Great West House, representing 2.9 per cent of space in the UK portfolio.

The significant feature in 2005 has been the agreement to extend all the leases held at Spring Gardens by the Home Office to a term of 20 years. This government tenant now occupies the entire estate following our relocation to Victoria in order to accommodate their expansion requirements. The lease extensions are conditional upon our completion of two further infills comprising 2,503 sq m (26,945 sq ft), the construction of which is due to complete in March 2007. When completed the annual rent generated will be £6.3 million per annum.

**UK JOINT VENTURES** – We are working closely together with our joint venture partners to secure pre-lettings of office space at both London Bridge Tower (The Shard of Glass) and at New London Bridge House, for which a striking Renzo Piano design has been submitted to the planning authorities. We are hoping to make significant letting progress in respect of both of these projects in the coming year.

**SWEDEN** – During 2005 we completed the refurbishment works at Solna Business Park to 24,000 sq m (259,400 sq ft) of space at Fräsaren 12, to enable ICA, the largest food retailer in Scandinavia, to take occupation of their head office and supermarket, in accordance with a demanding budget and programme.

Additionally, we completed both the internal refurbishment works to Smeden and to its award winning 250 metre long uplift façade, enclosed within a glass envelope. The major challenge for us at Solna is to let the recently vacated areas at Sliparen 2 representing 10,672 sq m (114,874 sq ft), 8.1 per cent of space at Solna, and to let the rest of the vacant space within the development, representing 20,324 sq m (218,772 sq ft).

In early February 2006 we took advantage of the strong investment market in Sweden and sold our portfolio of 1,280 apartments and 42,608 sq m (458,644 sq ft) of commercial and retail space to a major local landlord specialising in local residential estates, for a price of £39.9 million (SEK 547 million), in line with our year end valuation. These properties were purchased in January 2002 for £29.4 million (SEK 440 million).

**CONTINENTAL EUROPE** – French property comprises the majority of the portfolio in Continental Europe and this division has made a substantial contribution to our underlying profit before tax, amounting to £14.5 million (€21.2 million). In addition, the increase in fair value of this portfolio during the year was £33.2 million (€48.5 million).

The French letting market was relatively healthy during 2005 with take-up of space in Paris of 2.2 million sq m (23.4 million sq ft), over 12 per cent up on 2004, keeping pace with the supply of new space coming onto the market. The overall market vacancy rate in the Paris area was 5.8 per cent, slightly down on the previous year.

## CHAIRMAN'S STATEMENT (continued)

Our vacancy rate at the year end was 6.4 per cent by area of the French portfolio, which was largely due to the vacant 6,026 sq m (64,864 sq ft) Le 41 building. This building was sold in January 2006 and the residual vacancy rate of the entire French portfolio is now just 3.0 per cent by area.

**EQUITY INVESTMENTS** – During the first half of the year we sold one of our unlisted investments, Sit-up TV producing a profit of £1.6 million on the transaction.

Following our decision to sell our cable businesses, we sold the assets of WightCable Limited at the end of December 2005 and the sale of the assets of WightCable North Limited was completed in mid January 2006. The cable company results are shown as discontinued operations and amounted to a loss of £6.2 million. As a result of the sale of these assets, the group has realised the residual capital allowances which amounted to £22.0 million.

Our equity investment portfolio was valued at £13.7 million at 31 December 2005, representing 1.1 per cent of the Group's gross assets. We will closely monitor those investments in our portfolio that have potential to perform well but conversely, we will not fund enterprises that continue to under-perform.

### OUTLINE STRATEGY

The continuing strategy of the Group will be to invest in modern, well-let properties that generate good returns on capital employed in markets that we know and understand.

The strategic principles by which we operate are outlined below:

- To invest in good quality, modern buildings that are generally located in strategically well placed secondary office locations just outside the central business district of major cities.
- To operate in European markets that we know and understand. This has been the UK, Sweden and France and we will include Germany within our core investment regions in 2006.
- To establish offices in each country in which we operate, employing local, well qualified, highly motivated professional staff.
- The application of strict investment criteria to new property purchases, taking into account the yield, strength of tenant covenants, lease lengths, reliability and the projected return on equity and return on cash over five and ten years.
- The gearing of our investments with initial loan to values generally at or above 75 per cent, borrowing from well respected banking institutions in the currency of the asset in order to limit foreign exchange exposure.
- Investment with a view to adding long-term value to our property portfolio. We do this by providing good service and developing close relationships with our suppliers and tenants and where appropriate carry out major refurbishment works to properties and construction of new offices, using our own in-house development teams. In this way we aim to establish long-term tenants.
- The ability to act with speed to new opportunities, having access to strong cash reserves. We actively seek out new opportunities where we see good returns coupled with acceptable levels of risk.
- The careful assessment of risk and where appropriate use of hedging instruments to protect ourselves from potential adverse consequences.

### THE FUTURE

**GERMANY** – In the summer of 2005 we took the decision to invest in Germany, a market where we can see good returns being achieved on selective purchases. The groundwork of careful research and the development of business relationships with local professional advisers enabled us to successfully commence the establishment of a German portfolio by completing the purchase of two small properties at the end of the year.

Since then we have contracted to purchase two further properties to the value of £45.1 million (€65.6 million) generating a return on equity of 20 per cent. Upon completion of these contracted purchases we will hold five properties in Germany to the value of £57.7 million (€84.2 million).

It is our intention to build up a high quality portfolio in Germany in excess of €300 million in selected major cities.

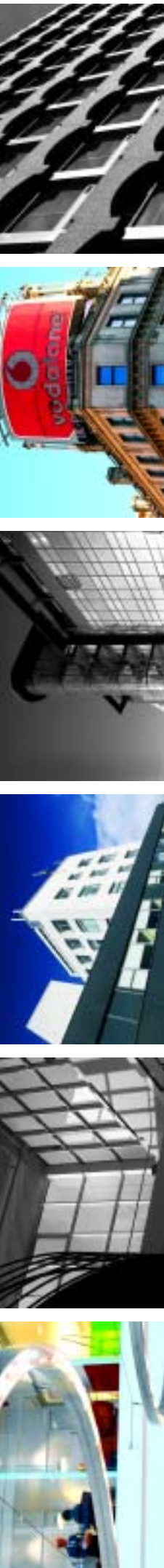
**UK** – In the UK we will work hard in 2006 to complete the refurbishment and letting of Great West House and to continue to reduce other vacant space within the portfolio. We are also evaluating the potential development of a number of other property assets we hold in order to add value to our investment portfolio.





Westminster Tower, London SE1





## CHAIRMAN'S STATEMENT (continued)

As mentioned above, together with our joint venture partners, we are preparing to develop The Shard and New London Bridge House. These are significant projects in their own right and we recognise it is absolutely critical to ensure that we assemble the right blend of expertise and experience within the development team, together with the appropriate combination of financing and secure anchor pre-lets to quality tenants before commencing construction. It is our intention to limit the amount of equity contribution we are exposed to on these projects.

**SWEDEN** – Our major challenge is to capitalise on the brand image and concept of Solna Business Park by letting all remaining space, optimise its value and to secure the future of the areas currently occupied by the university at Vänerparken. In this respect we are working closely with the local authority at Vänersborg.

**FRANCE** – It is our intention to expand our portfolio along the lines of our existing model, seeking opportunities both within Paris and other selected major cities.

**ORGANISATION** – We have now laid down a strong organisation headed by Per Sjöberg who took up the post of Chief Executive Officer on 1 January 2006. We have experienced teams on the ground in each of our core operating regions and we are fully confident that they will achieve the clear goals we have identified.

**ENVIRONMENTAL AND SOCIAL ISSUES** – We not only think that it is socially responsible to take environmental issues seriously, we also think that in an age of rising energy costs it also makes commercial good sense. We are therefore purposely seeking out innovative green solutions to the design of new and refurbished buildings we are contemplating and have already been awarded the environmental "P mark" standard for developing "green" energy efficient properties in the refurbishment of our Solna complex.

It has also been pleasing to see the complete transformation of the Solna Business Park area of Stockholm from a run-down drab industrial area to a vibrant modern environment with in excess of 10,000 visitors a day to its offices, supermarket, hotel, gym and other leisure facilities. It is our intention to bring a similar transformation to the London Bridge quarter.

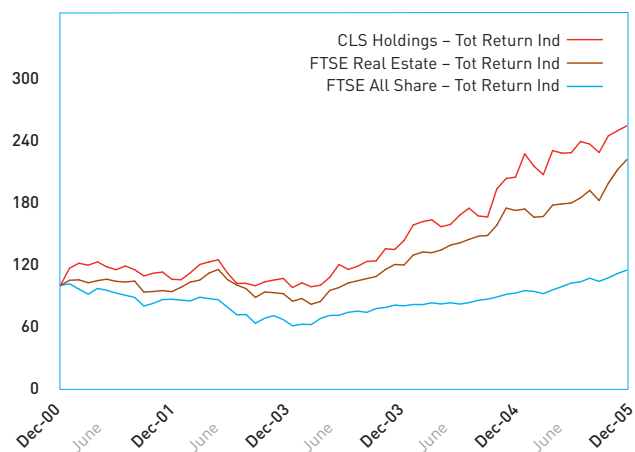
### PERFORMANCE FOR INVESTORS

Over the last five years adjusted net assets per share has grown from 325.5 pence per share to 606.9 pence per share, an increase of 86.5 per cent. The total return to shareholders, which takes account of NAV growth and distributions showed an average annual compound growth of 20.5 per cent.

The total return to CLS investors in the year has been 22.7 per cent (Source: Thomson Data Stream).

### TOTAL SHAREHOLDER RETURN

(five years to 31 December 2005)



Source: Datastream

Over the last 10 years, we have distributed £90.7 million to shareholders through tender offer buy-backs and a further £15.9 million by dividend payments. A further £37.7 million was paid to shareholders through market purchases, in all a total of £144.3 million paid to shareholders.

We now have substantial cash reserves and have demonstrated consistently strong performance over the years. There is still a 10.0 per cent discount between NAV per share and share price, we therefore propose to recommend a tender offer buy-back of 1 in 42 shares at 600 pence per share. This, together with the interim tender offer will result in a total distribution for the year of 22.8 pence per share, an increase of 18.1 per cent over the previous year.

My fellow directors and I would particularly like to thank our staff for their dedication and hard work during the year, we would also like to thank our advisers for their professionalism and creativity and our shareholders for the encouragement and support that they have given to the Company.

We have concluded a successful year and look forward to an exciting future.

**Sten Mortstedt**  
Executive Chairman  
24 March 2006

# FINANCIAL REVIEW

## INTRODUCTION

There has been strong capital growth in our assets across all three of our main European markets with the prospect of further uplifts in values on the back of preparatory work laid down during 2005.

Adjusted NAV of 606.9 pence per share (December 2004: 522.3 pence), grew by 16.2 per cent during 2005 (Statutory NAV of 441.9 pence per share grew by 14.4 per cent over the same period). In the last five years the adjusted net asset value per share has grown by 13.2 per cent compound per annum, or a total of 86.5 per cent (Statutory NAV has shown a similar growth throughout that period). The organic growth in adjusted net asset value per share over the period (taking into account the effect of tender offer buy-backs but excluding growth attributable to the purchase of shares on the market for cancellation) has been 68.3 per cent (Statutory NAV has shown similar growth throughout that period). If all share options were to be exercised, the dilutive effect would be to reduce adjusted NAV per share by 2.7 pence (Statutory NAV by 1.4 pence).

At the year end the post-tax IAS 32 disclosure, showing the effect of restating fixed interest loans to fair value, amounted to a reduction of 34.6 pence per share (December 2004: 27.8 pence).

Added value to shareholders was 20.1 per cent (December 2004: 20.8 per cent), as measured by the increase in adjusted NAV per share and distributions by tender offer buy-backs. Based on Statutory NAV the return was 19.7 per cent (December 2004: 18.6 per cent).

During the year the Company distributed £16.8 million (20.3 pence per share) to shareholders by way of tender offer buy-backs at an average price per share of 495 pence (December 2004: 18.1 pence per share distributed).

Net assets grew by £30.0 million to £353.8 million in the year, which included a £7.7 million reduction relating to negative foreign exchange translation movements in respect of the Group's Swedish and Continental European net assets. The Kronor and the Euro both weakened against Sterling during the year. Foreign exchange movements are substantially hedged as each property is funded by loans in local currency. Net asset growth is calculated after taking into account the cost of tender offer buy-back distributions made during the year, which totalled £16.8 million as mentioned above.

Adjusted gearing at the year end decreased to 125.2 per cent (December 2004: 133.8 per cent) (statutory gearing was 171.9 per cent – December 2004: 181.0 per cent). Tender offer buy-backs and market purchases during the year had the impact of increasing gearing by 3.9 per cent and the negative effect of foreign exchange translation of overseas net assets during 2005 increased gearing by a further 2.6 per cent.

The Group held £118.2 million cash as at 31 December 2005 (December 2004: £57.4 million), the movement in the year being:

	2005 £m	2004 £m
Cash inflow from property activities	<b>51.8</b>	51.7
Increase in equity investments held in current assets	<b>(3.5)</b>	(6.5)
Cash inflow from operations	<b>48.3</b>	45.2
Net interest and other finance costs	<b>(33.4)</b>	(31.6)
Taxation	<b>(0.3)</b>	(0.5)
Properties purchased and enhanced	<b>(67.3)</b>	(69.3)
New loans	<b>148.6</b>	112.9
Properties sold	<b>45.1</b>	8.5
Loans repaid	<b>(57.8)</b>	(45.8)
Tender offer payment to shareholders	<b>(16.8)</b>	(15.8)
Market purchase of shares for cancellation	<b>(2.0)</b>	–
Other	<b>(3.6)</b>	(3.5)
Net cash inflow	<b>60.8</b>	0.1

Existing equity investments held amounted to £13.7 million (December 2004: £10.5 million). The majority by value are listed investments, which are now carried at market value, and represent only 1.1 per cent of the gross assets of the Group.

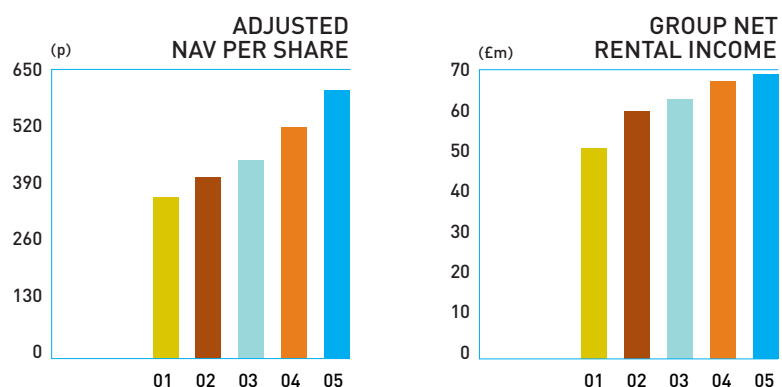
We believe that our unlisted investments have the potential for growth in value in due course; we continue to be closely involved in their progress and add commercial support where appropriate.

The underlying elements of the growth in net assets are set out in the table opposite. It is not expected that deferred taxation provided would become payable in full if the properties were sold. It is currently anticipated that the overseas property assets would be sold within corporate entities.



	Group £000	UK £000	Sweden £000	Continental Europe £000	Equity Investments £000
<b>Opening net assets</b>					
As reported under UK GAAP	426.4	184.6	110.1	118.0	13.7
<b>Adoption of IFRS at 31 Dec 04</b>					
IAS 12 deferred tax	(107.4)	(42.7)	(28.9)	(35.8)	–
Other IFRS	4.8	2.3	–	2.5	–
<b>as re-stated 31 December 2004</b>	<b>323.8</b>	<b>144.2</b>	<b>81.2</b>	<b>84.7</b>	<b>13.7</b>
<b>Adoption of IAS 32 and 39 at 1 Jan 2005</b>					
Adoption of IAS 32 and 39	10.0	(2.0)	–	–	12.0
Deferred tax on IAS 32 and 39	(1.9)	1.0	–	–	(2.9)
<b>as re-stated 1 January 2005</b>	<b>331.9</b>	<b>143.2</b>	<b>81.2</b>	<b>84.7</b>	<b>22.8</b>
<b>Movement in 2005</b>					
Income from investment in property	73.4	34.4	17.6	21.4	–
Realised gains on investments	1.1	–	–	–	1.1
Deficit on part disposal JV	(1.1)	(1.1)	–	–	–
Share of loss of Associates	(1.2)	–	–	–	(1.2)
Operating expenses	(18.4)	(11.2)	(3.3)	(2.5)	(1.4)
Net interest payable	(36.3)	(19.8)	(10.6)	(4.3)	(1.6)
Underlying profit before tax	17.5	2.3	3.7	14.6	(3.1)
Fair value gains on investment property	67.2	24.2	9.8	33.2	–
Taxation – current	(1.3)	(0.1)	–	(1.2)	–
Taxation – deferred	(21.9)	(4.4)	(4.3)	(13.2)	–
Discontinued operations	(6.2)	–	–	–	(6.2)
<b>Increase in equity due to direct investment</b>	<b>55.3</b>	<b>22.0</b>	<b>9.2</b>	<b>33.4</b>	<b>(9.3)</b>
<b>Other Equity movements</b>					
Shares issues	0.1	0.1	–	–	–
Shares purchased and associated costs	(19.0)	(19.0)	–	–	–
Foreign exchange and other movements	(7.7)	–	(5.5)	(2.2)	–
Change in fair value of listed investments net of tax	(7.3)	–	–	–	(7.3)
Change in fair value of derivative instruments	(0.8)	(0.8)	–	–	–
Purchase of minority interest	1.3	–	–	–	1.3
Transfer of equity	–	14.5	(9.2)	(15.6)	10.3
<b>Net assets at 31 December 2005</b>	<b>353.8</b>	<b>160.0</b>	<b>75.7</b>	<b>100.3</b>	<b>17.8</b>

## FINANCIAL REVIEW (continued)



### REVIEW OF THE INCOME STATEMENT

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

	2005 Total £m	UK £m	Sweden £m	Continental Europe £m	Equity investments £m	2004 £m
Net rental income	<b>69.3</b>	31.8	17.2	20.3	–	67.6
Other operating gains	<b>3.3</b>	1.1	0.4	0.7	1.1	4.2
Operating expenses	<b>(18.4)</b>	(11.2)	(3.3)	(2.5)	(1.4)	(13.6)
Operating profit before gains on investment properties	<b>54.2</b>	21.7	14.3	18.5	(0.3)	58.2
Fair value gains on investment properties	<b>67.2</b>	24.2	9.8	33.2	–	37.2
Deficit on disposal part share JV	<b>(1.1)</b>	(1.1)	–	–	–	–
Gain from sale of investment properties	<b>1.9</b>	1.5	–	0.4	–	0.5
Net finance expense	<b>(36.3)</b>	(19.8)	(10.6)	(4.3)	(1.6)	(34.1)
Associates' operating loss	<b>(1.2)</b>	–	–	–	(1.2)	(1.7)
<b>Profit on continuing activities before tax</b>	<b>84.7</b>	<b>26.5</b>	<b>13.5</b>	<b>47.8</b>	<b>(3.1)</b>	60.1
Tax – ordinary	<b>(1.3)</b>	<b>(0.1)</b>	–	<b>(1.2)</b>	–	(0.6)
Tax – deferred	<b>(21.9)</b>	<b>(4.4)</b>	<b>(4.3)</b>	<b>(13.2)</b>	–	(16.1)
Loss on discontinued operations	<b>(6.2)</b>	–	–	–	<b>(6.2)</b>	(4.0)
<b>Profit for the year</b>	<b>55.3</b>	<b>22.0</b>	<b>9.2</b>	<b>33.4</b>	<b>(9.3)</b>	39.4

**NET RENTAL INCOME** – of £69.3 million has increased by 2.5 per cent (December 2004: £67.6 million) and reflected additional net income of £0.8 million in Solna, Sweden from the ICA space completed in May 2005 and increased rentals in France of £1.5 million due to indexation and lease restructuring. Swedish net rental income was reduced by increased net service charge expense of £0.7 million as the majority of the rents are fully inclusive. UK net rental income was stable with an increase of £0.1 million. Foreign exchange had a negligible effect on rental income.

**OTHER OPERATING GAINS** – amounted to £3.3 million (December 2004: £4.2 million) and included £1.6 million profit on the disposal of Sit-up TV, an investment within our equity portfolio, and dilapidations and lease surrender income of £0.9 million. Income of £0.4 million was generated in Sweden from Solna Sports Park and the marina at Vänérparken, lease extensions on our residential units at Cliffords Inn generated £0.2 million and the remainder was generated from insurance commissions and management fees on development projects net of provisions against unlisted investments.

Operating expenses as set out in the summary table above comprised administrative expenditure of £14.9 million (December 2004: £10.0 million) and net property expenses of £3.5 million (December 2004: £3.6 million).

**ADMINISTRATIVE EXPENDITURE** – of £14.9 million increased by £4.9 million (December 2004: £10.0 million). Of this total, £13.6 million related to the core property business, an increase of £4.5 million over the comparative figure for last year. This was mainly due to exceptional legal and professional fees expensed amounting to £3.3 million, incurred to successfully preserve our 33.3 per cent shareholding in respect of a joint venture company holding London Bridge Tower. Reasons for the remainder of the increase over the previous year included costs of relocation and employment related expenditure particularly in relation to developing new markets. Overheads for the Investment Division were £1.4 million.

**NET PROPERTY EXPENSES** – of £3.5 million (December 2004: £3.6 million) included depreciation of £0.3 million, letting fees of £0.3 million, mainly in relation to vacant space within the French portfolio and void costs of £0.7 million (mainly at Great West

House, Brentford, undergoing refurbishment). Advertising and marketing costs totalled £0.4 million, bad debts amounted to £0.9 million, mostly in relation to One Leicester Square, and repairs and maintenance costs were £0.2 million for minor works in Paris and the UK. The remainder comprised operating costs of the gym at Solna of £0.4 million and non-recoverable VAT.

**NET FINANCE EXPENSE** – amounted to £36.3 million (December 2004: £34.1 million) and showed an increase of £2.2 million over net expenditure in 2004, reflecting re-financings within all three of the Group's markets, mitigated by lower interest rates on floating rate debt in the UK and Sweden.

The comparative figures for 2004 do not include a fair value adjustment for caps and other financial instruments as IAS 39 and 32 were only applied from 1 January 2005. The overall interest charge for 2004 would have been approximately £0.9 million lower had it been calculated on a similar basis.

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

refurbishment and development projects, which amounted to £1.7 million in 2005 for Great West House, Brentford and Fräsaren 12 in Solna.

#### Analysis of net finance expense

	2005 £m	2004 £m	Difference £m
Interest receivable	1.4	1.7	(0.3)
Foreign exchange	–	0.1	(0.1)
Interest receivable and similar income	1.4	1.8	(0.4)
Interest payable and similar charges	(37.7)	(35.9)	(1.8)
<b>Net finance expense</b>	<b>(36.3)</b>	<b>(34.1)</b>	<b>(2.2)</b>

Interest payable and similar charges of £37.7 million (December 2004: £35.9 million) included fair value movements on interest rate caps amounting to £0.1 million (December 2004: £1.0 million, before the application of IAS 32 and 39) and amortisation of issue costs of loans totalled £1.4 million (December 2004: £1.1 million).

The average cost of borrowing for the Group at 31 December 2005, which includes an estimate of the fair value adjustment in respect of interest rate caps, is set out below:

	UK	Sweden	Continental Europe	Total
<b>December 2005</b>				
Average interest rate on fixed rate debt	7.2%	5.6%	4.6%	6.1%
Average interest rate on variable rate debt	6.1%	3.2%	3.5%	4.2%
<b>Overall weighted average interest rate</b>	<b>6.9%</b>	<b>4.5%</b>	<b>4.2%</b>	<b>5.4%</b>
<b>December 2004</b>				
Average interest rate on fixed rate debt	7.3%	5.8%	4.6%	6.4%
Average interest rate on variable rate debt	6.6%	3.9%	3.3%	4.6%
<b>Overall weighted average interest rate</b>	<b>7.1%</b>	<b>4.8%</b>	<b>4.0%</b>	<b>5.7%</b>

**TAXATION** – In 2005 the Group's current taxation charge has benefited from the utilisation of losses, significant capital allowances and amortisation deductions. Outside the UK these factors will have less effect in the future as corporation tax losses are used against expected profits and as allowances and amortisation deductions decrease in existing subsidiaries. In the UK, the disposal of the cable businesses has resulted in significant balancing allowances which will have increased losses available to offset future profits.

**LOSS FROM DISCONTINUED OPERATIONS** – The Group completed the disposal of the business and the assets of WightCable in December 2005 and of WightCable North in January 2006.

The operating results of these two businesses have been classified under IFRS 5 as discontinued operations and the comparative figures for 2004 have been similarly re-stated. The results for 2005 include the write-down during the year of the assets of WightCable North of £1.8 million, and the purchase of the remaining minority interest of £1.3 million. In early January 2006 further costs relating to the disposal of WightCable North were incurred, amounting to £2.1 million. We have been advised by our auditors that the prescriptive nature of the IFRS Accounting Standards prevent us from providing for these costs in 2005 and they have therefore been expensed in 2006.

#### REVIEW OF THE BALANCE SHEET

**INVESTMENT PROPERTIES** – The investment properties of the Group have increased to £1,096.4 million (December 2004: £1,022.5 million). The analysis of the net increase of £73.9 million is shown below:

	Total £m	UK £m	Sweden £m	Continental Europe France £m	Germany £m
Opening assets	1,022.5	479.6	273.1	268.0	1.8
Purchases	31.0	3.0	5.1	11.3	11.6
Refurbishment	43.4	10.7	31.0	1.7	–
Disposals	(45.6)	(38.3)	(1.2)	(6.1)	–
Revaluation	67.2	24.2	9.8	33.7	(0.5)
Foreign exchange	(27.0)	–	(19.7)	(7.2)	(0.1)
Other	4.9	2.1	2.8	–	–
<b>Closing assets</b>	<b>1,096.4</b>	<b>481.3</b>	<b>300.9</b>	<b>301.4</b>	<b>12.8</b>

## FINANCIAL REVIEW (continued)

**PURCHASES** – Two new properties were purchased in France at Rue Raspail and Croissy Beaubourg at a total cost of £11.3 million (€16.7 million). An additional property, Yrket 3, was purchased at Solna Business Park at a cost of £5.1 million (SEK 70.0 million) and we completed the purchase of two new properties in Hamburg, Germany at Frohbösestrasse 12 for £2.5 million and at Jarrestrasse 8-10 for £9.1 million including costs (€16.1 million). Three small residential units were purchased as part of our site at Vauxhall Cross, London for £1.8 million and two further residential flats were purchased at 'The View', Victoria, London for £1.2 million.

**REFURBISHMENT** – Expenditure on refurbishments of £43.4 million included £30.3 million expended at Solna, mainly on the construction of retail and office space for ICA, and £6.5 million at Great West House, Brentford, undergoing major refurbishment and a new façade.

**DISPOSALS** – Several disposals were made during the year; Lord Byron, La Ferme, Avenue Fontainebleau and Abbé Hazard were sold in France during the year for a total consideration of £6.4 million, yielding a total profit on disposal of £0.4 million, and in the UK Carlow House was sold for £18.2 million, generating a profit on sale of £0.4 million, and New London House, Drury Lane sold for £14.0 million, generating a profit on disposal of £1.1 million.

**FOREIGN EXCHANGE** – Foreign exchange translation losses on Swedish and French property holdings amounted to £27.0 million in the year. After taking into account the effect of foreign exchange translation on loans to finance these assets, the net effect was a loss of £10.8 million.

Based on the valuations at 31 December 2005 and annualised net contracted rent receivable at that date of £76.4 million (December 2004: £74.6 million), the portfolio shows a yield of 6.3 per cent (December 2004: 6.9 per cent).

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

	Total £m	%	UK* £m	%	Sweden† £m	%	Continental Europe† £m	%	Equity investments £m	%
Investment Properties	<b>1,096.4</b>	100.0	<b>481.3</b>	43.9	<b>300.9</b>	27.4	<b>314.2</b>	28.7	–	–
Loans	<b>(719.9)</b>	100.0	<b>(317.6)</b>	44.2	<b>(186.8)</b>	25.9	<b>(205.8)</b>	28.6	<b>(9.7)</b>	1.3
Equity in Property Assets	<b>376.5</b>	100.0	<b>163.7</b>	43.5	<b>114.1</b>	30.3	<b>108.4</b>	28.8	<b>(9.7)</b>	(2.6)
Other	<b>109.4</b>	100.0	<b>49.5</b>	45.2	<b>(7.3)</b>	(6.7)	<b>40.1</b>	36.7	<b>27.1</b>	24.8
<b>Net Adjusted Equity</b>	<b>485.9</b>	100.0	<b>213.2</b>	43.9	<b>106.8</b>	22.0	<b>148.5</b>	30.6	<b>17.4</b>	3.5

### Equity in Property as a Percentage of Investment

	34.3%	34.0%	37.9%	34.5%	–
	£m	£m	£m	£m	£m
Opening Equity	437.2	192.9	110.1	120.5	13.7
Increase/(decrease)	48.7	20.3	(3.3)	28.0	3.7
<b>Closing Equity</b>	<b>485.9</b>	<b>213.2</b>	<b>106.8</b>	<b>148.5</b>	<b>17.4</b>

† The following exchange rates were used to translate assets and liabilities at the year end: SEK/GBP 13.702; Euro/GBP 1.453.

\* Net assets were reduced by payments for tender offer distributions totalling £16.8 million, and market purchases totalling £2.0 million which are included within the results of the UK.

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

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

### Net Interest Bearing Debt

	Total £m	%	UK £m	%	Sweden £m	%	Continental Europe £m	%	Equity Investments £m	%
Fixed Rate Loans	<b>(389.5)</b>	54.1	<b>(221.6)</b>	69.8	<b>(88.4)</b>	47.3	<b>(79.4)</b>	38.6	<b>(0.1)</b>	1.0
Floating Rate Loans	<b>(330.4)</b>	45.9	<b>(96.0)</b>	30.2	<b>(98.4)</b>	52.7	<b>(126.4)</b>	61.4	<b>(9.6)</b>	99.0
	<b>(719.9)</b>	100.0	<b>(317.6)</b>	100.0	<b>(186.8)</b>	100.0	<b>(205.8)</b>	100.0	<b>(9.7)</b>	100.0
Bank and cash	<b>118.2</b>		<b>55.1</b>		<b>10.3</b>		<b>43.7</b>		<b>9.1</b>	
<b>Net Interest Bearing Debt</b>	<b>(601.7)</b>	100.0	<b>(262.5)</b>	43.7	<b>(176.5)</b>	29.3	<b>(162.1)</b>	26.9	<b>(0.6)</b>	0.1
2004	(581.2)	100.0	(289.6)	49.8	(141.2)	24.3	(148.5)	25.6	(1.9)	0.3

Non interest bearing debt, represented by short-term creditors, amounted to £45.4 million (December 2004: £44.1 million).

## Interest rate caps

	Total %	UK %	Sweden %	Continental Europe %
<b>2005</b>				
Percentage of net floating rate loans capped	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Average base interest rate at which loans are capped	<b>5.2</b>	<b>5.8</b>	<b>4.9</b>	<b>5.0</b>
Average tenure	<b>2.8 years</b>	<b>2.4 years</b>	<b>2.7 years</b>	<b>3.1 years</b>
<b>2004</b>				
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	5.3	6.6	4.9	4.8
Average tenure	3.1 years	2.7 years	3.4 years	3.4 years

During 2005 a number of re-financings in the Group portfolio took place, the majority of which were on a floating rate basis, hedged by five year interest rate caps. Since the year-end we have extended the tenure of our commercially effective caps to an average of 3.8 years for Sterling and 5.1 years for Euro.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond. This bond has a current outstanding balance of £38.0 million (December 2004: £38.6 million) at an interest rate of 10.8 per cent with a maturity date of 2025; and a zero coupon bond, with a current outstanding balance of £5.5 million (December 2004: £5.0 million), with matching interest rate and maturity date. This debt instrument has a significant adverse effect on the average interest rate and the IAS 32 adjustment.

The net borrowings of the Group at 31 December 2005 of £601.7 million showed an increase of £20.5 million over 2004, reflecting our increasing investment programme. We have refinanced our assets in the UK (£57.8 million), Sweden (£48.3 million) and within the French portfolio (£39.8 million), and new loans for acquisitions in Germany of £9.7 million. Foreign exchange translation gains on Swedish and French loans reduced the liability by £16.2 million during the year, and repayments totalled £57.8 million.

Under the requirements of IAS 32, which addresses disclosure in relation to derivatives and other financial instruments, if our loans were held at fair value, the Group's fixed rate debt at the year end would be in excess of book value by £39.5 million (December 2004: £33.3 million) which net of tax at 30 per cent equates to £27.8 million (December 2004: £23.3 million).

The contracted future cash flows from the properties securing the loans are currently well in excess of all interest and ongoing loan repayment obligations. Only £25.3 million (3.5 per cent) of the Group's total borrowings of £719.9 million is repayable within the next 12 months, with £382.8 million (53.2 per cent) maturing after five years.

**SHARE CAPITAL** – The share capital of the Company totalled £21.4 million at 31 December 2005, represented by 85,527,177 ordinary shares of 25 pence each, quoted on the main market of the London Stock Exchange. Of the shares in issue, 5,469,490 are held as Treasury shares following the tender offer buy-backs and market purchases made during the year, and therefore are not included for the purposes of the proposed tender offer buy-back or for calculating earnings and NAV per share.

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2005 resulting in the purchase of 3.4 million shares and providing a distribution of £16.8 million to shareholders, together with costs of £0.1 million.

Market purchases during 2005 totalled 441,000 shares at an average price of 457 pence per share.

A total of 54.7 million shares have been purchased at a total cost of £128.4 million since the programme of buy-backs started in 1998. The average cost of shares purchased for cancellation over this period was 235 pence per share.

The weighted average number of shares in issue during the year was 82,316,545 (December 2004: 86,113,994).

The average mid-market price of the shares traded in the market during the year ended 31 December 2005 was 452 pence with a high of 505 pence in December 2005 and a low of 394 pence in January 2005.

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

	Number of shares Million 2005	Number of shares Million 2004
Opening shares for NAV purposes	<b>83.9</b>	87.6
Tender offer buy-back	<b>(3.4)</b>	(4.1)
Buy-backs in the market for cancellation	<b>(0.4)</b>	–
Shares issued for the exercise of options	<b>–</b>	0.4
Closing shares for NAV purposes	<b>80.1</b>	83.9
Shares held in Treasury by the Company	<b>5.4</b>	1.6
Closing shares in issue	<b>85.5</b>	85.5

In total 21.9 million shares were traded in the market during 2005.

An analysis of the ownership structure is set out below:

	Number of shares	Percentage of shares
Institutions	32,618,524	40.8%
Private investors	1,476,084	1.8%
The Mortstedt family directors	41,017,368	51.2%
Other	4,945,711	6.2%
	80,057,687	100.0%
Shares held in Treasury by the Company	5,469,490	
<b>Total</b>	<b>85,527,177</b>	

Should the proposed tender offer buy-back be fully taken up, the number of shares in issue would be reduced by 1,905,474 to 78,124,467 (excluding shares held in treasury of 7,402,710).

At 31 December 2005 there were 595,000 options in existence with an average exercise price of 246.1 pence.

**DISTRIBUTION** – As the current share price remains at a considerable discount to adjusted 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 42 shares at a price of 600 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 14.3 pence, yielding a total distribution in cash terms of 22.8 pence per share for the year (December 2004: 19.3 pence).

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

## PROPERTY REVIEW

OUR CONTINUING GROUP STRATEGY IS TO FOCUS UPON LOW RISK HIGH RETURN PROPERTIES IN OUR CORE LOCATIONS OF LONDON, SWEDEN, FRANCE AND NOW GERMANY. WE BELIEVE THAT OUR EMPHASIS ON ACTIVELY MANAGING THE PORTFOLIO MAXIMISES LONG TERM CAPITAL RETURNS.

- The Group now owns 113 properties with a total lettable area of 612,838 sq m (6,596,536 sq ft), of which 45 properties are in the UK, 24 in Sweden, 40 in France, 3 in Germany and 1 in Luxembourg. We have 610 commercial tenants and 1,292 residential tenants.



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

	Contracted Rent £000	%	Net rent £000	%	Book Value £000	%	Yield on net rent %	Yield when fully let %
<b>UK</b>								
London City Fringes	212	0.3%	212	0.3%	2,850	0.3%	7.4%	
London Mid town	6,967	9.1%	6,967	10.0%	106,750	9.7%	6.5%	
London West End	3,318	4.3%	3,238	4.7%	59,226	5.4%	5.5%	
London West	4,977	6.5%	3,930	5.7%	74,656	6.8%	5.3%	
London South Bank	10,660	13.9%	10,619	15.2%	155,892	14.3%	6.8%	
London South Bank – JVs	2,046	2.7%	2,046	2.9%	34,361	3.1%	6.0%	
London South West	1,439	1.9%	1,288	1.9%	20,200	1.8%	6.4%	
London North West	1,678	2.2%	1,214	1.7%	25,500	2.3%	4.8%	
Outside London	245	0.3%	245	0.4%	1,825	0.2%	13.4%	
<b>Total UK</b>	<b>31,542</b>	<b>41.2%</b>	<b>29,759</b>	<b>42.8%</b>	<b>481,260</b>	<b>43.9%</b>	<b>6.2%</b>	<b>6.5%*</b>
<b>Sweden</b>								
Sweden Gothenburg	5,888	7.7%	2,612	3.8%	39,777	3.6%	6.6%	
Sweden Stockholm	12,294	16.1%	11,120	16.0%	215,524	19.6%	5.2%	
Sweden Vänersborg	4,474	5.9%	3,808	5.4%	45,615	4.2%	8.3%	
<b>Total Sweden</b>	<b>22,656</b>	<b>29.7%</b>	<b>17,540</b>	<b>25.2%</b>	<b>300,916</b>	<b>27.4%</b>	<b>5.8%</b>	<b>6.5%†</b>
<b>Continental Europe</b>								
France Paris	16,642	21.7%	16,642	24.0%	246,786	22.6%	6.7%	
France Lyon	2,740	3.6%	2,740	3.9%	34,123	3.1%	8.0%	
France Lille	594	0.8%	594	0.9%	6,772	0.6%	8.8%	
France Antibes	431	0.6%	431	0.6%	4,618	0.4%	9.3%	
<b>Total France</b>	<b>20,407</b>	<b>26.7%</b>	<b>20,407</b>	<b>29.4%</b>	<b>292,299</b>	<b>26.7%</b>	<b>7.0%</b>	<b>7.7%</b>
Luxembourg	808	1.1%	808	1.2%	9,085	0.8%	8.9%	
<b>Total Luxembourg</b>	<b>808</b>	<b>1.1%</b>	<b>808</b>	<b>1.2%</b>	<b>9,085</b>	<b>0.8%</b>	<b>8.9%</b>	<b>8.9%</b>
Germany Hamburg	813	1.0%	813	1.2%	11,012	1.0%	7.4%	
Germany Düsseldorf	213	0.3%	174	0.2%	1,789	0.2%	9.7%	
<b>Total Germany</b>	<b>1,026</b>	<b>1.3%</b>	<b>987</b>	<b>1.4%</b>	<b>12,801</b>	<b>1.2%</b>	<b>7.7%</b>	<b>7.7%</b>
<b>Total Continental Europe</b>	<b>22,241</b>	<b>29.1%</b>	<b>22,202</b>	<b>32.0%</b>	<b>314,185</b>	<b>28.7%</b>	<b>7.1%</b>	<b>7.7%</b>
<b>Group Total</b>	<b>76,439</b>	<b>100.0%</b>	<b>69,501</b>	<b>100.0%</b>	<b>1,096,361</b>	<b>100.0%</b>	<b>6.3%</b>	<b>6.8%</b>

Conversion rates: SEK/GBP 13.702 Euro/GBP 1.453

- Contracted rent is defined as gross annualised rent supported by a signed contract.
- Net rent is defined as contracted rent less net service charge costs.
- Yields on net rents have been calculated by dividing the net rent by the book value.

\* Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2005 will increase by refurbishment expenditure of approximately £12.0 million in respect of projects in the UK.

† Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2005 will increase by refurbishment expenditure of approximately £10.3 million in respect of projects in Solna, Sweden.

## PROPERTY REVIEW (continued)

### Rent analysed by length of lease and location

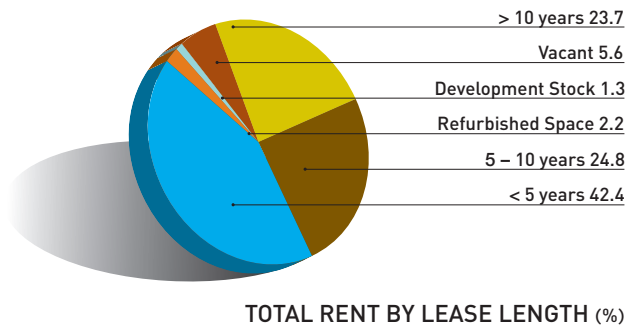
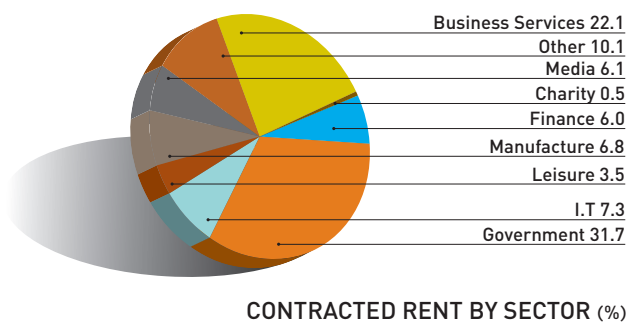
The table below shows rental income by category and the future potential income available from new lettings and refurbishments.

	Sq m	Sq ft	Contracted Aggregate Rental £000	Contracted but not income producing £000	Unlet Space at ERV £000	Space under Refurb or with planning consent £000	Total £000	Total %
UK >10 yrs	71,997	774,970	15,398	1,158	–	–	<b>16,556</b>	48.8%
UK 5-10 yrs	25,998	279,840	5,358	–	–	–	<b>5,358</b>	15.8%
UK < 5 yrs	44,356	477,444	9,628	–	–	–	<b>9,628</b>	28.4%
Development Stock	6,248	67,253	–	–	–	1,108	<b>1,108</b>	3.3%
Vacant	8,394	90,352	–	–	1,243	–	<b>1,243</b>	3.7%
<b>Total UK</b>	<b>156,993</b>	<b>1,689,859</b>	<b>30,384</b>	<b>1,158</b>	<b>1,243</b>	<b>1,108</b>	<b>33,893</b>	<b>100.0%</b>
Sweden > 10 yrs	23,794	256,117	3,181	–	–	–	<b>3,181</b>	12.3%
Sweden 5-10 yrs	76,454	822,944	7,330	–	–	–	<b>7,330</b>	28.3%
Sweden < 5 yrs	159,304	1,714,735	12,145	–	–	–	<b>12,145</b>	46.8%
Refurbished space	13,337	143,558	–	–	–	1,670	<b>1,670</b>	6.4%
Vacant	21,147	227,625	–	–	1,618	–	<b>1,618</b>	6.2%
<b>Total Sweden</b>	<b>294,036</b>	<b>3,164,979</b>	<b>22,656</b>	<b>–</b>	<b>1,618</b>	<b>1,670</b>	<b>25,944</b>	<b>100.0%</b>
France 5-10 yrs	58,221	626,686	8,085	–	–	–	<b>8,085</b>	36.1%
France < 5 yrs	78,341	843,256	12,322	–	–	–	<b>12,322</b>	55.0%
Refurbished space	1,417	15,252	–	–	–	166	<b>166</b>	0.7%
Vacant	9,390	101,073	–	–	1,835	–	<b>1,835</b>	8.2%
<b>Total France</b>	<b>147,369</b>	<b>1,586,267</b>	<b>20,407</b>	<b>–</b>	<b>1,835</b>	<b>166</b>	<b>22,408</b>	<b>100.0%</b>
Luxembourg < 5 yrs	3,698	39,805	808	–	–	–	<b>808</b>	100.0%
<b>Total Luxembourg</b>	<b>3,698</b>	<b>39,805</b>	<b>808</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>808</b>	<b>100.0%</b>
Germany > 10 yrs	1,993	21,452	171	–	–	–	<b>171</b>	16.7%
Germany 5-10 yrs	932	10,032	115	–	–	–	<b>115</b>	11.2%
Germany < 5 yrs	7,817	84,142	740	–	–	–	<b>740</b>	72.1%
<b>Total Germany</b>	<b>10,742</b>	<b>115,626</b>	<b>1,026</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,026</b>	<b>100.0%</b>
Group > 10 yrs	97,784	1,052,539	18,750	1,158	–	–	<b>19,908</b>	23.7%
Group 5-10 yrs	161,605	1,739,502	20,888	–	–	–	<b>20,888</b>	24.8%
Group < 5 yrs	293,516	3,159,382	35,643	–	–	–	<b>35,643</b>	42.4%
Refurbished space	14,754	158,810	–	–	–	1,836	<b>1,836</b>	2.2%
Development Stock	6,248	67,253	–	–	–	1,108	<b>1,108</b>	1.3%
Vacant	38,931	419,050	–	–	4,696	–	<b>4,696</b>	5.6%
<b>Group Total</b>	<b>612,838</b>	<b>6,596,536</b>	<b>75,281</b>	<b>1,158</b>	<b>4,696</b>	<b>2,944</b>	<b>84,079</b>	<b>100.0%</b>

We estimate that open market rents are approximately 5.2 per cent lower than current contracted rents receivable, which represents a potential decrease of £4.0 million. This excludes the additional rents we will receive as a result of our refurbishment programme. An analysis of the net decrease is set out below:

	Contracted Rent £m	Estimated Rental Value £m	Reversionary Element %
UK	31.5	30.3	(3.8)
Sweden	22.7	20.0	(11.9)
Continental Europe	22.2	22.1	(0.5)
<b>Total</b>	<b>76.4</b>	<b>72.4</b>	<b>(5.2)</b>

The total potential gross rental income (comprising contracted rentals, and estimated rental value of unlet space and refurbishment) of the portfolio is £84.1 million p.a.



The proposed New London Bridge House development



London Bridge Tower  
(The Shard of glass)

THE OUTLOOK FOR 2006 IS POSITIVE.  
WE SEE CONTINUING EVIDENCE OF  
RENTAL GROWTH ACROSS OUR UK  
PORTFOLIO AND AN OVERALL REDUCTION  
IN OUR VACANCY RATE.

# UNITED KINGDOM



## HIGHLIGHTS of 2005

- **Spring Gardens** extension of all leases to the Home Office to 2026 on completion of further 27,000 sq ft infills.
- **Sale of Carlow House** for £18.2 million.
- **Sale of Drury Lane** for £14.0 million.
- **Major refurbishment at Great West House** on schedule to launch the building in Spring 2006.
- **New lettings progress** at Vista near Heathrow, CI Tower in New Malden and Quayside in Fulham.



New Printing  
House Square  
Spring Gardens  
Leicester Square  
Great West  
House  
Computer House  
Cap Gemini House  
Coventry House  
Westminster  
Tower  
Cambridge  
House  
CI Tower  
Brent House  
Clifford's Inn  
Vista Office  
Centre  
Chancel House  
Conoco House  
Quayside  
Tinworth Street  
Dukes Road  
Buspace Studios  
London House  
King Street  
Ingram House  
Bondway  
Satellite House  
Zest Nightclub  
Deanery Street  
Vauxhall Walk  
Western House  
Holland Park  
Avenue  
Miles Street  
Southwark Towers  
New London  
Bridge House

During the year, the value of the UK property portfolio increased by 5.0 per cent or £24.2million due to revaluation uplifts, and net of disposals was valued at £481.3 million at 31 December 2005 inclusive of our share of joint ventures.

The sales achieved were of Carlow House, Carlow Street, NW1 and New London House, Drury Lane, WC2. Carlow House was sold for £18.2 million against a purchase price in 1995 of £11.5 million. The building provides 4,454 sq m (47,941 sq ft) of offices together with the ground rents for 13 residential apartments. The sale price represented a net yield of 7.2 per cent.

New London House in Drury Lane provides 2,167 sq m (23,328 sq ft) of offices together with 914 sq m (9,836 sq ft) of retail and leisure uses. The property was sold for £14.0 million, representing a net yield of 6.4 per cent. CLS acquired the property in 1994 for £10.5 million.

Both properties were considered to offer limited prospects for future growth and the sales generated a profit of £1.5 million against valuation. Net cash proceeds amounted to £10.9 million following repayment of the loans and fees.

2005 continued to be a challenging year to find value through new acquisitions and our purchases were limited to 3 residential properties on Wandsworth Road, SW8 for £1.8 million.

The principal development activity during the year has been at Great West House in West London and at Spring Gardens, Vauxhall. At Great West House we are investing just over £11 million on a major refurbishment of the external elevations, entrance halls and landscaping. We remain on schedule to launch the building in the spring of 2006.

The refurbishment works at Chancel House, which include new air cooling, overhauled lifts, a new reception and the vacant offices on the 5th floor, have been completed on schedule. The building has 1,392 sq m (14,986 sq ft) of vacant offices to let for which we are quoting a rent of £151 per sq m (£14.00 per sq ft).

Finally, the conversion of the top two floors of Ingram House, John Adam Street, WC2 into 5 apartments was completed during the summer of 2005 and having taken the decision to retain these apartments, all have now been let.

A strengthening tenant market throughout 2005 has enabled us to achieve a number of important new lettings at Vista near Heathrow, CI Tower in New Malden, Quayside Lodge in Fulham and at our Spring Gardens Estate in Vauxhall. Most noteworthy is the deal signed with our existing tenant, the Home Office at Spring Gardens.

At Spring Gardens, significant progress was made towards completion of 855 sq m (9,203 sq ft) of new office accommodation being built between Unit 3 and Unit 4. Completion is due in the first half of 2006 and these new offices have been pre-let to the Home Office on a new 20 year lease without break at £344.50 per sq m (£32.00 per sq ft).

The Spring Gardens Estate currently provides 15,923 sq m (171,392 sq ft) of office space, all of which is let to the Home Office.

In June and August 2005, two new planning consents were secured to build an additional 2,503 sq m (26,945 sq ft) of office accommodation on the site. Construction started in January 2006 and upon completion in December, these new offices will be let to the Home Office on leases which expire in 2026 at an average rent of £334 per sq m (£31.06 per sq ft).

In addition, upon completion of these new offices, the Home Office will extend a number of existing leases such that the whole Estate will be let until 2026. The total income will initially rise from £5,451,438 per annum to approximately £6,288,355 per annum.

The amount of vacant space at the end of 2005 stood at 8,394 sq m (90,352 sq ft) or 5 per cent of the total for the UK, excluding Great West House which is under construction pending release in the spring of 2006.

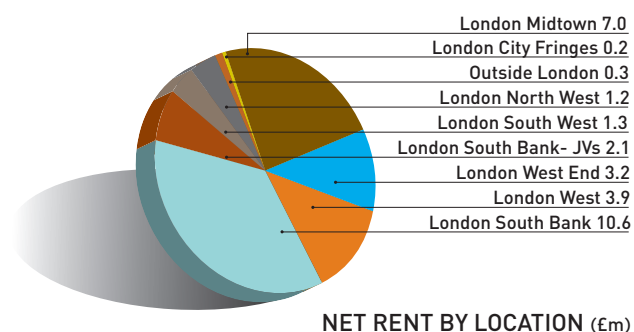
During 2005 we have been particularly active with our joint ventures at London Bridge Tower ('The Shard of Glass') and New London Bridge House; two adjacent redevelopment opportunities next door to London Bridge Station.

The planning application for a new Renzo Piano designed building on the site of the current New London Bridge House was formally lodged with Southwark Council in January 2006 and provides for a new high quality office and retail building providing approximately 39,950 sq m (430,000 sq ft).

At London Bridge Tower, following the pre-letting of the hotel element to Shangri La, good progress is being made in securing a pre-letting of a substantial part of the offices and these efforts will continue throughout 2006.

The outlook for 2006 is positive. We see continuing evidence of rental growth across our UK portfolio and an overall reduction in our vacancy rate. In this regard we are focusing our efforts towards a successful marketing campaign at Great West House and subsequent lettings of the vacant offices.

Our UK portfolio offers good potential for adding value by securing new planning consents. We are starting to evaluate the potential of our holdings at Hoskyns House, next to Vauxhall mainline and underground station and will continue to work with our joint venture partners towards a positive outcome to the planning application at New London Bridge House. We may consider individual disposals where premium prices can be obtained and we will continue to seek out new opportunities where we can achieve enhanced returns or asset growth.



CURRENT GROWTH FORECASTS  
PREDICT THAT THE SWEDISH ECONOMY  
WILL OUT-PERFORM MOST OTHER  
WESTERN EUROPEAN ECONOMIES  
IN THE COMING YEARS

# SWEDEN



## HIGHLIGHTS of 2005

- Refurbishment of Fräsaren 12, at Solna Business Park, Stockholm, was completed within budget and ICA were able to take occupation in accordance with their time schedules.
- Major award winning works to façade at Smeden, Solna Business Park, completed.
- Purchase of Yrket 3 at Solna Business Park for £5.1 million (SEK 70 million).
- Vänerparken – extension of university lease to 2008 as well as further lettings. Vacancy rate at Vänerparken is now only 2.2%.
- Sale of Lövgärdet, comprising 1,280 apartments and 42,608 sq m (458,644 sq ft) of commercial and retail space was sold for £40.7 million (SEK 547 million) on 1 February 2006.

The Swedish economy has been backed by GDP growth of 2.5 per cent and falling rates of unemployment. More importantly, current growth forecasts predict that the Swedish economy will out-perform most other Western European economies in the coming years.

Yields have compressed by approximately 50 bps during 2005 to just under 5 per cent for central Stockholm properties with long-term secure income streams.

During the last two to three years, Stockholm in particular has suffered from high vacancy rates of between 15 to 20 per cent and falling rents, although these have now generally stabilised. Despite improving occupational demand it is expected to take some time before this makes a significant impact on current rental levels. Most new leases being signed reflect the relocation of occupiers within the market and demand is strongest for modern, flexible well equipped open plan offices.

**SOLNA BUSINESS PARK** – During 2005 the main focus of our activity concentrated on the substantial completion of works to Solna Business Park. These focused primarily on completing works to Fräsaren 12 to enable the Scandinavian food retailer, ICA, to open their supermarket of 9,400 sq m (101,182 sq ft) in May 2005 and to take occupation of their office headquarters of 14,700 sq m (158,230 sq ft) in August 2005. The works were completed within budget and we adhered to the tight build programme which enabled them to successfully take occupation in accordance with their time schedules.

In addition major works to the façade of Smeden were completed, including encasing the face of the 200 metre building in a glass envelope and the installation of an innovative lighting system.

In April 2005 we made a strategic purchase of a further 6,273 sq m (67,524 sq ft) property at Solna Business Park, Yrket 3, at a cost of £5.1 million (SEK 70 million). It is fully let.

We have made significant progress in branding Solna Business Park as a desirable office location and as a result have signed or agreed to lease 27,354 sq m of previously vacant space during 2005.

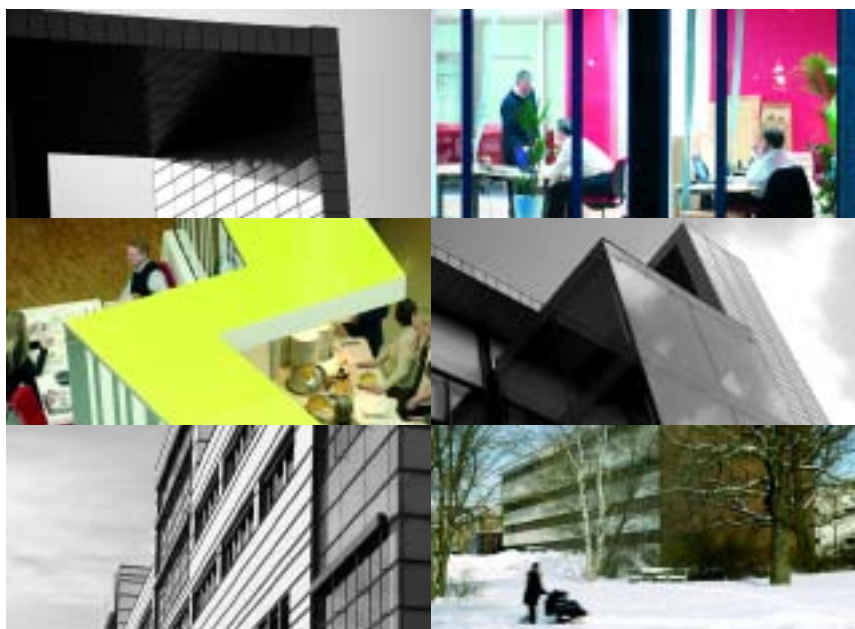
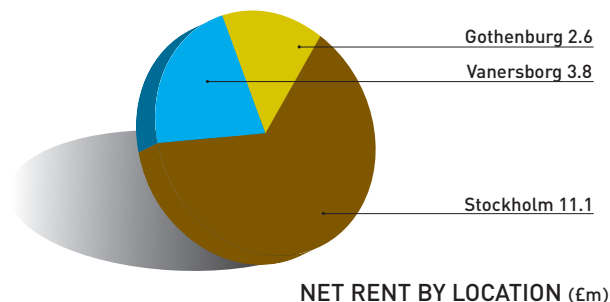
We have work to do in order to further reduce vacant space as during the year the IT division of the Swedish Post Office vacated 11,792 sq m (126,931 sq ft) of office space at Sliparen 2 in order to consolidate within their other properties.

The overall vacant space by area in Sweden at 31 December 2005 was 21,147 sq m (227,625 sq ft) or 7.2 per cent and space under refurbishment amounted to a further 13,337 sq m (143,558 sq ft) or 4.5 per cent.

**LÖVGÄRDET** – The estate, comprising 1,280 apartments and 42,608 sq m (458,644 sq ft) of commercial and retail space was sold to Stena Fastigheter AB, a well respected local landlord, for £39.9 million (SEK 547 million) on 1 February 2006. The properties were purchased in January 2002 for £29.4 million (SEK 440 million) and were sold at our year end value.

**VÄNERPARKEN** – The development provides important public services accommodation to the town of Vänersborg, including the provision of a hospital, university, offices, public swimming pool and a marina.

Following the extension of the university lease to 2008 and further letting success in the year, the current vacancy rate is 2.2 per cent which is the lowest since it was purchased in 1998. We have commenced discussions with the City with regard to how we can facilitate future requirements.



THE FRENCH REAL ESTATE MARKET SAW SIGNIFICANT ACTIVITY IN 2005; A TOTAL OF €15.7 BILLION WAS INVESTED, A 30% INCREASE OVER 2004.

# CONTINENTAL EUROPE



## HIGHLIGHTS of 2005

### FRANCE

- **Acquisition of two properties:** Rue Raspail in Ivry for £7.9 million (€11.6 million) and Croissy Beaubourg bought for £3.4 million (€5.1 million).
- **Sale of four smaller properties in Paris and Lyon** for £6.4 million (€9.4 million).
- **Conversion of our property at Le Foch, in La Garenne Colombes** into 16 residential flats.
- **Signing of new leases and lease renewals** over 18,435 sq m (198,029 sq ft) representing 12.5% of the French portfolio.

### GERMANY

- **Acquisition of Frohbösestrasse in Hamburg** for £2.5 million (€3.6 million).
- **Acquisition of Jarrestrasse 8-10 in Hamburg** for £8.6 million (€2.5 million).
- **Since year end** we have contracted to purchase two further properties for £45.1 million (€65.6 million) generating a return on equity of 20%.



Edouard Belin  
Rueil 2000  
Lotus  
Le Sigma  
Charenton Bercy  
Forum  
Bellevue  
Le Quatuor  
Petits Champs  
Le Debussy  
Mission  
Marchand  
Villa Angelica  
Front de Parc  
Columbus  
Equinoxe II  
La Madeleine  
Rue Nationale  
Capitaine  
Guynemer  
Paul Doumer  
Rhône Alpes  
Park Avenue  
D'Aubigny  
Philippe Auguste  
Petits Hôtels  
Le Chorus  
Edouard Vaillant  
Rue Pierre  
Timbaud  
Marcel Pourtout  
Le Foch  
Santos Dumont  
Solférino  
Général Leclerc  
Rue Stephenson  
Le Gauguin  
Le Sirius  
Jean Jaurès  
Eugène Ruppert  
Georges  
Clémenceau  
Rue Raspail  
Croissy Beaubourg

Jarrestrasse  
Frohbösestrasse  
Schanzenstrasse

The French real estate market saw significant activity in 2005; a total of €15.7 billion was invested, a 30 per cent increase over 2004, and there has been diversification of the investment market in terms of product and location. In the Paris area, 2,165,300 sq m (23,259,653 sq ft) of office space was taken up, an improvement of 12 per cent compared with 2004, and average headline rents remained stable during the year.

Yields are now at historically low levels, driven by the presence of many foreign investors and the weight of money. This trend is likely to continue in 2006.

During the year, new leases and lease renewals in our French portfolio accounted for a total of 18,435 sq m (198,029 sq ft), representing 12.5 per cent of the portfolio. These transactions, together with indexation of rents, generated additional income of €1.3 million during the year, equating to an uplift of 5.0 per cent.

Major letting successes in the year included extension of the lease to our tenant BNP-Paribas Insurance over 8,077 sq m (86,763 sq ft) in our 9,849 sq m (105,798 sq ft) property in Rueil-Malmaison and completion of a 6/9 year new lease. In the Sigma property an additional letting of 1,193 sq m (12,815 sq ft) was made to Data Base Factory, together with completion of a 3/6/9 year lease. This represented 18 per cent of the building by area.

The vacancy rate of our portfolio remained low at 6.2 per cent, very close to the national average of 6.0 per cent. This decreased to 3.0 per cent at the end of January 2006 following the sale of the vacant 6,026 sq m (64,864 sq ft) Le 41 property.

The portfolio was enhanced in 2005 by the addition of two newly acquired properties located in the Paris suburbs at a total cost of €16.7 million (£11.3 million) ; Rue Raspail in Ivry €11.6 million, (£7.9 million) providing 5,570 sq m (59,833 sq ft) of lettable area and whose main tenant is Jet Tours, and Croissy Beaubourg €5.1 million, (£3.4 million) providing 3,199 sq m (34,364 sq ft) let to a single tenant, Polymerland (part of the G.E. Group).

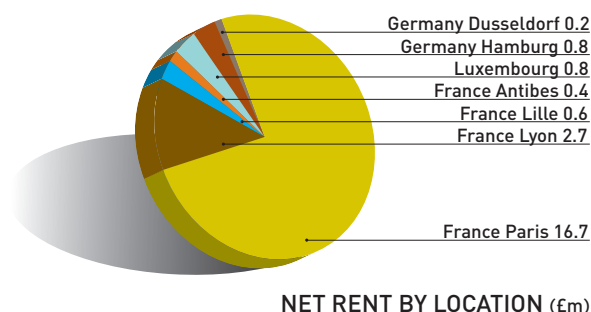
Several buildings have undergone refurbishment and improvement during 2005, the most notable being the renovation of the Marcel Pourtout property (2,219 sq m, 23,837 sq ft) which led to the re-letting of all the vacant areas (1,447 sq m, 15,544 sq ft) to a secure tenant Bureau Veritas, on a 6/9 year lease. This property is now fully let.

Other buildings undergoing light refurbishment included Le Clemenceau, which received a new reception area and two new lifts, and Front de Parc in Lyon, in which we replaced all of the air cooling units.

A number of smaller properties in Paris and Lyon have been sold for a total of €9.4 million (£6.4 million), the largest being the Lord Byron building, sold for €4.4 million (£3.0 million).

Finally, we commenced the conversion of our 1,613 sq m (17,327 sq ft) office property Le Foch, in La Garenne Colombes into 16 residential flats. The existing office tenants occupying this building were all reallocated to vacant space in two of our other properties in the same area.

The general economic improvement registered in France in the third quarter of 2005 is settling in and the economic indicators suggest that the growth rate should increase from 1.6 per cent recorded in 2005 to 2.0 per cent in 2006.



# DIRECTORS, OFFICERS AND ADVISERS

## Directors

Sten Mortstedt (Executive Chairman)  
Per Sjöberg (Chief Executive Officer)  
Dan Bäverstam (Chief Financial Officer)  
Steven Board FCCA (Chief Operating Officer)  
Thomas Thomson BA (Non-executive Vice Chairman)  
James Dean FRICS \* † (Non-executive Director)  
Keith Harris PhD \* † ‡ (Non-executive Director)  
Thomas Lundqvist † (Non-executive Director)  
Bengt Mörtstedt Juris Cand (Non-executive Director)

\* = member of Remuneration Committee

† = member of Audit Committee

‡ = senior independent director

## Company Secretary

Steven Board FCCA

## Registered Office

26th Floor, Portland House  
Bressenden Place  
London  
SW1E 5BG

## Registered Number

2714781

## Registered Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants  
1 Embankment Place  
London WC2N 6RH

## Registrars and Transfer Office

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

## Clearing Bank

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London SW1X 7HP

## Financial Advisers

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London  
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## Joint Stockbrokers

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2005

# PORTFOLIO

**UNITED KINGDOM** → Ingram House → Dukes Road → Brent House → Westminster Tower → Cap Gemini House → Conoco House → New Printing House Square → Vista Office Centre → CI Tower → Great West House → Cliffords Inn → Coventry House → Western House → Spring Gardens → Cambridge House → London House → Deanery Street → One Leicester Square → Quayside → Chancel House → Buspace Studios → Bondway → Satellite House → New London Bridge House → Southwark Towers << **SWEDEN** → Solna Business Park → Vänerparken → Lövgärdet << **CONTINENTAL EUROPE** → Marcel Pourtout → Solférino → Columbus → Equinoxe II → Philippe Auguste → Général Leclerc → Paul Doumer → Rhône Alpes → Forum → Petits Hôtels → Mission Marchand → Edouard Vaillant → Rue Pierre Timbaud → Bellevue → Villa Angelica → Front de Parc → Santos Dumont → Rue Nationale → Le Debussy → Le Sigma → Lotus → Charenton Bercy → Petits Champs → D'Aubigny → Le Chorus → Le Quatuor → Edouard Belin → Capitaine Guynemer → Le Foch → La Madeleine → Rueil 2000 → Park Avenue → Le Gauguin → Le Sirius → Jean Jaurès → Eugène Ruppert → Georges Clémenceau → Rue Raspail → Croissy Beaubourg → Rue Stephenson → Jarrestrasse → Frohbösestrasse → Schanzenstrasse <<

# SCHEDULE OF GROUP PROPERTIES

Properties UK	Address	Freehold/ Leasehold	Area m <sup>2</sup>	Area Sq ft	Use	Date of Construction/ Refurbishment
<b>Property value &gt; £20m</b>						
Spring Gardens	Tinworth Street, London SE11	Freehold	18,426	198,342	Offices	1990
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,295	283,046	Offices	1996
Leicester Square	1 Leicester Square, London WC2	Freehold	3,350	36,060	Cinema/Retail/ Leisure	1999
Cap Gemini House	95 Wandsworth Rd, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/Industrial	1995
Great West House	Great West Road, Brentford, Middx TW8	Freehold	8,651	93,122	Offices	2005
Computer House	Great West Road, Brentford, Middx TW8	Freehold	5,792	62,347	Offices	2005
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,543	81,195	Offices	2002
Coventry House	21/24 Coventry St. & 35a Haymarket, London SW1	Freehold	656	7,061	Restaurant/ Residential/ Advertising	2002
<b>Property value £10m – £20m</b>						
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,633	71,399	Offices	1998
Westminster Tower	3 Albert Embankment, London SE1	Freehold	4,473	48,148	Offices	2004
Brent House	349/357 High Road, Wembley, Middx HA9	Freehold	9,128	98,256	Offices	1995
Vista Office Centre	Salisbury Road, Hounslow, Middx TW4	Freehold	9,498	102,239	Offices	1999
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,181	34,241	Offices/Residential	1993
<b>Property value &lt; £10m</b>						
Chancel House	Neasden Lane, London NW10	Freehold	7,017	75,533	Offices	1990
Conoco House	200 Great Dover Street, London SE1	Leasehold	3,377	36,345	Offices	1960's
Quayside	William Morris Way, London SW6	Freehold	3,051	32,842	Offices	1989
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,133	12,196	Offices	2004
Dukes Road	22 Dukes Road, London WC1	Freehold	1,067	11,485	Offices	1980's
Tinworth Street	2/10 Tinworth Street, London SE11	Freehold	1,264	13,598	Industrial/Offices	Early 1900's
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,361	Studio/Workshops/ Offices	2001
London House	271/273 King St, Hammersmith, London W6	Freehold	1,426	15,351	Business Centre	2001
King Street	275/281 King Street, London W6	Freehold	1,895	20,399	Offices	1999
Bondway	80/84 Bondway, London SE11	Freehold	1,636	17,610	Offices	Early 1900's
Satellite House	15/23 Baches Street London N1	Freehold	1,450	15,604	Offices	1980
Zest Nightclub	Princess Street, Ipswich, Suffolk, IP1	Freehold	1,951	21,000	Nightclub	1999
Bondway	86 Bondway, London SE11	Freehold	891	9,590	Offices	2001
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/Residential	1988
Vauxhall Walk	108 Vauxhall Walk, London SE11	Freehold	600	6,456	Car parking	Early 1900's
Vauxhall Walk	110 Vauxhall Walk, London SE11	Freehold	790	8,500	Industrial/Offices	1990
Western House	5 Glasshouse Walk, London SE11	Freehold	538	5,791	Offices	1900's
Holland Park Avenue	London W11	Freehold	–	–	Residential	1997
Miles Street	18/20 Miles Street, London SE11	Freehold	152	1,636	Offices	2001
The Rose	35 Albert Embankment, London SE11	Freehold	531	5,716	Leisure	Early 1900's
The View	20 Palace Street, London SW1	Leasehold	164	1,765	Residential	2005
Wandsworth Road	101/103/107 Wandsworth Road, London SW8	Freehold	385	4,115	Residential	Early 1900's
<b>Share of joint venture</b>						
Southwark Towers	32 London Bridge Street, London SE1	Leasehold	6,321	68,040	Offices	1960's
New London Bridge House	25 London Bridge Street, London SE1	Freehold	4,104	44,184	Offices	1960's
<b>UK Properties at 31 December 2005</b>			<b>Sub total</b>	<b>156,993</b>	<b>1,689,859</b>	
<b>Properties Sweden</b>						
<b>Property value &gt; £20m</b>						
Vänerparken	Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,206	486,609	Offices/Education/ Residential/Leisure/ Hospital	Various
Solna	Fräsaren 11, Fräsaren 12, Smeden 1, Sliparen 1, Sliparen 2, Yrket 3	Freehold	135,671	1,460,298	Offices/Industrial/ Retail/Residential	Various
Lövgärdet Business	Lövgärdet, Gothenburg	Freehold	42,527	457,771	Offices/Education	1960's
Lövgärdet Residential	Lövgärdet, Gothenburg	Freehold	70,632	760,301	Residential/retail	1960's
<b>Swedish Properties at 31 December 2005</b>			<b>Sub total</b>	<b>294,036</b>	<b>3,164,979</b>	

# SCHEDULE OF GROUP PROPERTIES

Properties France and Luxembourg	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Rueil 2000	15/21 Avenue Edouard Belin, 92500 Rueil-Malmaison, Paris	Freehold	7,453	80,226	Offices	1992
Edouard Belin	1 Avenue Edouard Belin, 92500 Rueil Malmaison, Paris	Freehold	9,854	106,017	Offices	1992
Property value £10m – £20m						
Lotus	41 rue du Capitaine Guynemer, 92400 Courbevoie, Paris	Freehold	6,026	64,865	Offices	1977
Le Sigma	Place de Belgique, 90 Bld de L'Europe, 92250 La Garenne Colombes, Paris	Freehold	6,599	71,033	Offices	1993
Jean Jaurès	120 rue Jean Jaurès, 92300 Levallois Penet	Freehold	4,219	45,414	Offices	1993
Forum	27/33 rue Maurice Flandin, 69003 Lyon	Freehold	6,910	74,381	Offices	1990
Charenton Bercy	2 rue du Nouveau Bercy, 94220 Charenton, Paris	Freehold	5,227	56,265	Offices	1994
Property value < £10m						
Le Quatuor	168 Avenue Jean Jaurès, 92120 Montrouge, Paris	Freehold	5,131	55,231	Offices	1991
Le Sirius	9/11 rue Jean Mazet, 94200 Ivry sur Seine, Paris	Freehold	7,088	76,297	Offices	1989
Le Debussy	77/81 Boulevard de la République, 92250 la Garenne Colombes, Paris	Freehold	4,206	45,274	Offices	1992
Bellevue	95/97Bis rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,834	Offices	1988
Petits Champs	48 rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,376	Offices	1972
Mission Marchand	56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,635	28,364	Offices	1993
Villa Angelica	58/60 Avenue Général Leclerc, 92340 Bourg la Reine, Paris	Freehold	3,736	40,215	Offices	2002
Front de Parc	109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,222	Offices	1989
Columbus	1 Rond Point de L'Europe, 92250 La Garenne-Colombes, Paris	Freehold	3,162	34,037	Offices	1990
Equinoxe II	1 bis Avenue du 8 Mai, 1945, St Quentin en Yvelines, Paris	Freehold	4,235	45,587	Offices	1995
La Madeleine	105 Avenue de la République 59110 Lille	Freehold	4,030	43,379	Offices	1979
Rue Nationale	96 rue Nationale, 59000 Lille	Freehold	2,243	24,144	Offices	1975
Capitaine Guynemer	53/55 rue de Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	1,893	20,377	Offices	1993
Paul Doumer	147 Avenue Paul Doumer, 92500 Rueil Malmaison, Paris	Freehold	3,489	37,557	Offices	1998
Rhône Alpes	235 Cours Lafayette, 69006 Lyon	Freehold	3,142	33,829	Offices	1993
Park Avenue	81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,737	Offices	1988/89
D'Aubigny	27 rue de la Villette, 69003 Lyon	Leasehold	4,316	46,459	Offices	1990
Philippe Auguste	83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,610	17,330	Offices	1995
Petits Hôtels	20/22 rue des Petits Hôtels, 75010 Paris	Freehold	2,001	21,539	Offices	1994
Le Chorus	2203 chemin de St Claude, Nova Antipolis 06600 Antibes	Freehold	4,333	46,642	Offices	1990
Edouard Vaillant	28/30 rue Edouard Vaillant, 92300 Levallois Perret, Paris	Freehold	1,706	18,364	Offices	1996
Rue Pierre Timbaud	2 rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,123	Offices	1994
Marcel Pourtout	5 Avenue Marcel Pourtout, 92500 Rueil Malmaison, Paris	Freehold	2,219	23,886	Offices	1990
Le Foch	62 Avenue Foch, 92250 la Garenne Colombes, Paris	Freehold	1,613	17,363	Offices	1992
Santos Dumont	23 Avenue Louis Breguet, 78140 Velizy, Paris	Freehold	3,701	39,839	Offices	1991
Solférino	16 rue de Solférino, 92100 Boulogne, Paris	Freehold	1,046	11,259	Offices	1991
Général Leclerc	58 Avenue Général Leclerc, 92100 Boulogne, Paris	Freehold	525	5,651	Offices	1992
Rue Stephenson	18 Rue Stephenson, 75018 Paris	Freehold	538	5,790	Offices	1994
Georges Clémenceau	2 Boulevard Georges Clémenceau 92400 Courbevoie, Paris	Freehold	1,972	21,226	Offices	1972
Le Gauguin	47 Allée des Impressionnistes, 93420 Villepinte, Paris	Freehold	4,900	52,744	Offices	1989
Eugène Ruppert	16 rue Eugène Ruppert, L2453 Luxembourg	Freehold	3,698	39,805	Offices	1991
Rue Raspail	23 Rue Raspail, 94200 Ivry sur Seine	Freehold	5,570	59,956	Offices	1993
Croissy Beaubourg	3 Allée du 1er Mai, 77420 Croissy Beaubourg, Paris	Freehold	3,199	34,435	Offices	1993
France and Luxembourg Properties at 31 December 2005			Sub total	151,067	1,626,072	
Germany						
Jarrestrasse	Jarrestrasse 8-10, D-22303, Hamburg	Freehold	5,654	60,861	Offices	2003
Frohbösestrasse	Frohbösestrasse 12, D-22525, Hamburg	Freehold	1,993	21,450	Offices	2005
Schanzenstrasse	Schanzenstrasse 76, Dusseldorf	Freehold	3,095	33,315	Offices	1990
German properties at 31 December 2005			Sub total	10,742	115,626	
TOTAL ALL PROPERTY				612,838	6,596,536	

PORTFOLIO

2005

# UNITED KINGDOM



**Westminster Tower**  
London SE1  
Multi let offices overlooking River  
Thames and Houses of Parliament



**Conoco House**  
London SE1  
Multi tenanted

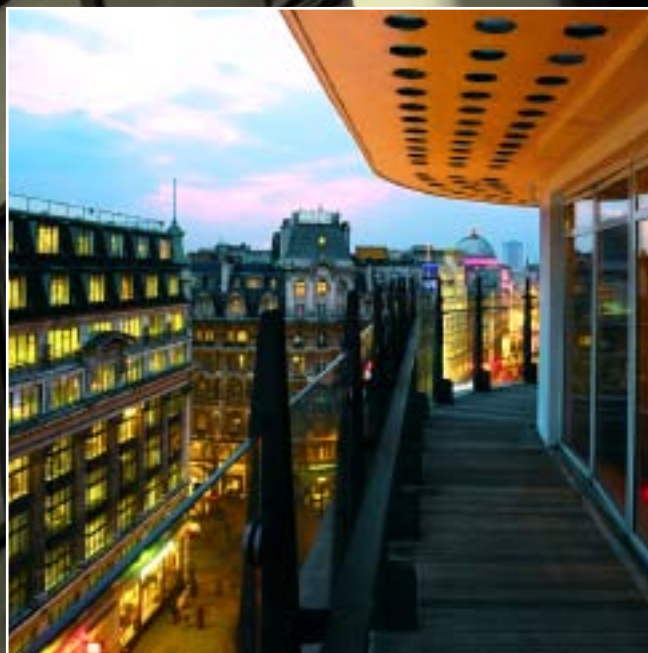


**New Printing House Square**  
London WC1



**Chancel House**  
London NW10  
Multi let offices

One Leicester Square  
London WC2  
Major leisure development



One Leicester Square  
London WC2  
Major leisure development



**22 Dukes Road**  
London WC1



**Quayside**  
London SW6  
Freehold offices



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



**Cap Gemini House**  
South Bank, London SW8  
Mixed office and industrial investment



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

Brent House  
Wembley, Middx HA9  
Multi let offices



Coventry House  
London SW1  
Sign, restaurant and flats



Satellite House  
London N1



**Spring Gardens**  
 London SE11  
 Substantial office business park

**Western House**  
 London SE11  
 Freehold offices



**Ingram House**  
 London WC2  
 Freehold offices and residential



**2 Deanery Street**  
 London W1  
 Freehold offices



### Vista Office Centre

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



### London House

London W6  
Business Centre



### Cambridge House

London W6  
Freehold offices



# PORTFOLIO

# 2005

# SWEDEN



**Solna Business Park**

Stockholm, Sweden

Recently refurbished space occupied  
by Coop in January 2004



**Solna Business Park**

Stockholm, Sweden

Offices, retail, hotel, gym and  
restaurant





**Solna Business Park**  
Stockholm, Sweden  
Offices and retail accommodation



**Solna Business Park**  
Stockholm, Sweden  
Offices and retail accommodation



ICA  
Fräsaren 12, Solna Business Park  
Recently refurbished space occupied by ICA  
in May 2005





Vänerparken  
Vänersborg, Sweden  
Substantial office, residential  
and leisure development



PORTFOLIO

2005

# CONTINENTAL EUROPE

FRANCE



**Rue Raspail**

23 Rue Raspail, 94200 Ivry sur Seine, Paris  
Acquired March 2005



**Général Leclerc**

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

**Bellevue**

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



### Rhône Alpes

235 cours Lafayette, 69006, Lyon  
Acquired December 1997



### Solférino

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

### Philippe Auguste

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



### Columbus

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



### Mission Marchand

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

### Forum

27/33 rue Maurice Flandin  
69003 Lyon  
Acquired July 1997



### Petits Champs

48 rue Croix des Petits Champs  
75001 Paris  
Acquired April 1998



### Park Avenue

81 Boulevard de Stalingrad  
69100 Villeurbanne, Lyon  
Acquired July 1997



### D'Aubigny

27 rue de la Villette  
69003 Lyon  
Acquired July 1997



### Le Quatuor

168 Avenue Jean Jaurès  
92120 Montrouge, Paris  
Acquired June 2002



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



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

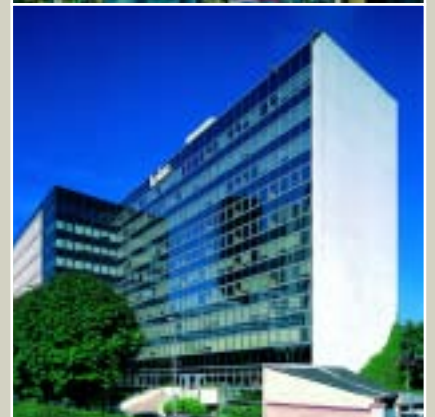


**Rue Stephenson**  
18 Rue Stephenson, 75018 Paris  
Acquired November 2003

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



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



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



**Sirius**  
9/11 rue Jean Mazet,  
94200 Ivry sur Seine, Paris  
Acquired September 2004



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



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



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



**Rue Nationale**  
96 rue Nationale,  
59000 Lille  
Acquired September 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 Hôtels**  
20/22 rue des Petits Hôtels  
75010 Paris  
Acquired May 1998

### Front de Parc

109 Boulevard de Stalingrad  
69100 Villeurbanne, Lyon  
Acquired July 1997



### Le Debussy

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



### Le Sigma

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



### La Madeleine

105 Avenue de la République  
59110 Lille  
Acquired September 2001



### Jean Jaurès

120 rue Jean Jaurès, 92300 Levallois Penet  
Acquired 2004



### Le Gauguin

47 Allée des Impressionnistes, 93420 Villepin  
Acquired 2004

**Georges Clémenceau**  
2 Boulevard Georges Clémenceau  
Courbevoie, Paris  
Acquired February 2004



**16 rue Eugene Ruppert**  
L-2453 Luxembourg  
Acquired January 2004



**Marcel Pourtout**  
5 Avenue Marcel Pourtout  
92500 Reuil Malmaison, Paris  
Acquired December 2000



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



**Paul Doumer**  
147 Avenue Paul Doumer,  
92500 Reuil Malmaison, Paris  
Acquired March 1999



# GERMANY

**Frohbösestrasse**  
Frohbösestrasse 12, D-22525, Hamburg  
Acquired November 2005



**Adlershofer Tor**  
Rudower Chaussee 12, D-12489,  
Berlin-Adlershof  
Acquired March 2006

**Jarrestrasse**  
Jarrestrasse 8-10, D-22303,  
Hamburg  
Acquired December 2005

# DIRECTORS' REPORT

for the year ended 31 December 2005

The Directors present their report and the audited financial statements for the year ended 31 December 2005. The Chairman's Statement and Financial Review 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 in the UK, Sweden and Continental Europe.

## 2 REVIEW OF BUSINESS

The Consolidated Income Statement for the year is set out on page 60.

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 2005 the Company distributed £6,920,236 to shareholders (equivalent to 8.5 pence per share) by way of tender offer buy-back completed in November 2005 (2004: distribution of £6,412,286 or 7.5 pence per share).

The Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2005. It is proposed, therefore, that the Company offers to buy 1 in 42 of the shares registered in the name of each eligible shareholder at a price of 600 pence per share. This compares with a mid-market price of 600 pence per share on 24 March 2006 (2004: 1 in 41 shares at 485 pence per share).

The resulting distribution to shareholders will be £11,432,844 or 14.3 pence per share, which will be made in May 2006. 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 2005 will have received a total return of 22.8 pence per share (2004: 19.3 pence per share).

## 4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made market and tender-offer purchases totalling 3,843,835 of its own shares at a cost of £18,857,977, a weighted average of 491 pence per share. This represents £960,959 in nominal value, or 4.58 per cent of the brought forward called up share capital. Shares purchased during the November tender offer and through the market have been retained as Treasury shares.

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

At the 2005 Annual General Meeting the Company was authorised to make market purchases of up to 8,183,707 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 434,746 shares and therefore still has authority to purchase 7,748,961. Included within these market purchases was one transaction since the year end, being 27,746 shares at 550.0 pence per share on 14 March 2006. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 7,812,446 shares.

## 5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2005 was carried out by Allsop & Co for the UK and Sweden, and DTZ Debenham Tie Leung for France, which produced an open market value of £1,096.4 million (2004: £1,022.5 million). On the basis of these valuations net assets per share amounted to 606.9 pence (2004: 522.3 pence). In view of the policy of re-valuing properties bi-annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 2005.

## 6 POST BALANCE SHEET EVENTS

Please see note 35 for a description of post balance sheet events.

## 7 DIRECTORS

The current Directors of the Company are shown on page 28. On 1 January 2006, Per Sjöberg succeeded Tom Thomson as Chief Executive Officer and Tom Thomson became Non-Executive Vice Chairman.

A statement of Directors' remuneration and their interests in shares and share options of the Company is set out in the Directors' Remuneration Report on pages 55 to 58.

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

### Executive Directors:

**Sten Mortstedt**, aged 66, has a consistent track record during a period of over 40 years, of building profitable and sustainable businesses both within the field of property and in a wide variety of other commercial sectors. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years he had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which he successfully floated on the Stock Exchange in Stockholm, in 1981.

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

# DIRECTORS' REPORT

for the year ended 31 December 2005

## 7 DIRECTORS (CONTINUED)

### Executive Directors: (continued)

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

He runs his global interests from his residence in Switzerland.

**Per Sjöberg**, aged 44, graduated from Stockholm University with a Bachelor degree in Business Administration. He is also an engineer and has experience of a number of large development projects globally. Before joining CLS Per was managing owner of a project and construction management company that he established in 1996. He has been responsible for property development activities at the Group since 1 November 2001 and was appointed to the main board as Group Development Director on 6 February 2004. On 1 January 2006, he took office as the Chief Executive Officer of the Group.

**Dan Bäverstam**, aged 50, graduated from Stockholm School of Economics in 1979 and subsequently completed a Business Studies course at CERAM Sophia Antipolis in France. He began his career with Wermlandsbank and PK Bank in Sweden. He then became Assistant Treasurer of AB Astra, now Astra Zeneca, responsible for foreign exchange and interest rate management. In 1987 he moved to the UK and became General Manager of the Treasury Operations of Svenska Finans International, part of the Svenska Handelsbanken. He joined CLS in October 1991 and is responsible within CLS for corporate financing and treasury operations and has overall responsibility for property acquisitions. He became Chief Financial Officer on 5 October 2001.

**Steven Board**, aged 51, joined the Company in December 1998 as Chief Operating Officer with overall responsibility for the Group's Europe-wide financial and IT systems, financial reporting and personnel and administration matters. Prior to joining the Company he was Finance Director for St. George Developments, part of the Berkeley Group plc. He previously held directorships within Alfred McAlpine PLC and senior management positions within British Telecommunications plc. He qualified as an accountant in 1980. He joined the Board on 25 February 2003.

### Non-Executive Directors:

**Tom Thomson**, aged 55, has a BA (Hons) in law from Kent University and qualified as a solicitor with Reynolds Porter Chamberlain in 1976. From 1979 to March 1994 he was a partner with Taylor Walton Solicitors. He was Company Secretary and solicitor to CLS from its inception in 1983 until 2001, initially as a partner in Taylor Walton and since 1994 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004. On 1 January 2006 he retired as Chief Executive and became Non-Executive Vice Chairman.

**James Dean**, aged 51, has worked for Savills plc since 1973, becoming a partner in 1983, and a director of Savills plc between 1987 and 1999. He remains a director of Savills Financial Holdings PLC and Savills Commercial and is also a director of Cosalt plc, Daniel Thwaites Plc and a number of private companies. He joined the Board on 9 April 1999.

**Dr Keith Harris**, aged 52, obtained his doctorate in 1977 and embarked on a career in investment banking. Following eight years at Morgan Grenfell in London and New York, where he was President of Morgan Grenfell Inc., he went on to become Managing Director and Head of International Corporate Finance at Drexel Burnham Lambert, CEO of Apax Partners Ltd. and, in 1994, was appointed Chief Executive of HSBC Investment Bank plc. In 1999, Keith left HSBC to pursue a number of interests as chairman or non-executive director of a range of public and private companies. These now include his chairmanship of Seymour Pierce Group Plc. In August 2000 Keith became Chairman of the Football League and in January 2001 joined the Board of Wembley National Stadium Limited. He resigned his chairmanship of the Football League Ltd in August 2002. He joined the Board on 28 April 1994.

**Thomas Lundqvist**, aged 61, joined the Board in November 1990 and had been Finance Director of the Group until retiring from the position and becoming a Non-Executive Director on 1 October 1995. Prior to joining CLS, Mr Lundqvist worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group where he was a board member.

**Bengt Mörtstedt**, aged 57, 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.

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

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

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

# DIRECTORS' REPORT

for the year ended 31 December 2005

## 8 DIRECTORS' SHAREHOLDINGS AND SUBSTANTIAL SHAREHOLDERS

The interests of the Directors in the share capital of the Company at the beginning and end of the year are detailed in the Directors' Remuneration Report on page 58.

In addition to the interest of the Mortstedt family referred to in note 8 of the Directors' Remuneration Report, the Company has been notified of interests which at 24 March 2006 represented 3 per cent or more of the Company's issued share capital.

	No. of shares	%
Stichting Pensioenfonds ABP	3,358,078	4.20

## 9 CORPORATE GOVERNANCE

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

### Combined Code

The Board supports the principles of good governance as set out in the Combined Code 2003 and incorporated into the rules of the UK Listing Authority. Save as identified and explained below, the Board considers that it has complied with all the provisions of the Combined Code.

### The Board

The Board currently comprises four Executive Directors, including the Chairman, and five Non-Executive Directors. On 1 January 2006 Tom Thomson ceased to be an Executive Director and became a Non-Executive Director. The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. The Board has determined that James Dean, Keith Harris and Thomas Lundqvist are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. The Board is satisfied with the balance between Executive and Non-Executive Directors which allows it to exercise objectivity in decision making and proper control of the Company's business. The Board considers its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between Executives and Non-Executives. Due to the structure of the Company it is considered that it is not appropriate to change the successful Board composition at present.

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

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

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

The Board's primary objective is to focus on adding value to the assets of the Group by identifying and assessing business opportunities and ensuring that potential risks are identified, monitored and controlled. Matters reserved for Board decisions include strategic long-term objectives and capital structure of major transactions. The implementation of Board decisions and day to day operations of the Group are delegated to Management.

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

Strategy is determined after having taken due regard of forecast domestic and international developments. The views of shareholders are sought in meetings held variously by the Chairman, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, and are reported back to the Board. The Board is also advised of the views of shareholders as received by the Company's brokers.

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

The Board met five times during the year and is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources. The Board has a formal schedule of matters specifically reserved to it for decision, which has been updated during the year; other decisions are dealt with as day-to-day matters by management. Directors are, where necessary, able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if and when required.

In accordance with the Combined Code, the Non-Executive Directors met formally during the year without either the Chairman or the Executive Directors present.

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

# DIRECTORS' REPORT

for the year ended 31 December 2005

## 9 CORPORATE GOVERNANCE (CONTINUED)

### The Board (continued)

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	5	3	2
Mr S Mortstedt	5	–	–
Mr T Thomson	4	–	–
Mr D Bäverstam	5	–	–
Mr S Board	5	–	–
Mr P Sjöberg	5	–	–
Mr K Harris	4	3	2
Mr J Dean	5	3	2
Mr T Lundqvist	5	3	–
Mr B Mörtstedt	5	–	–

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

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

The Non-Executive Directors fulfil a key role in corporate accountability. The remits and membership of the Audit and Remuneration Committees of the Board are set out below. The terms of reference of the Committees can be obtained by contacting the Company Secretary at the Registered Office.

The Board is assisted by the following Committees:

**The Audit Committee** comprises three Non-Executive Directors (Keith Harris (Chairman), James Dean and Thomas Lundqvist) and has met three times during the year. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors. The terms of reference of the Committee reflect current best practice, including authority to:

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

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

**The Remuneration Committee** comprises two Non-Executive Directors, James Dean and Keith Harris. The Board has considered the Combined Codes' recommendation that the Remuneration Committee should be formed of three Non-Executive Directors, however it believes that the purposes of the Committee are best achieved by the current two independent Non-Executive Directors. The Remuneration Committee has met twice during the year. The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme and Company Share Option Plan. The Committee meets at least once a year. Full details of the Committee's work is given in the Remuneration Report on pages 55 to 58.

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

# DIRECTORS' REPORT

for the year ended 31 December 2005

## 9 CORPORATE GOVERNANCE (CONTINUED)

### Internal Control

The Board acknowledges that the Directors are responsible for the Group's system of internal control and have established procedures which are designed to provide reasonable assurance against material misstatement or loss. These procedures have operated for the entire financial year and up to the date of approval of the Annual Report and Accounts. The Directors have reviewed the effectiveness of the system of internal control for the period. The Directors have recognised that such a system can only provide a reasonable and not absolute assurance that there has been no material misstatement or loss. The key elements of the process by which the system of internal control is monitored are as follows:

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

Set out on pages 7 to 27 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 included on the Company's website.

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

### Business Ethics

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

### Health & Safety

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

# DIRECTORS' REPORT

for the year ended 31 December 2005

## 9 CORPORATE GOVERNANCE (CONTINUED)

### Environmental Issues

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

### Non compliance with the Combined Code

With the exception of the absence of a Nominations Committee, that the Remuneration Committee consists of two independent Non-Executive Directors as explained in further detail above, and that the Chairman is not independent, the Company has complied throughout the financial year with the provisions of the Combined Code.

## 10 EMPLOYEES

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

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

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

## 11 SHARE CAPITAL

Changes in share capital are shown in note 22 of the Notes to the Financial Statements on page 87. At 31 December 2005 there were share options for 595,000 shares outstanding (2004: 585,000). Details of the Directors' share options are shown in the Directors' Remuneration Report on page 57.

## 12 CHARITABLE CONTRIBUTIONS

The contributions made by the Group during the year for charitable purposes were £4,372 (2004: £5,058).

## 13 INSURANCE OF DIRECTORS

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

## 14 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 25 days total invoices received for the year as a whole (2004: 51 days). The Company has no trade creditors (2004: nil).

## 15 AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

S F Board

Company Secretary  
24 March 2006

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2005

The report on remuneration of the Directors for the year ended 31 December 2005 is set out below and has been prepared in accordance with the applicable statutory regulations.

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

## 1. THE WORK OF THE REMUNERATION COMMITTEE

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

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

The Committee has maintained the same membership throughout the year, and has held two formal meetings during the period. In addition, the members of the Committee have had informal contact as necessary throughout the year. The Committee received advice from the Executive Chairman, Sten Mortstedt. The Committee is able to obtain independent professional advice where necessary, at the Company's expense.

## 2. REMUNERATION POLICY

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

### Executive Directors

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

The Remuneration Committee conducts an annual analysis of the remuneration and emoluments of the Directors against a group of appropriate quoted real estate companies. In all cases, this analysis showed that, whilst the performance of CLS was in the median quartile of the review group, the remuneration of the Directors was in the third quartile for salary and other discretionary awards. CLS does not operate any long term incentive plans.

The Board does not anticipate any significant change to its remuneration policy in the year ending 31 December 2006.

### Non-Executive Directors

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

### Basic salaries

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

### Performance-Related Remuneration

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

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

The remuneration of the Non-Executive Directors does not include a performance-related element.

For the year ended 31 December 2005, the apportionment of remuneration and other benefits between discretionary performance-related and non-performance related elements was as follows:

Director	Performance-related	Non performance-related
Sten Mortstedt	nil	100%
Per Sjöberg	44%	56%
Dan Bäverstam	57%	43%
Steven Board	54%	46%
Tom Thomson	50%	50%
James Dean	nil	100%
Keith Harris	nil	100%
Thomas Lundqvist	nil	100%
Bengt Mörtstedt	nil	100%

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2005

## 3. DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2005, the remuneration received by the Directors was as set out in the table below.

	2005 Fee as Director £000	2005 Salary £000	2005 Other fees £000	2005 Overseas benefits £000	2005 Benefits in kind £000	2005 Total emoluments £000	2005 Defined contribution pension £000	2005 Other benefits/ Performance related £000	2005 Total remuneration £000	2004 Total remuneration £000
<b>Executive</b>										
Sten Mortstedt (Executive Chairman)	-	168	380	-	-	548	-	-	548	447
Tom Thomson <sup>(1)</sup> (Vice-Chairman and Chief Executive)	-	225	-	-	3	228	11	237	476	384
Per Sjöberg <sup>(2)(3)</sup> (Group Property Director)	-	93	95	-	54	242	2	189	433	163
Dan Bäverstam (Chief Financial Officer)	-	132	-	36	3	171	7	240	418	359
Steven Board (Chief Operating Officer)	-	157	-	-	3	160	8	200	368	311
<b>Non-Executive</b>										
James Dean	35	-	-	-	-	35	-	-	35	30
Keith Harris	35	-	-	-	-	35	-	-	35	30
Thomas Lundqvist	30	-	-	-	-	30	-	-	30	25
Bengt Mörtstedt	30	-	-	-	-	30	-	-	30	25
Anna Seeley <sup>(4)</sup>	-	-	-	-	-	-	-	-	-	9
										1,783
<b>2005</b>	<b>130</b>	<b>775</b>	<b>475</b>	<b>36</b>	<b>63</b>	<b>1,479</b>	<b>28</b>	<b>866</b>	<b>2,373</b>	
<b>2004</b>	<b>115</b>	<b>709</b>	<b>394</b>	<b>36</b>	<b>9</b>	<b>1,263</b>	<b>25</b>	<b>495</b>	<b>1,783</b>	

This table is audited.

<sup>(1)</sup> and <sup>(2)</sup> With effect from 1 January 2006 Per Sjöberg succeeded Tom Thomson as Chief Executive Officer and Tom Thomson became Non-Executive Vice Chairman.

<sup>(3)</sup> Per Sjöberg was appointed as a Director on 6 February 2004, and his remuneration for 2004 is shown from that date. The amount shown as Other fees relates to charges made for his services relating to development projects for the Group, by a company in which he was an employee. Benefits in kind includes £53 thousand in respect of relocation costs.

<sup>(4)</sup> Anna Seeley was an Executive Director until 5 February 2004. She resigned from the Board on 23 November 2004.

The benefits provided to Executive Directors are permanent health and private medical insurance, pension contributions and life assurance under the Company's defined contribution pension scheme of which four Directors were members (2004: three). No car or car allowance is provided to any Director (2004: nil).

## 4. DIRECTORS' PENSION ENTITLEMENT

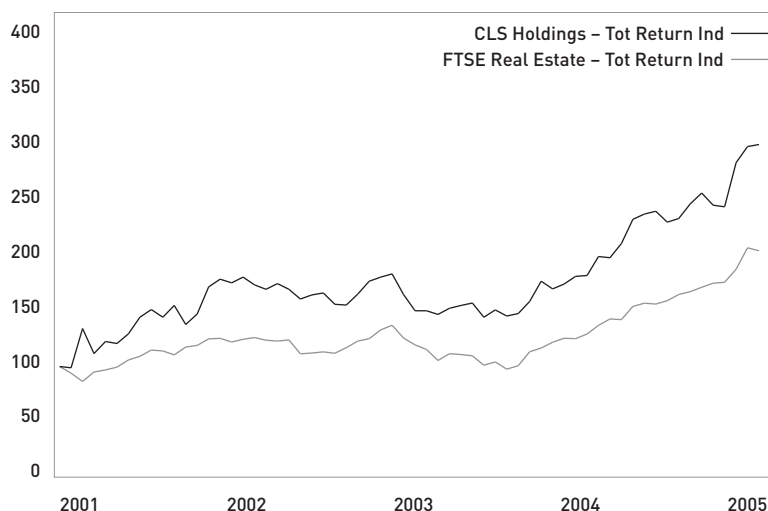
The Executive Directors are entitled to participate in a defined contribution pension scheme. Participants are required to contribute 5 per cent of basic UK salary (2004: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2004: 5 per cent). In 2004 an additional performance-related element was contributed by the Company, and is included in the total remuneration for that year.

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2005

## 5. SHARE PERFORMANCE GRAPH

For the period 1 January 2001 to 31 December 2005 the total shareholder return in respect of CLS Holdings plc has shown a return of 149.4 per cent compared to 111.9 per cent in the FTSE All Share Real Estate Index. This index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates.



## 6. SHARE OPTIONS (AUDITED)

During the year, shareholders approved a new Company Share Option Plan (CSOP) to replace the 1994 Executive Share Option Scheme. The CSOP was approved by the Inland Revenue in December 2005.

The Board has delegated to the Remuneration Committee the authority to grant options under the Company's share option schemes, which are the above mentioned CSOP and the Company's Unapproved Share Option Scheme.

Share options have normally been awarded to Executive Directors on the commencement of employment. Accordingly Per Sjöberg was granted options at the time of the announcement of his impending appointment as Chief Executive Officer, with further options granted upon receipt of the Inland Revenue's approval of the CSOP. There is no policy to provide options to Directors on an annual basis. It is policy not to provide share options to Non-Executive Directors.

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

Details of options held by Directors are set out below.

Director	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	No. at 1 Jan 2005	Granted in year	Exercised in year	Market price at exercise (pence)	Lapsed in year	No. at 31 Dec 2005
Tom Thomson										
approved	20.12.01	20.12.04	19.12.11	212.50	14,000	-	-		-	14,000
unapproved	20.12.01	20.12.04	19.12.08	212.50	436,000	-	-		-	436,000
					<b>450,000</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>450,000</b>
Per Sjöberg										
unapproved	20.12.01	20.12.04	19.12.08	212.50	26,000	-	-	(26,000)	-	-
unapproved	11.04.03	20.12.04	19.12.10	194.50	14,000	-	-	(14,000)	-	-
unapproved	27.09.05	27.09.08	26.09.12	458.25	-	73,500	-	-	-	73,500
CSOP	21.12.05	21.12.08	20.12.12	492.75	-	6,088	-	-	-	6,088
unapproved	21.12.05	21.12.08	20.12.12	492.75	-	412	-	-	-	412
					<b>40,000</b>	<b>80,000</b>		<b>(40,000)</b>		<b>80,000</b>

This table is audited.

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

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

The highest, lowest and average mid-market share price in the year are detailed under 'Share Capital' on page 17. The year end share price was 500.0 pence.

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2005

## 7. DIRECTORS' SERVICE CONTRACTS

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

Except as detailed below in respect of Tom Thomson, in accordance with best practice, Non-Executive Directors are not appointed on service contracts, but there are letters of appointment in place for each Non-Executive Director. All of the Non-Executive Directors are appointed until such time as they are not re-elected. As recommended under the Combined Code all of the Non-Executive Directors retire annually and are able to seek re-election at the Annual General Meeting. If they fail to be re-elected their terms of appointment will cease.

On 31 December 2005 Tom Thomson ceased to be an Executive Director and his Executive service contract terminated. On 1 January 2006 he became Non-Executive Vice Chairman. Under terms agreed upon his change of role, the notice period to be given by the Company is three months, however in the event that this is given the Company shall pay an amount equal to salary and benefits due to him up to 31 December 2007. As at 31 March 2006 the value of salary for the unexpired term of the contract is £198,900 and benefits receivable by him are continued membership of the Company's defined contribution pension scheme including life assurance, under which his contribution of up to five per cent of salary will be matched by the Company, and permanent health and private medical insurance. The notice period he is now required to give to the Company to terminate his contract is three months, not to expire before 30 September 2006. After December 2007 Tom Thomson will retire annually and be able to seek re-election at the annual general meetings of the Company. Before that date he will retire by rotation, as do the Executive Directors.

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

Name	Contract date	Notice period
Sten Mortstedt	28.04.94	1 year
Tom Thomson <sup>(1)</sup>	01.10.01	1 year
Per Sjöberg <sup>(2)</sup>	27.09.05	1 year
Dan Bäverstam	01.01.94	1 year
Steven Board	02.12.98	1 year
James Dean	09.04.99	6 months
Keith Harris	28.04.94	6 months
Thomas Lundqvist	20.12.98	6 months
Bengt Mörtstedt	18.12.98	6 months

<sup>(1)</sup> In respect of Tom Thomson's service contract, which was in effect throughout the period. Detail of his arrangements effective from 1 January 2006 are given above.

<sup>(2)</sup> Consequent on the announcement of Per Sjöberg's appointment to the position of Chief Executive Officer, effective 1 January 2006, a new contract between the Company and Per Sjöberg was signed on 27 September 2005.

## 8. INTERESTS IN SHARES

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

	31 December 2005 Ordinary shares of 25p	31 December 2004 Ordinary shares of 25p
Sten Mortstedt	<b>35,408,224</b>	36,908,551
Tom Thomson	<b>111,715</b>	116,447
Dan Bäverstam	<b>196,723</b>	142,513
Steven Board	<b>79,775</b>	76,491
Per Sjöberg <sup>(1)</sup>	<b>39,667</b>	–
James Dean	<b>23,682</b>	24,685
Keith Harris	<b>7,680</b>	8,005
Thomas Lundqvist	<b>120,735</b>	95,796
Bengt Mörtstedt	<b>5,609,144</b>	5,846,819

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

All of the above interests in shares were held beneficially for the Directors concerned. There have been no changes to the holdings shown above between the 31 December 2005 and the date of this Report.

## 9. LONG-TERM INCENTIVE SCHEME

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

## 10. WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board,

**James Dean**  
Chairman  
Remuneration Committee  
24 March 2006

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLS HOLDINGS PLC

We have audited the group financial statements of CLS Holdings plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

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

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, the Financial Review, the Property Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

## **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group 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 group financial statements.

## **OPINION**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

## **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London  
24 March 2006

# CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
<b>Continuing operations:</b>			
Rental and similar revenue		<b>77,678</b>	74,475
Service charge and similar revenue		<b>7,361</b>	6,900
<b>Total rental revenue</b>	5	<b>85,039</b>	81,375
Service charge expense and similar charges		<b>(15,777)</b>	(13,772)
<b>Net rental income</b>		<b>69,262</b>	67,603
Other operating income	6	<b>3,360</b>	4,151
Administrative expenses	7	<b>(14,910)</b>	(9,984)
Net property expenses	7	<b>(3,532)</b>	(3,631)
<b>Operating profit before gains/(losses) on investment properties</b>		<b>54,180</b>	58,139
Net gains from fair value adjustment on investment properties	13	<b>67,173</b>	37,236
Loss on disposal of part share of joint venture	21	<b>(1,106)</b>	–
Profit from sale of investment properties		<b>1,855</b>	464
<b>Operating profit</b>		<b>122,102</b>	95,839
Finance income	9	<b>1,425</b>	1,801
Finance costs	10	<b>(37,654)</b>	(35,866)
Share of loss of associates – post tax	16	<b>(1,216)</b>	(1,701)
<b>Profit before tax</b>		<b>84,657</b>	60,073
Taxation – current		<b>(1,304)</b>	(596)
Taxation – deferred		<b>(21,856)</b>	(16,042)
<b>Tax charge on profit</b>	11	<b>(23,160)</b>	(16,638)
<b>Profit for the year from continuing operations</b>		<b>61,497</b>	43,435
<b>Discontinued operations:</b>			
Loss for the period from discontinued operations – post tax	32	<b>(6,192)</b>	(4,002)
<b>Profit for the year</b>		<b>55,305</b>	39,433
<b>Attributable to:</b>			
Equity holders of the parent		<b>55,537</b>	40,511
Minority interest		<b>(232)</b>	(1,078)
		<b>55,305</b>	39,433
<b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)</b>			
– basic	12	<b>67.5</b>	47.0
– diluted	12	<b>67.0</b>	46.7
<b>Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in pence per share)</b>			
– basic	12	<b>75.0</b>	51.6
– diluted	12	<b>74.5</b>	51.3

The notes on pages 64 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2005 £000	As at 31 December 2004 £000
<b>Non-current assets</b>			
Investment properties	13	<b>1,096,361</b>	1,022,539
Property, plant and equipment	14	<b>8,119</b>	10,710
Intangible assets	15	<b>3,698</b>	3,357
Investments in associates	16	<b>3,526</b>	3,010
Available-for-sale financial assets	17	<b>13,918</b>	–
Investments	36	–	171
Derivative financial instruments	18	<b>353</b>	–
Deferred income tax	25	<b>14,025</b>	13,813
Trade and other receivables	19	<b>1,265</b>	3,163
		<b>1,141,265</b>	1,056,763
<b>Current assets</b>			
Trade and other receivables	19	<b>8,395</b>	11,696
Investments	36	–	10,492
Derivative financial instruments	18	<b>457</b>	–
Cash and cash equivalents	20	<b>118,162</b>	57,371
		<b>127,014</b>	79,559
<b>Total assets</b>		<b>1,268,279</b>	1,136,322
<b>Non-current liabilities</b>			
Trade and other payables	24	–	1,279
Deferred income tax	25	<b>146,109</b>	127,951
Borrowings, including finance leases	26	<b>694,591</b>	620,467
Derivative financial instruments	18	<b>982</b>	–
Provisions		–	301
		<b>841,682</b>	749,998
<b>Current liabilities</b>			
Trade and other payables	24	<b>45,394</b>	44,128
Current income tax		<b>1,799</b>	902
Derivative financial instruments	18	<b>285</b>	–
Borrowings, including finance leases	26	<b>25,339</b>	17,488
		<b>72,817</b>	62,518
<b>Total liabilities</b>		<b>914,499</b>	812,516
<b>Net assets</b>		<b>353,780</b>	323,806
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	22	<b>21,382</b>	21,374
Other reserves	23	<b>116,042</b>	122,070
Retained earnings		<b>217,252</b>	182,340
		<b>354,676</b>	325,784
<b>Minority interest</b>		<b>(896)</b>	(1,978)
<b>Total equity</b>		<b>353,780</b>	323,806

These financial statements were approved by the Board of Directors and authorised for issue on 24 March 2006 and were signed on its behalf by:

**Mr S A Mortstedt**  
Director

**Mr P Sjöberg**  
Director

The notes on pages 64 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company			Minority interest £000	Total £000
		Share capital £000	Other reserves £000	Retained earnings £000		
<b>Balance at 1 January 2004</b>	38	<b>21,911</b>	<b>120,610</b>	<b>157,624</b>	<b>(900)</b>	<b>299,245</b>
Arising in the year:-						
Currency translation differences on foreign currency net investments	23	-	485	(1)	-	<b>484</b>
Purchase of own shares expense		-	-	(118)	-	<b>(118)</b>
Purchase of own shares	22	-	-	(15,676)	-	<b>(15,676)</b>
Cancellation of shares	22/23	(609)	609	-	-	<b>-</b>
Employee share option scheme	22/23	72	366	-	-	<b>438</b>
Profit for the year		-	-	40,511	(1,078)	<b>39,433</b>
<b>Total (decrease)/increase in equity for the year</b>		<b>(537)</b>	<b>1,460</b>	<b>24,716</b>	<b>(1,078)</b>	<b>24,561</b>
<b>Balance at 31 December 2004</b>		<b>21,374</b>	<b>122,070</b>	<b>182,340</b>	<b>(1,978)</b>	<b>323,806</b>
Adoption of IAS 32 and IAS 39	38	-	9,774	(1,652)	-	8,122
<b>Balance at 1 January 2005 as restated for IAS 32 and IAS 39</b>		<b>21,374</b>	<b>131,844</b>	<b>180,688</b>	<b>(1,978)</b>	<b>331,928</b>
Arising in the year:-						
Fair value losses						
- available-for-sale investments	23	-	(7,481)	-	-	<b>(7,481)</b>
- cash flow hedges	23	-	(799)	-	-	<b>(799)</b>
Currency translation differences on foreign currency net investments	23	-	(7,663)	-	-	<b>(7,663)</b>
Purchase of own shares expense		-	-	(115)	-	<b>(115)</b>
Purchase of own shares	22	-	-	(18,858)	-	<b>(18,858)</b>
Issue of shares	22/23	-	79	-	-	<b>79</b>
Employee share option scheme	22/23	8	62	-	-	<b>70</b>
Reduction in minority interest		-	-	-	1,314	<b>1,314</b>
Profit for the year		-	-	55,537	(232)	<b>55,305</b>
<b>Total increase/(decrease) in equity for the year</b>		<b>8</b>	<b>(15,802)</b>	<b>36,564</b>	<b>1,082</b>	<b>21,852</b>
<b>Balance at 31 December 2005</b>		<b>21,382</b>	<b>116,042</b>	<b>217,252</b>	<b>(896)</b>	<b>353,780</b>

The notes on pages 64 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	<b>52,226</b>	52,082
Interest paid		<b>(34,857)</b>	(33,325)
Income tax paid		<b>(407)</b>	(539)
<b>Net cash inflow from operating activities</b>		<b>16,962</b>	18,218
<b>Cash flows from investing activities</b>			
Purchase of investment property		<b>(22,386)</b>	(38,249)
Capital expenditure on investment property		<b>(44,934)</b>	(31,003)
Proceeds from sale of investment property		<b>45,056</b>	8,486
Purchases of property, plant and equipment		<b>(1,853)</b>	(1,545)
Proceeds from sale of property, plant and equipment		<b>2,401</b>	2,029
Purchase of available-for-sale financial assets		<b>(3,532)</b>	(6,529)
Purchase of interests in joint venture/associate		<b>(798)</b>	(1,486)
Purchase of subsidiary undertaking		<b>(1,427)</b>	-
Interest received		<b>1,472</b>	1,715
<b>Net cash outflow from investing activities</b>		<b>(26,001)</b>	(66,582)
<b>Cash flows from financing activities</b>			
Issue of shares		<b>144</b>	428
Purchase of own shares		<b>(18,974)</b>	(15,795)
New loans		<b>148,571</b>	112,938
Issue costs of new loans		<b>(2,234)</b>	(2,018)
Interest rate caps purchased		<b>100</b>	(1,234)
Repayment of loans		<b>(57,777)</b>	(45,814)
<b>Net cash inflow from financing activities</b>		<b>69,830</b>	48,505
<b>Net increase in cash and cash equivalents</b>		<b>60,791</b>	141
Cash and cash equivalents at beginning of year		<b>57,371</b>	57,230
<b>Cash and cash equivalents at end of year</b>	20	<b>118,162</b>	57,371

The notes on pages 64 to 107 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 1 GENERAL INFORMATION

CLS Holdings plc ("the Company") and its subsidiaries (together "CLS Holdings" or the "Group") are an investment property group which is principally involved in the investment, development and management of commercial properties. The Group's principal operations are carried out in the United Kingdom, Sweden and Continental Europe.

The Company is registered in the UK, registration number 2714781, of registered address: 26th Floor, Portland House, Bressenden Place, London SW1E 5BG. The Company has its primary listing on the London Stock Exchange.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

These consolidated financial statements of CLS Holdings are for the year ended 31 December 2005. They have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS"), and in accordance with International Financial Reporting Interpretations Committee ("IFRIC") interpretations. The IFRS standards and IFRIC interpretations are subject to amendment by the International Accounting Standards Board ("IASB") and endorsement by the European Commission and therefore subject to possible change. These are the Group's first annual consolidated financial statements prepared under IFRS, as such these consolidated financial statements have been prepared in accordance with IFRS 1 – First-time Adoption of IFRS.

These financial statements are prepared in accordance with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS as allowed under IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The policies set out below have been consistently applied to all the years presented except as for those relating to the classification and measurement of financial instruments. The Group has made use of the exemption available under IFRS 1 to only apply IAS 32 and IAS 39 from 1 January 2005. The policies applied to financial instruments for 2004 and 2005 are disclosed separately below.

CLS Holdings' consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP") until 31 December 2004. UK GAAP differs in some areas from IFRS. In preparing the Group's 2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments, except as described in the accounting policies.

Reconciliations and descriptions of the effect of the transition at 1 January 2004 from UK GAAP to IFRS on the Group's equity and its net income and cash flows are provided in note 38. Disclosures with regard to the Group's adoption of IAS 32 and IAS 39 at 1 January 2005 also provided in note 38.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and financial instruments (including available-for-sale financial assets, derivative financial instruments and financial assets and liabilities) at fair value through profit or loss or equity, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are described in note 4. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Consolidation

#### a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### b) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of the profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of the current assets, or an impairment loss.

#### c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

### 2.4 Foreign currency translation

#### a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

#### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity from 1 January 2005.

#### c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- ii) income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises freehold land, freehold buildings, land held under operating leases and buildings held under finance leases.

Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specified asset. If this information is not available, the Group uses alternate valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed semi-annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any differences resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Hotel buildings held by the Group are not owner occupied. The Group rents the buildings to third-party operators who run the hotels.

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Property, plant and equipment      4 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Investments

#### Policy applicable from 1 January 2004 to 31 December 2004

##### Shares, warrants & options

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

#### Policy applicable from 1 January 2005 onwards

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reviews this designation at each reporting date.

##### a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

##### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently at amortised cost. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

##### c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has a positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

##### d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets including intangible assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### Research and Development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably.

### 2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 2.10 Trade receivables

#### Policy applicable from 1 January 2005 onwards

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment in trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### 2.11 Inventories

Properties that are being developed for future sales are reclassified as inventories at their deemed cost, which is the carrying amount at the date of reclassification. They are subsequently carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete redevelopment and selling expenses.

### 2.12 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and; represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The Group early adopted IFRS 5 from 1 January 2004 and applied it prospectively from that date in accordance with the standard's provisions. The application of IFRS 5 does not impact on the prior year financial statements other than a change in the presentation of the results and cash flows of discontinued operations.

### 2.13 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Borrowings

#### Policy applicable from 1 January 2004 to 31 December 2004

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

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.

#### Policy applicable from 1 January 2005 onwards

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.15 Income tax

The charge for current taxation is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using the rates that have been enacted or substantively enacted by the balance sheet date. Tax payable on capital gains realised on investment properties that have been revalued in previous periods is included in the current tax charge and any related deferred tax provision is released.

Deferred income tax is provided using the balance sheet liability method. Provision is made for temporary differences between the carrying value of assets and liabilities in the consolidated financial statements and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of assets and liabilities that do not affect accounting or taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using rates enacted or substantively enacted at the balance sheet date in the tax jurisdiction in which the temporary differences arise.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred income tax assets and liabilities are only offset if there is a legally enforceable right of set off.

When distributions are controlled by the Group, and it is probable the temporary difference will not reverse in the foreseeable future, deferred tax which would arise on the distribution of profits realised in subsidiaries, associates and joint ventures is provided in the same period as the liability to pay the distribution is recognised in the financial statements.

### 2.16 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where the Group, as lessee, is contractually required to restore a leased property to an agreed condition, prior to release by a lessor, provision is made for such costs as they are identified.

### 2.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of sales taxes and value added taxes. Revenue includes 'Rental and similar revenue', 'Service charge and similar revenue', 'Revenue from cable operations'. Revenue is recognised as follows:

Revenue from investment property:

#### a) Rental and similar revenue

Rental revenue from operating leases is recognised on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental revenue.

#### b) Service charge and similar revenue

Service and management charge revenue is recognised on a gross basis in the accounting period in which the services are rendered. Where the Group is acting as an agent, the commission rather than gross revenue is recorded as revenue.

Revenue from equity investment:

#### c) Revenue from cable operations

Revenue comprises amounts invoiced, excluding trade discounts and intra-Group trading.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Leases

#### a) A Group company is the lessee

- i) Operating lease – leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.
- ii) Finance lease – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement date at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at fair value.

#### b) A Group company is the lessor

- i) Operating lease – properties leased out under operating leases are included in investment property in the balance sheet.
- ii) Finance lease – when assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable accrues as finance income. Lease income is recognised over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

### 2.19 Employee benefits

#### a) Pension obligations

The Group operates various defined contribution plans. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

In Sweden, the total pension benefits are a combination, with some parts being defined contribution plans and others defined benefit plans. Defined benefit plans relate to the Swedish ITP pension plan which is administered by Alecta.

The Swedish Financial Accounting Standards Council's interpretations committee defined this plan as a multi-employer defined benefit plan. The Group did not have access to information from Alecta that would have made it possible for this plan to be reported as a defined benefit plan. Therefore, the plan has been reported as a defined contribution plan. This treatment is consistent with other Swedish companies investing in similar pension plans.

#### b) Share-based compensation

The Group operated an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.20 Share capital

#### Policy applicable from 1 January 2005 onwards

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of acquisition as part of the purchase consideration.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 Tender offer buy-backs

In lieu of paying dividends, a distribution by way of a tender offer buy-back is made twice yearly. Shares purchased by way of the tender offer are currently retained as treasury shares. Up to 10% of the issued share capital can be held as treasury shares.

Where the Company purchases its own shares out of free reserves and cancels the shares, a sum equal to the nominal value of the shares so purchased shall be transferred to the capital redemption reserve account.

The total cost of the tender offer buy-back is charged to retained earnings.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Risk management factors

#### Policy applicable from 1 January 2004 to 31 December 2004

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

Group's policy is to hedge the following exposures:

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

#### Policy applicable from 1 January 2005 onwards

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principals for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and not-derivative financial instruments, and investing excess liquidity.

#### a) Market risk

##### i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Swedish Kroner, and the Euro. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations which are denominated in a currency that is not the entity's functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The primary management of currency exposure arising from the translation of net assets of the Group's foreign operations in Sweden and Europe is through denominating borrowings in the relevant foreign currencies.

To manage the residual foreign exchange risk the Group uses forward foreign exchange contracts transacted by Group Treasury. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

##### ii) Price risk

The Group is exposed to property price and market rental risks.

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale, or at fair value through profit or loss. The Group is not exposed to commodity price risk.

#### b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

#### c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Risk management factors (continued)

#### d) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings (note 26). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group manages its cash flow interest-rate risk by using; floating-to-fixed interest-rate swaps, caps, floors and collars. Interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contracts and floating-rate interest amounts calculated by reference to the agreed notional interest amounts.

### 3.2 Accounting for financial instruments and hedging activities

#### Policy applicable from 1 January 2004 to 31 December 2004

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

#### 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.

#### Forward foreign exchange contracts

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

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

#### Policy applicable from 1 January 2005 onwards

#### Derivatives

The Group uses derivatives to help manage its interest rate and foreign exchange rate risk. In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes.

Derivatives are recognised initially at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

#### Hedge accounting

Where a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and the hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

#### a) Fair value hedge accounting

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### b) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity, and recycled to the income statement in the periods when the hedged item will affect profit and loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.2 Accounting for financial instruments and hedging activities (continued)

#### c) Hedges of net investments

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in equity; the gain or loss relating to the ineffective portion of the hedge is recognised immediately in the income statement.

Gains and losses accumulated in equity are recognised in the income statement when the foreign operation is disposed of.

#### d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience as adjusted for current market conditions and other factors.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

#### b) Principal assumptions for management's estimation of fair value of investment properties

If information on current or recent prices or assumptions underlying the discounted cash flow approach investment properties are not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and accrual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### 4.1 Critical accounting estimates and assumptions (continued)

#### c) Income Taxes

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which determination is made.

### 4.2 Critical judgements in applying the entity's accounting policies

#### a) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

#### b) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 (revised 2004) on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

## 5 SEGMENT INFORMATION

### Primary reporting format – geographical segments

The Group's operations are managed on a country-by-country basis. The Group operates in three principal geographic areas of the world:

- (1) United Kingdom
- (2) Sweden
- (3) Continental Europe

There are no transactions between the geographical segments. The unallocated segments represents group items, being current and deferred tax.

Segment assets include primarily investment properties, property plant and equipment, intangible assets, trade and other receivables, and cash and cash equivalents, and investments where appropriate. Segment liabilities comprise borrowings, including finance leases and other operating liabilities.

Capital expenditure comprises additions to investment property, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

The segment results for the year ended 31 December 2005 are as follows:

	United Kingdom £000	Sweden £000	Continental Europe £000	Unallocated £000	Total £000
<b>Continuing operations</b>					
Revenue	40,256	24,179	20,604	–	85,039
Operating profit before gains/(losses) on investment properties	21,464	14,259	18,457	–	54,180
Net gain from fair value adjustment on investment property	24,137	9,819	33,217	–	67,173
Loss on disposal of part share of JV	(1,106)	–	–	–	(1,106)
Profit from sale of investment property	1,489	–	366	–	1,855
Finance income	652	244	529	–	1,425
Finance costs	(22,053)	(10,761)	(4,840)	–	(37,654)
Share of loss of associates – post tax	(1,216)	–	–	–	(1,216)
Profit before tax	23,367	13,561	47,729	–	84,657
Tax charge on profit				(23,160)	(23,160)
<b>Profit for the year from continuing operations</b>					<b>61,497</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 5 SEGMENT INFORMATION (CONTINUED)

### Primary reporting format – geographical segments (continued)

Other information:

	United Kingdom £000	Sweden £000	Continental Europe £000	Unallocated £000	Total £000
Assets	575,587	313,320	361,821	14,025	1,264,753
Associates	3,526	–	–	–	3,526
<b>Total assets</b>	<b>579,113</b>	<b>313,320</b>	<b>361,821</b>	<b>14,025</b>	<b>1,268,279</b>
<b>Liabilities</b>	<b>347,641</b>	<b>206,535</b>	<b>212,415</b>	<b>147,908</b>	<b>914,499</b>
Capital expenditure	14,438	36,258	24,511	–	75,207
Depreciation	384	110	10	–	504

Segmental information for the Group's discontinued operations is presented in note 32.

The segment results for the year ended 31 December 2004 are as follows:

	United Kingdom £000	Sweden £000	Continental Europe £000	Unallocated £000	Total £000
<b>Continuing operations</b>					
Revenue	39,193	23,102	19,080	–	81,375
Operating profit before gains/(losses) on investment properties	28,417	13,438	16,284	–	58,139
Net gain from fair value adjustment on investment property	26,404	2,854	7,978	–	37,236
(Loss)/profit from sale of investment property	(56)	–	520	–	464
Finance income	671	174	956	–	1,801
Finance costs	(21,439)	(7,962)	(6,465)	–	(35,866)
Share of loss of associates – post tax	(1,701)	–	–	–	(1,701)
Profit before tax	32,296	8,504	19,273	–	60,073
Tax charge on profit				(16,638)	(16,638)
<b>Profit for the year from continuing operations</b>					<b>43,435</b>

Other information:

	United Kingdom £000	Sweden £000	Continental Europe £000	Unallocated £000	Total £000
Assets	529,903	289,378	300,218	13,813	1,133,312
Associates	3,010	–	–	–	3,010
<b>Total assets</b>	<b>532,913</b>	<b>289,378</b>	<b>300,218</b>	<b>13,813</b>	<b>1,136,322</b>
<b>Liabilities</b>	<b>324,858</b>	<b>179,239</b>	<b>179,566</b>	<b>128,853</b>	<b>812,516</b>
Capital expenditure	16,915	25,532	32,545	–	74,992
Depreciation	428	107	9	–	544

Segmental information for the Group's discontinued operations is presented in note 32.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 5 SEGMENT INFORMATION (CONTINUED)

### Secondary reporting format – business segments

Although the Group operates on a country-by-country geographic basis, the Group operates in two distinct operating divisions:

(1) Investment property, and

(2) Equity investment

	2005 £000	2004 £000
<b>Continuing operations:</b>		
<b>Revenue</b>		
Investment property	85,039	81,375
Equity investment	–	–
	<b>85,039</b>	<b>81,375</b>
<b>Total assets</b>		
Investment property	1,239,935	1,117,614
Equity investment	28,344	18,708
	<b>1,268,279</b>	<b>1,136,322</b>
<b>Capital expenditure</b>		
Investment property	75,207	74,992
Equity investment	–	–
	<b>75,207</b>	<b>74,992</b>

Segmental information for the Group's discontinued operations is presented in note 32.

## 6 OTHER OPERATING INCOME

	2005 £000	2004 £000
Investment income	–	3,034
Realised gains/(losses) on available-for-sale financial assets (note 17)	1,114	–
Other property related income	1,058	400
Other income	1,188	717
<b>Total</b>	<b>3,360</b>	<b>4,151</b>

## 7 EXPENSES BY NATURE

	2005 £000	2004 £000
Auditors' remuneration for audit services	260	260
Auditors' remuneration for non-audit services	105	5
Depreciation and amortisation	504	544
Loss on disposal of property, plant and equipment	425	327
Repairs and maintenance	243	179
Bad debt expense	902	440
Employee benefit expense (note 8)	7,430	4,899
Legal fees	3,549	618
Operating lease rentals	610	415
Other expenses	4,414	5,928
<b>Total</b>	<b>18,442</b>	<b>13,615</b>
Classified as:		
Administrative expenses	14,910	9,984
Net property expenses	3,532	3,631
<b>Total</b>	<b>18,442</b>	<b>13,615</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 8 EMPLOYEE BENEFITS EXPENSE

	2005 £000	2004 £000
Wages and salaries	<b>5,603</b>	3,783
Social security costs	<b>1,049</b>	530
Share options granted to directors and employees	<b>6</b>	10
Pension costs – defined contribution plans	<b>231</b>	169
Other employee related expenses	<b>541</b>	407
<b>Total</b>	<b>7,430</b>	4,899

Please refer to the Directors' remuneration report for details of Directors' emoluments, who are considered to be the Key Management as defined by IAS 24.

The monthly average number of persons employed by the Group for continuing operations, including Executive Directors were as follows:

	2005	2004
Male	<b>35</b>	39
Female	<b>40</b>	38
<b>Total</b>	<b>75</b>	77

## 9 FINANCE INCOME

	2005 £000	2004 £000
Finance income:		
– Foreign exchange variances	<b>(47)</b>	86
– Interest income	<b>1,472</b>	1,715
<b>Total</b>	<b>1,425</b>	1,801

## 10 FINANCE COSTS

	2005 £000	2004 £000
Interest expense:		
– Bank borrowings	<b>31,286</b>	28,949
– Debentures	<b>4,698</b>	4,693
– Finance leases	<b>55</b>	67
– Other interest	<b>9</b>	59
Amortisation of issue costs of loans	<b>1,392</b>	1,099
Caps, collar and floor amortisation	<b>–</b>	999
Derivative financial instruments (note 18)		
– Interest-rate swaps: cash flow hedges (transfer from equity)	<b>141</b>	–
– Interest-rate swaps: transactions not qualifying as hedges	<b>66</b>	–
– Interest-rate caps, collars and floors: transactions not qualifying as hedges	<b>7</b>	–
<b>Total</b>	<b>37,654</b>	35,866

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 11 INCOME TAX EXPENSE

Year ended 31 December 2005	Continuing operations £000
Current tax	1,304
Deferred tax (note 25)	21,856
<b>Total</b>	<b>23,160</b>

Year ended 31 December 2004	Continuing operations £000
Current tax	596
Deferred tax (note 25)	16,042
<b>Total</b>	<b>16,638</b>

In addition to the deferred tax expense charged to the profit and loss, a deferred tax credit of £2,896 thousand has been recognised directly in equity (see note 25).

On adoption of IAS 32 and IAS 39 at 1 January 2005, a net deferred tax liability of £1,872 thousand was recognised directly in equity.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2005 £000	2004 £000
<b>Profit before tax:</b>		
Continuing operations	<b>84,657</b>	60,073
Tax calculated at domestic tax rates applicable to profits in the respective countries	<b>24,803</b>	17,455
Expenses not deductible for tax purposes	<b>2,125</b>	1,950
Tax effect of unrecognised losses in associates	<b>338</b>	–
Agreement of previously unrecognised tax losses	<b>(322)</b>	(2,054)
Different taxation on treatment of disposals	<b>(1,917)</b>	(74)
Losses used through consortium relief by minorities	<b>(1,380)</b>	234
Adjustment in respect of prior periods	<b>(487)</b>	(873)
<b>Tax expense for the year</b>	<b>23,160</b>	16,638

The weighted average applicable tax rate was 29.3% (2004: 29.1%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 12 EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (see note 22).

### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding 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, the effect of these dilutive securities is to increase weighted average shares by 595,000 shares (2004: 585,000 shares).

	2005 Earnings £000	2005 Earnings per share Pence	2004 Earnings £000	2004 Earnings per share Pence
<b>Earnings per share:</b>				
<b>Basic earnings per share</b>	<b>55,537</b>	<b>67.5</b>	40,511	47.0
Dilution				
– Share options	–	(0.5)	–	(0.3)
<b>Diluted earnings per share</b>	<b>55,537</b>	<b>67.0</b>	40,511	46.7
<b>Earnings per share from continuing operations:</b>				
<b>Basic earnings per share</b>	<b>55,537</b>	<b>67.5</b>	40,511	47.0
Less discontinued operations				
– Pre tax losses from discontinued operations	<b>6,192</b>	<b>7.5</b>	4,002	4.6
<b>Basic earnings per share – continuing operations</b>	<b>61,729</b>	<b>75.0</b>	44,513	51.6
Dilution				
– Share options	–	(0.5)	–	(0.3)
<b>Diluted earnings per share – continuing operations</b>	<b>61,729</b>	<b>74.5</b>	44,513	51.3
<b>Earnings per share from discontinued operations:</b>				
Discontinued operations				
– Pre tax losses from discontinued operations	<b>(6,192)</b>	<b>(7.5)</b>	(4,002)	(4.6)
<b>Basic earnings per share – discontinued operations</b>	<b>(6,192)</b>	<b>(7.5)</b>	(4,002)	(4.6)
Dilution				
– Share options	–	–	–	–
<b>Diluted earnings per share – discontinued operations</b>	<b>(6,192)</b>	<b>(7.5)</b>	(4,002)	(4.6)

The weighted average number of shares for the period was 82,316,545 (2004: 86,113,994).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 13 INVESTMENT PROPERTIES

	2005 £000	2004 £000
<b>At beginning of year</b>	<b>1,022,539</b>	918,721
Net exchange differences	<b>(27,024)</b>	6,179
Business acquisitions	<b>9,105</b>	32,343
Property acquisitions	<b>21,883</b>	7,537
Capital expenditure	<b>43,342</b>	28,874
Disposal	<b>(45,587)</b>	(8,351)
Net gain from fair value adjustments on investment property	<b>67,173</b>	37,236
Rent free period debtor adjustments	<b>4,930</b>	–
<b>At end of year</b>	<b>1,096,361</b>	1,022,539

The investment properties were revalued at 31 December 2005 to their fair value, valuations were based on current prices in an active market for all properties. The property valuations were carried out by Allsop & Co (for the UK and Swedish properties) and DTZ Debenham Tie Leung (for Continental European properties), who are independent, professionally qualified valuers.

Investment property includes buildings held under finance leases of which the carrying amount is £45,897 thousand (2004: £43,044 thousand).

The period of leases whereby the Group leases out its investment property under operating leases is typically 3 years or more.

No contingent rents were recognised in 2005 (2004: £nil).

## 14 PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment £000	Property in the course of construction £000	Total £000
<b>Cost</b>			
<b>At 1 January 2004</b>	10,155	2,478	12,633
Additions	1,545	3,192	4,737
Disposals	(2,181)	–	(2,181)
Exchange rate differences	17	–	17
<b>At 31 December 2004</b>	<b>9,536</b>	<b>5,670</b>	<b>15,206</b>
Additions	1,764	967	2,731
Disposals	(6,374)	–	(6,374)
Exchange rate differences	(77)	–	(77)
<b>At 31 December 2005</b>	<b>4,849</b>	<b>6,637</b>	<b>11,486</b>
<b>Depreciation</b>			
<b>At 1 January 2004</b>	3,308	–	3,308
Depreciation charge	1,330	–	1,330
Disposals	(152)	–	(152)
Exchange rate differences	10	–	10
<b>At 31 December 2004</b>	<b>4,496</b>	<b>–</b>	<b>4,496</b>
Depreciation charge	1,460	–	1,460
Impairment	1,000	–	1,000
Disposals	(3,547)	–	(3,547)
Exchange rate differences	(42)	–	(42)
<b>At 31 December 2005</b>	<b>3,367</b>	<b>–</b>	<b>3,367</b>
<b>Net book value</b>			
<b>At 31 December 2004</b>	<b>5,040</b>	<b>5,670</b>	<b>10,710</b>
<b>At 31 December 2005</b>	<b>1,482</b>	<b>6,637</b>	<b>8,119</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Property, plant and equipment held under finance leases

The net book amount of property, plant and equipment held under finance leases was Enil (2004: £122 thousand). The depreciation expense charged to the income statement in relation to property, plant and equipment held under finance leases was £7 thousand (2004: Enil).

### Property, plant and equipment held under operating leases

Lease rentals amounting to £27 thousand (2004: £28 thousand) relating to the lease of property, plant and equipment are included in the income statement.

## 15 INTANGIBLE ASSETS

	Goodwill £000	Other intangibles £000	Total £000
<b>Cost and net book value</b>			
At 1 January 2004	–	427	427
Additions	2,509	421	2,930
At 31 December 2004	2,509	848	3,357
Additions	252	89	341
<b>At 31 December 2005</b>	<b>2,761</b>	<b>937</b>	<b>3,698</b>

### Intangible assets include

Goodwill includes £2,509 thousand which arose from the acquisition of a French property portfolio through a business combination in 2004, and £252 thousand which arose from the acquisition of a German property business during 2005.

Other intangibles of £937 thousand include internally generated capitalised development and other costs.

### Impairment of intangible assets

The Group tests intangible assets annually for impairment, or more frequently if there are indications that intangible assets might be impaired. Management has reviewed the intangible asset balances for impairment and has concluded that there has been no impairment during the year.

## 16 INVESTMENTS IN ASSOCIATES

	Net assets £000	Goodwill £000	Total £000
<b>At 1 January 2004</b>	412	2,813	3,225
Additions	–	1,698	1,698
Share of (loss)/profit	(58)	–	(58)
Other equity movements	(199)	(13)	(212)
Impairment	–	(1,643)	(1,643)
At 31 December 2004	155	2,855	3,010
Additions	1,714	–	1,714
Share of (loss)/profit	(420)	–	(420)
Other equity movements	230	(230)	–
Impairment	(271)	(525)	(796)
Exchange rate differences	18	–	18
<b>At 31 December 2005</b>	<b>1,426</b>	<b>2,100</b>	<b>3,526</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

The Group's interest in its principal associates, all of which are unlisted, were as follows:

Year ended 31 December 2005	Assets £000	Liabilities £000	Revenues £000	Profit/ (loss) £000	Interest held %
Keronite Limited (incorporated in England and Wales)	775	(775)	822	(1,757)	47.9
Lunarworks AB (incorporated in Sweden)	1,992	(566)	2,532	541	48.2
<b>Total</b>	<b>2,767</b>	<b>(1,341)</b>	<b>3,354</b>	<b>(1,216)</b>	

Year ended 31 December 2004	Assets £000	Liabilities £000	Revenues £000	Profit/ (loss) £000	Interest held %
Keronite Limited (incorporated in England and Wales)	643	(1,268)	532	(1,918)	46.1
Lunarworks AB (incorporated in Sweden)	1,193	(413)	1,690	217	45.1
<b>Total</b>	<b>1,836</b>	<b>(1,681)</b>	<b>2,222</b>	<b>(1,701)</b>	

The carrying amount of the Keronite investment has been reduced to Enil through the recognition of an impairment loss of £796 thousand (2004: £1,643 thousand) the impairment loss was based on discounted cash flow projections. These losses have been included in the income statement.

Keronite Limited has a balance sheet date of 31 March and Lunarworks AB has a balance sheet date of 31 December.

## 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Available-for-sale financial assets £000
At 31 December 2004	–
Adoption of IAS 32/IAS 39 – reclassification from investments at 1 January 2005, see note 38	10,663
Adoption of IAS 32/IAS 39 – revaluation of investments at 1 January 2005, see note 38	12,008
<b>At 1 January 2005</b>	<b>22,671</b>
Acquisition of subsidiary	–
Additions	3,382
Disposals	(1,200)
Provision charged to profit and loss	(441)
Revaluation deficit movements in equity	(10,377)
Exchange rate differences	(117)
<b>At 31 December 2005</b>	<b>13,918</b>
Less: non-current portion	(13,918)
<b>Current portion</b>	<b>–</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial assets include the following:

	2005 £000
Listed securities	
– Equity securities – UK	9,371
– Equity securities – Sweden	1,372
– Equity securities – US	58
– Government securities – UK	150
	10,951
Unlisted securities	
– Equity securities – UK	2,156
– Equity securities – Sweden	221
– Equity securities – US	527
– Equity securities – Other	22
	2,926
Other investments	41
<b>Total</b>	<b>13,918</b>

This line item is only used from 1 January 2005, the IAS 32 and IAS 39 transition date. Disclosures for the year ended 31 December 2004 under previous GAAP are located in note 36.

## 18 DERIVATIVE FINANCIAL INSTRUMENTS

	2005 Assets £000	2005 Liabilities £000
Interest-rate swaps – cash flow hedges	353	890
Interest-rate swaps – not qualifying as hedges	–	207
Forward foreign exchange contracts – cash flow hedges	–	92
Interest-rate caps, collars and floors – not qualifying as hedges	457	78
<b>Total</b>	<b>810</b>	<b>1,267</b>
Less non-current portion:		
Interest-rate swaps – cash flow hedges	353	890
Interest-rate swaps – not qualifying as hedges	–	–
Forward foreign exchange contracts – cash flow hedges	–	92
Interest-rate caps, collars and floors – not qualifying as hedges	–	–
<b>Non-current portion</b>	<b>353</b>	<b>982</b>
<b>Current portion</b>	<b>457</b>	<b>285</b>

### Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2005 was £108.3 million. The average period to maturity of the interest-rate swaps was 2.7 years.

### Forward foreign exchange contracts

The Group provides funds for working capital investment in re-development of investment properties in Sweden. The Group hedges the risk of adverse foreign exchange rate movements by entering into forward foreign exchange contracts.

This line item is only used from 1 January 2005, the IAS 32 and IAS 39 transition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 19 TRADE AND OTHER RECEIVABLES

	2005 £000	2004 £000
<b>Non-current</b>		
Prepayments	315	1,065
Other debtors	950	2,098
	<b>1,265</b>	3,163
<b>Current</b>		
Trade receivables	4,109	3,989
Prepayments	1,593	1,564
Accrued income	449	3,943
Other debtors	2,244	2,200
	<b>8,395</b>	11,696
<b>Total</b>	<b>9,660</b>	14,859

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants, internationally dispersed. Included in the above non-current other debtors balance is an amount due from the sale of the WightCable business, this has been discounted at 8.0% representing the time value of money.

## 20 CASH AND CASH EQUIVALENTS

	2005 £000	2004 £000
Cash at bank and in hand	112,841	52,285
Short term bank deposits	5,321	5,086
<b>Total</b>	<b>118,162</b>	57,371

At 31 December 2005, Group cash at bank and in hand included £3,861 thousand (2004: £3,449 thousand) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party.

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

The fair value of short-term deposits approximates to the carrying amount because of the short maturity of these financial instruments.

Interest rate risk of financial assets:

	Cash at bank and in hand £000	Short-term deposits £000	Total £000
<b>Year ended 31 December 2005</b>			
Sterling	58,642	4,925	63,567
Swedish Kroner	10,714	–	10,714
Euro	43,474	396	43,870
Other	11	–	11
<b>Total</b>	<b>112,841</b>	<b>5,321</b>	<b>118,162</b>

	Cash at bank and in hand £000	Short-term deposits £000	Total £000
<b>Year ended 31 December 2004</b>			
Sterling	14,283	4,712	18,995
Swedish Kroner	13,048	–	13,048
Euro	24,936	374	25,310
Other	18	–	18
<b>Total</b>	<b>52,285</b>	<b>5,086</b>	<b>57,371</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 21 JOINT VENTURES

The Group has an interest in two joint ventures:

- Teighmore Limited, incorporated in Jersey, of which the Group owns 33 1/3 per cent of the ordinary share capital (2004: 33 1/3 per cent).
- New London Bridge House Limited, incorporated in England and Wales, of which the Group owns 33 1/3 per cent of the ordinary share capital (2004: 50 per cent). On 16 December 2005 the Group disposed of 1/3 of its share in New London Bridge House Limited, this resulted in a loss on disposal of £1,106 thousand.

The principal activity of the above joint venture companies is development, management and investment in commercial properties.

The following amounts represent the Group's share of the assets and liabilities, sales and results of the above joint ventures. They are included in the balance sheet and income statement:

Year ended 31 December 2005	Teighmore £000	New London Bridge House £000	Total £000
<b>Assets:</b>			
Non-current assets	24,999	16,376	41,375
Current assets	341	378	719
	25,340	16,754	42,094
<b>Liabilities:</b>			
Non-current liabilities	12,652	9,758	22,410
Current liabilities	2,458	1,271	3,729
	15,110	11,029	26,139
<b>Net assets</b>	<b>10,230</b>	<b>5,725</b>	<b>15,955</b>
Income	924	2,114	3,038
Expenses	(941)	(1,381)	(2,322)
<b>Profit after income tax</b>	<b>(17)</b>	<b>733</b>	<b>716</b>
Year ended 31 December 2004	Teighmore £000	New London Bridge House £000	Total £000
<b>Assets:</b>			
Non-current assets	24,003	22,500	46,503
Current assets	557	758	1,315
	24,560	23,258	47,818
<b>Liabilities:</b>			
Non-current liabilities	12,623	15,259	27,882
Current liabilities	3,395	1,924	5,319
	16,018	17,183	33,201
<b>Net assets</b>	<b>8,542</b>	<b>6,075</b>	<b>14,617</b>
Income	929	2,211	3,140
Expenses	(961)	(1,794)	(2,755)
<b>Profit after income tax</b>	<b>(32)</b>	<b>417</b>	<b>385</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 22 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2004	87,644	21,911	–	21,911
Employee share option scheme:				
– proceeds from shares issued	291	72	–	72
Purchase of own shares:				
– pursuant to tender offer	–	(411)	411	–
Cancellation of shares – pursuant to tender offer	(2,438)	(609)	–	(609)
At 31 December 2004	85,497	20,963	411	21,374
Adoption of IAS 32 and IAS 39	–	–	–	–
<b>At 1 January 2005</b>	<b>85,497</b>	<b>20,963</b>	<b>411</b>	<b>21,374</b>
Employee share option scheme:				
– proceeds from shares issued	30	8	–	8
Issue of shares	–	4	(4)	–
Purchase of own shares:				
– pursuant to tender offer	–	(850)	850	–
– pursuant to market purchase	–	(111)	111	–
<b>At 31 December 2005</b>	<b>85,527</b>	<b>20,014</b>	<b>1,368</b>	<b>21,382</b>

The total authorised number of ordinary shares is 160 million shares (2004: 160 million shares) with a par value of 25 pence per share (2004: 25 pence per share). All shares issued are fully paid.

### Treasury shares

Treasury shares held at 31 December 2005 were 5,469,490 (2004: 1,644,176).

During the year the Company acquired 3,843,835 of its own shares, of which 3,402,835 were purchased through the tender offer (2004: 4,082,066), and 441,000 were purchased through the market (2004: nil).

During the year the Company re-issued 18,521 (2004: nil) of its own shares.

### Share options

The number of shares subject to option, the period in which they were granted and the periods in which they may be exercised is given below:

Date of grant	Exercise price (pence)	Exercise period	2005	2004
30 November 2000	188	2003 - 2007	–	10,000
30 November 2000	188	2003 - 2013	<b>15,000</b>	15,000
30 November 2000	188	2003 - 2007	<b>10,000</b>	10,000
20 December 2001	212.5	2004 - 2008	–	26,000
20 December 2001	212.5	2004 - 2008	<b>14,000</b>	14,000
20 December 2001	212.5	2004 - 2011	<b>436,000</b>	436,000
28 February 2002	224	2005 - 2012	–	13,390
28 February 2002	224	2005 - 2009	–	6,610
03 March 2003	204.5	2006 - 2013	<b>10,000</b>	10,000
11 April 2003	194.5	2004 - 2010	–	14,000
06 October 2003	240	2006 - 2013	<b>12,500</b>	12,500
06 October 2003	240	2006 - 2010	<b>17,500</b>	17,500
27 September 2005	458.25	2008 - 2012	<b>73,500</b>	–
21 December 2005	492.75	2008 - 2012	<b>6,088</b>	–
21 December 2005	492.75	2008 - 2012	<b>412</b>	–
<b>Total</b>			<b>595,000</b>	585,000

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 22 SHARE CAPITAL (CONTINUED)

The following options were exercised during the year:

Date of exercise	Number of shares	Exercise price (pence)
15 March 2005	10,000	188
24 March 2005	13,390	224
24 March 2005.	6,610	224
<b>Total</b>	<b>30,000</b>	

In addition, during the year 40,000 options were surrendered and 80,000 new options were granted.

## 23 OTHER RESERVES

	Share premium reserve £000	Capital redemption reserve £000	Cumulative translation reserve £000	Cash flow hedge reserve £000	Fair value reserve £000	Other reserves £000	Total £000
At 1 January 2004	68,928	11,693	11,888	–	–	28,101	120,610
Employee share option scheme:							
– value of service provided	–	–	–	–	–	10	10
– proceeds from shares issued	356	–	–	–	–	–	356
Cancellation of shares	–	609	–	–	–	–	609
Currency translation differences	–	–	485	–	–	–	485
At 31 December 2004	69,284	12,302	12,373	–	–	28,111	122,070
Adoption of IAS 32 and IAS 39	–	–	–	262	9,512	–	9,774
At 1 January 2005	69,284	12,302	12,373	262	9,512	28,111	131,844
Employee share option scheme:							
– value of service provided	–	–	–	–	–	6	6
– proceeds from shares issued	56	–	–	–	–	–	56
Issue of shares	79	–	–	–	–	–	79
Currency translation differences	–	–	(7,663)	–	–	–	(7,663)
Available-for-sale financial assets:							
– fair value gains in the period	–	–	–	–	(10,377)	–	(10,377)
– tax on fair value gains	–	–	–	–	2,896	–	2,896
Cash flow hedges:							
– fair value gains in the period	–	–	–	(940)	–	–	(940)
– transfer to net profit	–	–	–	141	–	–	141
<b>At 31 December 2005</b>	<b>69,419</b>	<b>12,302</b>	<b>4,710</b>	<b>(537)</b>	<b>2,031</b>	<b>28,117</b>	<b>116,042</b>

## 24 TRADE AND OTHER PAYABLES

	2005 £000	2004 £000
<b>Non-current portion</b>		
Other payables	–	1,279
	–	1,279
<b>Current</b>		
Trade payables	4,896	7,829
Social security and other taxes	1,952	2,094
Other payables	6,208	6,160
Accruals	14,182	13,036
Deferred income	18,156	15,009
	45,394	44,128
<b>Total</b>	<b>45,394</b>	<b>45,407</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 25 DEFERRED INCOME TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2005 £000	2004 £000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	<b>(14,025)</b>	(13,813)
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	<b>146,109</b>	127,951
<b>Total</b>	<b>132,084</b>	114,138

The movement on the deferred income tax account is as follows:

	Total £000
At 1 January 2004	93,339
Charged to the income statement	16,042
Acquisition of subsidiaries	3,806
Exchange differences	951
At 31 December 2004	114,138
Deferred tax effects on adoption of IAS 32 and IAS 39	1,872
<b>At 1 January 2005</b>	<b>116,010</b>
Charged to the income statement	21,856
Release from equity	(2,896)
Acquisition of subsidiaries	252
Exchange differences	(3,138)
<b>At 31 December 2005</b>	<b>132,084</b>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses £000	Other £000	Total £000
<b>Deferred tax assets:</b>			
At 1 January 2004	(8,131)	(6,327)	(14,458)
Charged to the income statement	428	217	645
At 31 December 2004	(7,703)	(6,110)	(13,813)
Deferred tax effects on adoption of IAS 32 and IAS 39	–	(1,016)	(1,016)
<b>At 1 January 2005</b>	<b>(7,703)</b>	<b>(7,126)</b>	<b>(14,829)</b>
Charged to the income statement	21	873	894
Release from equity	–	(90)	(90)
<b>At 31 December 2005</b>	<b>(7,682)</b>	<b>(6,343)</b>	<b>(14,025)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 25 DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:	Deduction for UK capital allowances £000	Tax on fair value adjustments to investment property	Other £000	Total £000
At 1 January 2004	14,631	93,166	–	107,797
Charged to the income statement	928	14,447	22	15,397
Acquisition of subsidiary	–	3,806	–	3,806
Exchange differences	–	951	–	951
At 31 December 2004	15,559	112,370	22	127,951
Deferred tax effects on adoption of IAS 32 and IAS 39	–	–	2,888	2,888
<b>At 1 January 2005</b>	<b>15,559</b>	<b>112,370</b>	<b>2,910</b>	<b>130,839</b>
(Credited)/charged to the income statement	(413)	21,229	146	20,962
Release from equity	–	–	(2,806)	(2,806)
Acquisition of subsidiary	–	252	–	252
Exchange differences	–	(2,970)	(168)	(3,138)
<b>At 31 December 2005</b>	<b>15,146</b>	<b>130,881</b>	<b>82</b>	<b>146,109</b>
<b>Net deferred tax liabilities/(asset)</b>				<b>132,084</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2005 the Group did not recognise deferred income tax assets of £5,378 thousand (2004: £1,072 thousand) in respect of losses amounting to £17,926 thousand (2004: £3,478 thousand) that can be carried forward against future taxable income or gains in those entities. The majority of deferred tax assets recognised within the 'other' category relate to buildings which have fallen below original cost.

## 26 BORROWINGS, INCLUDING FINANCE LEASES

At 31 December 2005	Current £000	Non-current £000	Total borrowings £000
Bank loans	23,689	640,818	664,507
Debentures loans	634	37,404	38,038
Other loans	833	14,664	15,497
Finance lease liabilities	183	1,705	1,888
<b>Total</b>	<b>25,339</b>	<b>694,591</b>	<b>719,930</b>

At 31 December 2004	Current £000	Non-current £000	Total borrowings £000
Bank loans	15,858	563,514	579,372
Debentures loans	570	38,038	38,608
Other loans	844	16,984	17,828
Finance lease liabilities	216	1,931	2,147
<b>Total</b>	<b>17,488</b>	<b>620,467</b>	<b>637,955</b>

Arrangement fees of £6,541 thousand (2004: £6,060 thousand) have been offset against the balances in the above tables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

### a) Bank loans

Interest on bank loans is charged at fixed rates ranging between 3.32 per cent and 11.20 per cent including a margin (2004: 4.32 per cent and 11.2 per cent) and at floating rates of LIBOR, STIBOR and EURIBOR or equivalent plus a margin. Fixed rate margins range between 0.70 per cent and 1.80 per cent (2004: 0.70 per cent and 1.80 per cent) and floating rate margins range between 0.77 per cent and 3.25 per cent (2004: 0.90 per cent and 3.25 per cent). All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

### b) Debenture loans

The £38.0 million (2004: £38.6 million) of debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million (2004: £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 10.77 per cent, including margin. The debentures are secured by a legal charge over the relevant property and securitisation of its rental income.

### c) Other loans

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

The maturity profile of the carrying amount of the Group's borrowings, including finance leases at 31 December was as follows:

At 31 December 2005	Debt £000	Finance leases £000	Total £000
Within one year or on demand	25,792	184	25,976
In more than one but not more than two years	20,851	255	21,106
In more than two but not more than five years	295,185	1,299	296,484
In more than five years	382,753	152	382,905
	724,581	1,890	726,471
Unamortised issue costs	(6,539)	(2)	(6,541)
Total borrowings, including finance leases net of issue costs	718,042	1,888	719,930
Less amount due for settlement within 12 months (shown under current liabilities)	(25,156)	(183)	(25,339)
Amounts due for settlement after 12 months	<b>692,886</b>	<b>1,705</b>	<b>694,591</b>

At 31 December 2004	Debt £000	Finance leases £000	Total £000
Within one year or on demand	17,945	217	18,162
In more than one but not more than two years	95,881	220	96,101
In more than two but not more than five years	133,623	1,562	135,185
In more than five years	394,416	151	394,567
	641,865	2,150	644,015
Unamortised issue costs	(6,057)	(3)	(6,060)
Net Borrowings, including finance leases	635,808	2,147	637,955
Less amount due for settlement within 12 months (shown under current liabilities)	(17,272)	(216)	(17,488)
Amounts due for settlement after 12 months	<b>618,536</b>	<b>1,931</b>	<b>620,467</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

The maturity profile of the carrying amount of the Group's borrowings, including finance leases at 31 December analysed into bank loans, debenture loans, other loans, and finance leases:

	2005 £000	2004 £000
<b>Bank loans are repayable as follows:</b>		
Within one year or on demand	24,314	16,531
In more than one but not more than two years	19,302	94,401
In more than two but not more than five years	278,741	118,936
In more than five years	348,678	355,561
	671,035	585,429
Unamortised issue costs	(6,528)	(6,057)
Total bank loans net of issue costs	664,507	579,372
Less amount due for settlement within 12 months (shown under current liabilities)	(23,689)	(15,858)
Amounts due for settlement after 12 months	640,818	563,514
<b>Debenture loans are repayable by instalments as follows:</b>		
Within one year or on demand	634	570
In more than one but not more than two years	705	634
In more than two but not more than five years	2,624	2,360
In more than five years	34,075	35,044
	38,038	38,608
Less amount due for settlement within 12 months (shown under current liabilities)	(634)	(570)
Amounts due for settlement after 12 months	37,404	38,038
<b>Other loans are repayable as follows:</b>		
Within one year or on demand	844	844
In more than one but not more than two years	844	846
In more than two but not more than five years	13,820	12,327
In more than five years	–	3,811
	15,508	17,828
Unamortised issue costs	(11)	–
Total other loans net of issue costs	15,497	17,828
Less amount due for settlement within 12 months (shown under current liabilities)	(833)	(844)
Amounts due for settlement after 12 months	14,664	16,984
<b>Net obligations under finance leases are repayable as follows:</b>		
Within one year or on demand	184	217
In more than one but not more than two years	255	220
In more than two but not more than five years	1,299	1,562
In more than five years	152	151
	1,890	2,150
Unamortised issue costs	(2)	(3)
Total obligations under finance leases net of issue costs	1,888	2,147
Less amount due for settlement within 12 months (shown under current liabilities)	(183)	(216)
Amounts due for settlement after 12 months	1,705	1,931

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

The interest-rate risk profile of the Group's fixed rate borrowings, including finance leases was as follows:

	At 31 December 2005 Fixed rate financial liabilities		At 31 December 2004 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Pound sterling	7.21	8.61	7.26	9.45
Swedish kroner	5.61	2.74	5.76	3.73
Euro	4.61	2.21	4.64	3.25

Floating rate financial liabilities bear interest at rates based on relevant LIBOR, STIBOR, EURIBOR 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 £95.5 million of debt at 5.5 per cent to 6.0 per cent expiring within 1 to 5 years (2004: £136 million of debt at 5.5 per cent to 7.0 per cent expiring within 3 to 5 years), £84.9 million of SEK denominated debt at 4.0 per cent to 6.0 per cent expiring within 1 to 4 years (2004: £79 million of debt at 4.5 per cent to 6.0 per cent expiring within 2 to 5 years), and £112.5 million of EURO denominated debt at 4.0 per cent to 6.5 per cent expiring within 1 to 5 years (2004: £109 million of debt at 4.0 per cent to 7.0 per cent expiring within 1 to 5 years).

The carrying amounts of the Group's borrowings, including finance leases are denominated in the following currencies:

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total £000
<b>At 31 December 2005</b>			
Pound sterling	221,690	98,342	320,032
Swedish kroner	88,436	105,694	194,130
Euro	79,376	126,392	205,768
<b>Total</b>	<b>389,502</b>	<b>330,428</b>	<b>719,930</b>
<b>At 31 December 2004</b>			
Pound sterling	221,113	90,023	311,136
Swedish kroner	90,095	63,474	153,569
Euro	81,825	91,425	173,250
<b>Total</b>	<b>393,033</b>	<b>244,922</b>	<b>637,955</b>

Arrangement fees of £6,541 thousand (2004: £6,060 thousand) have been offset against the balances in the above tables.

The above floating rate debt is disclosed as such as none of the Group's interest rate caps are currently being drawn upon to cap the rate payable. Where an interest rate swap has been entered into the resulting debt is reclassified as fixed rate.

In order to mitigate the effect of interest rate fluctuations the Group has purchased interest rates caps or secured fixed rate borrowings in respect of virtually all of its debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

The carrying amounts and fair values of the Group's fixed rate borrowings, including finance leases are as follows:

	Carrying amounts		Fair values	
	2005 £000	2004 £000	2005 £000	2004 £000
Current borrowings, including finance leases	<b>25,339</b>	17,488	<b>25,339</b>	17,488
Non-current borrowings, including finance leases	<b>694,591</b>	620,467	<b>734,099</b>	653,729
<b>Total</b>	<b>719,930</b>	637,955	<b>759,438</b>	671,217

Arrangement fees of £6,541 thousand (2004: £6,060 thousand) have been offset against the balances in the above tables.

The fair value of non-current borrowings represent 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, discounted at market gilt rates.

The fair value of current borrowings approximates to the carrying value because of the short maturity of these financial instruments.

The Group has the following undrawn committed borrowing facilities available at 31 December:

	2005 £000	2004 £000
Floating rate:		
– expiring within one year	<b>5,846</b>	27,939
– expiring after one year	–	14,082
<b>Total</b>	<b>5,846</b>	42,021

The above undrawn facilities expiring within one year at 31 December 2005 have been arranged to help finance the Group's proposed development projects.

## 27 TENDER OFFER BUY-BACKS

As noted in the Directors' Report it is proposed that the Company buy back 1 in 42 shares at 600 pence per share in lieu of a final dividend (2004: 1 in 41 shares at 485 pence per share).

In lieu of an interim dividend the Company bought back 1 in 60 shares at 510 pence per share in November 2005 (2004: 1 in 52 shares at 390 pence per share).

## 28 CASH GENERATED FROM OPERATIONS

	2005 £000	2004 £000
Operating profit from continuing operations	<b>122,102</b>	95,839
Loss on discontinued operations	<b>(6,192)</b>	(4,002)
Adjustments for:		
Revaluation surplus on investment properties	<b>(67,173)</b>	(37,236)
Depreciation and amortisation	<b>4,803</b>	1,330
Profit/(loss) on sale of fixed assets and investment property	<b>324</b>	(464)
Other provisions	<b>6</b>	10
Foreign exchange gains/(losses)	<b>120</b>	(1,744)
Changes in working capital:		
Increase in debtors	<b>(3,111)</b>	(1,563)
Increase/(decrease) in creditors	<b>1,347</b>	(88)
<b>Cash generated from operations</b>	<b>52,226</b>	52,082

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 29 CONTINGENCIES

At 31 December 2005 the Company had guaranteed £92.8 million of Group Companies' liabilities (2004: £98.8 million). Of the amount guaranteed, £9.9 million (2004: £9.9 million) is limited to a maximum annual liability of £2.1 million (2004: £2.1 million).

## 30 COMMITMENTS

### Operating lease commitments – where a Group Company is the lessee

The Group leases office space under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005 £000	2004 £000
Not more than 1 year	<b>497</b>	50
Later than 1 year and not later than 5 years	<b>1,758</b>	30
Later than 5 years	–	600
<b>Total</b>	<b>2,255</b>	680

### Other commitments

At 31 December 2005 the Group had £19.7 million of contracted capital expenditure (2004: £14.3 million). At 31 December 2005 the Group had no authorised but not contracted for financial commitments (2004: £nil).

## 31 BUSINESS ACQUISITIONS AND DISPOSALS

### Business acquisitions 2005

Acquisition of Jarrestrasse Immobilien GmbH, Germany

On 30 December 2005, the Group acquired Jarrestrasse Immobilien GmbH for a total consideration of £0.6 million. This purchase has been accounted for as a business acquisition. The Group effectively acquired 99.45% of the share capital.

From the date of acquisition to 31 December 2005 the acquisition contributed £nil to turnover, £nil to profit before interest, and £nil to profit after interest. If the acquisition had occurred on 1 January 2005, Group revenue would have increased by £670 thousand, and profit for the period would have increased by £296 thousand.

The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Details of net assets acquired and goodwill are as follows:

	£000
Purchase consideration:	
– cash paid	1,529
Total purchase consideration	1,529
Fair value of net assets acquired	(1,277)
Goodwill (note 15)	252

The goodwill is attributable to the deferred tax which is expected to reverse in the future.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 31 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

The assets and liabilities arising from the acquisition are as follows:

	Fair value £000	Acquiree's carrying amount £000
Cash and cash equivalents	102	102
Investment property	8,602	8,602
Receivables	3	3
Payables	(7,430)	(7,178)
Net assets acquired	<b>1,277</b>	<b>1,529</b>
Purchase consideration settled in cash		1,529
Cash and cash equivalents in subsidiary acquired		(102)
Cash outflow on acquisition		<b>1,427</b>

### Business disposals

On 16 December 2005, CLS Holdings disposed of the business and substantially all of the assets of WightCable Limited, the Isle of Wight based telecommunications and television company, in which CLS had a 74.5% interest. The business and assets were sold for £2,430 thousand, being £1,430 thousand of immediate cash consideration with the balance repayable in two further equal cash instalments at the end of 2006 and 2007. Control passed to the acquirer on the 16th December 2005.

A loss of £141 thousand arose on the disposal, being the proceeds of disposal less the carrying amount of the subsidiary's net assets, directly attributable costs and provisions.

Disposal of the business and assets of WightCable Ltd:

	£000
Business and assets at carrying value	2,273
Disposal costs	298
	2,571
Less consideration received	(2,430)
Loss on disposal	<b>141</b>

See note 32 for further disclosures regarding business disposals classified as discontinued operations.

See note 35 for further disclosures regarding business disposals which took place after the balance sheet date but before the approval of these financial statements.

## 32 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

### Held for sale assets and liabilities

Following the approval of the Group's management decision in principle to dispose of the business and substantially all of the assets of WightCable North Limited, the following disposal group has been presented as held for sale.

	2005 £000
Non-current assets classified as held for sale	–
Liabilities directly associated with non-current assets classified as held for sale:	
Accrued costs of sale for held for sale assets	–
	–

See note 35 for further disclosures regarding the post balance sheet disposal of WightCable North Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 32 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)

### Discontinued operations

Following Management's decision in principle to exit the cable business market the results of WightCable Limited and WightCable North Limited have been presented as discontinued operations. For segmental analysis both of these businesses formed part of the UK equity investment division. An analysis of the results is as follows:

	2005 £000	2004 £000
<b>Revenue</b>	<b>5,644</b>	5,524
Operating expense	(9,771)	(9,342)
<b>Operating loss</b>	<b>(4,127)</b>	(3,818)
Finance expense	(150)	(184)
<b>Loss before tax</b>	<b>(4,277)</b>	(4,002)
Taxation	-	-
<b>Loss after tax</b>	<b>(4,277)</b>	(4,002)
Loss on disposal of assets	(491)	-
Acquisition of minority interest	(1,316)	-
Accrued costs for disposal of assets	(108)	-
Taxation	-	-
<b>Loss for the year from discontinued operations</b>	<b>(6,192)</b>	(4,002)

The companies' loss for the year approximates to their net operating cash outflows.

## 33 RELATED PARTY TRANSACTIONS

CLSH Management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as an agent in respect of the collection of rental income and payment of loan interest for Teighmore Limited and New London Bridge House Limited, joint ventures of the Group. At 31 December 2005 Teighmore Limited was owed £0.8 million by the Group (2004: £0.8 million) and New London Bridge House Limited owed £0.2 million (2004: owed £0.1 million).

A Group company, Forvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £29 thousand (2004: £15 thousand). A company owned by Sten Mortstedt also purchased accountancy services from Forvaltnings AB Klio during the year amounting to £6 thousand (2004: £6 thousand).

## 34 PRINCIPAL SUBSIDIARIES

The consolidated financial statements include the financial statements of CLS Holdings plc and the principal subsidiaries listed in the table below.

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

Brent House Limited	Hermalux SARL	Three Albert Embankment Limited
Carlow House Limited	Ingrove Limited	Vauxhall Cross Limited
CI Tower Investments Limited	Mohican Nominees Limited	Vänerparken Property Investment KB
Citadel Holdings PLC	New London House Limited	Vista Centre Limited
CLSH Management Limited	New Printing House Square Limited	Solna Business Holdings AB
Great West House Limited	One Leicester Square Limited	Lövgärdet Residential KB
Hamersley International BV	Spring Gardens Limited	Lövgärdet Business KB

The principal activity of each of these subsidiaries is property investment apart from CLSH Management Limited whose principal activity is property management, Citadel Holdings PLC, Hermalux SARL, Hamersley International BV and Solna Business Holdings AB whose principal activity is as a holding company. To comply with the Companies Act 1985, a full list of subsidiaries will be filed with the Company's next annual return.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 35 EVENTS AFTER THE BALANCE SHEET DATE

### Business disposals

#### WightCable North Limited

On 20 January 2006, the sale of the business and substantially all of the assets of WightCable North Limited, a cable company, was completed. The financial effect of this transaction was to incur further costs of disposal amounting to £2.2 million, which will be expensed in 2006.

The provisions of IFRS 5 apply to the sale of the disposal group formed from WightCable North Limited, as such the assets and liabilities of the disposal group have been classified as held for sale and the result has been classified as a discontinued operation. Please refer to note 32 for further disclosures regarding the disposal group formed from WightCable North Limited.

#### Lövgärdet Capital Partner AB

On 1 February 2006, the Group sold the shares of the holding company of the Lövgärdet Group, Lövgärdet Capital Partner AB.

The financial effect of this transaction is to remove the investment properties of the Lövgärdet estate and their associated loans. At 31 December 2005 these amounted to £39.8 million and £35.2 million respectively.

The assets and liabilities of the Lövgärdet Group have not been reclassified as held for sale and the result has not been classified as a discontinued operation as the provisions of IFRS 5 were not satisfied at 31 December 2005.

## 36 INVESTMENTS (PREVIOUS GAAP)

	Total £000
<b>Current asset investments</b>	
Shares and warrants	10,492
Balance as at 31 December 2004	10,492
Adoption of IAS 32/IAS 39 – reclassification to available-for-sale at 1 January 2005, see note 38	(10,492)
<b>Balance at 1 January 2005</b>	<b>-</b>
<b>Non-current asset investments</b>	
Other investments	171
Balance as at 31 December 2004	171
Adoption of IAS 32/IAS 39 – reclassification to available-for-sale at 1 January 2005, see note 38	(171)
<b>Balance at 1 January 2005</b>	<b>-</b>

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

The above line items are no longer used from 1 January 2005, the IAS 32 and IAS 39 transition date. Disclosures for the year ended 31 December 2005 under IAS 32 and IAS 39 are located in note 17.

## 37 FINANCIAL INSTRUMENTS (PREVIOUS GAAP)

### a) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 2004. Fair value is the amount at which a financial instrument could be exchanged in an arms 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 37 FINANCIAL INSTRUMENTS (PREVIOUS GAAP) (CONTINUED)

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

	2004 Book value £000	2004 Fair value £000
<b>Primary financial instruments held or issued to finance the Group's operations:</b>		
Short term deposits	4,904	4,904
Cash at bank and in hand	51,776	51,776
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>		
Interest rate caps and collars	2,568	377
<b>Financial instruments held for trading purposes:</b>		
Equity investments and other financial assets	10,595	23,034

Assets held for treasury purposes do not attract interest.

#### Interest rate caps and collars

The weighted average periods until maturity for interest rate caps, the financial assets on which no interest is paid, are 2.7 years for sterling caps, 3.4 years for SEK caps and 3.4 years for Euro caps.

#### Financial instruments held for trading purposes

The income statement includes a net gain of £1,534 thousand from financial instruments held for trading.

#### Summary of methods and assumptions

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

### b) Hedges

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

	Deferred losses £000
<b>Unrecognised gains and losses on hedges as at 1 January 2004</b>	<b>1,807</b>
Loss arising before 1 January included in current year expenditure	(1,108)
Loss arising before 1 January not included in current year income and now deferred	699
Loss arising in current year not included in current year expenditure and now deferred	1,492
<b>Unrecognised gains and losses on hedges as at 31 December 2004</b>	<b>2,191</b>
<b>Of which:</b>	
Gains and losses expected to be recognised in 2005	916
Gains and losses expected to be recognised in 2006 or later	1,275
<b>Total</b>	<b>2,191</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS

### 38.1 Application of IFRS 1

In 2005 the Group adopted IFRS for the first time. Previously the Group reported under UK GAAP.

The Group has applied IFRS 1 – First-time Adoption of International Financial Reporting Standards to provide a starting point for reporting under IFRS. The date of transition to IFRS was 1 January 2004 and all information in these financial statements has been restated to reflect the Group's adoption of IFRS.

The adoption of International Financial Reporting and Accounting Standards has resulted in changes to the Group's accounting policies, as stated in notes 1 to 4.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts previously reported in financial statements prepared in accordance with its previous basis of accounting, UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following notes, reconciliations and notes to the reconciliations.

In preparing this restatement report in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

### 38.2 Exemptions from full retrospective application

The Group has applied the following optional exemptions from retrospective application;

#### a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

#### b) Exemption from restatement of comparatives for IAS 32 and IAS 39

The Group elected to apply this exemption. It applies previous GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships for the 2004 comparative information. IAS 32 and IAS 39 have been applied from 1 January 2005, the date of transition for IAS 32 and IAS 39. The adjustments required for differences between UK GAAP and IAS 32 and IAS 39 were determined and recognised at 1 January 2005.

#### c) Share based payment transaction exemption

The Group has elected to apply this exemption. The Group has applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but that have not vested by 1 January 2005.

#### d) Designation of previously recognised financial instruments

The Group has elected to apply this exemption. IAS 32 and IAS 39 have been applied from 1 January 2005, the date of transition for IAS 32 and IAS 39. Financial instruments were designated at the IAS 32 and IAS 39 date of transition as at fair value through profit or loss or as available-for-sale.

### 38.3 Exceptions from full retrospective application

The Group has applied the following mandatory exceptions from retrospective application;

#### a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exception from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not choose to apply the IAS 39 derecognition criteria to an earlier date.

#### b) Hedge accounting exception

Management has claimed hedge accounting from 1 January 2005 only when the hedge relationship meets all the hedge accounting criteria under IAS 39.

#### c) Estimates exception

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

#### d) Assets held for sale and discontinued operations exception

Management has applied IFRS 5 from 1 January 2004. Any assets held for sale or discontinued operations are recognised in accordance with IFRS 5 from 1 January 2004. The Group did not have any assets that met the held-for-sale or discontinued operations criteria during the periods presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.4 Reconciliations between IFRS and UK GAAP

(as set out below)

#### 38.4a Reconciliation of consolidated IFRS balance sheet at 1 January 2004

	Notes	Previously reported under UK GAAP* £000	Effect of transition to IFRS £000	Restated under IFRS £000
<b>Non-current assets</b>				
Investment properties	a, b	882,442	36,279	918,721
Property, plant and equipment	a	6,847	2,478	9,325
Intangible assets	a	–	427	427
Investments in associates		3,225	–	3,225
Investments in joint ventures	a	8,499	(8,499)	–
Investments		171	–	171
Deferred income tax assets	c	–	14,458	14,458
Trade and other receivables	a	3,695	71	3,766
		904,879	45,214	950,093
<b>Current assets</b>				
Trade and other receivables	a, d	7,976	686	8,662
Investments		3,963	–	3,963
Cash and cash equivalents	a	56,693	537	57,230
		68,632	1,223	69,855
<b>Total assets</b>		973,511	46,437	1,019,948
<b>Non-current liabilities</b>				
Trade and other payables		5,960	–	5,960
Deferred income tax liabilities	c	5,680	102,117	107,797
Borrowings, including finance leases	a, b	523,615	27,184	550,799
Provisions for other liabilities and charges		33	–	33
		535,288	129,301	664,589
<b>Current liabilities</b>				
Trade and other payables	a	35,257	2,365	37,622
Current income tax liabilities		1,149	–	1,149
Borrowings, including finance leases	a	16,843	500	17,343
		53,249	2,865	56,114
<b>Total liabilities</b>		588,537	132,166	720,703
<b>Net assets</b>		<b>384,974</b>	<b>(85,729)</b>	<b>299,245</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Share capital		21,911	–	21,911
Other reserves	e, f, g	330,739	(210,129)	120,610
Retained earnings	a, c, d, e, f, g	33,224	124,400	157,624
		385,874	(85,729)	300,145
<b>Minority interest</b>		(900)	–	(900)
<b>Total equity</b>		<b>384,974</b>	<b>(85,729)</b>	<b>299,245</b>

\* Reformatted to reflect IFRS reporting requirements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.4b Reconciliation of consolidated IFRS balance sheet at 31 December 2004

	Notes	Previously reported under UK GAAP* £000	Effect of transition to IFRS £000	Restated under IFRS £000
<b>Non-current assets</b>				
Investment properties	a, b	981,560	40,979	1,022,539
Property, plant and equipment	a, b	5,040	5,670	10,710
Intangible assets	a, h	–	3,357	3,357
Investments in associates	h, i	3,010	–	3,010
Investments in joint ventures	a	13,848	(13,848)	–
Investments		171	–	171
Deferred income tax assets	c	–	13,813	13,813
Trade and other receivables	a	3,096	67	3,163
		1,006,725	50,038	1,056,763
<b>Current assets</b>				
Trade and other receivables	a, d	10,480	1,216	11,696
Investments		10,492	–	10,492
Cash and cash equivalents	a	56,680	691	57,371
		77,652	1,907	79,559
<b>Total assets</b>		1,084,377	51,945	1,136,322
<b>Non-current liabilities</b>				
Trade and other payables		1,279	–	1,279
Deferred income tax liabilities	c	6,777	121,174	127,951
Borrowings, including finance leases	a, b	592,439	28,028	620,467
Provisions for other liabilities and charges		301	–	301
		600,796	149,202	749,998
<b>Current liabilities</b>				
Trade and other payables	a	39,472	4,656	44,128
Current income tax liabilities		902	–	902
Borrowings, including finance leases	a	16,825	663	17,488
Provisions for other liabilities and charges		–	–	–
		57,199	5,319	62,518
<b>Total liabilities</b>		657,995	154,521	812,516
<b>Net assets</b>		<b>426,382</b>	<b>(102,576)</b>	<b>323,806</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Share capital		21,374	–	21,374
Other reserves	c, e, f, g, h	374,592	(252,522)	122,070
Retained earnings	a, c, d, e, f, g, h, i	32,394	149,946	182,340
		428,360	(102,576)	325,784
<b>Minority interest</b>		(1,978)	–	(1,978)
<b>Total equity</b>		<b>426,382</b>	<b>(102,576)</b>	<b>323,806</b>

\* Reformatted to reflect IFRS reporting requirements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.4c Reconciliation of consolidated IFRS income statement for the year ended 31 December 2004

	Notes	Previously reported under UK GAAP* £000	Effect of transition to IFRS £000	Restated under IFRS £000
<b>Continuing operations:</b>				
Rental and similar income	a, d	71,787	2,688	74,475
Service charge and similar income	a	6,401	499	6,900
<b>Total rental revenue</b>		<b>78,188</b>	<b>3,187</b>	<b>81,375</b>
Service charge expense and similar charges	a	(13,293)	(479)	(13,772)
<b>Net rental income</b>		<b>64,895</b>	<b>2,708</b>	<b>67,603</b>
Other operating income – net		4,151	–	4,151
Administrative expenses	a, e	(9,850)	(134)	(9,984)
Net property expenses	b	(3,640)	9	(3,631)
<b>Operating profit before net gain on investment properties</b>		<b>55,556</b>	<b>2,583</b>	<b>58,139</b>
Net gain from fair value adjustment on investment property	d, g, h	–	37,236	37,236
Profit on sale of investment properties		464	–	464
<b>Operating profit</b>		<b>56,020</b>	<b>39,819</b>	<b>95,839</b>
Finance income		1,801	–	1,801
Finance expense	b	(35,857)	(9)	(35,866)
Share of (loss)/profit of associates	h, i	(1,701)	–	(1,701)
Share of (loss)/profit of JVs	a	2,491	(2,491)	–
<b>Profit before tax</b>		<b>22,754</b>	<b>37,319</b>	<b>60,073</b>
Taxation – current		(596)	–	(596)
Taxation – deferred	c, h	(1,097)	(14,945)	(16,042)
<b>Tax (charge)/credit on profit</b>		<b>(1,693)</b>	<b>(14,945)</b>	<b>(16,638)</b>
<b>Profit for the year from continuing operations</b>		<b>21,061</b>	<b>22,374</b>	<b>43,435</b>
<b>Discontinued operations:</b>				
<b>Loss for the period from discontinued operations – after tax</b>		<b>(4,002)</b>	<b>–</b>	<b>(4,002)</b>
<b>Profit for the year</b>		<b>17,059</b>	<b>22,374</b>	<b>39,433</b>
<b>Attributable to:</b>				
Equity holders of the Company	c, d, e, g, h, i	18,137	22,374	40,511
Minority interest		(1,078)	–	(1,078)
		<b>17,059</b>	<b>22,374</b>	<b>39,433</b>

\* Reformatted to reflect IFRS reporting requirements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.4d Reconciliation of consolidated IFRS balance sheet at 1 January 2005

	Notes	IFRS 31 Dec 2004 €000	Effect of adoption of IAS 32 and IAS 39 €000	IFRS 1 Jan 2005 €000
<b>Non-current assets</b>				
Investment property		1,022,539	–	1,022,539
Property, plant and equipment		10,710	–	10,710
Intangible assets		3,357	–	3,357
Investments in associates		3,010	–	3,010
Available-for-sale investments	j	–	22,671	22,671
Investments	j	171	(171)	–
Derivative financial instruments	j	–	938	938
Deferred income tax assets	c	13,813	1,016	14,829
Trade and other receivables	j	3,163	(1,968)	1,195
		1,056,763	22,486	1,079,249
<b>Current assets</b>				
Trade and other receivables	j	11,696	(599)	11,097
Investments	j	10,492	(10,492)	–
Derivative financial instruments	j	–	541	541
Cash and cash equivalents		57,371	–	57,371
		79,559	(10,550)	69,009
<b>Total assets</b>		1,136,322	11,936	1,148,258
<b>Non-current liabilities</b>				
Trade and other payables		1,279	–	1,279
Deferred income tax liabilities		127,951	2,888	130,839
Borrowings, including finance leases		620,467	–	620,467
Derivative financial instruments	j	–	1,063	1,063
Provisions for other liabilities and charges	j	301	(301)	–
		749,998	3,650	753,648
<b>Current liabilities</b>				
Trade and other payables		44,128	–	44,128
Current income tax liabilities		902	–	902
Derivative financial instruments	j	–	164	164
Borrowings, including finance leases		17,488	–	17,488
		62,518	164	62,682
<b>Total liabilities</b>		812,516	3,814	816,330
<b>Net assets</b>		<b>323,806</b>	<b>8,122</b>	<b>331,928</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's equity holders</b>				
Share capital		21,374	–	21,374
Other reserves	c, j	122,070	9,774	131,844
Retained earnings	c, j	182,340	(1,652)	180,688
		325,784	8,122	333,906
<b>Minority interest</b>		(1,978)	–	(1,978)
<b>Total equity</b>		<b>323,806</b>	<b>8,122</b>	<b>331,928</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.5 Notes to the IFRS reconciliations

#### a. IAS 31 – Interests in joint ventures

Under UK GAAP, the Group accounted for interests in joint ventures under the equity accounting method. Under IFRS, IAS 31 allows companies to make a one-time choice as to whether joint ventures will be accounted under the equity method or proportionally consolidated.

The Group has opted for proportional consolidation of joint venture assets and liabilities as this more closely reflects the substance of the Group's joint venture arrangements, therefore the Group's share of individual assets and liabilities of the joint venture are included within the corresponding line of the balance sheet. Similarly, the Group's share of operating profit of joint ventures is reanalysed to the corresponding lines of the income statement.

#### b. IAS 17 – Leases

Under UK GAAP, leases to occupational tenants were almost invariably treated as operating leases, because the risks and rewards in the underlying freehold were usually assessed as remaining with the landlord. However, while IAS 17 is based on a similar principle, it lists a number of situations that individually or in combination would require a lease to be classified as a finance lease and, in particular, it requires an entity to consider land and buildings separately, even if the occupational lease is of the property as a whole and does not make such a distinction. This means that it is more likely that a lease term could be viewed as being for the major part of the economic life of an asset, resulting in finance lease classification of the building element.

The Group has carefully reviewed each of its leases and has concluded that the lease classification and treatment under UK GAAP is consistent with IFRS.

Where an investment property is itself subject to a head or ground lease, that head lease must be treated as if it were a finance lease and accounted for accordingly. In total only two properties are affected, leading to the recognition of a finance lease liability and an increase in the carrying value of the Group's investment properties.

#### c. IAS 12 – Income taxes

This standard requires full provision to be made for deferred income tax on temporary differences. The main difference compared to the deferred tax provided under UK GAAP is that provision has been made in full for the deferred income tax arising from the revaluation of investment properties. The deferred income tax has been calculated on the basis that the gain (or loss) on the properties will be realised through the income generated by holding the properties. The tax base for each property in its local currency has been compared to the valuation for that property.

Since the deferred income tax liabilities have been calculated on the basis of continued use of the properties no account has been taken of the way in which properties may be sold or of the tax which the Group would expect to be payable on the sale of the properties. Indexation allowance which would be available to further reduce the taxable capital gains when properties subject to UK corporation tax are sold has similarly not been taken into account.

Deferred income tax is provided as appropriate on the other adjustments which have been made to convert the UK GAAP accounts to IFRS.

#### d. SIC 15 – Operating lease incentives

Under SIC 15, the cost of rent free periods and other incentives given to tenants under operating leases must be spread over the term of the lease rather than, as under UK GAAP, to the first review to market rents.

Further, there are no transitional provisions so that incentives granted before the UK standard came into effect have now been brought back into account. This will therefore change the timing but not the aggregate amount recognised in relation to lease incentives.

For the investment property business the changes amount to minor reclassifications between 'Rental and similar income', and 'Net gain from fair value adjustment on investment property' in the income statement and 'Investment properties' and 'Trade and other receivables' in the balance sheet.

#### e. IFRS 2 – Share-based payments

Under IFRS 2, the fair value of share options and other share based payments is recognised as an expense through the income statement over the vesting period.

The Group has elected to apply the IFRS 1, share-based payment exemption, therefore the Group has applied IFRS 2 from 1 January 2004 to those options that were issued after 7 November 2002 but have not vested by 1 January 2005.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.5 Notes to the IFRS reconciliations (continued)

#### f. IAS 21 – The effects of changes in foreign exchange rates

Under UK GAAP revaluation movements on overseas assets were booked at the closing rate and retranslated at each reporting period. Since the revaluation movements are now posted to the income statement, they are translated at the average rate. On transition to IFRS, all previous exchange gains held within the revaluation reserve have been transferred back to the cumulative translation reserve.

#### g. IAS 40 – Investment property

Under this standard, investment property will be recognised in the accounts at fair value, with revaluation gains and losses being taken directly to the income statement rather than to the revaluation reserve as was the case under UK GAAP.

Accumulated revaluation surpluses relating to the investment properties at the date of transition to IFRS have been reallocated to retained earnings. This treatment does not, however, have any impact on the distributable profits.

Full provision for tax on the valuation movements has been provided under IAS 12.

#### h. IFRS 3 – Business combinations

Under IFRS 3, goodwill on acquisition is no longer amortised, but is held at its UK GAAP carrying value at the transition date, or acquisition date, as appropriate, and is then subject to impairment review at each reporting date.

IFRS 3 uses a different term for 'negative goodwill' and requires it to be taken to the income statement in the year of acquisition. Previously recognised negative goodwill has been derecognised at the date of transition, with a corresponding adjustment to opening retained earnings.

Under IFRS, the acquisition of properties, whether by outright purchase or by corporate acquisition, are carefully considered on a case by case basis to determine whether they are, in substance, an acquisition of assets or a business.

The Group has elected to apply the IFRS 1, business combination exemption, therefore the Group has not applied IFRS 3 retrospectively to past business combinations. In the light of IFRS 3, a portfolio acquired during 2004 has been reclassified as a business combination rather than as a purchase of assets.

#### i. IAS 36 – Impairment of assets

Under IFRS, certain assets including goodwill are reviewed for impairment. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

If this is the case, the asset is described as impaired and the standard requires the entity to recognise an impairment loss. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount and is recognised in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

at 31 December 2005

## 38 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

### 38.5 Notes to the IFRS reconciliations (continued)

#### j. IAS 32 and IAS 39 – Financial instruments

Financial assets and liabilities such as interest rate swaps, caps, floors and forward foreign exchange contracts have been included in the balance sheet at fair value. Investments are carried at fair value on the balance sheet.

The Group has taken advantage of the IFRS 1 exemption to not restate comparatives for 2004 under IAS 32 and IAS 39.

The impact of IAS 32 and IAS 39 is therefore effective for the accounting period commencing on 1 January 2005.

The accounting policy adopted from 1 January 2005 is included in notes 2, 3 and 4.

There are a number of effects on the Group which will apply from 1 January 2005.

The IFRS balance sheet at 31 December 2004 has been restated at 1 January 2005 for the adoption of IAS 32 and IAS 39, and a reconciliation of this has been included above.

#### Hedge accounting

Hedging instruments such as interest rate swaps and forward foreign exchange contracts will be included in the balance sheet at fair value. Movements in fair value of these hedging instruments will be recognised in the income statement or in equity, as appropriate. To the extent that such instruments are ineffective hedges, they will be included in the balance sheet at fair value with changes in fair value being recognised in the income statement.

#### Investments

Investments will be carried at fair value on the balance sheet, with changes in the fair value being recognised either in the income statement or in equity and recycled through the income statement when the investments are realised, as appropriate. Under UK GAAP these investments were carried at the lower of cost and market value.

#### Other financial instruments

Movements in the fair value of those derivative financial instruments which are not accounted for as hedging instruments are recognised in the income statement and not by way of a note, as is the case under UK GAAP.

#### Borrowings

The version of IAS 39 adopted by the European Union prohibits the option to carry borrowings at their fair values, and consequently the Group will continue to include borrowings in the balance sheet at amortised cost. The fair value of borrowings will be disclosed under IAS 32, as is the case under UK GAAP.

### 38.6 Notes to the IFRS consolidated statement of cash flows

The transition to IFRS will not affect the cash flows of the business. The presentation of the cash flow statement for the Group does not differ significantly from that under UK GAAP, except for the inclusion of short term deposits within the definition of cash and cash equivalents. Previously these were shown separately from cash as liquid resources.

From 1 January 2005, due to the classification of investments as 'available-for-sale' financial assets, the movement in investments will now be shown in the cash flow statement under cash flows from investing activities rather than in cash generated from operations.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLS HOLDINGS PLC

We have audited the parent company financial statements of CLS Holdings plc for the year ended 31 December 2005 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2005.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Financial Review, the Property Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

## OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005; and
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London  
24 March 2006

# COMPANY BALANCE SHEET

	Notes	As at 31 December 2005 £000	As at 31 December 2004 £000
<b>Non-current assets</b>			
Investment in subsidiary undertakings	6	<b>81,035</b>	78,988
		<b>81,035</b>	78,988
<b>Current assets</b>			
Trade and other receivables	7	<b>41,844</b>	70,052
Cash and cash equivalents	8	<b>17</b>	1,626
		<b>41,861</b>	71,678
<b>Total assets</b>		<b>122,896</b>	150,666
<b>Current liabilities</b>			
Trade and other payables	11	<b>964</b>	7,758
		<b>964</b>	7,758
<b>Net assets</b>		<b>121,932</b>	142,908
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	<b>21,382</b>	21,374
Other reserves	10	<b>86,336</b>	86,195
Profit and loss account	10	<b>14,214</b>	35,339
<b>Total equity</b>		<b>121,932</b>	142,908

These financial statements were approved by the Board of Directors and authorised for issue on 24 March 2006 and were signed on its behalf by:

**Mr S A Mortstedt**  
Director

**Mr P Sjöberg**  
Director

The notes on pages 110 to 111 are an integral part of these financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### 2.1 Investment in Group Companies

Investments have been valued at cost. If the equity value of the investment is lower than the cost price, this valuation will be adjusted accordingly, provided that the Management considers this to be a permanent diminution in value. Dividend income will be recognised when received.

### 2.2 Turnover

Turnover comprises recharge of professional fees received by the Company but applicable to Group undertakings.

### 2.3 Pension costs

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

## 3 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 loss for the financial year was £2,152 thousand (2004: Profit of £37,910 thousand). Audit fees for the Company were £35 thousand (2004: £44 thousand).

## 4 TENDER OFFER BUY-BACKS

See note 27 of the notes to the consolidated financial statements.

## 5 TANGIBLE FIXED ASSETS

The Company has no tangible fixed assets.

## 6 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2005 £000	2004 £000
At 1 January	<b>78,988</b>	62,072
Additions	<b>2,047</b>	16,916
At 31 December	<b>81,035</b>	78,988

A list of principal subsidiary undertakings is shown in note 34 in the Notes to the consolidated financial statements.

## 7 TRADE AND OTHER RECEIVABLES

	2005 £000	2004 £000
<b>Current</b>		
Amounts owed by subsidiary undertakings	<b>41,228</b>	69,695
Prepayments	<b>89</b>	267
Other debtors	<b>527</b>	90
<b>Total</b>	<b>41,844</b>	70,052

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 8 CASH AND CASH EQUIVALENTS

	2005 £000	2004 £000
Cash at bank and in hand	17	1,626

At 31 December 2005, the Company cash at bank and in hand included £nil (2004: £nil) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party.

## 9 SHARE CAPITAL

See note 22 of the notes to the consolidated financial statements.

## 10 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves				
	Share premium reserve £000	Capital redemption reserve £000	Other £000	Total £000	Profit and loss account £000
<b>At 1 January 2004</b>	68,928	11,693	4,599	85,220	13,223
Employee share option scheme:					
– value of service provided	–	–	10	10	–
– proceeds from shares issued	356	–	–	356	–
Cancellation of shares	–	609	–	609	–
Purchase of own shares	–	–	–	–	(15,676)
Purchase of own shares expense	–	–	–	–	(118)
Retained profit for the year	–	–	–	–	37,910
<b>At 31 December 2004</b>	69,284	12,302	4,609	86,195	35,339
Employee share option scheme:					
– value of service provided	–	–	6	6	–
– proceeds from shares issued	56	–	–	56	–
Issue of shares	79	–	–	79	–
Purchase of own shares	–	–	–	–	(18,858)
Purchase of own shares expense	–	–	–	–	(115)
Retained loss for the year	–	–	–	–	(2,152)
<b>At 31 December 2005</b>	<b>69,419</b>	<b>12,302</b>	<b>4,615</b>	<b>86,336</b>	<b>14,214</b>

## 11 TRADE AND OTHER PAYABLES

	2005 £000	2004 £000
<b>Current</b>		
Amounts owed to subsidiary undertakings	–	7,080
Trade payables	17	(48)
Accruals and deferred income	947	726
	<b>964</b>	<b>7,758</b>

## 12 DEFERRED INCOME TAX

No deferred tax liability arises relating to the Company (2004: £nil).

## 13 COMMITMENTS

See note 30 of the notes to the consolidated financial statements.

## 14 RELATED PARTY TRANSACTIONS

See note 33 of the notes to the consolidated financial statements.

# FIVE YEAR FINANCIAL SUMMARY

for the year ended 31 December

	IFRS		UK GAAP		
	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
<b>Turnover and results</b>					
<b>Turnover</b>	<b>85,039</b>	81,375	79,658	70,682	56,697
<b>Group net rental income</b>	<b>69,262</b>	67,603	62,412	59,421	50,176
<b>Operating profit</b>	<b>54,180</b>	58,139	45,293	45,316	36,856
Fair value gains on investment property	<b>67,173</b>	37,236	-	-	-
Share of profit of associate and joint venture undertakings	<b>(2,322)</b>	(1,701)	1,085	790	873
Gain/(loss) from sale of investment properties	<b>1,855</b>	464	1,932	(153)	524
<b>Profit on ordinary activities before interest</b>	<b>120,886</b>	94,138	48,310	45,953	38,253
Net interest payable and similar charges	<b>(36,229)</b>	(34,065)	(30,737)	(28,886)	(26,974)
<b>Profit before taxation</b>	<b>84,657</b>	60,073	17,573	17,067	11,279
Tax on ordinary activities - current	<b>(1,304)</b>	(596)	(676)	(648)	(938)
Tax on ordinary activities - deferred	<b>(21,856)</b>	(16,042)	591	(1,497)	(3,273)
Discontinued operations	<b>(6,192)</b>	(4,002)	-	-	-
<b>Profit for the year</b>	<b>55,305</b>	39,433	17,488	14,922	7,068
<b>Share buy-backs paid and proposed</b>	<b>(18,353)</b>	(15,676)	(14,607)	(14,007)	(12,120)
<b>Net Assets Employed</b>					
Fixed assets	<b>1,141,265</b>	1,056,763	901,184	857,152	732,582
Net current assets	<b>127,014</b>	79,559	19,078	35,558	19,500
	<b>1,268,279</b>	1,136,322	920,262	892,710	752,082
Non-current liabilities	<b>(841,682)</b>	(749,998)	(529,575)	(507,735)	(389,788)
Provision for liabilities and charges	<b>(72,817)</b>	(62,518)	(5,713)	(13,255)	(11,482)
<b>Net assets</b>	<b>353,780</b>	323,806	384,974	371,720	350,812

## Ratios

Adjusted net assets per share (pence)	<b>607</b>	522	446	409	365
Statutory net assets per share (pence)	<b>442</b>	386	439	395	353
Earnings per share (pence)	<b>67.5</b>	47.0	20.7	15.7	6.7
Gearing (%)	<b>172</b>	181	127	124	104
Interest cover (times)	<b>1.48</b>	1.67	1.57	1.59	1.42

Reconciliation of statutory to disclosed adjusted statistics	Statutory figure	Deferred tax Adjustment	Fair value property gains adjustment	Discontinued operations and minority interest adjustment	Adjusted figure
Net Assets (£ million)	353.8	132.1	-	-	485.9
NAV per share (pence)	441.9	165.0	-	-	606.9
Earnings per share (pence)	67.5	26.6	(81.6)	7.2	19.7
Diluted earnings per share (pence)	67.0	26.6	(81.6)	7.2	19.2
Gearing (%)	171.9	(46.7)	-	-	125.2



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