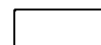
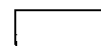




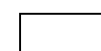
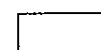
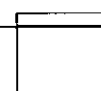
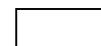
CLS HOLDINGS PLC



Annual Report & Accounts



2003



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

~

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UK			

SWEDEN			

FRANCE			

FINANCIAL HIGHLIGHTS

445.7p

Adjusted Net Asset Value (NAV)
per share 445.7 pence, up 9.1 per cent
(Statutory NAV per share 439.2 pence
up 11.2 per cent).



£18.8m

Retained profit (after tax and minority interest)
£18.8 million up 22.9 per cent.



£17.6m

Profit before tax £17.6 million
up 2.9 per cent.



12.8%

Total return to shareholders 12.8 per
cent based on increase in adjusted NAV
per share and distributions in the year
(15.1 per cent based on statutory NAV).



16.5p

Total distribution to shareholders of
16.5 pence per share of which intended
final distribution is 10.0 pence.



£882.4m

Property portfolio valued at
£882.4 million up 3.9 per cent.



£63.8m

Net rental income (including associates and JVs)
£63.8 million up 5.8 per cent.



£56.7m

Year end cash £56.7million
down 13.7 per cent.



Key statistics and other financial information

	31 Dec 2003	31 Dec 2002	
PROFIT AND LOSS			
Adjusted earnings per share*	20.0p	17.3p	Up 15.6%
Earnings per share	20.7p	15.7p	Up 31.8%
Net rental income (including associates and JVs)	£63.8m	£60.3m	Up 5.8%
Operating profit (including associates and JVs)	£46.4m	£46.1m	Up 0.7%
Net interest payable	£30.7m	£28.9m	Up 6.2%
Core profit before tax (see page 14)	£21.4m	£19.7m	Up 8.6%
Profit before taxation	£17.6m	£17.1m	Up 2.9%
Retained profit	£18.8m	£15.3m	Up 22.9%
BALANCE SHEET			
Adjusted NAV per share*	445.7p	408.7p	Up 9.1%
Statutory NAV per share	439.2p	394.9p	Up 11.2%
Distribution per share from tender offer buy-backs	16.5p	14.4p	Up 14.6%
Property portfolio	£882.4m	£848.9m	Up 3.9%
Net asset value	£385.0m	£371.7m	Up 3.6%
Cash	£56.7m	£65.7m	Down 13.7%
Adjusted gearing*	125.1%	119.6%	Up 5.5%
Statutory gearing	126.9%	123.8%	Up 3.1%
Solidity (net assets as a ratio of gross assets)	39.5%	39.6%	Down 0.1%
Shares in issue ('000's)	87,644	94,129	Down 6.9%
FRS13 fair value adjustment after tax (see page 18)	20.7p	23.6p	Down 12.3%

- * FRS19 requires a tax provision to be made in respect of capital allowances to the extent that they are not covered by available tax losses brought forward. In practice we consider it unlikely that the benefit of these capital allowances will not continue to be available whether or not the properties are sold in the future. The Board has complied with pronouncements from the APB, ASB and Listing Authority in showing NAV and Earnings per share including the FRS19 provision with equal prominence as adjusted figures. The effect of FRS 19 has been excluded from those statistics that are indicated by an asterisk, a reconciliation of which is set out on the final page of this document.

At 31 December 2003 the FRS 19 deferred tax credit included in the profit and loss account was £0.6 million and the cumulative reduction to net assets was £5.7 million (31 December 2002: charge to tax of £1.5 million and £13.0 million respectively).

BUSINESS HIGHLIGHTS

Planning permission received

for the 1,014 foot (309 metres)
London Bridge Tower, the tallest
building in Europe.

~

Acquisition

of New London Bridge House by way
of 50:50 JV for £39.5 million.

~

Sale of four UK properties

Coombe Hill House, New Malden;
Colne House, Watford; Larkhall Lane, SW4
and Vauxhall Street, SE11 at a profit of
£1.9 million.

~

Acquisition of two new properties

on Bondway, Vauxhall Cross for £4.2 million
consolidating our strategic position on this site.

~

Expansion into Luxembourg

in January 2004 by the acquisition of
a government let property at a cost
of £6.7 million.

~

Re-financing at Solna, Sweden

raised £21.3 million.

~

CHAIRMAN'S STATEMENT

THIS MAY WILL MARK THE 10TH ANNIVERSARY OF
THE LISTING OF CLS HOLDINGS PLC ON THE MAIN
MARKET OF THE LONDON STOCK EXCHANGE,
AND I WOULD THEREFORE LIKE TO TAKE THIS
OPPORTUNITY TO LOOK BACK OVER THE LAST TEN
YEARS AND SHARE WITH YOU MY THOUGHTS AS
I LOOK FORWARD TO THE FUTURE.

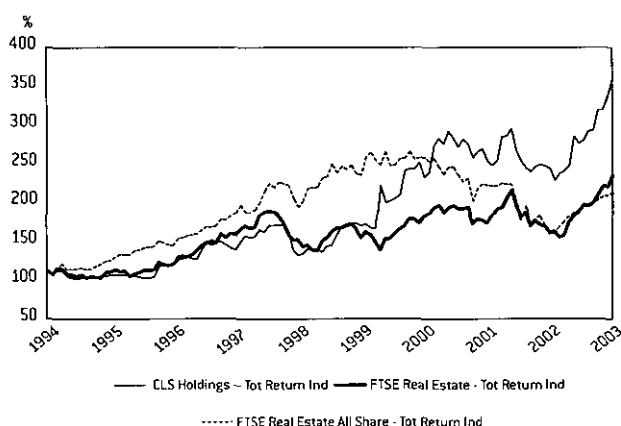
REVIEW OF THE LAST TEN YEARS AND FUTURE STRATEGY.

Our approach since flotation has been to make carefully researched investment decisions that are risk averse with a view to ensuring that our portfolio remains secure and performs consistently.

Over the last ten years our net assets have grown from £127.7 million to £385.0 million, an increase of 201.5 per cent, a growth rate of 11.7 per cent compound per annum and 13.8 per cent compound per annum over the last five years.

Since flotation net asset value per share has increased from 129.0 pence to 445.7 pence, 13.2 per cent compound per annum. Our property assets, based in the UK, Sweden and France have increased from £287.0 million to £882.4 million, an increase of 207.5 per cent.

This growth has resulted in our shares outperforming the FTSE Real Estate Index (as at 30 March 2004) by 129 per cent and the FTSE All Share Index by 153 per cent since flotation.



The closing price of our shares on 30 March 2004 was 324.5 pence compared to a price of 111 pence on flotation, an increase of 192.3 per cent.

This success is a testament to the strong partnerships that have been forged over this period between CLS and our shareholders, tenants, lending institutions, local councils, professional advisers, suppliers and employees. I would like to thank all who have been involved with the Company during this period and would like to say a few words to each of these stakeholders.

SHAREHOLDERS I would particularly like to thank both our institutional and private shareholders, of whom many have held shares since flotation, for their loyalty and active support. Although some institutions are reluctant to invest in companies with a large proprietorial shareholding, in my view such companies offer a much stronger recognition of shareholders' interests as a whole, given that as investors we are all interested in increasing capital value and distributions.

During the last ten years, we have distributed £83.0 million pro-rata to shareholders, progressively rising from £3.2 million in 1995 to £14.1 million in 2003, an increase of 340.6 per cent. In addition we have made market purchases of shares for cancellation of £35.7 million, making a total of £118.7 million paid to shareholders during this period.

TENANTS We are long-term investors in property and seek long-term relationships with our tenants of whom nearly 39 per cent are government organisations. We neither trade in nor develop properties for short-term gain. We do however carry out substantial enhancements to our properties for the benefit of our tenants.

Our aim is to provide tenants with high-quality, well-managed premises providing both the flexibility and facilities required by today's occupiers to enhance their own businesses. To this end, we keep abreast of technological developments so that we can deliver state-of-the-art services to our customers. It is important to us to be responsive to our customers' requirements and to deliver value for money.

LENDING INSTITUTIONS The support of our bankers and other lending institutions has been crucial to our success and growth. Our portfolio of 109 properties valued at £882.4 million is financed by £540.5 million of loans provided by 17 different financial institutions, a number of whom have worked with us for more than ten years. Additionally we have £56.7 million deposited with various banks. We look forward to continuing our strong, risk averse and mutually beneficial relationship with our banking partners for the foreseeable future.

LOCAL COUNCILS Over the period we have developed excellent working relationships with a variety of local councils and I would like to thank them for their support for our ongoing projects to upgrade the environment for local communities adjacent to our investments. We very much look forward to continuing to work with them to improve our living and working environment.

CHAIRMAN'S STATEMENT *(continued)*

PROFESSIONAL ADVISERS AND SUPPLIERS I am very much aware of the valuable contribution that has been made by the many architects, designers, agents and other professional advisers and suppliers with whom we have worked over the years. Through their creativity and quality of input our properties have been developed, refurbished and maintained to a high standard.

STAFF I very much appreciate the competence, energy and support our staff have shown over the years, and enjoy our informal but professional working culture. Our outlook is also influenced by the thirteen different nationalities we employ in three European locations and this I believe gives us a competitive advantage in the way we think and operate.

THE MORTSTEDT FAMILY STRATEGY I thought it would be helpful to reiterate the position of the Mortstedt family. We have been involved in property investment for over sixty years and have found it to be a stable and secure business as long as it is managed conservatively.

Many readers will be aware that my brother Bengt and I together own just over fifty per cent of the shares in the Company, similar to the proportion held when the Company was floated. Our strategic objective is simple: to maintain and grow a safe and secure business that generates long-term shareholder value for all who have invested in the Company. It is our intention to retain our holding in the Company for the foreseeable future.

THE FUTURE We all know that the future is impossible to predict. CLS is a very different and a much improved company today than ten years ago. The organisation is more professional and our knowledge of commercial property more comprehensive.

Our properties are of a higher quality and standard overall and we now have three main home markets – London, Sweden and France. We are not therefore dependent on one market alone.

Our conservative and risk averse strategy has worked successfully and we have high calibre personnel at all levels. CLS is in a strong financial position, is cash rich, has financial flexibility and its financial controls are robust. The tenants, our customers, today know that we are long term property owners and that they can trust us. We endeavour to provide them with the best service available at a reasonable price.

CLS is an energetic and very determined company and will use its resources and knowledge in the best interest for all its stakeholders, now and in the future.

I therefore believe the company will continue to grow in a controlled way and look forward to the future with the utmost confidence.

REVIEW OF 2003

I am pleased to report not only a further increase in adjusted net asset value per share for the ninth successive year – up 9.1 per cent to 445.7 pence per share (statutory NAV per share up 11.2 per cent to 439.2 pence) – but also a further increase in profit before taxation to £17.6 million. We have continued to benefit from ongoing capital allowances giving an overall current tax charge on this year's profit of £0.7 million, an effective tax rate of just 4.0 per cent. Earnings per share increased to 20.7 pence, up 31.8 per cent and retained profit amounted to £18.8 million, an increase of 22.9 per cent.

The share price of CLS increased by 26.2 per cent in the year to 31 December 2003 compared to an increase of 14.8 per cent in the FTSE All-Share Index. The closing share price on 30 March 2004 of 324.5 pence represents an increase of 36.6 per cent since 1 January 2003.

During the year, we have continued to pursue our strategy of improving and enhancing the value of our investment properties and have invested £21.9 million during this period on the refurbishment of our portfolio.

During the summer of 2003 we took advantage of historically low long-term interest rates to convert a number of our loans to fixed-interest rates and to prolong the fixed rate interest period on others, thus reducing our exposure to further interest rate increases. At the end of the year, 47.5 per cent of our borrowing was on fixed rates at an average interest rate of 6.7 per cent, compared to 32.5 per cent at the end of 2002 at an average interest rate of 7.9 per cent.

A major achievement in the year was the grant of planning consent for the construction of London Bridge Tower following a comprehensive planning enquiry. The proposed development, in which we have a one third interest, will comprise a mixture of offices, residential, retail and leisure, and will be Europe's tallest building. We do not intend to commence construction until a substantial pre-let is achieved and/or until a large element of the residential accommodation has been pre-sold. Meanwhile, the existing building on the site remains fully let and income-producing. Although the grant of planning consent is likely to have enhanced the value of our interest, we have not taken any potential development value into our results for 2003.

We were also successful in obtaining planning consent for 6,412 sq m (69,030 sq ft) of offices opposite our Spring Gardens office complex in Vauxhall.

As I predicted in my statement last year, a feature of the past twelve months has been the continuing strength of the investment

market in London for commercial property. We took advantage of this strong demand and sold four investment properties with limited potential for future capital growth at a profit of £1.9 million.

Despite few opportunities for new acquisitions in London at prices which meet our investment criteria, we completed the purchase of a 50 per cent interest in New London Bridge House, valued at £39.5 million, which adjoins the site of the proposed London Bridge Tower development. We also purchased two properties on Bondway, Vauxhall Cross for £4.2 million thereby consolidating our strategic position on this site.

At Solna Business Park in Stockholm, we have completed a number of lettings in what has been an extremely competitive market. Coop have now completed their fit out and moved into Fräsaren 11, which is now 90 per cent let.

In France, we have also seen a strengthening in the investment market, which has made yields less attractive than in previous years. We made one small acquisition during the year.

Whilst occupational demand for offices has been poor during 2003 in each of our three markets, we have nonetheless managed to contain the vacancy rate to 7.1 per cent by area at the end of the year, compared to 5.6 per cent for 2002. In part, this is attributable to a combination of our long lease length in the UK (an average of 11.1 years unexpired) and the fact that 38.9 per cent of rent is secured on the UK, Swedish and French governments. Furthermore, we have no exposure to the City of London office market, where there is a considerable over-supply of offices. Overall, our net rental income has increased by 5.8 per cent to £63.8 million, and our annualised gross rental income at the end of year was £76.8 million.

Moreover, we have seen significant increased tenant interest in vacant space throughout our portfolio since the end of 2003, and look forward with confidence to reducing our vacancy rate and increasing our rental income during 2004.

Our investment division has made losses of £2.9 million after tax and minority interests. We have made substantial operational improvements within a number of investee companies and will continue to improve their performance. We have also accounted in a conservative manner for our investments, a number of which it is hoped will make a positive contribution to profit in 2004.

The CLS share price still remains at a significant discount to net asset value, and consequently the Board continues to believe in the benefit of distributing cash by way of tender offer buy-backs, as they enhance the net asset value of the remaining shares in

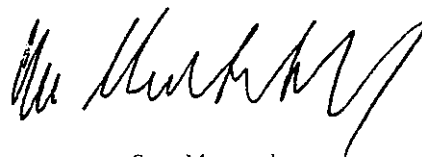
issue and are tax beneficial for many shareholders. The Board therefore intends to recommend a tender offer buy-back of one in thirty six shares at a price of 360 pence per share, resulting in a total distribution for the year of 16.5 pence per share, an increase of 14.6 per cent on the previous year.

Since the year end, we have purchased a government-let building in Luxembourg for £6.7 million (€9.7 million) at a yield of 11.4 per cent based on the lower euro interest rates. We will continue to consider other opportunities in Europe outside our core markets of London, Sweden and France.

I believe that CLS is well placed to increase its profits during 2004 whilst continuing to incur only a small taxation liability.

I am pleased that we have confirmed the appointment of Tom Thomson as Chief Executive, who has been Acting Chief Executive of CLS for two years and has been associated with the company since 1987. I also take the opportunity of welcoming the recent appointment to the Board of Per Sjöberg, who is the Group's Development Director. Anna Seeley has stepped down from her executive role as Group Property Director in order to be able to devote more time to her young family. However I am delighted that we will continue to benefit from her expertise in her new role as a non-executive director of CLS.

Finally I would like to reiterate my thanks to my fellow directors, our staff, advisers, lenders and shareholders for their continued support during the year.



Sten Mortstedt
Executive Chairman

FINANCIAL REVIEW

THE GROUP HAS CONTINUED TO
DELIVER STRONG GROWTH IN
SHAREHOLDER VALUE FROM ITS
PORTFOLIO OF PROPERTIES, OF WHICH
A SIGNIFICANT PROPORTION ARE LET TO
GOVERNMENT TENANTS ON LONG LEASES.

Adjusted NAV of 445.7 pence per share (December 2002: 408.7 pence), grew by 9.1 per cent during 2003 (Statutory NAV of 439.2 pence per share grew by 11.2 per cent over the same period). In the last five years the adjusted net asset value per share has grown by 19.4 per cent compound per annum, or a total of 142.2 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 113.6 per cent (Statutory NAV has shown similar growth throughout that period). If all share options were to be exercised, the dilutive effect would be to reduce adjusted NAV per share by 2.6 pence (Statutory NAV by 2.5 pence).

At the year end the post-tax FRS 13 disclosure, showing the effect of restating fixed interest loans to fair value, amounted to 20.7 pence per share (December 2002: 23.6 pence).

The return in the year to shareholders based on the increase in adjusted NAV per share and distributions by way of tender offer buy-back was 12.8 per cent (December 2002: 15.5 per cent). Based on Statutory NAV the return is 15.1 per cent (December 2002: 15.4 per cent).

During the year the Company distributed £14.1 million (15.4 pence per share) to shareholders by way of tender offer buy-backs. The Company also purchased 1.5 million shares on the market for cancellation (1.6 per cent of the shares in issue as at 1 January 2003) at a cost of £2.9 million, an average price per share of 198 pence; a total payment to shareholders in the year of £17.0 million.

Net assets grew by £13.3 million to £385.0 million in the year, including positive foreign exchange translation movements of £15.1 million (relating to the Group's Swedish and French net assets). This arises because although each property is funded by loans in local currency, the equity in the property is exposed to movements in foreign exchange rates when translated into sterling. Net asset growth is calculated after taking into account the cost of tender offer buy-back distributions and market repurchases made during the year, which totalled £17.0 million.

Adjusted gearing at the year end increased to 125.1 per cent (2002: 119.6 per cent) (statutory gearing was 126.9 per cent – 2002: 123.8 per cent). Tender offer buy-backs during the year and the purchase of shares in the market had the impact of increasing gearing by 4.4 per cent and the positive effect of foreign exchange translation of overseas net assets during 2003 reduced gearing by 4.9 per cent.

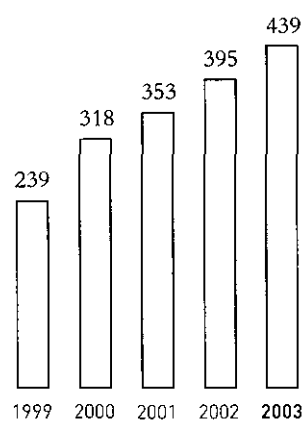
The Group held £56.7 million cash as at 31 December 2003 (December 2002: £65.7 million), the decrease being attributed as follows:

	£m
Cash inflow from operations	52.4
Net interest and other finance costs	(29.0)
Taxation	(1.4)
Net funding of cable companies	(5.4)
Funding of New London Bridge House	(5.1)
Funding of Teighmore Limited	(0.7)
Properties purchased and enhanced	(22.6)
New loans	25.5
Properties sold	23.6
Loans repaid	(29.2)
Tender offer payment to shareholders	(14.1)
Market purchase of shares for cancellation	(2.9)
Other	(0.1)
	(9.0)

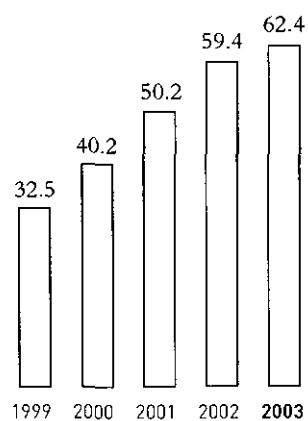
FINANCIAL REVIEW *(continued)*

THE UNDERLYING ELEMENTS OF THE GROWTH IN EQUITY SHAREHOLDERS' FUNDS ARE SET OUT BELOW:

	£m
Equity shareholders' funds at 31 December 2002	371.7
Direct investment	
Income from investments in property	62.5
Losses in equity investments	(1.4)
Cable company losses	(4.6)
Administrative expenses	(8.2)
Net interest payable	(30.7)
Profit before taxation	17.6
Taxation – current	(0.7)
– deferred	0.6
Equity minority interest	1.3
Retained profit	18.8
Indirect investment	
Revaluations	(3.0)
Exchange and other movements	15.0
Increase in equity due to direct and indirect investment	30.8
Other equity movements	
Capital distributions by tender offer buy-backs	(14.1)
Other share buy backs and associated costs	(3.0)
Share Issues	0.5
Minority interest	(0.9)
Equity shareholders' funds at 31 December 2003	385.0

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NAV PER SHARE (PENCE)



GROUP NET RENTAL INCOME (£M)

FINANCIAL REVIEW *(continued)*

In January 2003 the Group purchased 75.5 per cent of a Scottish telecoms operator, WightCable North Limited (formerly Omne Communications Limited), that had capital assets of £50 million and an established customer base. The initial cash outlay amounted to £4.1 million and a further £1.9 million was injected during the year. The revenue projections on which we based our purchase have not been achieved and therefore it is likely we will need to make limited further funds available.

WightCable South Limited, a similar operator in which we have invested is at the point of reaching self sufficiency in funding operations and is expected to break even on an EBITDA basis in April of 2004.

Other existing equity investments held amounted to £4.0 million (after provisions this year of £1.2 million). The majority of these are unlisted investments which continue to be carried at the lower of cost and net realisable value, and represent only 0.4 per cent of the gross assets of the Group. A number of these investments are performing very well and it is likely that they will make positive contributions to profits during the forthcoming year.

Core profit generated by the Group rose by 8.6 per cent. This has been calculated to show the profit arising solely from property rental as set out below:

	2003 £m	2002 Restated £m
Profit before tax	17.6	17.1
Deduct:		
Losses in equity investments	(1.4)	(3.1)
Cable company losses	(4.6)	(0.7)
Profit/(loss) on sale of properties	1.9	(0.2)
Lease surrenders and variations	0.3	0.5
Back-dated rent settlement	-	1.2
Negotiated settlement in France	-	(0.1)
Fees re aborted purchase	-	(0.2)
	(3.8)	(2.6)
Core profit	21.4	19.7
Increase on previous year	8.6%	43.8%

REVIEW OF THE PROFIT AND LOSS ACCOUNT

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

	2003 Total £m	UK* £m	Sweden £m	France £m	Equity investments £m	2002 Total £m
Net rental income	63.8	32.0	14.5	17.3	-	60.3
Less income in JVs	(1.4)	(1.4)	-	-	-	(0.9)
Other income	3.9	0.5	0.6	0.1	2.7	1.3
Net rental and property related income (excluding JVs)	66.3	31.1	15.1	17.4	2.7	60.7
Operating expenses	(19.6)	(5.7)	(4.0)	(2.0)	(7.9)	(12.3)
Losses and write-downs on equity investments	(1.4)	-	-	-	(1.4)	(3.1)
Associates/JVs operating profit	1.1	1.4	-	-	(0.3)	0.8
Operating profit	46.4	26.8	11.1	15.4	(6.9)	46.1
Gain/(loss) from sale of investment properties	1.9	1.9	-	-	-	(0.1)
Net interest payable and related charges	(30.7)	(15.9)	(9.8)	(4.3)	(0.7)	(28.9)
Profit on ordinary activities before tax	17.6	12.8	1.3	11.1	(7.6)	17.1
Taxation	(0.1)	(2.8)	-	(0.7)	3.4	(2.1)
Minority interest	1.3	-	-	-	1.3	0.3
Retained profit	18.8	10.0	1.3	10.4	(2.9)	15.3
Retained profit 31 December 2002	15.3	10.1	1.2	7.8	(3.8)	
Increase/(decrease) in retained profit	3.5	(0.1)	0.1	2.6	0.9	
Percentage change in retained profit	22.9%	(0.1)%	8.3%	33.3%	23.7%	

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

NET RENTAL INCOME has increased by 5.8 per cent to £63.8 million and reflects further letting successes at Solna, Sweden (£3.0 million) and increased rentals in France due to indexation and lease restructuring (£0.5 million) and a full year contribution of the Herve portfolio acquired in June 2002. UK net rental income fell by £2.3 million of which £1.2 million was represented by the receipt of a back-dated rent review at New Printing House Square in 2002 and a reduction in current year rent of £1.1 million related to the vacancy of One Leicester Square.

OTHER INCOME of £3.9 million (2002: £1.3 million) mainly comprised the consolidation of gross margins of telecoms subsidiaries of £2.7 million and a lease surrender of £0.3 million at Great West House, Brentford. Of the remainder, gym membership fees generated from the Solna development increased to £0.5 million.

ADMINISTRATIVE EXPENDITURE relating to the core property business amounted to £7.6 million, a decrease of £0.3 million over the previous year. A further £7.4 million related to the consolidation of operating costs for WightCable South Limited and WightCable North Limited which was purchased in January 2003 and £0.4 million related to other non-property related overheads.

NET PROPERTY EXPENSES of £4.2 million (2002: £4.0 million) included an amount of £0.7 million of depreciation of which £0.4 million related to completion of the amortisation of a short leasehold interest. In addition the marketing campaign initiated in 2002 at Solna has continued, at a cost of £0.5 million. Of the remainder, operating costs of the gym at Solna amounted to £0.6 million, void costs were £0.7 million (mainly One Leicester Square and Vista Office Centre, Hounslow), and repairs and maintenance costs of £0.6 million related to the refurbishment of properties in Vänérparken and Paris.

FINANCIAL REVIEW *(continued)*

OTHER OPERATING LOSSES amounted to £1.4 million. Within that figure, £1.2 million is represented by a write off of £0.7 million and provisions of £0.5 million against unlisted investments, to comply with BVCA valuation guidelines.

	2003 £m	2002 £m
Losses relating to listed investments	(0.2)	-
Write downs of unlisted investments	(1.2)	(3.1)
	(1.4)	(3.1)

NET INTEREST AND FINANCIAL CHARGES amounted to £30.7 million and showed an increase of £1.8 million over net expenditure in 2002, reflecting the re-financing of Solna.

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

A breakdown of the net charge is set out below:

	2003 £m	2002 £m	Difference £m
Interest receivable	1.7	1.6	0.1
Foreign exchange	0.4	0.3	0.1
Interest receivable and similar income	2.1	1.9	0.2
Interest payable and similar charges	(32.8)	(30.8)	(2.0)
Net interest and financial charges	(30.7)	(28.9)	(1.8)

Interest payable and similar charges of £32.8 million (2002: £30.8 million) included joint venture interest of £1.1 million (2002: £0.9 million) relating to the Group's interest in Teighmore Limited, owner of Southwark Towers, and New London Bridge House Limited which was acquired in September 2003, depreciation of interest rate caps amounting to £0.9 million (2002: £0.8 million) and amortisation of issue costs of loans of £0.9 million (2002: £1.0 million).

The average cost of borrowing for the Group at December 2003 is set out below:

December 2003	UK	Sweden	France	Total
Average interest rate on fixed rate debt	8.1%	6.1%	4.6%	6.7%
Average interest rate on variable rate debt	5.5%	4.4%	3.5%	4.7%
Overall weighted average interest rate	6.7%	5.3%	4.0%	5.6%

December 2002				
Average interest rate on fixed rate debt	9.9%	6.2%	4.9%	7.9%
Average interest rate on variable rate debt	5.4%	5.6%	4.4%	5.2%
Overall weighted average interest rate	6.6%	5.9%	4.6%	6.0%

TAXATION The Group's current taxation charge has benefited from the utilisation of losses, significant capital allowances and amortisation deductions. These factors will have less effect in the future as corporation tax losses are used against expected profits and as allowances and amortisation deductions decrease in existing subsidiaries. We do however anticipate utilising capital allowances on assets held by recently acquired subsidiary companies.

REVIEW OF THE BALANCE SHEET

TANGIBLE ASSETS The tangible assets of the Group (including plant and machinery) have increased to £889.3 million (2002: £852.4 million). The net increase of £36.9 million included expenditure on refurbishments of £17.0 million of which £13.1 million was expended at Solna. Foreign exchange translation gains on Swedish and French property holdings amounted to £36.7 million in the year. After taking account of the effect of foreign exchange translation on loans to finance these assets, the net effect was a gain of £15.1 million.

Two new properties were purchased at a cost of £4.2 million in order to consolidate our site at Vauxhall Cross, SE11. During the year in the UK, four properties with a book value of £17.7 million, fourteen of eighteen flats at Coventry House, Haymarket with a book value of £3.5 million (the remaining flats are held as an investment) and one small property in France with a book value of £0.5 million were sold.

The value of tangible assets relating to WightCable North Limited was £3.1 million, other additions were £1.5 million and depreciation was £1.5 million.

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

Revaluation of property	2003 £m	2002 £m
UK	(0.6)	(5.7)
Sweden	(6.9)	4.3
France	4.5	9.3
Total revaluation	(3.0)	7.9

Based on the valuations at 31 December 2003 and annualised contracted rent receivable at that date of £69.4 million (2002: £70.8 million), the portfolio shows a yield of 7.2 per cent (2002: 7.9 per cent).

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

December 2003	Total Balance Sheet £m	%	UK† £m	%	Sweden £m	%	France £m	%
Investment Properties	882.4	100.0	408.9	46.3	241.1	27.3	232.4	26.3
Loans	(540.5)	100.0	(268.0)	49.5	(136.5)	25.3	(136.0)	25.2
Equity in Property Assets	341.9	100.0	140.9	41.2	104.6	30.6	96.4	28.2
Other	43.1	100.0	43.8	101.6	(8.1)	(18.8)	7.4	17.2
Net Equity	385.0	100.0	184.7	48.0	96.5	25.0	103.8	27.0
Equity in property assets as a percentage of investment	38.7%		34.5%		43.4%		41.5%	
	£m		£m		£m		£m	
Opening Equity	371.7		178.9		101.5		91.3	
Increase during 2003	13.3		5.8*		(5.0)		12.5	
Closing Equity 2003	385.0		184.7		96.5		103.8	

† Results relating to Germany were immaterial in the context of the overall results of the Group and have therefore been included within the UK. The following exchange rates were used to translate assets and liabilities at the year end: SEK/GBP 12.885; Euro/GBP 1.417

* Net assets were reduced by payments for share purchases, tender offer distributions and deferred tax provisions totalling £16.4 million which are included within the results of the UK.

FINANCIAL REVIEW *(continued)*

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.

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

Net Interest Bearing Debt	Total £m	%	UK £m	%	Sweden £m	%	France £m	%
Fixed Rate Loans	(256.9)	47.5	(120.6)	45.0	(73.8)	54.0	(62.5)	46.0
Floating Rate Loans	(283.6)	52.5	(147.2)	55.0	(62.9)	46.0	(73.5)	54.0
	(540.5)	100.0	(267.8)	100.0	(136.7)	100.0	(136.0)	100.0
Bank and investments	56.7		41.9		3.7		11.1	
Net Interest Bearing Debt	(483.8)	100.0	(225.9)	46.7	(133.0)	27.5	(124.9)	25.8
2002	(460.5)	100.0	(235.5)	51.1	(106.6)	23.2	(118.4)	25.7

Non interest bearing debt, represented by short-term creditors, amounted to £35.8 million (December 2002: £30.8 million)

Floating rate loan caps	Total %	UK %	Sweden %	France %
2003				
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	6.2	6.4	6.0	6.0
Average tenure	2.9 years	3.4 years	1.7 years	3.0 years
2002				
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	6.3	6.3	6.2	6.4
Average tenure	3.2 years	3.5 years	2.4 years	3.1 years

During 2003 the Group has continued its financial strategy; to fund part of its portfolio on a floating rate basis, hedged with interest rate caps. As at 31st December 2003 the average period to maturity of the caps was 2.9 years. Should the interest rates rise to the cap rate, then the increased interest charged would be £4.8 million per annum for the group, down from £6.9 million last year.

During the year loans with a counter-value of £129.8 million were fixed until 2008. The majority of this fixing was carried out in June and July 2003 at very attractive long-term rates; £77.3 million were converted from floating interest hedged with caps and £52.5 million were prolongation of existing fixed funding. After this restructuring, the Group's net debt is 52.5 per cent fixed and 47.5 per cent floating with interest rate caps.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond, which has a current outstanding balance of £39.1 million at an interest rate of 10.8 per cent with a maturity date of 2025; and a zero coupon bond, with a current outstanding balance of £4.5 million, with matching interest rate and maturity date. This debt

instrument has a significant adverse effect on the average interest rate and the FRS 13 adjustment.

The net borrowings of the Group at 31 December 2003 of £483.8 million showed an increase of £23.3 million over 2002, reflecting the refinancing of our assets at Solna, refurbishments and acquisitions.

Under the requirements of FRS13, which addresses among other things, disclosure in relation to derivatives and other financial instruments, if our loans were held at fair value, the Group's fixed rate debt at the year end would be in excess of book value by £25.9 million (2002: £31.7 million) which net of tax at 30 per cent equates to £18.1 million (2002: £22.2 million).

The contracted future cash flows from the properties securing the loans are currently well in excess of all interest and ongoing loan repayment obligations. Only £17.5 million (3.2 per cent) of the Group's total bank debt of £540.5 million is repayable within the next 12 months, with £274.5 million (50.8 per cent) maturing after five years.

SHARE CAPITAL The share capital of the Company totalled £21.9 million at 31 December 2003, represented by 87,644,067 ordinary shares of 25 pence each which are quoted on the main market of the London Stock Exchange.

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2003 resulting in the purchase of 5.4 million shares and providing a distribution of £14.1 million to shareholders, together with costs of £0.2 million. As the shares continued to trade at a discount to NAV, the Group bought back a total of 1.5 million shares in the market for cancellation at an average cost per share of 198 pence, representing 1.6 per cent of opening shares. This has involved a total cash expenditure of £2.9 million.

A total of 46.8 million shares have been purchased at a total cost of £93.9 million since the programme of buy-backs started in 1998. The average cost of shares purchased for cancellation over this period was 201 pence per share.

The weighted average number of shares in issue during the year was 90,791,078 (2002: 97,427,913).

The average mid-market price of the shares traded in the market during the year ended 31 December 2003 was 228 pence with a high of 284 pence in December 2003 and a low of 188 pence in February 2003.

Should the proposed tender offer buy-back be fully taken up, the number of shares in issue would be reduced by 2,434,557 to 85,209,510.

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

	No of shares Million 2003	No of shares Million 2002
Opening shares	94.1	99.3
Tender offer buy-back	(5.4)	(4.6)
Buy-backs in the market for cancellation	(1.5)	(0.6)
Shares issued for the exercise of options	0.4	-
Closing shares	87.6	94.1

In total 21,261,700 million shares were traded in the market during 2003. The share price on 30 March 2004 was 324.5 pence.

An analysis of the ownership structure as at 31 December 2003 is set out below:

	Number of shares	Percentage of shares
Institutions	39,264,494	44.8
Private investors	1,467,935	1.7
The Mortstedt family	44,794,694	51.1
Other	2,116,944	2.4
Total	87,644,067	100.0

The Company operates share option schemes to enable its staff to participate in the prosperity of the Group. At 31 December 2003 there were 879,000 options in existence with an average exercise price of 181.0 pence.

DISTRIBUTION As the current share price remains at a considerable discount to net asset value, your Board is intending to propose a further tender offer buy-back of shares in lieu of paying a cash dividend, on the basis of 1 in 36 shares at a price of

360 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 10.0 pence, yielding a total distribution in cash terms of 16.5 pence per share for the year (2002: 14.4 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 AND FRANCE.

WE BELIEVE THAT OUR EMPHASIS ON ACTIVELY MANAGING
THE PORTFOLIO MAXIMISES LONG TERM CAPITAL RETURNS.

THE GROUP NOW OWNS 109 PROPERTIES WITH A TOTAL
LETTABLE AREA OF 564,581 SQ M (6,077,298 SQ FT), OF
WHICH 44 PROPERTIES ARE IN THE UK, 23 IN SWEDEN
AND 42 IN FRANCE. WE HAVE 496 COMMERCIAL TENANTS
AND 1,328 RESIDENTIAL TENANTS.

STRATEGY Our strategy is to target above average returns on equity through acquisition, active management, refurbishment, and selective sales.

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 %
London City Fringes	280	0.4%	280	0.4%	2,245	0.3%	12.5%	
London Mid town	6,951	10.0%	6,951	10.9%	102,100	11.6%	6.8%	
London West End	3,198	4.6%	3,044	4.8%	58,140	6.6%	5.2%	
London West	4,780	6.9%	4,521	7.1%	56,979	6.4%	7.9%	
London South Bank	8,998	13.0%	8,982	14.1%	131,775	14.9%	6.8%	
London South West	1,204	1.7%	1,084	1.7%	14,500	1.6%	7.5%	
London North West	3,175	4.6%	3,051	4.8%	39,050	4.4%	7.8%	
Outside London	350	0.5%	350	0.5%	2,400	0.3%	14.6%	
Total UK	28,936	41.7%	28,263	44.4%	407,189	46.1%	6.9%	7.6%*
Germany	228	0.3%	210	0.3%	1,835	0.2%	11.4%	
Total Germany	228	0.3%	210	0.3%	1,835	0.2%	11.4%	11.4%
Sweden Gothenburg	6,335	9.1%	3,171	5.0%	42,685	4.8%	7.4%	
Sweden Stockholm	11,259	16.2%	9,955	15.6%	148,776	16.9%	6.7%	
Sweden Vänersborg	4,660	6.7%	4,069	6.4%	49,592	5.6%	8.2%	
Total Sweden	22,254	32.1%	17,195	27.0%	241,053	27.3%	7.1%	7.4%†
France Paris	14,376	20.7%	14,376	22.6%	191,826	21.7%	7.5%	
France Lyon	2,643	3.8%	2,643	4.2%	30,628	3.5%	8.6%	
France Lille	561	0.8%	561	0.9%	5,830	0.7%	9.6%	
France Antibes	390	0.6%	390	0.6%	4,080	0.5%	9.5%	
Total France	17,970	25.9%	17,970	28.3%	232,364	26.4%	7.7%	8.3%
Group Total	69,388	100.0%	63,638	100.0%	882,441	100.0%	7.2%	7.7%

Conversion rates: SEK/GBP 12.885 - Euro/GBP 1.417

• 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.

* - Yield when fully let is calculated by dividing net rent plus unlet and refurbished space at ERV by the book value based on the assumption that the book values at 31 December 2003 will increase by refurbishment expenditure of approximately £1.1 million in respect of projects in the UK.

† - Yield when fully let is calculated by dividing net rent plus unlet and refurbished space at ERV by the book value based on the assumption that the book values at 31 December 2003 will increase by refurbishment expenditure of approximately £23.7million in respect of the projects at Solna, Sweden.

We estimate that open market rents are approximately 2.3 per cent lower than current contracted rents receivable, which represents a potential decrease of £1.6 million. This excludes the additional rents we will receive as a result of our refurbishment programme. An analysis of the net decrease is set out below:

	Contracted Rent £ Million	Estimated Rental Value £ Million	Reversionary Element %
UK & Germany	29.2	27.1	(7.2)
Sweden	22.2	21.1	(5.0)
France	18.0	19.6	8.9
Total	69.4	67.8	(2.3)

The total potential gross rental income (comprising contracted rentals, and estimated rental value of unlet space and refurbishment) of the portfolio is £76.8 million p.a.

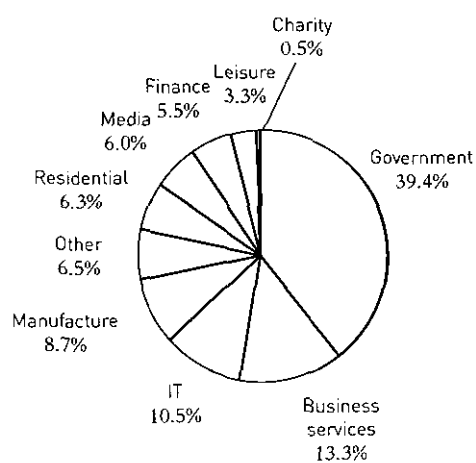
PROPERTY REVIEW *(continued)*

RENT ANALYSED BY LENGTH OF LEASE AND LOCATION

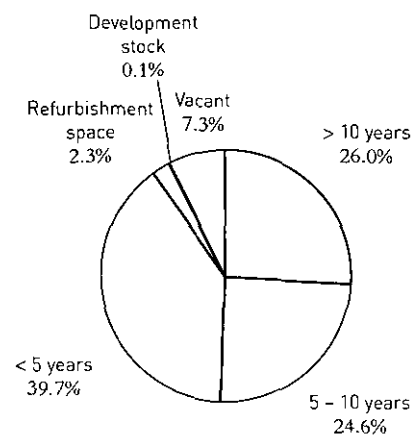
	Sq. m	Sq.ft	Contracted Aggregate Rental £000	Contracted but not income producing £000	Unlet Space at ERV £000	Space under Refurbish- ment or with planning consent £000	Total £000	Total %
UK >10 yrs	62,599	673,832	13,053	475	-	-	13,528	42.5%
UK 5-10 yrs	42,222	454,489	8,977	163	-	-	9,140	28.7%
UK < 5 yrs	29,531	317,879	6,268	-	-	25	6,293	19.8%
Development Stock	1,359	14,629	-	-	59	-	59	0.2%
Vacant	12,867	138,504	-	-	2,778	-	2,778	8.8%
Total UK	148,578	1,599,333	28,298	638	2,837	25	31,798	100.0%
Germany < 5 yrs	3,095	33,315	228	-	-	-	228	100.0%
Total Germany	3,095	33,315	228	-	-	-	228	100.0%
Sweden > 10 yrs	51,090	549,946	4,227	2,009	-	-	6,236	24.3%
Sweden 5-10 yrs	23,917	257,449	1,859	152	-	-	2,011	7.9%
Sweden < 5 yrs	184,813	1,989,376	13,811	196	-	-	14,007	54.6%
Refurbished space	6,178	66,502	-	-	-	1,751	1,751	6.8%
Vacant	20,649	222,271	-	-	1,628	-	1,628	6.4%
Total Sweden	286,647	3,085,544	19,897	2,357	1,628	1,751	25,633	100.0%
France > 10 yrs	1,073	11,550	185	-	-	-	185	0.9%
France 5-10 yrs	50,792	546,738	7,779	-	-	-	7,779	40.6%
France < 5 yrs	67,920	731,109	10,006	-	-	-	10,006	52.2%
Vacant	6,476	69,709	-	-	1,202	-	1,202	6.3%
Total France	126,261	1,359,106	17,970	-	1,202	-	19,172	100.0%
Group > 10 yrs	114,762	1,235,328	17,465	2,484	-	-	19,949	26.0%
Group 5-10 yrs	116,931	1,258,676	18,615	315	-	-	18,930	24.6%
Group < 5 yrs	285,359	3,071,679	30,313	196	-	25	30,534	39.7%
Refurbished space	6,178	66,502	-	-	-	1,751	1,751	2.3%
Development Stock	1,359	14,629	-	-	59	-	59	0.1%
Vacant	39,992	430,484	-	-	5,608	-	5,608	7.3%
Group Total	564,581	6,077,298	66,393	2,995	5,667	1,776	76,831	100.0%

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

CONTRACTED RENT BY SECTOR (%)



TOTAL RENT BY LEASE LENGTH (%)



New Printing House
Square
Spring Gardens
Leicester Square
Great West House
Computer House
Cap Gemini
Coventry House
Carlton House
Westminster Tower
Cambridge House
CI Tower
Brent House
Clifford's Inn
Drury Lane
Vista Office Centre
Chancel House
Conoco House
Tinworth Street
Dukes Road
Buspace Studios
London House
275 King Street
Ingram House
80/84 Bondway
Satellite House
Hollywood Nightclub
86 Bondway
Deanery Street
Vauxhall Walk, 108
Vauxhall Walk, 110
Club UK
Western House
Holland Park Avenue
18/20 Miles Street

UK

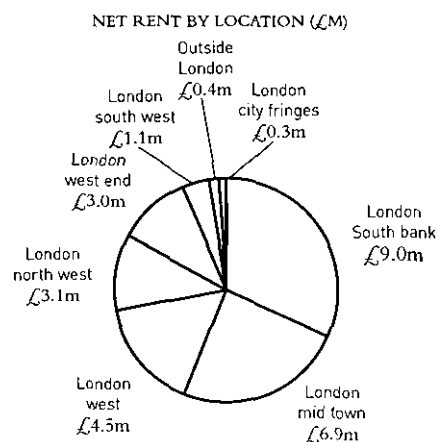
OUR FOCUS THROUGHOUT 2003 HAS
BEEN TO MAXIMISE RENTAL INCOME
FROM THE EXISTING PORTFOLIO AND
MAKE STRATEGIC ACQUISITIONS TO
PROVIDE NEW OPPORTUNITIES FOR
THE FUTURE

~

UK

ONE OF THE HIGHLIGHTS OF THE YEAR WAS THE SECRETARY OF STATE'S DECISION TO GRANT PLANNING CONSENT FOR LONDON BRIDGE TOWER IN WHICH WE HAVE A ONE THIRD INTEREST.

AT 309M (1,014 FT) HIGH, LONDON BRIDGE TOWER WILL BE THE TALLEST BUILDING IN EUROPE AND IS UNIQUE IN THAT IT PROVIDES A COMBINATION OF RESIDENTIAL, OFFICE, HOTEL, RETAIL AND LEISURE ACCOMMODATION (INCLUDING A VIEWING GALLERY) WITHIN A SINGLE BUILDING.



“A SIGNIFICANT PROPORTION OF THE UK PORTFOLIO IS LET TO THE GOVERNMENT ON LONG LEASES.”

Planning consent was also secured for a mixed use development totalling 7,446 sq m (80,143 sq ft) at 2-10 Tinworth Street, London SE11. The focal point of this scheme is a striking self contained office building providing 6,412 sq m (69,030 sq ft) of fully specified offices. This site is immediately adjacent to our existing 15,144 sq m (163,000 sq ft) Spring Gardens development which is fully let to the UK Government.

Four properties were sold during the year for a total consideration of £19.6 million, resulting in a net profit of £1.9 million. The properties sold were Coombe Hill House, New Malden, Surrey; Colne House, Watford; Oval Court, Vauxhall Street, London SE11 and 157 Larkhall Lane, London SW8.

New properties added to the portfolio include two adjacent buildings in Vauxhall, London at 80-84 Bondway, 86 Bondway and 18-20 Miles Street, acquired for £4.2 million. These acquisitions complete the site assembly at Hoskyn's House thereby generating additional value to the location.

A further significant acquisition was made in September. Through a 50:50 joint venture company with Sellar Property Group we acquired the freehold interest of New London Bridge House, a 12,170 sq m (131,000 sq ft) office building located immediately adjacent to the proposed London Bridge Tower development and London Bridge Station. The joint venture paid £39.5 million for the fully let building, reflecting an initial net yield of 8.5 per cent. The property is let to five tenants including Standard Chartered Bank, Coutts and Co and PricewaterhouseCoopers on leases expiring in 2009.

At the start of the year the UK portfolio had a vacancy rate of 7.3 per cent by net floor area. This rose to 8.6 per cent at the half year stage and 8.7 per cent by the year end.

The most significant lettings were at Great West House in Brentford where we signed new leases with Allianz Cornhill Insurance Plc, British Sky Broadcasting Limited, Steria Limited and Cara Information Technology. Totalling 6,437 sq m (69,290 sq ft), these lettings generated an overall rent of £1.0 million per annum.

Although originally intended to be held as refurbished apartments for letting, we took advantage of increased demand towards the end of the year to sell fourteen of the new apartments at Coventry House, Haymarket, SW1 generating gross receipts of £4.4 million. Four are being retained by the Group as letting investments.

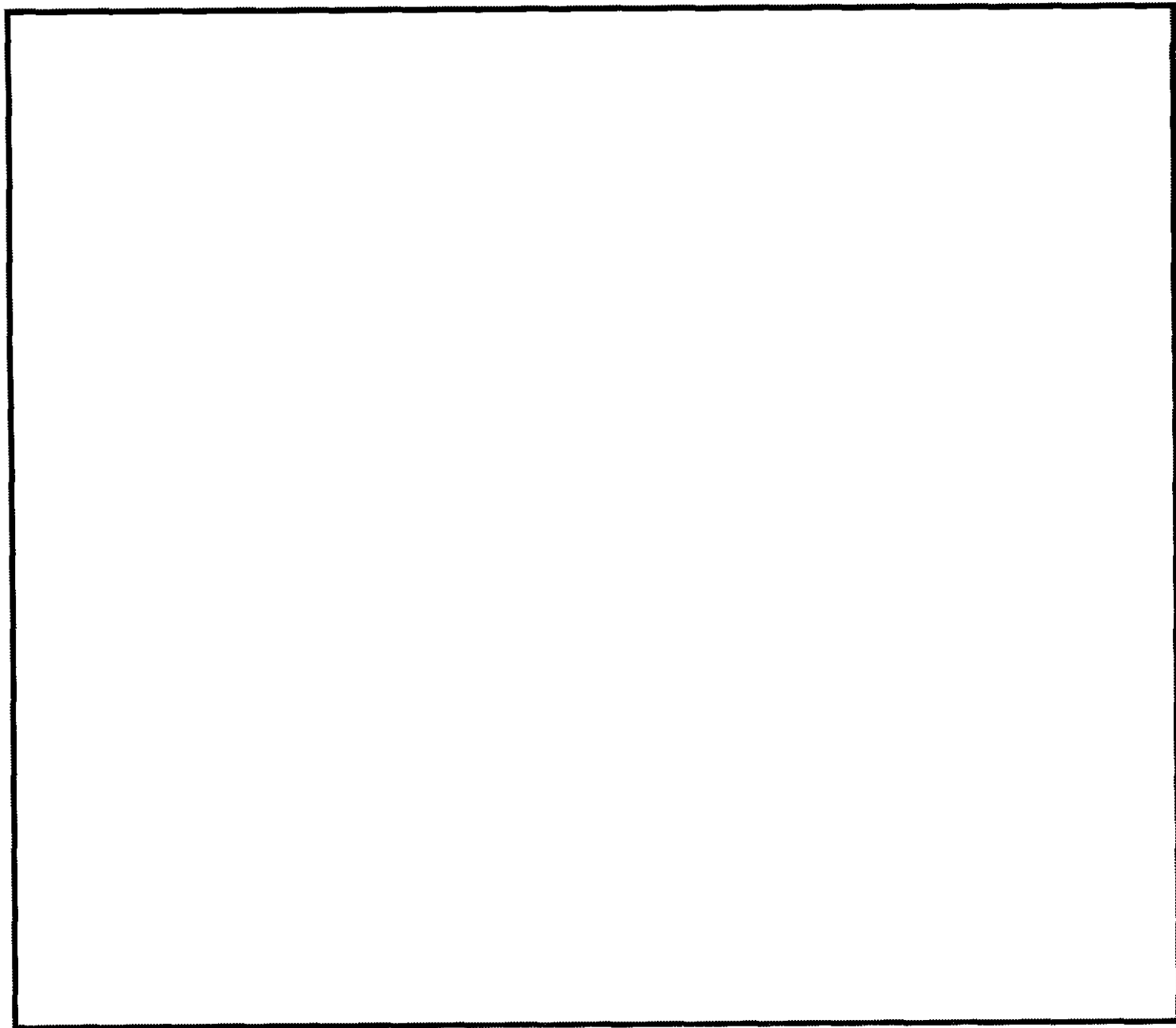
At One Leicester Square, we are looking forward to a positive outcome to the planning appeal being heard in April 2004 that will enable us to complete the letting of the lower three floors of the building to Viacom UK Limited for use as an MTV studio. Three further floors totalling 1,090 sq m (11,733 sq ft) have been let subject to the grant of a public entertainment licence and there is strong interest in the remaining top three floors providing a further 975 sq m (10,500 sq ft).

A significant proportion of our UK portfolio remains let to central or local government on long leases. Through our acquisitions and planning consents, we have added some exciting opportunities to the portfolio which we hope will provide new income and value as markets improve.

Solna

Vänerparken

Lövgärdet



SWEDEN

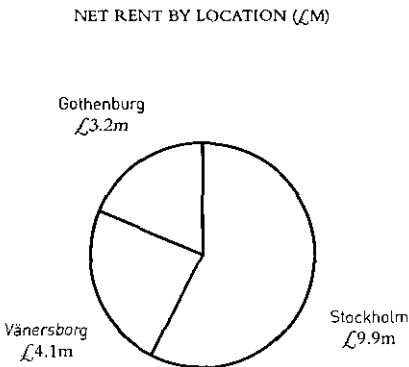
OUR QUALITY PORTFOLIO
CONTINUES TO ATTRACT
HIGH CALIBRE TENANTS

~

SWEDEN

WE HAVE CONTINUED TO IMPROVE THE QUALITY OF OUR PORTFOLIO AT SOLNA BUSINESS PARK, LÖVGÄRDET AND VÄNERPARKEN, AND HAVE ATTRACTED NEW TENANTS WHERE VACANT SPACE IS AVAILABLE.

SOLNA, STOCKHOLM
DURING THE YEAR WE LET A FURTHER 5,654 SQ M (60,861 SQ FT) OF SPACE, FRÄSAREN 11 IS NOW 90 PER CENT LET AND THE COMPLEX AS A WHOLE IS 84 PER CENT LET. COOP HAS MOVED IN AND THE ONLY OUTSTANDING WORK AT FRÄSAREN 11 IS THE HOTEL WHICH IS SCHEDULED FOR COMPLETION IN MAY 2004.



“WE AIM TO PROVIDE HIGH-QUALITY, WELL-MANAGED PREMISES”

We are in the process of erecting a new façade, entrances and lifts at Smeden, another of the large buildings at Solna. When finished, Solna Business Park will include a business hotel, business centre, gym, restaurant, shops and conference centre, in all comprising just under 150,000 sq m (1.6 million sq ft).

Our area has now officially changed its name to Solna Business Park, and is now on its way to becoming well known in greater Stockholm.

The market in Stockholm is still weak. Our vacant space is, however, much better than the average and we look forward with confidence to a continued improvement. It is our opinion that the market will not decline during 2004 and that increased demand for space will be noticeable in 2005.

LÖVGÅRDET, GOTHENBURG We have continued to increase our services to the tenants. During the year 39 flats have been totally refurbished. All the 1,280 flats are let and the leases are now considerably longer.

Of the retail contracts 76 per cent are let until 2014. We are now negotiating an extension of a further 2,652 sq m (28,546 sq ft) which is equivalent to 8 per cent of the commercial space of 33,150 sq m (356,824 sq ft).

VÄNERPARKEN Three years ago we sold some land to developers. They have now built and sold 75 flats of a very high standard. This further improves the image for our area.

The marina has been selected by boating organisations as one of the three best marinas in Sweden 2003. We look very positively upon Vänerparken as a long term management project.

Edouard Belin
Rueil 2000
Lotus
Le Sigma
Charenton Bercy
Forum
Lord Byron
Bellevue
Le Quatuor
Petits Champs
Le Debussy
Mission Marchand

Villa Angelica
Front de Parc
Seine Défense
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
Rue de la Ferme
Santos Dumont
Solférino
Général Leclerc
Stephenson
Rochefoucauld
Fontainebleau
Abbé Hazard

FRANCE

STRONG PERFORMANCE
FROM THE PORTFOLIO
IN 2003

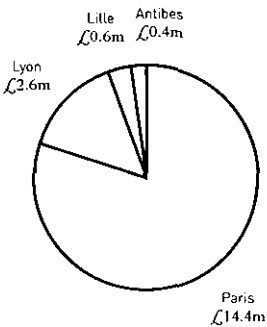
~

FRANCE

CITADEL'S PORTFOLIO WHICH IS WHOLLY OWNED BY CLS, HAS CONTINUED TO PERFORM WELL IN 2003 DESPITE A MORE DIFFICULT MARKET ON THE LETTING SIDE.

FOR THE LAST THREE YEARS FRENCH ECONOMIC GROWTH HAS SLOWED. COMMERCIAL REAL ESTATE FOLLOWED THE SAME PATTERN, DEMAND SHRANK, SUPPLY ROSE AND PRICES FELL. NEVERTHELESS, THE SLOWDOWN HAS BEEN RELATIVELY GENTLE AND INVESTMENT LEVELS HAVE BEEN HIGHER THAN EVER SHOWING HOW MUCH CONFIDENCE INVESTORS STILL HAVE IN THE FRENCH PROPERTY MARKET.

NET RENT BY LOCATION (£M)



“WE ARE LONG-TERM INVESTORS IN PROPERTY”

Due to active management and close contacts with our letting teams and existing tenants, we have contained the portfolio average vacancy rate over the year to just 5 per cent compared to the average recorded of 6.8 per cent.

During the year, we have let new space or restructured leases covering 12,289 sq m (132,282 sq ft) or 9.73 per cent of the portfolio; these transactions represented an average increase of €184.4K (£130.2K) or 8.4 per cent.

Lease indexation also produced a rental increase of €561.5K (£396.4K) during the year equating to 2.2 per cent. The resultant overall uplift in rental income from lease restructuring and indexation was 2.9 per cent.

Renovation works were carried out to improve the common parts of several properties such as the entry hall of Rue de La Ferme in Boulogne, the landings of the Atria property in Rueil 2000, the entry hall of Chorus in Antibes and the landings of Front de Parc in Lyon.

During the year we acquired a 538 sq m (5,791 sq ft) fully let property in North Paris, adjacent to the Gare du Nord/Eurostar terminal, in rue Stephenson at a cost of €1.1 million (£0.8 million).

In line with our continuing strategy of selling some smaller properties acquired as part of the Hervet portfolio that do not meet our normal investment criteria, we sold a 490 sq m (5,274 sq ft) vacant lot in Nanterre – rue de l'Abbé Hazard – generating a small profit of €56K (£38K).

According to most operators, the market should recover in 2004 even if the vacant stock is still significant, which will necessarily exercise a certain pressure on rental levels and rent free periods granted by the Landlords.

DIRECTORS, OFFICERS *and* ADVISERS

Directors

Sten Mortstedt (Executive Chairman)
Thomas Thomson BA (Chief Executive and Vice Chairman)
Dan Bäverstam (Chief Financial Officer)
Steven Board FCCA (Chief Operating Officer)
Per Sjöberg (Group Development Director) (appointed 6 February 2004)
James Dean FRICS *† (Non-executive Director)
Keith Harris PhD *†‡ (Non-executive Director)
Thomas Lundqvist † (Non-executive Director)
Bengt Mortstedt Juris Cand (Non-Executive Director)
Anna Seeley BSc MRICS (Non-executive Director)

* = member of Remuneration Committee

† = member of Audit Committee

‡ = senior independent director

Company Secretary

Steven Board FCCA

Registered Office

One Citadel Place
Tinworth Street
London SE11 5EF

Registered Number

2714781

Registered Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office

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

Clearing Bank

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

Financial Advisers

Williams de Broë Plc
6 Broadgate
London EC2M 2RP

Joint Stockbrokers

Williams de Broë Plc
6 Broadgate
London EC2M 2RP

KBC Peel Hunt

111 Old Broad Street
London EC2N 1PH

CLS Holdings plc on line:

www.clsholdings.com

e-mail:

enquiries@clsholdings.com

2003 PORTFOLIO

UNITED KINGDOM → Ingram House → 22 Dukes Road → Brent House → Drury Lane
→ Westminster Tower → Conoco House → New Printing House Square → Vista Office Centre
→ CI Tower → Carlow House → Cap Gemini → Great West House → Cliffords Inn → Coventry House
→ Western House → Spring Gardens → Cambridge House → London House → 2 Deanery Street
→ One Leicester Square << SWEDEN → Solna Business Park → Vänerparken → Gothenburg <<
FRANCE → Abbé Hazard → Marcel Pourtout → Solférino → Columbus → Equinoxe II → Philippe Auguste
→ Général Leclerc → Paul Doumer Lord Byron → Rhône Alpes → Forum → Rue de la Ferme → Petits Hôtels
→ Mission Marchand → Edouard Vaillant → Rue Pierre Timbaud → Bellevue → Villa Angelica → Front de Parc
→ Rochefoucauld → Urania → Santos Dumont → Rue Nationale → Le Debussy → Le Sigma → Lotus
→ Charenton Bercy → Petits Champs → D'Aubigny → Le Chorus → Le Quatuor → Fontainebleau
→ Edouard Belin → Capitaine Guynemer → Le Foch → La Madeleine → Rueil 2000 → Park Avenue <<



SCHEDULE OF GROUP PROPERTIES

Properties UK	Address	Freehold/ Leasehold	Area m ²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,295	283,046	Offices	1996
Spring Gardens	Tinworth Street, London SE11	Freehold	15,068	162,196	Offices	1990
Leicester Square	1 Leicester Square, London WC2	Freehold	3,238	34,855	Cinema/Retail/ Leisure	1999
Great West House	Great West Road, Brentford, Middx TW8 9DF	Freehold	8,596	92,524	Offices	2001
Computer House	Great West Road, Brentford, Middx	Freehold	5,792	62,347	Offices	1989
Cap Gemini	95 Wandsworth Rd, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/Industrial	1995
Property value £10m – £20m						
Coventry House	21/24 Coventry St. & 35a Haymarket, London SW1	Freehold	620	6,674	Restaurant/ Residential/ Advertising	2000
Carlrow House	Carlrow Street, London NW1	Freehold	4,454	47,944	Offices/Residential	1989
Westminster Tower	3 Albert Embankment, London SE1 7SP	Freehold	4,431	47,696	Offices	2001
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,638	71,453	Offices	1991/1998
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,520	80,947	Offices	1992
Brent House	349/357 High Road, Wembley, Middx HA9	Freehold	9,128	98,256	Offices	1995
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,075	33,100	Offices/Residential	1993
Drury Lane	167/172 Drury Lane, London WC2	Freehold	3,031	32,626	Retail/Offices/ Theatre	1999
Vista Office Centre	Salisbury Road, Hounslow, Middx	Freehold	9,528	102,562	Offices	1999
Property value < £10m						
Chancel House	Neasden Lane, London NW10	Freehold	7,017	75,538	Offices	1990
Conoco House	200 Great Dover Street, London SE1	Leasehold	3,377	36,345	Offices	1960's
Tinworth Street, 2/10	2/10 Tinworth Street, London SE11	Freehold	1,264	13,598	Industrial/Offices	Early 1900's
Dukes Road	22 Dukes Road	Freehold	1,067	11,485	Offices	1980's
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,361	Studio/Workshops/ Offices	2001
London House	271/273 King St, Hammersmith, London W6	Freehold	1,426	15,351	Business Centre	2001
275 King Street	275/281 King Street, London W6	Freehold	1,895	20,399	Offices	1999
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,347	14,499	Offices	2001
80/84 Bondway	80/84 Bondway, London SE11	Freehold	1,636	17,641	Offices	Early 1900's
Satellite House	15/23 Baches Street London N1	Freehold	1,450	15,604	Offices	1980
Hollywood Nightclub	Princess Street, Ipswich, Suffolk, IP1 1SB	Freehold	1,951	21,000	Nightclub	1999
86 Bondway	86 Bondway, London SE11	Freehold	891	9,590	Offices	2001
Deanery Street	2 Deanery Street, London W1	Freehold	191	2,051	Offices/Residential	1988
Vauxhall Walk, 108	108 Vauxhall Walk, London SE11	Freehold	600	6,456	Car parking	Early 1900's
Vauxhall Walk, 110	110 Vauxhall Walk, London SE11	Freehold	790	8,500	Industrial/Offices	1990
Club UK	The Studio, Fox's Lane, Wolverhampton, West Midlands WV1	Freehold	2,139	23,027	Nightclub	1999
Western House	5 Glasshouse Walk, London SE11	Freehold	538	5,791	Offices	1900's
Holland Park Avenue	London W11	Freehold	–	–	Residential	1997
18/20 Miles Street	18/20 Miles Street, London SE11	Freehold	152	1,636	Offices	2001
UK Properties at 31 December 2003			Sub total	148,578	1,599,333	
Properties Germany						
Schanzenstrasse	Schanzenstrasse 76, Dusseldorf	Freehold	3,095	33,315	Offices	1990
German Properties at 31 December 2003			Sub total	3,095	33,315	
Properties Sweden						
Property value > £20m						
Vänerparken	Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,354	488,202	Offices/Education/ Residential/Leisure/ Hospital	Various
Solna	Fräsaren 11, Fräsaren 12, Smeden 1, Sliparen 1, Sliparen 2	Freehold	128,053	1,378,396	Offices/Industrial/ Retail/Residential	Various
Lövgärdet Business	Lövgärdet, Gothenburg	Freehold	42,608	458,644	Offices/Education	1960's
Lövgärdet Residential	Lövgärdet, Gothenburg	Freehold	70,632	760,301	Residential/retail	1960's
Swedish Properties at 31 December 2003			Sub total	286,647	3,085,544	

SCHEDULE OF GROUP PROPERTIES

Properties France	Address	Freehold/ Leasehold	Area m ²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Edouard Belin	1 Avenue Edouard Belin, 92500 Rueil Malmaison, Paris	Freehold	9,849	106,017	Offices	1991
Property value £10m – £20m						
Rueil 2000	15/21 Avenue Edouard Belin, 92500 Rueil-Malmaison, Paris	Freehold	7,408	79,742	Offices	1991
Lotus	41 rue du Capitaine Guynemer, 92400 Courbevoie, Paris	Freehold	6,026	64,865	Offices	1977
Le Sigma	Place de Belgique, 90 Bld de L'Europe, 92250 La Garenne Colombes, Paris	Freehold	6,575	70,775	Offices	1993
Charenton Bercy	2 rue du Nouveau Bercy, 94220 Charenton	Freehold	5,227	56,265	Offices	1994
Property value < £10m						
Forum	27/33 rue Maurice Flandin, 69003 Lyon	Freehold	6,910	74,381	Offices	1989
Lord Byron	2 rue Lord Byron, 75008 Paris	Freehold	560	6,028	Offices	1929
Bellevue	95/97Bis rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,834	Offices	1988
Le Quatuor	168 Avenue Jean Jaurès, 92120 Montrouge, Paris	Freehold	5,131	55,231	Offices	1991
Petits Champs	48 rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,376	Offices	1972
Le Debussy	77/81 Boulevard de la République, 92250 la Garenne Colombes, Paris	Freehold	4,206	45,274	Offices	1992
Mission Marchand	56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,635	28,364	Offices	1993
Villa Angelica	58/60 Avenue Général Leclerc, 92340 Bourg la Reine, Paris	Freehold	3,736	40,215	Offices	2002
Front de Parc	109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,222	Offices	1989
Seine Défense	33 Quai Paul Doumer, 92400 Courbevoie, Paris	Freehold	2,346	25,253	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	4,008	43,143	Offices	1979
Rue Nationale	96 rue Nationale, 59000 Lille	Freehold	2,243	24,144	Offices	1975
Capitaine Guynemer	53/55 rue de Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	1,893	20,377	Offices	1993
Paul Doumer	147 Avenue Paul Doumer, 92500 Rueil Malmaison, Paris	Freehold	3,489	37,557	Offices	1998
Rhône Alpes	235 Cours Lafayette, 69006 Lyon	Freehold	3,657	39,365	Offices	1993
Park Avenue	81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,737	Offices	1988/89
D'Aubigny	27 rue de la Villette, 69003 Lyon	Leasehold	4,316	46,459	Offices	1989
Philippe Auguste	83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,610	17,330	Offices	1995
Petits Hôtels	20/22 rue des Petits Hôtels, 75010 Paris	Freehold	2,001	21,539	Offices	1994
Le Chorus	2203 chemin de St Claude, Nova Antipolis 06600 Antibes	Freehold	4,333	46,642	Offices	1990
Edouard Vaillant	28/30 rue Edouard Vaillant, 92300 Levallois Perret, Paris	Freehold	1,706	18,364	Offices	1996
Rue Pierre Timbaud	2 rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,123	Offices	1994
Marcel Pourtout	5 Boulevard Marcel Pourtout, 92500 Rueil Malmaison, Paris	Freehold	2,270	24,435	Offices	1990
Le Foch	62 Avenue Foch, 92250 la Garenne Colombes, Paris	Freehold	1,613	17,363	Offices	1992
Rue de la Ferme	14 rue de la Ferme, 92100 Boulogne, Paris	Freehold	1,101	11,851	Offices	1991
Santos Dumont	23 Avenue Louis Breguet, 78140 Velizy	Freehold	3,701	39,839	Offices	1991
Solférino	16 rue de Solférino, 92100 Boulogne, Paris	Freehold	1,046	11,259	Offices	1991
Général Leclerc	58 Avenue Général Leclerc, 92100 Boulogne, Paris	Freehold	525	5,651	Offices	1992
Stephenson	18 Rue Stephenson, 75018 Paris	Freehold	538	5,790	Offices	1994
Rochevoucauld	10 rue de la Rochevoucauld, 92100 Boulogne, Paris	Freehold	310	3,337	Offices	1989
Fontainebleau	108 Avenue de Fontainebleau, 94270 le Kremlin Bicêtre, Paris	Freehold	517	5,565	Offices	1989
Abbé Hazard	8/10, rue de l'Abbé Hazard, 92100 Nanterre, Paris	Freehold	536	5,770	Offices	1990
French Properties at 31 December 2003		Sub total	126,261	1,359,106		
TOTAL ALL PROPERTY			564,581	6,077,298		

PORTFOLIO

UNITED KINGDOM 2003

New London Bridge House
25 London Bridge Street, London SE1
50-50 joint venture acquired September 2003

22 Dukes Road
London WC1
Freehold offices

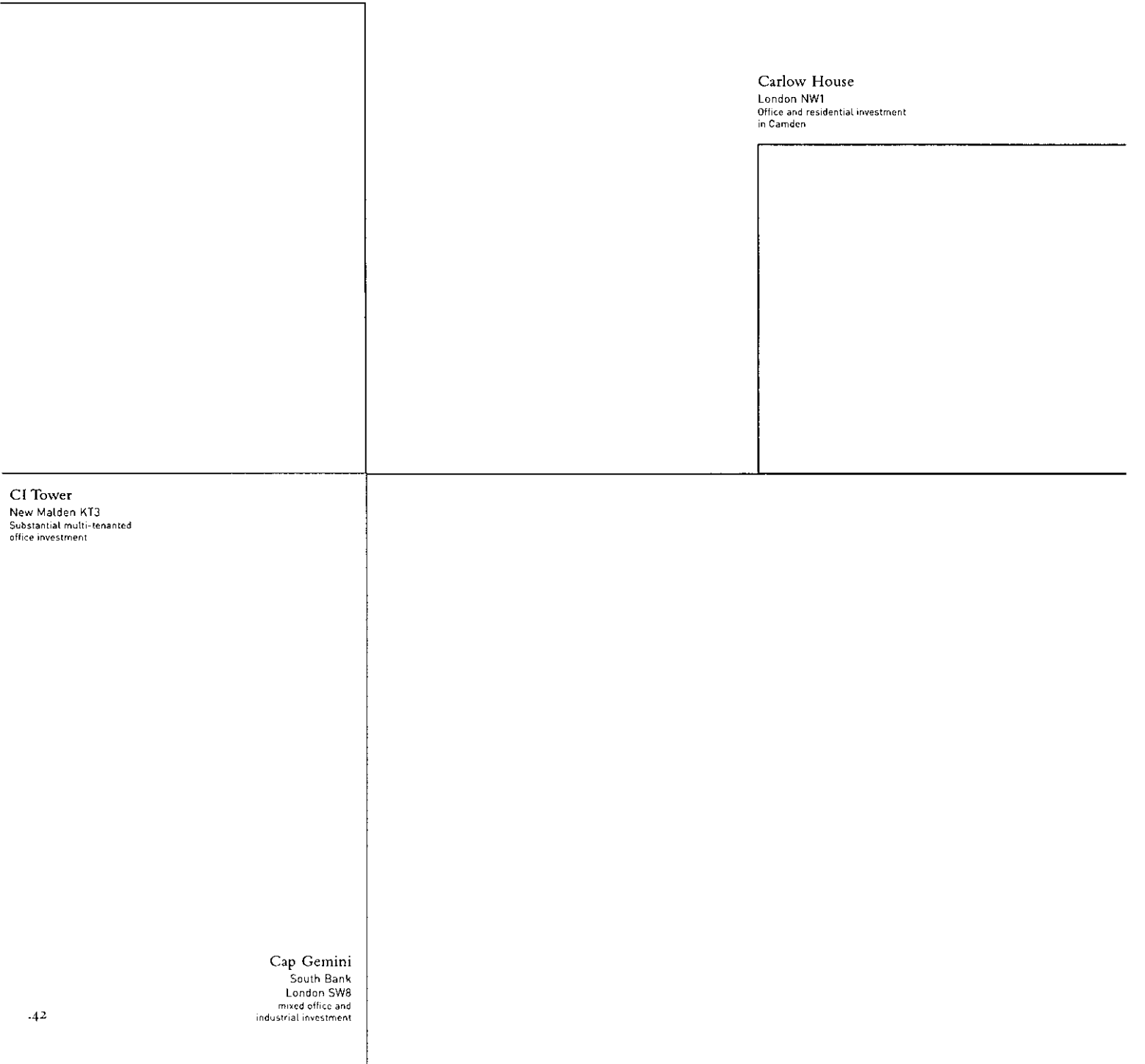
Brent House
Wembley, Middx HA9
Refurbished and fully let in 1998

Drury Lane
London WC2
Office, retail and leisure
investment

New Printing House Square
London WC1
Major investment let to UK Government

Westminster Tower
London SE1
Multi-Tenanted office
investment opposite the
Houses of Parliament

PORTFOLIO UNITED KINGDOM 2003



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

Coventry House
London SW1
Sign, restaurant and flats

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

Western House
London SE11
Freehold offices

PORTFOLIO UNITED KINGDOM 2003

Ingram House
London WC2
Freehold offices

2 Deanery Street
London W1
Freehold offices

Spring Gardens
London SE11
Substantial office business park

Cambridge House
London W6
Freehold offices

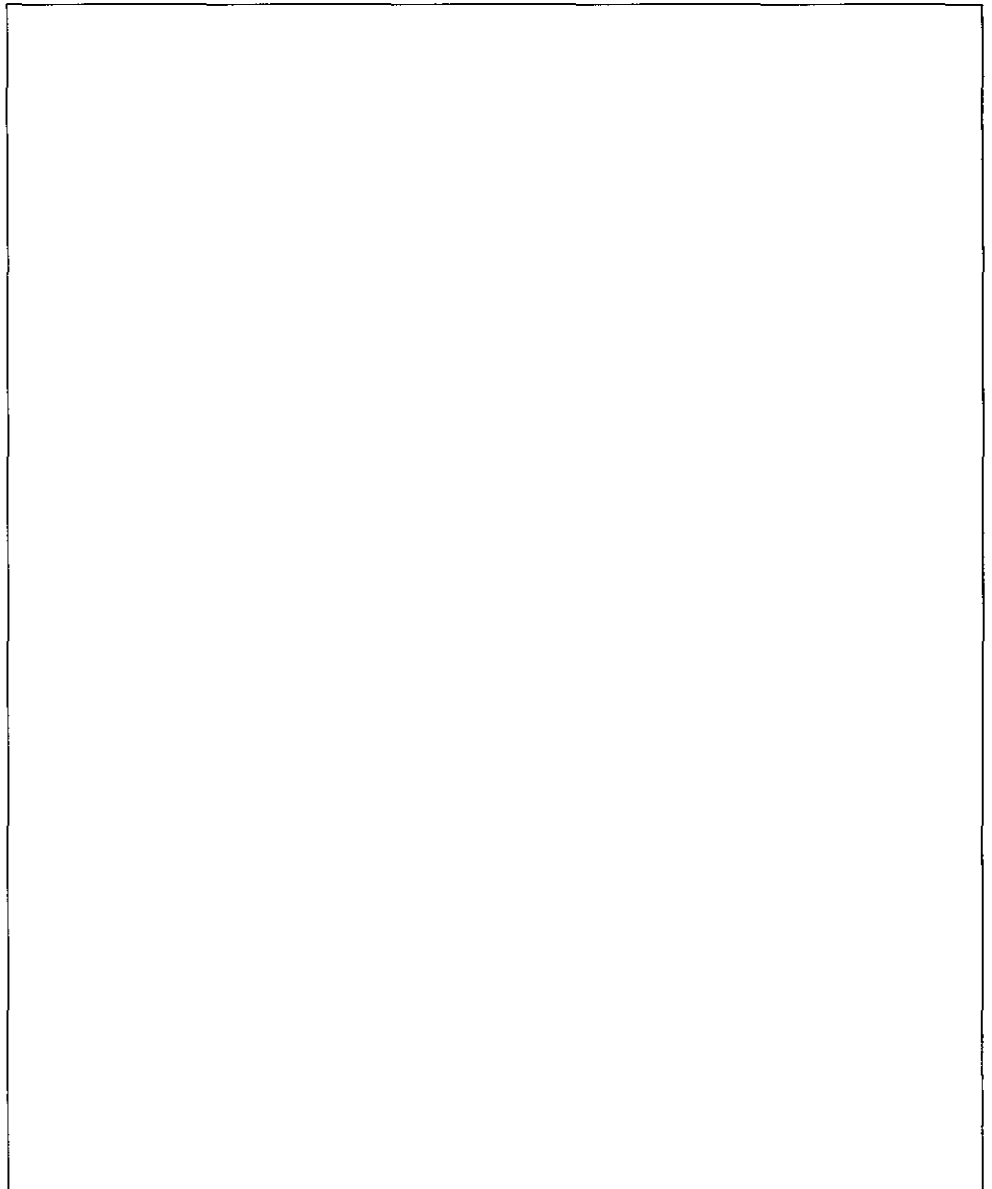
Great West House
Brentford, Middx TW8
Multi-Tenanted offices located
near the A4/M4 interchange

One Leicester Square
London WC2
Major leisure development

PORTFOLIO

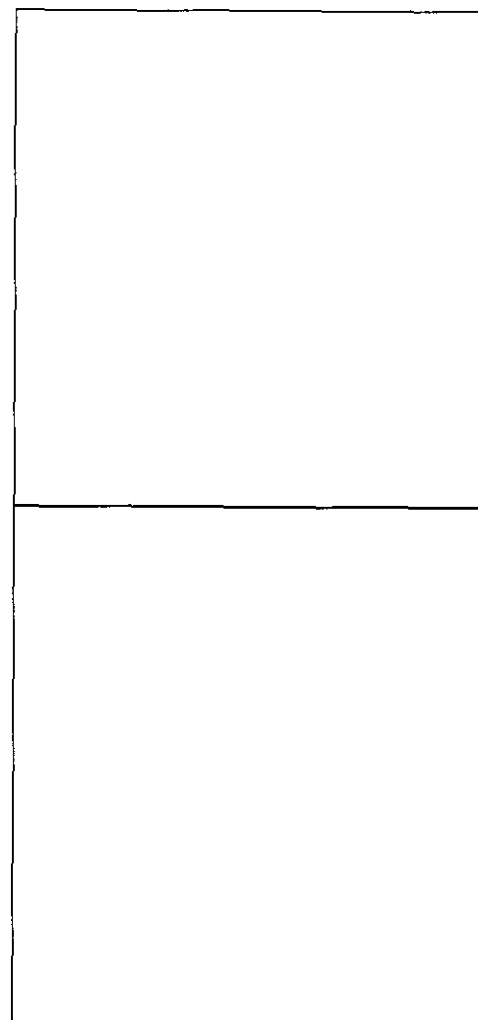
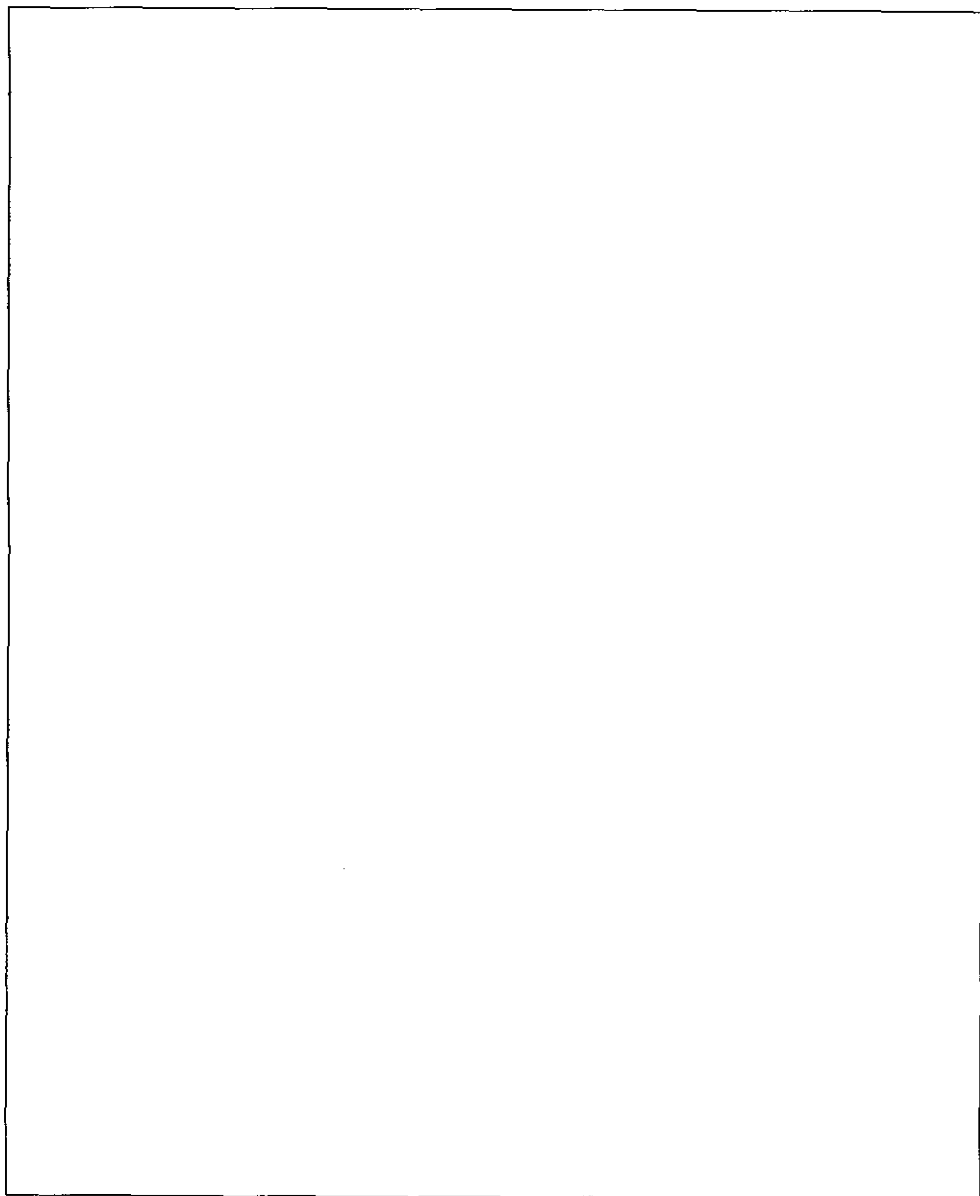
SWEDEN 2003

Solna Business Park
Stockholm, Sweden
Offices and retail
accommodation
undergoing major
refurbishment



Solna Business Park

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



Solna Business Park

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

PORTFOLIO SWEDEN 2003

Vänerparken
Vänersborg, Sweden
Substantial office, residential
and leisure development

Lövgärdet
Gothenburg, Sweden
Substantial office, residential
and leisure development

PORTFOLIO

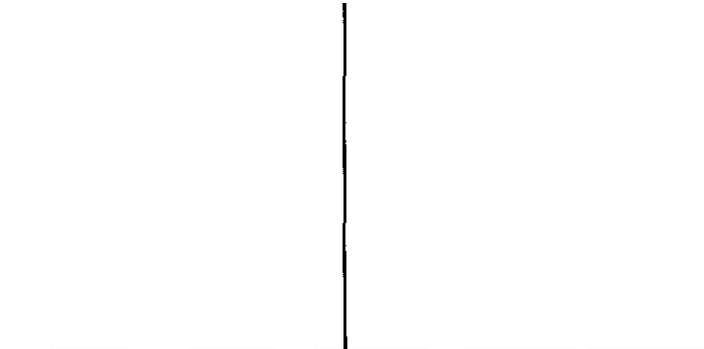
FRANCE 2003

Lord Byron
2 rue Lord Byron,
75008 Paris
Acquired October 1999

Rhône Alpes
235 cours Lafayette,
69006, Lyon
Acquired December 1997

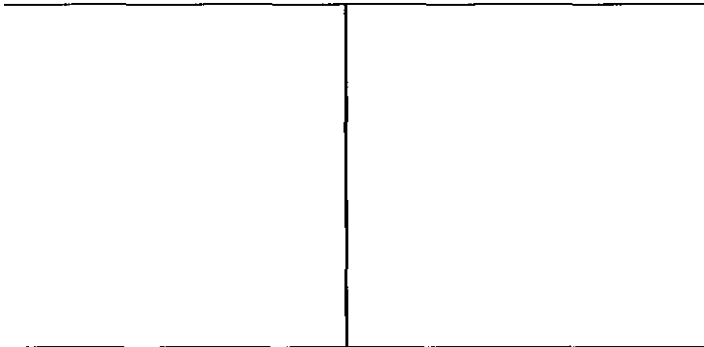
Général Leclerc
58 Avenue Général Leclerc,
92100 Boulogne, Paris
Acquired June 2002

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



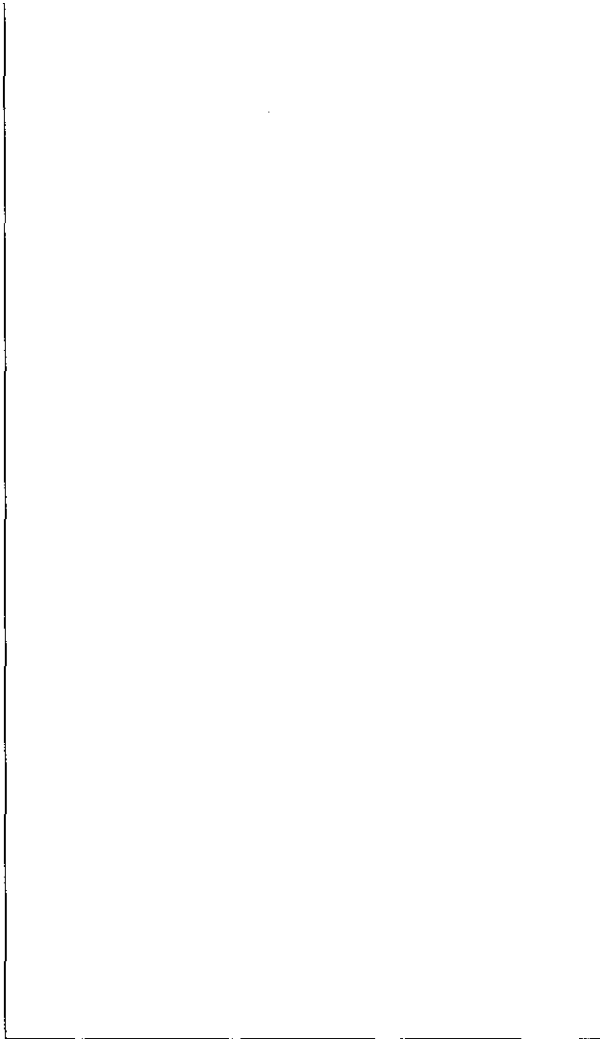
Philippe Auguste
83/85 Avenue Philippe
Auguste, 75011 Paris
Acquired December 1997

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



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

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

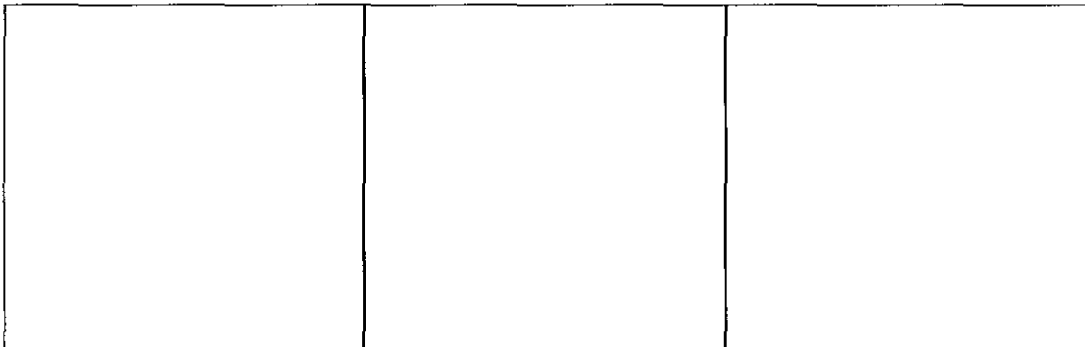


Abbé Hazard
8/10 rue de l'Abbé Hazard
92100 Nanterre, Paris
Acquired June 2002

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

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

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



PORTFOLIO FRANCE 2003

Edouard Vaillant

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

Le Quatuor

168 Avenue Jean Jaurès
92120 Montrouge, Paris
Acquired June 2002

Le Foch

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

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Le Chorus

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

D'Aubigny

27 rue de la Villette
69003 Lyon
Acquired July 1997

Petits Champs

48 rue Croix des Petits Champs
75001 Paris
Acquired April 1998

Forum

27/33 rue Maurice Flandin
69003 Lyon
Acquired July 1997

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

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

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

Park Avenue
81 Boulevard de Stalingrad
69100 Villeurbanne, Lyon
Acquired July 1997

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

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

PORTFOLIO FRANCE 2003

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

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

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

Rue Nationale
96 rue Nationale,
59000 Lille
Acquired September 2001

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

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

Rue Stephenson
75018 Paris
Acquired November 2003

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

Front de Parc
109 Boulevard de Stalingrad
69100 Villeurbanne, Lyon
Acquired July 1997

Rochefoucauld
10 rue de la Rochefoucauld
92100 Boulogne, Paris
Acquired June 2002

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

Seine Défense
33 Quai Paul Doumer,
92400 Courbevoie, Paris
Acquired June 2002

La Madeleine
105 Avenue de la République
59110 Lille
Acquired September 2001

NEW ACQUISITIONS

2004

Georges Clémenceau
Courbevoie, Paris
Acquired February 2004 for
£3.4 million initial yield 8.8%

16 rue Eugene Ruppert
L-2453 Luxembourg
Acquired January 2004 for £6.7 million
Initial yield 11.4% let to Luxembourg
Ministry of Environment

DIRECTORS' REPORT

for the year ended 31 December 2003

The Directors present their report and the audited financial statements for the year ended 31 December 2003. The Chairman's statement should be read in conjunction with this report.

1 PRINCIPAL ACTIVITIES

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

2 REVIEW OF BUSINESS

The consolidated profit and loss account for the year is set out on page 67.

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 2003 the Company distributed £5,842,935 to shareholders (equivalent to 6.5 pence per share) by way of tender offer buy-back completed in November 2003.

The Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2003. It is proposed, therefore, that the Company offers to buy 1 in 36 of the shares registered in the name of each eligible shareholder at a price of 360 pence per share. This compares with a mid-market price of 324.5 pence per share on 30 March 2004.

The resulting distribution to shareholders will be £8,764,407 or 10.0 pence per share, which will be made in May 2004. 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 2003 will have received a total return of 16.5 pence per share.

4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made tender-offer and market purchases totalling 6,871,364 of its own shares at a cost of £17,035,964, a weighted average of 198 pence per share. This represents £1,717,841 in nominal value, or 7.3 per cent of the brought forward called up share capital.

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

At the 2003 Annual General Meeting the Company was authorised to make market purchases of up to 8,933,171 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 1,487,884 and therefore still has authority to purchase 7,445,287. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 8,520,951 shares.

5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2003 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 £882.4 million. On the basis of these valuations net assets per share amounted to 439.2 pence. In view of the policy of re-valuing properties bi-annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 2003.

6 DIRECTORS

The current Directors of the Company are shown on page 36.

A statement of Directors' remuneration and their interests in shares and options of the company is set out in the Directors' Remuneration Report on pages 62 to 65.

Biographical details of the executive and non-executive Directors are set out below:

Executive Directors:

Sten Mortstedt, aged 64, has been in the property business for 40 years. He began his career in 1962 with Svenska Handelsbanken in Stockholm. Within three years he had formed a property investment partnership and in 1968 he became Managing Director of the Mortstedt family's property company, Citadellet AB, based in Stockholm. From 1977 he has been involved in setting up and running property interests in the UK, France and Sweden and he established the CLS Group in 1987. He runs his global interests from his residence in Switzerland. Since 1994 he has been the Executive Chairman of the Company.

DIRECTORS' REPORT

for the year ended 31 December 2003

6 DIRECTORS (continued)

Tom Thomson, aged 53, 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 from 1994 to 2001 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004.

Dan Bäverstam, aged 48, graduated from Stockholm School of Economics in 1979 and subsequently completed a Business Studies course at CERAM Sophia Antipolis in France. He began his career with Wermlandsbank and PK Bank in Sweden. He then became Assistant Treasurer of AB Astra, now Astra Zeneca, responsible for foreign exchange and interest rate management. In 1987 he moved to the UK and became General Manager of the Treasury Operations of Svenska Finans International, part of the Svenska Handelsbanken. He joined CLS in October 1991 and is responsible within CLS for corporate financing and treasury operations and for the Group's French property acquisitions. He became Chief Financial Officer on 5 October 2001.

Steven Board, aged 49, 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 worked for St. George Developments, part of the Berkeley Group plc as Finance Director. He previously held directorships within Alfred McAlpine PLC and senior management positions within British Telecommunications plc. He qualified as an accountant in 1980 and is now a FCCA. He joined the Board on 25 February 2003.

Per Sjöberg, aged 42, graduated from Stockholm University with a Bachelor degree in Business Administration. He is also a qualified engineer and has experience of a number of large development projects globally. Before joining CLS Per worked as an independent Consultant, and set up his own consultancy company in 1996. He has been responsible for property development activities at the Group since 1 November 2001 and was appointed to the main board as Group Development Director on 6 February 2004.

Non-executive Directors:

James Dean, aged 49, 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 FPD Savills Commercial and is also a director of Cosalt plc, Daniel Thwaites Plc and a number of private companies.

Dr Keith Harris, aged 50, 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 Investment Management Holdings Plc. From August 2000 to August 2002 Keith served as Chairman of the Football League. In January 2001 he joined the Board of Wembley National Stadium Limited. In July 2003 Keith became Executive Chairman of Seymour Pierce Limited upon its acquisition from Investment Management Holdings Plc.

Thomas Lundqvist, aged 59, joined the Board in November 1990 and had been Finance Director of the Group until retiring from the position and becoming a non-executive Director on 1 October 1995. Prior to joining CLS, Mr Lundqvist worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group where he was a board member.

Bengt Mortstedt, aged 55, holds a Bachelor of Law degree from Stockholm University. He began his career as a Junior Judge of the Växjö District Court and in 1974 he joined Citadellet AB, the Mortstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the board of the Company as an executive director. He became a non-executive director in September 1998.

Anna Seeley, aged 32, began her career at Chesterton plc before moving to CLS as a Senior Surveyor in 1997. In 1999 she joined General Electric as Manager of Real Estate for the UK and Nordic Regions and in October 2000 moved to British Telecommunications plc as European Real Estate Manager. She returned to CLS as a member of the board and Group Property Director on 11 September 2002, and was appointed a non-executive director on 5 February 2004. She has a BSc in Property Valuation and Finance and is a Member of the Royal Institution of Chartered Surveyors.

The Board has determined that, apart from Bengt Mortstedt and Anna Seeley, the non-executive Directors are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.

DIRECTORS' REPORT

for the year ended 31 December 2003

7 SUBSTANTIAL SHAREHOLDERS

In addition to the interests of the Mortstedt family referred to in note 7 of the Directors' Remuneration Report, the Company has been notified of interests which at 30 March 2004 represented 3 per cent or more of the Company's issued share capital.

	No. of shares	%
Nutraco Nominees Limited	2,838,263	3.24
Phildrew Nominees Limited	2,642,501	3.02

8 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 section 1 of the Combined Code and incorporated into the rules of the UK Listing Authority, and considers that during the year the Company has complied with the provisions of the Code, with the exception of the appointment of a separate Nomination Committee, which is discussed below.

Subsequent to the publication of the revised Combined Code in July 2003, the board is in the process of reviewing and changing its existing Corporate Governance arrangements and implementing new procedures, where appropriate, to reflect the new Code's recommendations.

The Board

The Board currently comprises five executive Directors, including the Chairman, and five non-executive Directors. Its 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.

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.

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 seven 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. During 2003 all of the Directors attended all of the board meetings, except James Dean who was not present at the board meeting held on 25 February 2003, Keith Harris who was not present at the board meeting held on 14 April 2003, Anna Seeley who was not present at board meetings held on 14 April 2003, 14 May 2003, 17 June 2003, 4 September 2003 and 11 November 2003 and Tom Thomson who was not present at the board meeting held on 9 December 2003. 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. It is proposed that in the forthcoming year the non-executive Directors will meet as a group without the executive directors or the Chairman being present.

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 Board is assisted by the following committees:

The Audit Committee comprises three non-executive Directors and has met twice during the year. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors.

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 and the nature of the business the Board has decided not to establish a separate internal audit department. The members of the Audit Committee are as shown on page 36.

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

DIRECTORS' REPORT

for the year ended 31 December 2003

8 CORPORATE GOVERNANCE (continued)

The Board of Directors has considered the appointment of a separate Nomination Committee however due to the size and nature of the Company, its current view is that such a committee is inappropriate and any appointments to the Board are instead considered by the full Board.

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

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

Internal Control

The Board acknowledges that the Directors are responsible for the Group's system of internal control and have established procedures which are designed to provide reasonable assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal control for the period. The Directors have recognised that such a system can only provide a reasonable and not absolute assurance of 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 6 to 35 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.

DIRECTORS' REPORT

for the year ended 31 December 2003

8 CORPORATE GOVERNANCE (continued)

Shareholder Relations

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

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

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.

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.

9 GOING CONCERN

The financial statements which appear on pages 67 to 91 are prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

10 SHARE CAPITAL

Changes in share capital are shown in note 21. At 31 December 2003 there were share options for 879,000 shares outstanding (2002: 1,247,000 shares). Details of the directors' share options are shown in the Directors' Remuneration Report.

11 CHARITABLE CONTRIBUTIONS

The contributions made by the Group during the year for charitable purposes were £42,150 (2002: £586). Of this amount £41,550 was paid to children's charities.

12 INSURANCE OF DIRECTORS

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

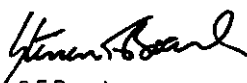
13 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 31 days total invoices received for the year as a whole (2002: 25 days). For the Company, trade creditors were owed nil days (2002: nil days).

14 AUDITORS

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

By order of the Board



S F Board

Company Secretary

31 March 2004

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2003

1 REMUNERATION COMMITTEE

The committee comprises James Dean and Keith Harris who are both independent non-executive directors. The committee met once during the year and during that period its composition did not change. The committee received advice from the Executive Chairman, Sten Mortstedt.

The committee is constituted by the board of CLS Holdings plc and is responsible for the determination of the remuneration of the executive directors, including performance related bonuses, and the administration of the Company's share option schemes.

2 REMUNERATION POLICY

The Company's policy on remuneration is to attract, retain and incentivise high calibre staff with a view to enhancing long term shareholder value.

Consistent with this policy, emoluments awarded to executive directors are intended to be competitive and comprise a mix of performance related and non-performance related remuneration designed to incentivise directors, and adhere to the goals of Corporate Governance.

The remuneration of the non-executive directors is considered by the board of CLS Holdings plc having received recommendations from its executive directors. Their remuneration consists of fees for their services to the Board and any additional services such as chairing Board committees.

Basic Salaries

Basic salaries of executive directors are reviewed annually as at 1 January having taken due regard of similar positions in comparable companies.

Performance Related Remuneration

The performance related element of each full-time executive director's remuneration is determined after taking into account individual performance and the performance of the Company. Regard was also taken of directors' emoluments relative to the performance of other real estate organisations.

Based on the remuneration of the past year, the apportionment of performance related and non-performance related remuneration was as follows:

Director	Non-performance related	Performance related
Sten Mortstedt	100%	Nil
Tom Thomson	65%	35%
Dan Bäverstam	51%	49%
Steven Board	55%	45%
James Dean	100%	Nil
Keith Harris	100%	Nil
Thomas Lundqvist	100%	Nil
Bengt Mortstedt	100%	Nil
Anna Seeley	100%	Nil

Share Options (audited)

The Board has delegated to the Remuneration Committee the grant of options under the Company's 1994 Executive Share Option Scheme, an Inland Revenue Approved Scheme and under the company's Unapproved Share Option Scheme.

Share options have been awarded to executive directors on a discretionary basis. There is no policy to provide share options to executive directors on an annual basis.

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

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2003

2 REMUNERATION POLICY (continued)

Details of options held by directors are set out below:

Director	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	No at 1 Jan 2003	Granted in year	Exercised in year	Market price at exercise (pence)	Lapsed in year	No at 31 Dec 2003
Sten Mortstedt unapproved	23.07.97	23.07.00	22.07.04	166.66	69,000	-	-	-	-	69,000
Tom Thomson unapproved	03.05.96	03.05.99	02.05.03	98	80,000	-	(80,000)	201	-	-
unapproved	23.07.97	23.07.00	22.07.04	166.66	24,000	-	(24,000)	201	-	-
approved	20.12.01	20.12.04	19.12.11	212.5	14,000	-	-	-	-	14,000
unapproved	20.12.01	20.12.04	19.12.08	212.5	436,000	-	-	-	-	436,000
					554,000	-	(104,000)	-	-	450,000
Dan Bäverstam approved	15.06.94	15.06.97	14.06.04	108	60,000	-	-	-	-	60,000
approved	23.05.96	23.05.99	22.05.06	98	36,000	-	-	-	-	36,000
unapproved	23.07.97	23.07.00	22.07.04	166.66	69,000	-	-	-	-	69,000
					165,000	-	-	-	-	165,000
Steven Board* approved	29.01.99	29.01.02	28.01.09	110	27,000	-	(27,000)	243	-	-
unapproved	29.01.99	29.01.02	28.01.06	110	173,000	-	(173,000)	243	-	-
unapproved	29.01.99	29.01.02	28.01.06	172.5	60,000	-	(60,000)	243	-	-
					260,000	-	(260,000)	-	-	-
Bengt Mortstedt unapproved	23.07.97	23.07.00	22.07.04	166.66	36,000	-	-	-	-	36,000

* as at the date of appointment on 25 February 2003

No other directors were granted share options in the shares of the Company or other group entities. None of the terms and conditions of the share options were varied during the year.

Notional gains were made of £90,642 and £308,300 by Tom Thomson and Steven Board respectively, from the exercise of share options during 2003. The notional gains were calculated by applying the difference between the exercise price and the share price on the exercise date to the number of options exercised.

The highest, lowest and average mid-market share price in the year are detailed under 'Share Capital' on page 19.

3 DIRECTORS' REMUNERATION (audited)

	2003 Fee as a Director £000	2003 Salary £000	2003 Other fees £000	2003 Benefits in kind £000	2003 Total Emoluments £000	2003 Defined contribution pension £000	2003 Other pension/performance related £000	2003 Total Remuneration £000	2002 Total Remuneration £000
Executive									
Sten Mortstedt (Executive Chairman)	-	150	243	-	393	-	-	393	348
Thomas Thomson (Vice Chairman and Chief Executive)	-	208	-	1	209	10	120	339	329
Dan Bäverstam (Chief Financial Officer)	-	150	-	3	153	6	155	314	286
Steven Board* (Chief Operating Officer)	-	112	-	3	115	5	100	220	-
Anna Seeley† (as Group Property Director)	-	73	-	-	73	4	-	77	58

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2003

3 DIRECTORS' REMUNERATION (audited) (continued)

	2003 Fee as a Director £000	2003 Salary £000	2003 Other fees £000	2003 Benefits in kind £000	2003 Total Emol- uments £000	2003 Defined contri- bution pension £000	2003 Other pension/ perfor- mance related £000	2003 Total Remun- eration £000	2002 Total Remun- eration £000
Non-Executive									
James Dean (Non-Executive Director)	27	-	-	-	27	-	-	27	25
Keith Harris (Non-Executive Director)	27	-	-	-	27	-	-	27	25
Thomas Lundqvist (Non-Executive Director)	22	-	-	-	22	-	-	22	20
Bengt Mortstedt (Non-Executive Director)	22	-	-	-	22	-	-	22	20
2003	98	693	243	7	1,041	25	375	1,441	1,110
2002	90	517	480	4	1,091	19	-	1,110	

* The emoluments of Steven Board are shown from the date from which his directorship commenced being 28 February 2003.

† Anna Seeley was an executive director for the whole of the year ended 31 December 2003 and became a non-executive director on 5 February 2004

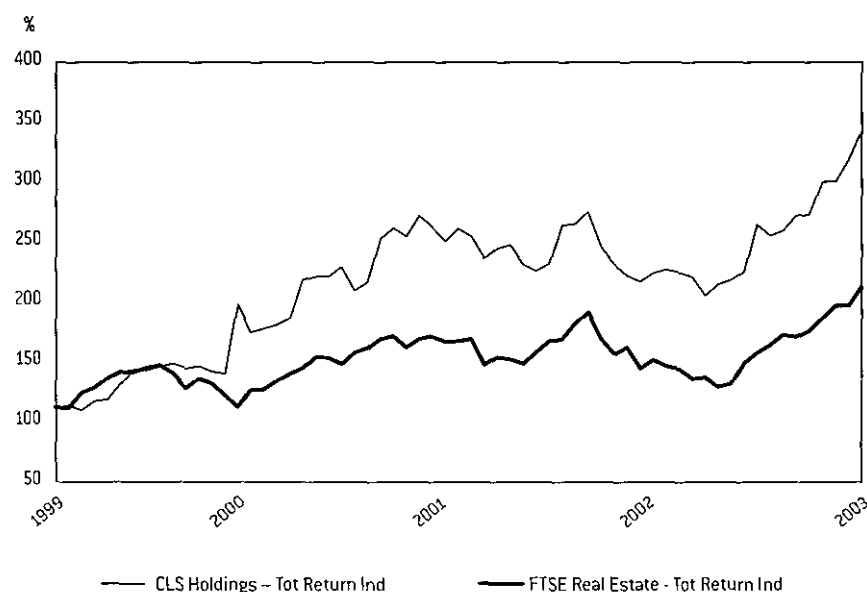
The benefits provided to executive directors are permanent health and medical insurance and pension contributions under the Company's Group Benefit Scheme, of which four directors were members (2002 : two). No car is provided to any director.

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 which is matched by a contribution from the Company of 5 per cent. And additional performance related element was contributed by the Company and is shown in the above table as other pension.

5 PERFORMANCE GRAPH

Over the period 1 January 1999 to 31 December 2003 the total shareholder return in respect of CLS Holdings plc has shown a return of 146.9 per cent compared to 66.0 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.



DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2003

6 DIRECTORS' SERVICE CONTRACTS

Details of the service contracts of those who served as directors during the year are:

Name	Contract Date	Notice Period
Sten Mortstedt	28.04.94	1 year
Tom Thomson	01.10.01	1 year
Dan Bäverstam	01.01.94	1 year
Steven Board	02.12.98	1 year
James Dean	23.04.99	6 months
Keith Harris	28.04.94	6 months
Thomas Lundqvist	20.12.98	6 months
Bengt Mortstedt	18.12.98	6 months
Anna Seeley	11.09.02	3 months

There is no provision in the contract of any executive director for contractual termination payments save those payments normally due under current employment law.

All of the non-executive directors are appointed until such time as they are re-elected. If they fail to be re-elected their service contracts will cease.

No directors resigned in the period and no termination payments were made.

7 INTERESTS IN SHARES

The interests of the directors in the shares of the Company were:

	31 December 2003 ordinary shares of 25p	31 December 2002 ordinary shares of 25p
Sten Mortstedt	38,638,433	41,015,568
Tom Thomson	122,120	75,634
Dan Bäverstam	37,209	37,836
Steven Board	80,218	-
James Dean	25,888	27,480
Keith Harris	8,394	8,214
Thomas Lundqvist	100,465	106,647
Bengt Mortstedt	6,095,787	6,470,905
Anna Seeley	7,989	8,704

There has been no change to the interests set out above between 31 December 2003 and the date of this report, except for Dan Bäverstam who sold 8,500 shares on 30 March 2004.

8 LONG TERM INCENTIVE SCHEME (audited)

The company does not operate a long term incentive scheme.

9 WAIVER OF EMOLUMENTS

No director has waived emoluments during the year.

On behalf of the board

James Dean

James Dean

Chairman of the Remuneration Committee

INDEPENDENT AUDITORS' REPORT

to the members of CLS Holdings plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of historical cost profits and losses, the reconciliation of movements in shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the un-audited part of the directors' remuneration report, the chairman's statement and the operating and financial review.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Net rental income (including joint ventures & associates)		63,833	60,328
Continuing operations		63,319	60,328
Acquisitions		514	-
Less: Joint venture (continuing operations)		(907)	(907)
Joint venture (acquisitions)		(514)	-
Group net rental income		62,412	59,421
Other income		3,903	1,289
	2, 3	66,315	60,710
Administrative expenses		(15,437)	(8,342)
Net property expenses		(4,179)	(3,998)
		(19,616)	(12,340)
Other operating losses		(1,406)	(3,054)
Group operating profit		45,293	45,316
Continuing operations		48,623	45,316
Acquisitions		(3,330)	-
Share of joint venture's operating profit (continuing operations)		832	883
Share of joint venture's operating profit (acquisitions)		511	-
Share of associate's operating loss (continuing operations)		(344)	(93)
Share of associate's operating profit (acquisitions)		86	-
Operating profit including joint ventures and associates		46,378	46,106
Gains/(losses) from sale of investment property		1,932	(153)
Profit on ordinary activities before interest		48,310	45,953
Interest receivable and similar income:			
Group		2,135	1,915
Joint ventures		3	1
Associates		-	-
Interest payable and similar charges:	4		
Group		(31,777)	(29,925)
Joint ventures		(1,098)	(860)
Associates		-	(17)
Profit on ordinary activities before taxation	3, 6	17,573	17,067
Tax on profit on ordinary activities:			
Group - current	8	(655)	(648)
- deferred	8, 20	591	(1,497)
Joint ventures		(21)	-
Associates		-	-
Profit on ordinary activities after taxation	9	17,488	14,922
Equity minority interest		1,285	388
Retained profit for the year	23	18,773	15,310
Basic Earnings per Share	11	20.7p	15.7p
Diluted Earnings per Share	11	20.5p	15.5p

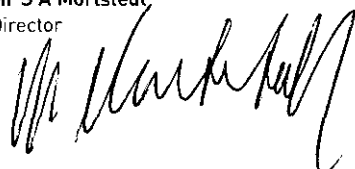
CONSOLIDATED BALANCE SHEET

at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	12	889,289	852,354
Investments:			
Interest in joint ventures:			
Share of gross assets		38,337	17,024
Share of gross liabilities		(29,838)	(14,257)
	13	8,499	2,767
Interest in associates	13	3,225	1,730
Other investments	13	171	301
		901,184	857,152
Current assets			
Debtors – amounts falling due after more than one year	14	3,695	4,354
Debtors – amounts falling due within one year	14	7,976	9,156
		11,671	13,510
Investments	15	3,963	4,580
Cash at bank and in hand	16	56,693	65,650
		72,327	83,740
Creditors: amounts falling due within one year	17	(53,249)	(48,182)
Net current assets		19,078	35,558
Total assets less current liabilities		920,262	892,710
Creditors: amounts falling due after more than one year	18	(529,575)	(507,735)
Provisions for liabilities and charges	20	(5,713)	(13,255)
Net assets		384,974	371,720
Capital and reserves			
Called up share capital	21	21,911	23,532
Share premium account	23	68,928	68,551
Revaluation reserve	23	222,022	218,837
Capital redemption reserve	23	11,693	9,975
Other reserves	23	28,096	22,637
Profit and loss account	23	33,224	28,468
Total equity shareholders' funds		385,874	372,000
Equity minority interests		(900)	(280)
Capital employed		384,974	371,720

The financial statements on pages 67 to 91 were approved by the Board of Directors on 31 March 2004 and were signed on its behalf by:

Mr S A Mortstedt
Director



Mr T J Thomson
Director



CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Net cash inflow from operating activities	24	52,432	52,143
Returns on investments and servicing of finance			
Interest received		1,678	1,541
Interest paid		(29,235)	(26,598)
Issue costs on new bank loans		(1,216)	(2,196)
Interest rate caps purchased		(225)	(1,062)
Net cash outflow from returns on investments and servicing of finance		(28,998)	(28,315)
Taxation		(1,391)	(223)
Capital expenditure and financial investment			
Purchase and enhancement of properties		(22,604)	(90,270)
Sale of investment properties		23,562	1,802
Purchase of other fixed assets		(4,208)	(945)
Net cash outflow for capital expenditure and financial investment		(3,250)	(89,413)
Acquisitions and disposals			
Investment in associate/joint venture		(6,664)	(461)
Purchase of subsidiary undertaking	24	(1,814)	(92)
Cash acquired on purchase of subsidiary undertaking		572	228
Net cash inflow/(outflow) before use of liquid resources and financing		10,887	(66,133)
Management of liquid resources			
Cash released from/(placed on) short term deposits		2,004	(8,364)
Financing			
Issue of ordinary share capital		474	90
New loans		25,485	113,935
Repayment of loans		(29,230)	(24,231)
Purchase of own shares		(17,212)	(14,007)
Net cash (outflow)/inflow from financing		(20,483)	75,787
(Decrease)/increase in cash	25	(7,592)	1,290

STATEMENT OF GROUP TOTAL RECOGNISED GAINS & LOSSES

for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	18,773	15,310
Unrealised surplus on revaluation of properties	(3,035)	7,530
Share of joint venture unrealised surplus on revaluation of properties	-	333
Release of revaluation deficit on property disposal	20	443
Currency translation differences on foreign currency net investments	15,091	11,489
Other recognised gains relating to the year	12,076	19,795
Total recognised gains and losses relating to the year	30,849	35,105

RECONCILIATION OF GROUP HISTORICAL COST PROFITS & LOSSES

for the year ended 31 December 2003

	2003 £000	2002 £000
Reported profit on ordinary activities before taxation	17,573	17,067
Realisation of property revaluation gains of previous years	3,432	-
Historical cost profit on ordinary activities before taxation	21,005	17,067
Historical cost profit for the year retained after taxation and minority interests	22,205	15,310

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	18,773	15,310
Other recognised gains relating to the year	12,076	19,795
New share capital issued	474	90
Reduction in minority interest	(237)	-
Purchase of own shares	(17,036)	(13,831)
Expenses of share issue/purchase of own shares	(176)	(176)
Net additions to shareholders' funds	13,874	21,188
Opening shareholders' funds	372,000	350,812
Closing shareholders' funds	385,874	372,000

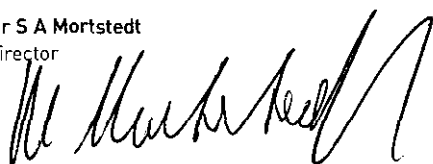
COMPANY BALANCE SHEET

at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Investments	13	62,072	57,729
Current assets			
Debtors – amounts falling due within one year	14	33,142	47,797
Current asset investments	15	67	29
Cash at bank and in hand	16	25,415	32,168
		58,624	79,994
Creditors: amounts falling due within one year	17	(342)	(1,058)
Net current assets		58,282	78,936
Total assets less current liabilities		120,354	136,665
Net assets		120,354	136,665
Capital and reserves			
Called up share capital	21	21,911	23,532
Share premium account	23	68,928	68,551
Capital redemption reserve	23	11,693	9,975
Other reserves	23	4,599	4,599
Profit and loss account	23	13,223	30,008
Total equity shareholders' funds		120,354	136,665

The financial statements on pages 71 to 91 were approved by the Board of Directors on 31 March 2004 and were signed on its behalf by:

Mr S A Mortstedt
Director



Mr T J Thomson
Director



NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties held as fixed assets.

(b) Basis of consolidation

The Group financial statements consolidate the accounts of CLS Holdings plc and all its subsidiary undertakings drawn up to 31 December each year. Three group companies have different balance sheet dates to CLS Holdings plc: Mohican Nominees Limited at 13 December, WightCable South Limited at 30 June and WightCable North Limited at 29 January. Their results have been included for the year to 31 December based on interim financial statements. Acquisition accounting has been used in the acquisition of WightCable North Limited during the year.

(c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past, goodwill was written off to other reserves. In circumstances where the purchase consideration was less than the attributable net asset value at the date of acquisition, the difference was treated as a "reserve arising on consolidation" and was included within other reserves. In accordance with FRS10 "goodwill and intangible assets", which was adopted from the year ended 31 December 1998, previous years' negative goodwill was not re-capitalised in the balance sheet. The total amount of positive goodwill previously written off and negative goodwill previously credited, still included within other reserves is £3.2 million and £15.7 million respectively (2002: £3.2 million and £15.7 million).

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

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

(d) Foreign currencies

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

(e) Turnover

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

(f) Income from property sales

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Properties

i) Investment properties

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

ii) Acquisitions and disposals of properties

Acquisitions and disposals of assets are considered to have taken place where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract. Profit on sales of investment properties is recognised in the profit and loss account by reference to net carrying amount. Acquisitions and disposals are considered to be part of continuing activities unless they represent a material change to the portfolio or a departure from the principal activities of the business.

(h) Depreciation

i) Investment properties

Freehold

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

Leasehold

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

ii) Other tangible fixed assets

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

Leasehold improvement	over period of lease
Plant and machinery	over 4 to 15 years

(i) Deferred taxation

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that:

- Provision is not made in respect of property revaluation gains and losses
- Provision is not made for further tax which could arise if subsidiaries or associated undertakings were to be disposed of
- Provision is not made for any taxation which could arise if overseas companies were to remit dividends
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

(j) Leases

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial Instruments

Interest Rate Caps

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

Shares, Warrants & Options

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

Forward foreign exchange contracts

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

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

(l) Issue costs of loans

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

(m) Joint ventures and Associates

The Group's share of net assets and results of associated undertakings has been included in the accounts under the equity accounting method in compliance with FRS 9. Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual arrangement. The Group accounts include that appropriate share of the joint venture's results and retained reserves which have been included in the accounts on a gross equity basis in accordance with FRS 9.

(n) Pension costs

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

(o) Net rental income

The Group's net rental income comprises rental and service charge income less service charge expenditure, invoiced in the year.

2 PROPERTY AND OTHER INCOME

	2003 £000	2002 £000
Rental income	70,723	65,905
Less: Joint ventures	(1,421)	(907)
Service charge income	5,699	5,115
	75,001	70,113
Fees from property related services	201	81
Lease variation and surrender income	325	475
Turnover from cable operating companies	4,657	569
Other income	727	348
Turnover	80,911	71,586
Continuing operations	78,458	71,586
Acquisitions	2,453	-
Service charge expenditure	(12,589)	(10,692)
Cost of sales of cable operating companies	(2,007)	(184)
	66,315	60,710
Continuing operations	64,882	60,710
Acquisitions	1,433	-

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

3 SEGMENTAL REPORTING

	Turnover 2003 £000	Turnover 2002 £000	Profit before tax 2003 £000	Profit before tax 2002 £000	Net assets 2003 £000	Net assets 2002 £000
Geographical analysis						
UK	41,908	41,429	5,324	7,658	185,138	178,912
Sweden	21,406	15,843	1,252	1,181	96,081	101,487
France	17,597	14,314	10,997	8,228	103,755	91,321
	80,911	71,586	17,573	17,067	384,974	371,720

Profit before tax for the UK segment includes losses on equity investment activities of £1,406,000 (2002: Loss £4,185,000), profit of £248,000 (2002: £24,000) from the joint ventures, and turnover and gross profit from the cable operating companies of £4,657,000 and £2,650,000 respectively (2002: £568,000 and £385,000 respectively). Net assets in relation to financial instruments amounted to £3,963,000 (2002: £4,580,000).

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

	Continuing Operations 2003 £000	Acquisitions 2003 £000	Total 2003 £000	Continuing Operations 2002 £000	Acquisitions 2002 £000	Total 2002 £000
Group net rental income	62,412	-	62,412	59,421	-	59,421
Other income	2,470	1,433	3,903	1,289	-	1,289
Other operating losses	(1,406)	-	(1,406)	(3,054)	-	(3,054)
Administrative expenses	(10,674)	(4,763)	(15,437)	(8,342)	-	(8,342)
Net property expenses	(4,179)	-	(4,179)	(3,998)	-	(3,998)
Operating profit/(loss)	48,623	(3,330)	45,293	45,316	-	45,316

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £000	2002 £000
Group		
On debentures	4,234	4,282
On bank loans	23,179	21,533
On finance leases	89	89
On other loans	2,884	2,566
Issue costs of loans	1,215	2,196
	31,601	30,666
Less: amounts capitalised	176	(741)
	31,777	29,925
Share of joint ventures - on bank loans	1,098	860
Share of associates - on other loans	-	17

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

5 DIRECTORS' EMOLUMENTS, SHARE OPTIONS AND INTERESTS IN ORDINARY SHARES

Information relating to Directors' emoluments, share options and interests in ordinary shares are given in the Remuneration Report on pages 62 to 65.

6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £000	2002 £000
This is stated after charging:		
Auditors' remuneration for audit services	234	202
Depreciation of tangible fixed assets – Owned assets	1,208	530
– Leased assets	420	830
Loss on disposal of fixed assets	2	12
Operating lease rentals – plant & machinery	165	19
Operating lease rentals – other (land & buildings)	760	517
Amortised goodwill	130	46
Directors' emoluments	1,041	1,091

Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £nil (2002: £26,590). Audit fees for the Company were £42,375 (2002: £40,000)

7 EMPLOYEE INFORMATION

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

	Property	Cable Companies	2003 Total	2002 Total
(a) Number of employees				
Total employees	71	112	183	58
	£000	£000	£000	£000
(b) Costs				
Wages & salaries	3,050	2,508	5,558	3,266
Social security costs	481	214	695	325
Other pension costs	180	68	248	138
	3,711	2,790	6,501	3,729

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £000	2002 £000
United Kingdom corporation tax at 30.0% (2002: 30.0%)	-	-
Overseas tax	(679)	(648)
Adjustment in respect of prior periods	24	-
	(655)	(648)
Deferred tax:		
Origination and reversal of timing differences in the UK	591	(1,497)
	(64)	(2,145)

The current taxation charge for the year has been reduced by corporation tax losses brought forward and by the capital allowances on fixed plant and machinery in properties held as investments.

	2003 £000	2002 £000
Profit on ordinary activities before tax	17,573	17,067
Profit on ordinary activities before tax at standard rate of corporation tax in the UK of 30.0% (2002: 30.0%)	5,272	5,120
Adjustment in respect of foreign tax rates	84	19
Losses utilised	(2,351)	(5,714)
Expenses not deductible for tax purposes	1,721	1,734
Capital allowances in excess of depreciation	(5,199)	(821)
Difference on taxation treatment of disposals	303	310
Short term timing differences	176	-
Consortium relief adjustment	673	-
Adjustment in respect of prior periods	(24)	-
	655	648

9 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been included in these financial statements. The parent Company's retained profit for the financial year was £426,877 (2002: £2,155,000).

10 DIVIDENDS

No dividends have been paid or proposed for the year ended 31 December 2003 (2002: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

11 EARNINGS PER ORDINARY SHARE

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

	Earnings £000s	2003 Weighted average no. of shares (000's)	Per share amount, pence	Earnings £000s	2002 Weighted average no. of shares (000's)	Per share amount, pence
Basic EPS						
Earnings attributable to ordinary shareholders	18,773	90,791	20.7p	15,310	97,428	15.7p
Effect of dilutive securities						
Options	-	879	(0.2p)	-	1,247	(0.2p)
Diluted EPS	18,773	91,670	20.5p	15,310	98,675	15.5p

12 TANGIBLE FIXED ASSETS

	Investment Freehold property £000	Investment Long Leasehold property £000	Investment Short Leasehold property £000	Plant and Machinery £000	Total £000
Group					
Cost or valuation:					
at 1 January 2003	827,062	21,436	2,400	5,521	856,419
Exchange differences	35,568	1,102	-	75	36,745
Additions	21,918	-	-	3,271	25,189
Acquisitions	-	-	-	1,319	1,319
(Deficit)/surplus on revaluation	(3,673)	638	-	-	(3,035)
Disposals	(21,609)	-	(2,400)	(31)	(24,040)
at 31 December 2003	859,266	23,176	-	10,155	892,597
Depreciation:					
At 1 January 2003	-	-	1,980	2,085	4,065
Exchange differences	-	-	-	38	38
Charge for the year	-	-	420	1,208	1,628
Disposals	-	-	(2,400)	(23)	(2,423)
at 31 December 2003	-	-	-	3,308	3,308
Net book value					
at 31 December 2003	859,266	23,176	-	6,847	889,289
Net book value					
at 31 December 2002	827,062	21,436	420	3,436	852,354

- At 31 December 2003 all freehold and leasehold properties owned by the consolidated Group were revalued at their open market value taking into account their condition and tenancies existing at that date. The property valuations were carried out by Allsop & Co (for the UK and Swedish properties) and DTZ Debenham Tie Leung (for the French properties), independent firms of Chartered Surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institute of Chartered Surveyors.
- The historical cost of the freehold and leasehold investment properties included at valuation is freehold: £611.7 million, leasehold: £24.2 million.
- Included in leasehold properties are assets of £4.0 million which are held under finance leases (2002: £3.4 million).
- The holding Company has no tangible fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

13 INVESTMENTS

	Joint Ventures £000	Associates £000	Shares in subsidiary undertakings £000	Other investments £000	Total £000
Fixed Asset Investments					
Group					
At 1 January 2003					
– Goodwill	(1,205)	1,946	–	–	741
– Other	3,972	(216)	–	301	4,057
Additions					
– Goodwill	(361)	997	–	–	636
– Other	5,866	755	–	10	6,631
Disposals					
– Goodwill	–	–	–	–	–
– Other	–	–	–	(140)	(140)
Amortisation of goodwill	–	(130)	–	–	(130)
Share of retained profit/(loss)	227	(127)	–	–	100
	8,499	3,225	–	171	11,895
At 31 December 2003 – Goodwill	(1,566)	2,813	–	–	1,247
– Other	10,065	412	–	171	10,648
	8,499	3,225	–	171	11,895
Company					
Cost at 1 January 2003	–	–	61,227	–	61,227
Additions	–	–	4,343	–	4,343
Cost at 31 December 2003	–	–	65,570	–	65,570
Provision at 1 January 2003	–	–	(3,498)	–	(3,498)
Provision at 31 December 2003	–	–	(3,498)	–	(3,498)
Net Book Value at 31 December 2003	–	–	62,072	–	62,072
Net Book Value at 31 December 2002	–	–	57,729	–	57,729

The joint ventures are Teighmore Limited, incorporated in Jersey, of which the Group owns 33 1/3 per cent of the ordinary share capital (2002: 33 1/3 per cent), and New London Bridge House Limited, incorporated in England and Wales, of which the Group acquired 50 per cent of the ordinary share capital during the year. Both company's principal activity is commercial property investment.

The associates are Keronite Limited, a metals coating company, incorporated in England and Wales, of which the Group owns 38.1 per cent (2002: 38.1 per cent) of the ordinary share capital, and Lunarworks AB, an internet service provider incorporated in Sweden, of which the Group acquired 39.1 per cent of the ordinary share capital during the year. These have been accounted for as associates as the Board believes that the Group exerts significant influence over their operations. At the year-end the Group was owed £827,000 by Keronite Limited (2002: £522,000) as a long-term loan, which is treated as part of the investment.

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

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

14 DEBTORS

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts falling due after more than one year				
Other debtors	3,695	4,354	-	-
	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	3,716	2,902	-	-
Amounts owed by subsidiary undertakings	-	-	31,353	44,149
Other debtors	1,903	5,050	24	95
Prepayments and accrued income	2,357	1,204	1,765	3,553
	7,976	9,156	33,142	47,797

15 CURRENT ASSET INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Shares and Warrants	3,963	4,580	67	29

The listed shares and warrants stated at the lower of cost and net realisable value of £611,000 (2002: £1,026,000) relate to investments on the London, Swedish and Swiss Stock Exchanges. The market value of the listed investments at 31 December 2003 was £717,000 (2002: £1,203,000).

16 CASH AT BANK AND IN HAND

At 31 December 2003, Group cash balances with banks include £10.5 million (2002: £4.3 million) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (Company - Enil, 2002: Enil).

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Interest bearing:				
Debentures	512	461	-	-
Bank loans and overdrafts	15,312	13,608	-	-
Other loans	844	844	-	-
Obligations under finance leases	175	155	-	-
Amounts owed to subsidiary undertakings	-	-	-	1,026
Non interest bearing:				
Trade creditors	3,905	3,302	-	32
Other taxes and social security	2,128	612	-	-
Corporation tax	1,149	1,885	-	-
Other creditors	5,734	5,120	-	-
Accruals and deferred income	23,490	22,195	342	-
	53,249	48,182	342	1,058

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Debenture loans	38,608	39,119	-	-
Bank loans	465,541	449,236	-	-
Other loans	17,566	16,300	-	-
Obligations under finance leases	1,900	1,920	-	-
Other creditors	5,960	1,160	-	-
	529,575	507,735	-	-

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

19 ANALYSIS OF CORPORATE LOANS

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Debenture loans are repayable by instalments as follows:				
In one year or less or on demand	512	461	-	-
In more than one but not more than two years	570	512	-	-
In more than two but not more than five years	2,122	1,908	-	-
In more than five years	35,916	36,699	-	-
	39,120	39,580	-	-
Bank loans are repayable as follows:				
In one year or less or on demand	15,949	14,245	-	-
In more than one but not more than two years	56,655	51,845	-	-
In more than two but not more than five years	174,353	134,657	-	-
In more than five years – by instalment	234,040	262,414	-	-
– other than by instalment	4,657	4,188	-	-
	485,654	467,349	-	-
Un-amortised issue costs	(4,801)	(4,505)	-	-
	480,853	462,844	-	-
Other loans and net obligations under finance leases are repayable as follows:				
In one year or less or on demand	1,019	999	-	-
In more than one but not more than two years	1,026	1,006	-	-
In more than two but not more than five years	13,758	3,057	-	-
In more than five years – by instalment	1,128	12,717	-	-
– other than by instalment	3,554	1,444	-	-
	20,485	19,223	-	-
Un-amortised issue costs	-	(4)	-	-
	20,485	19,219	-	-

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

19 ANALYSIS OF CORPORATE LOANS (continued)

- (a) The £39.1 million (2002: £39.6 million) of debenture loans represent amortising bonds which are repayable in equal half-yearly instalments of £1.2 million with final repayment due January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at a fixed rate of 10.76 per cent. The debentures are secured by a legal charge over the property and securitisation of its rental income.
- (b) Interest on bank loans is charged at fixed rates ranging between 3.50 per cent and 7.37 per cent and floating rates of LIBOR or equivalent, plus a margin ranging between 0.75 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.
- (c) Interest on other loans is charged at fixed rates ranging between 7.50 per cent and 11.35 per cent. The loans are secured by legal charges over the respective properties to which they relate.

The aggregate amount of loans repayable by instalments, any part of which falls due for repayment in more than five years is £286.2 million (2002: £321.7 million) for bank loans and £ nil (2002: £19.2 million) for other loans.

20 PROVISION FOR LIABILITIES AND CHARGES

	2003 Provision £000	2003 Amount un-provided £000	2002 Provision £000	2002 Amount un-provided £000
Group				
Deferred taxation is provided as follows:				
Capital allowances in excess of depreciation	11,482	-	14,242	-
Short-term timing differences	(820)	-	-	-
Future benefit of tax losses	(4,982)	-	(1,263)	-
Taxation on revaluation (deficit)/surplus	-	(2,419)	-	2,121
	5,680	(2,419)	12,979	2,121
Provision for forward foreign exchange losses	33	-	276	-
	5,713	(2,419)	13,255	2,121
Reconciliation of deferred tax provision				
At 1 January	12,979		11,482	
Acquired during the year	(6,708)		-	
Amount (credited)/charged to profit and loss	(591)		1,497	
	5,680		12,979	

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

Losses of £19.3 million (2002: £13.2 million) have not been recognised in the deferred tax provision as they will only be recoverable if the entities make taxable profits in the future. Future profitability is not sufficiently certain to recognise an asset.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

No deferred tax liability arises relating to the Company (2002: £nil).

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

21 SHARE CAPITAL

	2003 £000	2002 £000
(a) Authorised and issued as at 31 December		
Authorised 160,000,000 Ordinary Shares of 25p each	40,000	40,000
Allotted, called up and fully paid 87,644,067 Ordinary Shares of 25p each (2002: 94,129,431)	21,911	23,532
	Nominal value £000	Number of Ordinary Shares of 25p each 000s
(b) Allotments of issued capital		
Opening share capital	23,532	94,129
Issue of shares allotted under share option scheme	97	386
Cancelled pursuant to Market purchase	(372)	(1,488)
Cancelled pursuant to Tender Offer	(1,346)	(5,383)
	21,911	87,644

The consideration receivable for shares allotted in respect of options exercised was £473,298 (2002: £90,549)

22 OPTIONS IN SHARES OF CLS HOLDINGS PLC

Details of options in shares of CLS Holdings plc granted during 2003 are given in the Directors Remuneration Report on page 63.

23 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
Group					
At 1 January 2003	68,551	218,837	9,975	22,637	28,468
Exchange difference	-	9,632	-	5,459	-
Shares issued	377	-	-	-	-
Share buybacks	-	-	1,718	-	(17,036)
Expenses of share buybacks	-	-	-	-	(176)
Reduction in minority interest	-	-	-	-	(237)
Release of revaluation reserve on property disposal	-	(3,432)	-	-	3,432
Revaluation deficit charged in year	-	20	-	-	-
Unrealised deficit on revaluation of properties	-	(3,035)	-	-	-
Retained profit for the year	-	-	-	-	18,773
At 31 December 2003	68,928	222,022	11,693	28,096	33,224
Company					
At 1 January 2003	68,551	-	9,975	4,599	30,008
Shares issued	377	-	-	-	-
Share buybacks	-	-	1,718	-	(17,036)
Expenses of share buybacks	-	-	-	-	(176)
Retained profit for the year	-	-	-	-	427
At 31 December 2003	68,928	-	11,693	4,599	13,223

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

24 (a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003 £000	2002 £000
Operating profit	45,293	45,316
Depreciation	1,628	1,360
Decrease in debtors	1,459	2,592
Increase in creditors	3,899	2,390
Decrease in current asset investments	153	473
Loss on sale of fixed assets	-	12
Net cash inflow from operating activities	52,432	52,143
Continuing operations	55,637	52,143
Acquisitions	(3,205)	-

24 (b) ACQUISITIONS

	Book value £000	Revaluations £000	Other £000	Fair value £000
Tangible fixed assets	51,626	(50,307)	-	1,319
Cash at bank	3,253	(2,681)	-	572
Other current assets	1,784	(1,488)	-	296
Current liabilities	(598)	-	-	(598)
Deferred tax asset	-	-	6,708	6,708
Long-term loans	(4,119)	2,745	-	(1,374)
Other long-term liabilities	(4,680)	-	-	(4,680)
	47,266	(51,731)	6,708	2,243
Minority interests				(429)
Net assets acquired				1,814
Consideration:				
Cash				1,814

The book value of the assets and liabilities have been taken from the management accounts of WightCable North Ltd at 29 January 2003, the date of acquisition. The revaluation adjustments represent the write-down to estimated realisable value. The other adjustments represent re-classification within the Group accounts, recognising the fair value of the deferred tax asset generated by the timing difference on capital allowances for the assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

25 (a) ANALYSIS OF NET DEBT

	1 Jan 2003 £000	Cash Flow £000	Acquisition £000	Non-cash movement £000	Foreign Exchange £000	31 Dec 2003 £000
Net cash:						
Cash at bank and in hand	65,650	(9,596)	572	-	67	56,693
Less: deposits treated as liquid resources	(13,871)	2,004	-	-	-	(11,867)
	51,779	(7,592)	572	-	67	44,826
Liquid resources:						
Deposits included in cash	13,871	(2,004)	-	-	-	11,867
Debt:						
Debts falling due within one year	(14,913)	17,591	-	(19,346)	-	(16,668)
Finance leases falling due within one year	(155)	-	-	(9)	(11)	(175)
Debts falling due after more than one year	(504,655)	(14,013)	(1,009)	19,170	(21,208)	(521,715)
Finance leases falling due after more than one year	(1,920)	167	-	9	(156)	(1,900)
	(521,643)	3,745	(1,009)	(176)	(21,375)	(540,458)
Net debt	(455,993)	(5,851)	(437)	(176)	(21,308)	(483,765)
Cash at bank and in hand	65,650	(9,596)	572	-	67	56,693
Debts falling due within one year	(15,068)	17,606	-	(19,370)	(11)	(16,843)
Debts falling due after more than one year	(506,575)	(13,861)	(1,009)	19,194	(21,364)	(523,615)
	(455,993)	(5,851)	(437)	(176)	(21,308)	(483,765)

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

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

	2003 £000	2002 £000
(Decrease)/increase in cash in the period	(7,592)	1,290
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(2,004)	8,364
Cash outflow/(inflow) from decrease/(increase) in debt	3,745	(89,704)
Changes in net debt resulting from cash flows	(5,851)	(80,050)
Translation differences	(21,308)	(13,539)
Capitalised interest	(469)	(422)
Capitalisation of issue costs	293	1,163
Acquisitions	(437)	(543)
Other non-cash movements	-	1
Net debt at 1 January	(455,993)	(362,603)
Net debt at 31 December	(483,765)	(455,993)

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

26 CHANGES IN FINANCING

	2003 £000	2002 £000
(a) Loan finance		
Balance brought forward	521,643	417,842
Net cash (outflow)/inflow	(3,745)	89,704
Interest capitalised	469	422
Capitalisation of issue costs	(293)	(1,163)
Foreign exchange movements	21,375	14,296
Other non-cash movements	1,009	542
Balance carried forward	540,458	521,643
	2003 £000	2002 £000
(b) Share capital (including share premium account and capital redemption reserve)		
Balance brought forward	102,058	101,968
Shares issued	474	90
Balance carried forward	102,532	102,058

27 PENSIONS

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

The cost for the year amounted to £76,334 (2002: £76,159) and there were no outstanding or prepaid contributions at the balance sheet date.

28 FINANCIAL INSTRUMENTS

a) Short-term debtors and creditors

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

b) Interest rate risk profile of financial liabilities

As explained on page 18 of the financial review, in order to mitigate the effect of interest rate fluctuations the Group has purchased interest rate caps or secured fixed rate borrowings in respect of virtually all of its debt.

The interest rate risk profile of the Group's financial liabilities at 31 December 2003 was:

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000
Financial liabilities			
- Sterling	266,059	147,516	118,543
- Swedish Kronor	136,727	63,076	73,651
- Euro	137,672	73,519	64,153
At 31 December 2003	540,458	284,111	256,347
Financial liabilities			
- Sterling	277,877	203,759	74,118
- Swedish Kronor	108,492	51,261	57,231
- Euro	135,274	96,363	38,911
At 31 December 2002	521,643	351,383	170,260

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

NOTES TO THE FINANCIAL STATEMENTS

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28 FINANCIAL INSTRUMENTS (continued)

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

Arrangement fees of £4.8 million have been offset against the balance of floating and fixed rate loans (2002: £4.5 million).

	Fixed rate financial liabilities	Weighted average period for which rate is fixed Years
	Weighted average interest rate %	
- Sterling	8.17	11.21
- Swedish Kronor	6.07	3.95
- Euro	4.65	2.94
At 31 December 2003	6.68	7.44
- Sterling	10.01	15.91
- Swedish Kronor	6.24	4.71
- Euro	4.99	1.81
At 31 December 2002	7.59	8.90

Floating rate financial liabilities bear interest at rates based on relevant national LIBOR or equivalents, which are fixed in advance for periods of between one month and six months. Further protection from interest rate movement is provided by interest rate caps on £144 million of debt at 6.0 per cent to 7.0 per cent expiring within 3 to 5 years (2002: £186 million at 6.0 per cent to 9.0 per cent expiring within 1 to 6 years), £66 million of SEK denominated debt at 5.0 per cent to 6.7 per cent expiring within 1 to 5 years (2002: £50.3 million at 5.5 per cent to 6.7 per cent expiring within 2-5 years), and £94 million of Euro denominated debt at 5.0 per cent to 7.0 per cent expiring within 1 to 5 years (2002: £81.0 million at 5.5 per cent to 7.0 per cent expiring within 1 to 5 years).

c) Interest rate risk of financial assets

	Cash at bank and in hand £000	Short-term deposits £000	2003 Total £000	Cash at bank and in hand £000	Short-term deposits £000	2002 Total £000
Sterling	29,744	11,146	40,890	31,075	12,931	44,006
Swedish Kronor	3,897	-	3,897	3,913	-	3,913
Euro	11,165	721	11,886	16,780	940	17,720
Other	20	-	20	11	-	11
At 31 December	44,826	11,867	56,693	51,779	13,871	65,650

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

28 FINANCIAL INSTRUMENTS (continued)

In addition the following financial assets were held:

	2003 £000	2002 £000
Assets held as part of the financing arrangements of the Group:		
Interest-bearing debtors – fixed rate financial assets	1,899	3,350
Assets held or issued for treasury purposes:		
Interest rate caps and collars	2,331	2,382
	4,230	5,732

The fixed rate interest-bearing debtors represent a third party deferred interest loan which is repayable over a period of 24 years from the balance sheet date at a fixed rate of 7.0 per cent. The remaining balances are third party loans at floating rates of interest based on relevant LIBOR and base rates.

Assets held for treasury purposes do not attract interest.

The weighted average periods until maturity for interest rate caps and collars, the financial assets on which no interest is paid, are 3.4 years for Sterling, 1.7 years for SEK and 3.0 years for Euro.

d) Maturity of financial liabilities

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

	Debt £000	Finance Leases £000	2003 Total £000	Debt £000	Finance Leases £000	2002 Total £000
Within 1 year, or on demand	16,669	174	16,843	14,913	155	15,068
Between 1 and 2 years	57,343	181	57,524	52,459	161	52,620
Between 2 and 5 years	187,903	590	188,493	137,458	525	137,983
Over 5 years	276,469	1,129	277,598	314,738	1,234	315,972
	538,384	2,074	540,458	519,568	2,075	521,643

e) Borrowing facilities

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

	2003 Total £000	2002 Total £000
Expiring within 1 year	13,162	7,910

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

28 FINANCIAL INSTRUMENTS (continued)

f) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 December 2003 and 2002. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out below the table is a summary of the methods and assumptions used for each category of financial instruments.

	2003		2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	(16,843)	(16,843)	(15,068)	(15,068)
Long-term borrowings	(523,615)	(549,482)	(506,575)	(538,268)
Short-term deposits	11,867	11,867	13,871	13,871
Cash at bank and in hand	44,826	44,826	51,779	51,779
Interest bearing debtors	1,899	2,065	3,350	3,567
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate caps and collars	2,330	527	3,018	(375)
Financial instruments held for trading purposes				
Equity investments and other financial assets	4,058	4,235	4,816	4,994

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.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

28 FINANCIAL INSTRUMENTS (continued)

g) Currency exposures

As explained in paragraph 2 on page 18 of the financial review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows in the local currencies of its main operating units. Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

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

	SEK £000	Net foreign currency monetary assets			Total £000
		Euro £000	US \$ £000	Other £000	
2003					
Functional currency of Group operation:					
Sterling	1,250	5,571	1,282	35	8,138
Total	1,250	5,571	1,282	35	8,138
2002					
Functional currency of Group operation:					
Sterling	955	13,727	-	11	14,693
Total	955	13,727	-	11	14,693

h) Hedges

As explained in the financial review in paragraph 2 on page 18 the Group's policy is to hedge the following exposures:

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

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

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

	Deferred losses £000
Unrecognised gains and losses on hedges as at 1 January 2003	3,393
Loss arising before 1 January included in current year income	(901)
Loss arising before 1 January not included in current year income and now deferred	2,492
Gains arising in current year not included in current year income and now deferred	(685)
Unrecognised gains and losses on hedges as at 31 December 2003	1,807
Of which:	
Gains and losses expected to be recognised in 2004	891
Gains and losses expected to be recognised in 2005 or later	916

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2003

28 FINANCIAL INSTRUMENTS (continued)

i) Financial instruments held for trading purposes

	2003 £000	2002 £000
Net loss included in profit and loss account	(1,406)	(3,054)
Fair value of financial assets held for trading at 31 December	4,235	4,994

29 COMMITMENTS AND CONTINGENT LIABILITIES

The Group has annual commitments under non-cancellable operating leases of £0.2 million per annum for leases expiring within 2-5 years and £0.6 million per annum for leases that expire in more than five years (2002: £0.1 million within one year and £0.4 million in more than five years).

At 31 December 2003 the Company had guaranteed £107.9 million of group companies liabilities (2002: £106.8 million). Of the amount guaranteed, £34.0 million (2002: £13.9 million) is limited to a maximum annual liability of £19.8 million (2002: £1.5 million).

At 31 December 2003 the Group had no authorised but not contracted for financial commitments (2002: Nil).

30 INVESTMENT IN GROUP UNDERTAKINGS

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

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

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

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

31 OTHER RELATED PARTY TRANSACTIONS

CLSH Management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as agent in respect of the collection of rental income and payment of loan interest for Teighmore Limited and New London Bridge House Limited, joint ventures of the Group. At 31 December 2003 Teighmore Limited was owed £0.8 million by the Group (2002: £0.9 million) and New London Bridge House Limited was owed £0.1 million (2002: Nil).

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £15,105 (2002: £14,000). A company owned by Sten Mortstedt also purchased accountancy services from Förvaltnings AB Klio during the year amounting to £6,597 (2002: Nil).

32 POST BALANCE SHEET EVENTS

There are no material post balance sheet events that affect these financial statements.

FIVE YEAR FINANCIAL SUMMARY

for the year ended 31 December

	2003 £000	2002 £000	2001 £000	2000 £000	1999 £000
Turnover and results					
Turnover	80,911	71,402	61,006	47,548	49,040
Group net rental income	62,412	59,421	50,176	40,215	32,495
Operating Profits	45,293	45,316	36,856	34,698	35,800
Share of profit of associated and joint venture undertakings	1,085	790	873	1,649	1,021
Gain/(loss) from sale of investment properties	1,932	(153)	524	2,969	-
Profit on Ordinary Activities Before Interest	48,310	45,953	38,253	39,316	36,821
Net interest payable and similar charges	(30,737)	(28,886)	(26,974)	(24,487)	(19,908)
Profit Before Taxation	17,573	17,067	11,279	14,829	16,913
Tax on ordinary activities - current	(676)	(648)	(938)	(11)	(2,125)
Tax on ordinary activities - deferred	591	(1,497)	(3,273)	(2,798)	318
Profit on ordinary activities after taxation	17,488	14,922	7,068	12,020	15,106
Equity minority interests	1,285	388	-	(7)	-
Retained Profit	18,773	15,310	7,068	12,013	15,106
Share buy backs paid and proposed	(14,607)	(14,007)	(12,120)	(10,541)	(7,663)
Net Assets Employed					
Fixed assets	901,184	857,152	732,582	674,084	507,424
Net current assets	19,078	35,558	19,500	19,958	15,262
	920,262	892,710	752,082	694,042	522,686
Non-current liabilities	(529,575)	(507,735)	(389,788)	(342,094)	(273,968)
Provision for liabilities and charges	(5,713)	(13,255)	(11,482)	(8,209)	(5,411)
Net Assets	384,974	371,720	350,812	343,739	243,307
Ratios					
Adjusted net assets per share	£4.46	£4.09	£3.65	£3.26	£2.44
Statutory net assets per share	£4.39	£3.95	£3.53	£3.18	£2.39
Earnings per share	20.7p	15.7p	6.7p	11.9p	14.3p
Gearing	127%	124%	104%	89%	101%
Interest cover	1.57	1.59	1.42	1.61	1.83

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

RECONCILIATION OF STATUTORY TO DISCLOSED ADJUSTED STATISTICS

	Statutory figure	Deferred tax adjustment	Adjusted figure
Net Assets	£385.0m	£5.7m	£390.7m
NAV per share	439.2p	6.5p	445.7p
Earning per share	20.7p	(0.7)p	20.0p
Diluted earnings per share	20.5p	(0.7)p	19.8p
Gearing	126.9%	(1.8)%	125.1%



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