

## Directors, Officers and Advisers

### Key Events in '97

- *Successful pre-letting of One Leicester Square for £2.2 million per annum.*
- *Lease restructuring and commencement of £3.3 million refurbishment of Citadel House, Fetter Lane, London, EC4.*
- *Investment in Citadel Holdings plc.*
- *Sale of New Malden House for £10.4 million.*
- *Sale of New Oxford Street for £1.7 million.*
- *Acquisition of London House Business Centre for £1.4 million.*
- *Lease surrenders totalling £1.2 million received.*

#### Directors

S A Mörtstedt \* (Executive Chairman)  
G V Hirsch LLB ACA (Chief Executive)  
B F Mörtstedt Juris Cand (Executive Director)  
Sir David Rowe-Ham FCA \*† (Non-executive Director)  
K R Harris PhD \*† (Non-executive Director)  
H O T Lundqvist † (Non-executive Director)  
\* = member of Remuneration Committee  
† = member of Audit Committee

#### Company Secretary & Solicitor

T J Thomson BA (Solicitor)

#### Registered Office

6 Spring Gardens  
Tinworth Street  
London SE11 5EH

#### Registered Number

2714781

#### Registered Auditors

Coopers & Lybrand  
Chartered Accountants  
1 Embankment Place  
London WC2N 6NN

#### Registrars and Transfer Office

Computershare Services plc  
Securities Services – Registrars  
P O Box 435  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR

#### Clearing Bank

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

#### Stockbrokers

SBC Warburg Dillon Read  
100 Liverpool Street  
London EC2M 2RH

#### CLS Holdings plc on line

[www.clsholdings.com](http://www.clsholdings.com)

	1997	1996	
Net rental income	<b>£30.5m</b>	£30.4m	up 0.4%
Operating profit	<b>£28.3m</b>	£28.0m	up 1.2%
Profit before taxation	<b>£10.5m</b>	£10.3m	up 1.7%
Profit after taxation	<b>£9.8m</b>	£9.4m	up 3.3%
Earnings per share	<b>8.7p</b>	8.7p	
Net dividend per share	<b>5.75p</b>	5.50p	up 4.5%
Net asset value per share	<b>160.3p</b>	140.5p	up 14.1%
Cash & short term deposits	<b>£18.9m</b>	£15.8m	up 19.9%
Gearing	<b>104%</b>	128%	down 19.0%

# Financial Highlights

- *1997 Total return on shareholders funds of 18.2 per cent*
- *Net asset value up 14.1 per cent to 160.3 pence per share*
- *Profit before tax increased to £10.5 million*
- *Dividends paid/proposed of 5.75 pence per share*
- *Group cash balances increased to £18.9 million*
- *Gearing reduced to 104 per cent*
- *Portfolio yield at 31 December 1997 of 8.1 per cent*

# Continued Progress

## Introduction

I am pleased to report that 1997 was another year of progress for your Group. The property market has continued to improve and our active management has ensured advances in profit, cash flow, dividends and net asset value.

The 1997 results show a total return on shareholders funds of 18.2 per cent based on movement in shareholders' funds and dividends declared during the year.

## Results for the Year

For the year ended 31 December 1997 the Group achieved a 1.7 per cent increase in profit before tax to £10.5 million (1996: £10.3 million). Profit after tax was up by 3.3 per cent to £9.8 million (1996: £9.4 million) and gross rental income, represented by rents and service charge income received from tenants, increased by 1.1 per cent to £33.8 million from £33.4 million in 1996.

Property sales during the year produced a total profit of £1.0 million of which £0.4 million related to investment properties and £0.6 million to trading properties.

At the year end our portfolio was valued by Allsop & Co at £374.4 million and as at that date, on an annualised basis, was producing net rental income of £30.4 million, equating to a yield of 8.1 per cent per annum. This should increase to at least £33.6 million (8.97 per cent) assuming the letting of vacant space at current rents.

We have achieved an excellent improvement in our property values, particularly with recent acquisitions. This has resulted in a 14.1 per cent increase in net assets per share to 160.3 pence (1996: 140.5 pence). This increase is calculated after taking into account a payment of 5.75 pence per share for 1997 dividends.

Gearing at 31 December 1997 was 104 per cent (128 per cent at 31 December 1996).

## Dividend

The Directors recommend a final net dividend of 3.45 pence per ordinary share, making a total net dividend for the year of 5.75 pence per share, an increase of 4.5 per cent over the dividend of 5.5 pence per share paid in respect of 1996.

We intend to offer shareholders an enhanced scrip dividend alternative to encourage more shareholders to take shares rather than cash. Shareholders taking scrip will receive additional shares to the value of 20% of the net dividend declared. To the extent that shareholders elect to receive shares the Company's cash flow benefits not only from the retention of cash, which would otherwise have been paid out by way of dividend, but also from the saving in advance corporation tax which would otherwise be

“Our aim is to **provide shareholders**  
with **excellent returns**”

Property Review

# Organic Growth

## Introduction

In 1997 we have made a number of steps in re-shaping our portfolio through disposals and through enhancement of existing buildings. At the year end the group portfolio comprised 195,981 sq. m (2,109,584 sq. ft.) of which 187,642 sq. m. (2,019,823 sq. ft) or 95.7 per cent was fully let. At the year end our annualised net rental income was £30.4 million. On the basis of our year end portfolio valuation of £374.4 million this equates to an overall yield of 8.1 per cent.

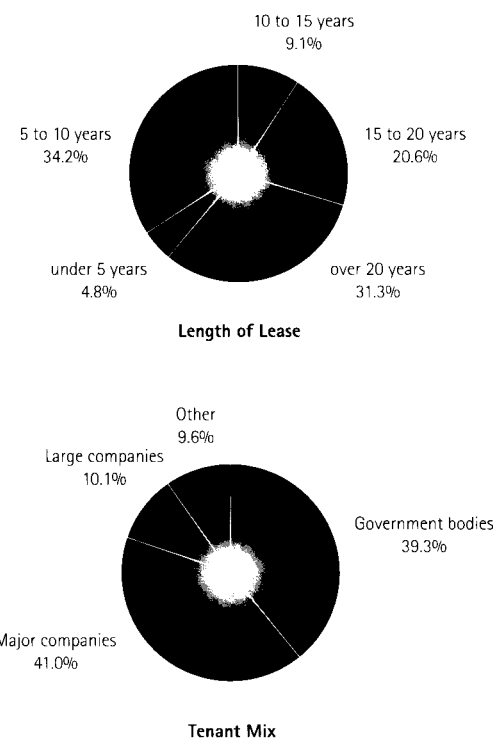
## Group property strategy

We continue to seek to increase shareholder value through strong cash flow and asset growth by looking at ways of maximising the value of our assets and of improving and securing cash flows from our tenants. During the year we have added value through refurbishment, development and change of use of a number of our properties.

## Acquisitions and Disposals

During 1995 and 1996 we made several significant acquisitions. We continued to seek similar opportunities in 1997 however prices have increased to a point where it has been hard to obtain value for money. With our exposure to central London enabling us to benefit from the uplift in the market we have been selective in our acquisitions and have acquired one property during the year at London House in Hammersmith. This property comprises 1,389 sq. m (14,951 sq. ft.) and at the time of acquisition produced a net income of £188,000 giving an initial yield of 13.7 per cent on the purchase price of £1.375 million. The property is run as a business centre and since the acquisition we have become more actively involved in the management of the property and have increased the net income to £305,000 increasing our initial yield to 22.2 per cent. We are making a planning application for the addition of an extra floor on the property which should add 372 sq. m. (4,000 sq. ft.).

In June we took advantage of the improving market for large well let investments and sold New Malden House, High Street New Malden for £10.4 million. At 44/50 New Oxford Street London WC2 we secured planning consent to convert and extend the upper floors of the property into ten flats. We subsequently sold the property to a residential investor for £1.7 million which represented our most optimistic profit forecast for the completed development and was considerably in excess of book value. Combined profits from all disposals during the year were £1 million.



## Property management

Our willingness to establish an understanding of our tenants businesses and their needs continues to provide significant opportunities.

At Citadel House, Fetter Lane, London EC4 we agreed terms with NIG Skandia, our tenant who was not in occupation, which have enabled us to refurbish the property and take advantage of the improving mid town market. The building was surplus to NIG's requirements and we negotiated a sub-lease on the whole property at an annual rent of £353,000 per annum. By structuring the transaction in this way we have preserved the majority of our income (£1,296,000 per annum to September 2003) and given ourselves the ability to find a long-term tenant for the building. Refurbishment is currently under way at an estimated total cost of £3.3 million and is expected to be completed in July 1998. Once re-let the property should generate additional income of £1.1 million per annum.

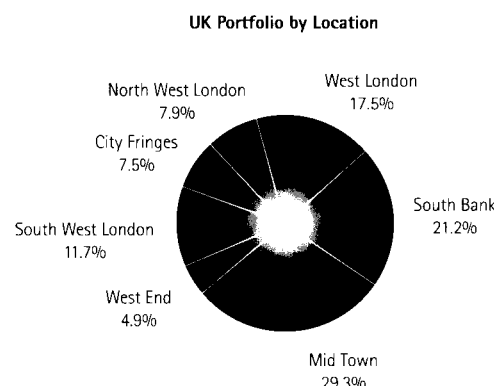
Early in 1997 we let 1,558 sq. m (16,770 sq. ft) at Cambridge House in Hammersmith to Bechtel on a short term basis at £15 per sq. ft. Bechtel have now vacated this accommodation and we are refurbishing it at a cost of £825,000. Work should be completed by June 1998 and we are looking to achieve a rent of £25 per sq. ft.

In September we announced the pre-letting of One Leicester Square to Big Beat Group on a new 25 year FRI lease at an initial rent of £2 million per annum. The property is now fully let and the total income will be £2.222 million per annum. Work has commenced on site to create this major new entertainment venue.

During the year we have also embarked on two residential developments. The first at Holland Park Avenue, London W11 involved converting three floors of offices into three luxury flats, two of which have now been sold. On a plot of land in SE11 we have just completed the construction of twenty luxury apartments and whilst our original intention was to hold these for investment, the improving market has led us to sell them and prior to completion we have exchanged contracts on seven flats with a further eight reserved for purchase.

We acquired Great West House in June 1996 and early in 1997 we agreed a lease extension with Samsung Europe plc who occupy 3,934 sq. m (43,041 sq. ft) to prolong their leases from October 1999 until December 2003, at enhanced rents.

In August we accepted a surrender from Ladbroke plc of their lease at Chancel House, Neasden for a payment of £1 million. Their lease was due to expire in June 2000, at an annual rent of £0.24 million per annum. In view of the success of our business centre at London House, Hammersmith we have commenced marketing the building on a similar basis and initial interest has been encouraging.



## Prospects

The Central London letting market has improved with rents increasing, rent free periods shortening and tenants signing longer leases. We are seeing rental growth in most areas of our portfolio and expect 1998 will show increases in income at a number of our buildings. The improving market is allowing us to consider a number of refurbishment opportunities within our portfolio. These will improve the quality of our assets and our income stream.

# Increased Profits

## Introduction

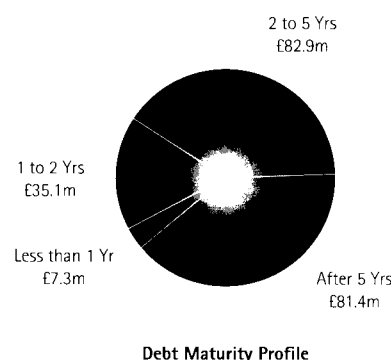
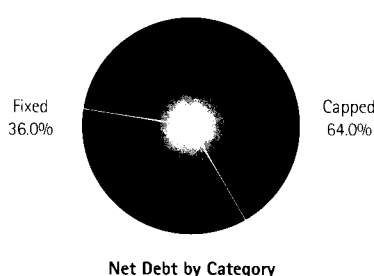
1997 has been another successful year for CLS in which we have increased profits, dividends and net asset value per share. The Group is in a strong financial position with gearing reduced and substantial cash in the balance sheet. Our review of the year highlights these points.

## Income

Net rental income increased by £0.1 million to £30.5 million (1996: £30.4 million). Other property related income consisted of £0.6 million of profit on sales of trading properties, £1.2 million received in lease surrender income, £0.3 million of management fees from Citadel Holdings plc and the remainder in normal management fees charged to tenants.

## Operating Expenses

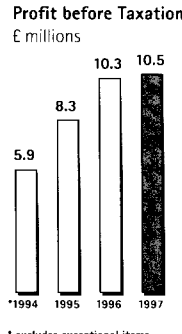
Operating expenditure has increased by 7.9 per cent to £4.0 million (1996: £3.7 million). Administration costs have risen by only £0.03 million despite an increase in staff numbers and the additional costs relating to the management of Citadel Holdings plc. Comparative costs have actually decreased, mainly due to reduced professional fees and additional costs relating to the management of Citadel Holdings plc which have been recovered under the management agreement. Management fees from Citadel of £0.3 million are included in other property related income. Net property expenses have increased by £0.26 million, due mainly to the inclusion of gross business centre expenditure while income from business centres is included in rental income.



“1997 has been **another successful year** for CLS with increased profits, dividends and net assets per share.”

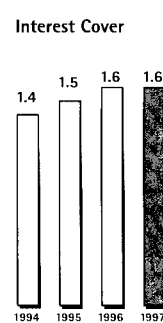
## Financial Costs

Net interest and financial charges have increased to £18.2 million (1996: £17.8 million) primarily due to increases in Base Rates from 6 per cent at the beginning of the year to 7.25 per cent by the year end. As at 31 December 1997 the average cost of borrowing was 9.7 per cent (1996: 8.9 per cent). Cash at bank including short term deposits less overdrafts was £18.9 million (1996: £15.8 million).



## Taxation

The Group's taxation charge is at a relatively low rate as a result of substantial corporation tax losses brought forward in some subsidiaries and significant capital allowances available on many of the Group's properties. These factors should continue to benefit the Group in the immediate future. The Group is incurring advance corporation tax liabilities on cash dividends which are not expected to be set against mainstream corporation tax payable next year. Although these payments will continue to be available to offset corporation tax liabilities in later years they have been written off as required by current accounting conventions.



## Dividend

Your Board is recommending a final net dividend of 3.45 pence per share payable on 29 May 1998 to shareholders on the register on 20 April 1998, making a total net dividend of 5.75 pence for the year, an increase of 4.5 per cent from 1996. Shareholders will be able to take an enhanced scrip dividend as detailed in the Chairman's Statement on page 4.

## Investment Properties

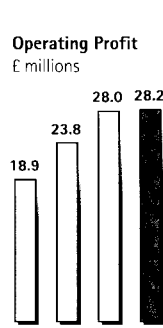
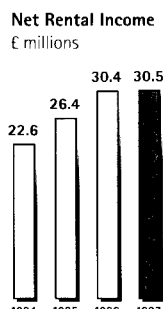
Investment property assets have grown to £374.4 million as at 31 December 1997. Annualised rent at 31 December 1997 was £30.4 million equating to a yield of 8.1 per cent.

“The 1997 results show a 14.1 per cent increase in net assets per share to 160.3 pence.”

## Investment in Citadel Holdings plc

As shareholders are aware, CLS has invested approximately £4 million in the ordinary shares of Citadel Holdings plc whose shares commenced trading on the AIM market on 23 July 1997. Citadel was formed to invest in French commercial office property and full details were sent to you on 17 July 1997. CLS' shareholding and holding of Citadel performance warrants (giving a right to invest a further £8.6 million in Citadel ordinary shares) provide significant upside potential for CLS.

The day to day business of Citadel is managed by CLS under a commercial management agreement. It is important therefore that CLS shareholders are kept up to date with the progress of the investment.



Citadel's portfolio now consists of eleven properties totalling 44,792 sq. m, acquired for a consideration of FF468.8 million producing rental income of FF43.5 million per annum.

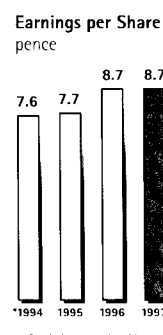
We have high hopes for Citadel and believe it will bring encouraging rewards for CLS and its shareholders.

## Debt Structure

Our cautious approach to debt structure continues with all new borrowings incurred on a floating rate basis with interest rate caps being purchased at rates of between 8 per cent and 10 per cent. Our net borrowings at 31 December 1997 were £187.7 million reducing our gearing ratio to 104 per cent, a decrease of 19.0 per cent from 1996. Of the net debt, 36 per cent (£67.5 million) is fixed and the remainder is hedged with interest rate caps.

## Corporate Structure

The Group's properties are held in separate subsidiary companies so that for the most substantial part each company has one property and one loan on a non-recourse basis.



The Directors present their report and the audited financial statements for the year ended 31 December 1997. The Chairman's statement should be read in conjunction with this report.

### 1 Principal Activities

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

### 2 Review of Business

The consolidated profit and loss account for the year is set out on page 22. A review of activities, results for the year and prospects for the future are included within the Chairman's Statement, Property Review and Financial Review.

### 3 Dividends

The Directors recommend a final net dividend of 3.45 pence per share which, together with the net interim dividend paid on 28 November 1997 of 2.3 pence per share, will make a total net dividend for the year of 5.75 pence. As in previous years, shareholders will have the option of taking all or part of their dividend in shares in lieu of cash. However, as described in the Chairman's Statement, the Directors have decided to recommend an enhanced scrip dividend scheme to offer shareholders the alternative of taking shares rather than cash.

To this end two resolutions relating to the proposed scrip dividend issue will be proposed at this year's Annual General Meeting. Resolution 7 set out in the Notice of Meeting at pages 45 to 46 proposes a change in the Articles of Association of the Company to give to the Directors power to increase the number of shares which can be allotted in lieu of cash by an amount up to 25 per cent of the net cash dividend. It also shortens the period between the calculation of the number of scrip dividend shares to be allotted and the commencement of dealing in the new shares (thus reducing the risk of movement in the share price in the interim) by changing the method of calculating the value of the shares from the average of the middle market quotations on the five business days following the date upon which the dividend is announced to the average of the middle market quotations on the five business days following the date upon which the shares are first quoted ex dividend.

Resolution number 8 gives the Directors the necessary authority to effect the scrip dividend scheme both in respect of the final dividend for 1997 and any interim dividend for 1998.

### 4 Property Portfolio

A valuation of all the properties in the Group as at 31 December 1997 was carried out by Allsop & Co which produced an open market value of £374.4 million. On the basis of these valuations net assets per share amount to 160.3 pence. In view of the policy of revaluing properties annually, in the opinion of the Directors there was no significant difference between market and book values of the properties at 31 December 1997.

### 5 Directors

The Directors who served during the year are shown on the inside front cover. The composition of the Board remained unchanged throughout the year. Biographical details of the non-executive Directors are set out below.

Sir David Rowe-Ham (aged 62) was appointed to the Board as a non-executive Director on 11 May 1994. He is President of The Crown Agents Foundation, Chairman of Brewin Dolphin Holdings PLC and Coral Products PLC and a non-executive Director of Williams PLC and a number of other companies. He was formerly a consultant to Touche Ross & Co.

Mr Keith Harris (aged 44) was appointed to the Board as a non-executive Director on 28 April 1994. He is Chief Executive of the Investment Banking Division of HSBC Investment Bank PLC and prior to that of Samuel Montagu & Co. Ltd. He formerly held directorships in Morgan Grenfell & Co. Limited, Drexel Burnham Lambert Holdings Limited and Apax Partners & Co. Corporate Finance Limited. In accordance with the Articles of Association of the Company he retires by rotation and, being eligible, offers himself for re-election.

Mr Thomas Lundqvist (aged 53) joined the Board in November 1990 and had been Finance Director for the Group until stepping down from the position and becoming a non-executive Director on 1 October 1995. Prior to joining the Group, Mr Lundqvist worked for the Brown Boveri Group and from 1983 for the Svenska Finans International Group where he was a board member until moving to CLS in 1990.

Financial Statements '97 | 13

## Directors' Report ... for the year ended 31 December 1997

### 6 Directors' Interests

The interests of the Directors and their families in the shares of the Company (including shares held by family trusts) as at 1 January 1997 and 31 December 1997 were as follows:

	1 January 1997 Ordinary Shares of 25p	31 December 1997 Ordinary Shares of 25p
SA Mörstede	44,956,411	45,153,369
GV Hirsch	10,739	11,207
BF Mörstede	9,906,903	8,720,811
Sir David Rowe-Ham	20,000	20,000
KR Harris	10,000	10,000
HT Lundqvist	103,222	107,717

There have been no changes in the interests of the Directors or their families as set out above between 31 December 1997 and the date of this report. Details of options granted to the Directors are set out in paragraph 4 of the Remuneration Committee's Report on page 18.

### 7 Substantial Shareholdings

In addition to interests of the Mörstede family referred to in paragraph 6 of this report, the Company has been notified of or is aware of the following interests which at 24 March 1998 represented 3 per cent or more of the Company's issued share capital.

	No of Shares	%
Dresdner Investments (UK) plc (note (a))	20,927,625	18.52
PDFM Limited	8,762,072	7.76
AIB Govett	4,773,399	4.23
Foreign Et Colonial Management	3,980,304	3.52
Fidelity International Limited	3,970,492	3.51
Hermes Pension Management	3,625,337	3.21

(a) All non-beneficial interests, of which 20,340,585 shares are held as trustees for the Mörstede family and form part of the holdings disclosed in paragraph 6 of this report.

### 8 Charitable contributions

The contributions made by the Group during the year for charitable purposes were £650. (1996: £2,000).

### 9 Insurance of Directors

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

14 | Financial Statements '97

## Directors' Report ... for the year ended 31 December 1997

### 10 Corporate Governance

The Board supports the principles of corporate governance outlined in the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance and confirms that the company complies in all respects with its provisions.

#### Main Board

The Board comprises three executive and three non-executive Directors. It meets bi-monthly and is responsible to the shareholders of the company for the strategy and future development of the Group and the active management of its resources. An executive committee consisting of senior management meets regularly to discuss Group issues.

#### Audit Committee

The Audit Committee consists of the three non-executive Directors. The principal duties of the committee are to review the half yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors.

#### Remuneration Committee

The Remuneration Committee consists of two non-executive Directors and the executive chairman and is chaired by a non-executive Director. The Committee is responsible for determining the terms of service and remuneration of the executive Directors and the granting of options under the Company's executive share option scheme. The report of the Remuneration Committee is set out on pages 17 and 18.

#### Internal Financial Control

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

Following consideration and identification of the key business risks by the board, the Group has been structured into four main operational areas of property investment, property management, development and finance. Set out on pages 6 to 12 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks. Quarterly and annual budgets are prepared for each area and monitored at executive meetings. Parameters have been established for property investment decisions to be referred to the Board for approval. Three yearly cash-flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

### 11 Going Concern

The financial statements which appear on pages 22 to 41 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.

Financial Statements '97 | 15

## Directors' Report ... for the year ended 31 December 1997

### 12 Share Capital

Changes in share capital are shown in Note 21.

Three resolutions relating to share capital will be proposed at this year's Annual General Meeting. In relation to the Directors' authority to allot shares, resolution 5 set out in the Notice of Meeting, pages 45 and 46, authorises the Directors to allot all relevant securities in the authorised share capital of the Company which are unissued at the date of the meeting. Resolution 6 empowers the Directors to allot the unissued shares in three circumstances; to all members pro rata, pursuant to the Company's Executive Share Option Scheme or, otherwise, to a maximum nominal amount of £1,412,250.

The powers will replace similar powers given to the Directors at the Annual General Meeting held in May last year. They will be valid until the 1999 Annual General Meeting of the Company or until 12 August 1999, whichever shall be the earlier.

Resolution 9 gives authority to the Company to purchase up to 10 per cent of its ordinary shares and replaces a similar authority given at the 1997 Annual General Meeting. The Directors have not used and have no current intention of using this authority and it would only be exercised if they considered it to be in the best interest of the shareholders, taking into account the Company's cash resources, capital requirements and the effect of any purchase on earnings per share.

### 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.

### 14 Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board

T J Thomson  
Company Secretary  
27 March 1998

# Report of the Remuneration Committee

## 1 Remuneration Policy

The Remuneration Committee whose members are K R Harris, Sir David Rowe-Ham and S A Mörtstedt aim to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive Directors. The Remuneration Committee consults the executive Directors on its proposals relating to remuneration, and has access to professional advice inside and outside the company. The Board determines the remuneration of all non-executive Directors. The company has complied throughout the period with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the remuneration committee except for the membership of the Executive Chairman of the remuneration committee. Neither the Executive Chairman nor the non-executive Directors participate in discussions relating to their own remuneration. In determining policy the Committee has given full consideration to section B of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules.

## 2 Salaries

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

## 3 Director's Emoluments

The emoluments of the Directors of the Company for the years ending 31 December 1997 were as follows:

	1997 Fees as a Director £000	1997 Salary £000	1997 Bonus £000	1997 Benefits in kind £000	1997 Total £000	1996 Total £000
SA Mörtstedt (Executive Chairman)	-	115	25	3	143	119
GV Hirsch (Chief Executive)	-	185	35	3	223	185
BF Mörtstedt (Executive Director)	-	76	15	2	93	70
Sir David Rowe-Ham (Non-Executive Director)	25	-	-	-	25	25
K R Harris (Non-Executive Director)	20	-	-	-	20	20
H O T Lundqvist (Non-Executive Director)	15	-	-	-	15	20
	<b>60</b>	<b>376</b>	<b>75</b>	<b>8</b>	<b>519</b>	<b>439</b>
1996	65	343	23	8	439	-

SA Mörtstedt and GV Hirsch are also Directors of Citadel Holdings plc and each hold options for 115,000 shares in that company. Of the executive Directors remuneration, a total of £50,655 has been recharged to Citadel Holdings plc under the management agreement. During 1997 no Director received any pension contributions (1996: nil). No Director waived emoluments in respect of the year ended 31 December 1997. (1996: nil).

Financial Statements '97 | 17

# Report of the Remuneration Committee

## 4 Share Options

The Remuneration Committee approves all grants of options under the Company's 1994 Executive Share Option Scheme, an Inland Revenue Approved Scheme, whether to executive Directors or management. The basis of the granting of these share options is similar to salary reviews. The exercise of share options granted under the Scheme is conditional upon the satisfaction of performance criteria based on the growth of the net assets of the Company.

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

Share option scheme	No of Options at 1 January 1997	Lapsed during year	No of options at 31 December 1997	Exercise price per share	Exercisable date of options
GV Hirsch					
Inland Revenue approved Scheme	600,000	-	600,000	97p	13.06.98 - 13.06.2005
Non approved Scheme	400,000	-	400,000	97p	12.04.95 - 11.04.2002
	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>	<b>-</b>	

ii) During the year options were granted for ordinary shares to management as follows:

	Management Issued	Management Lapsed	Exercise price per share	Exercisable period of option
Inland Revenue approved Scheme	40,000	16,800	127.5-131	22.04.00 - 15.11.2007

The middle market price of the Company's shares at the end of the financial year was 133 pence, and the range of market prices during the year was between 112 pence and 137 pence.

No options were exercised during the year. At the year end a total of 1,758,000 options remained outstanding. No consideration has been paid for any of the options granted.

## 5 Service Agreements

The notice period applicable for termination of the executive directors' contracts is twelve months. Non-executive directors have letters of appointment which are renewed every six months. There is no provision in any service contract for compensation on termination exceeding one years salary. The Company's register of Directors interests, which is open for inspection at the registered office, contains full details of the Directors' shareholdings and share options.

On behalf of the Board

**Keith Harris**  
Chairman, Remuneration Committee

## Statement of Directors' Responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

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

By order of the Board

**T J Thomson**

*Company Secretary*

27 March 1998



# Report of the Auditors ... to the members of CLS Holdings plc

We have audited the financial statements on pages 22 to 41.

## *Respective responsibilities of Directors and Auditors*

As described on page 19 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## *Basis of opinion*

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

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

## *Opinion*

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

## **Coopers & Lybrand**

*Chartered Accountants and Registered Auditors*

*London*

27 March 1998

# Report of the Auditors to CLS Holdings plc ... on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement at paragraph 10 within the Directors' Report on page 15 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

## *Basis of opinion*

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group or company to continue in operational existence.

## *Opinion*

With respect to the Directors' statements on internal financial control and going concern on page 15, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statements on page 15 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

## **Coopers & Lybrand**

*Chartered Accountants*

*London*

27 March 1998

# Consolidated Profit & Loss Account ... for the year ended 31 December 1997

	Notes	1997 £000	1996 £000
Net rental income		30,535	30,408
Other property related income		1,796	1,303
	2	<b>32,331</b>	31,711
represented by:			
Continuing operations		32,117	30,329
Acquisitions		214	1,382
Administrative expenses	3	(2,728)	(2,694)
Net property expenses	3	(1,305)	(1,043)
		<b>(4,033)</b>	(3,737)
<b>Operating Profit</b>	3	<b>28,298</b>	27,974
represented by:			
Continuing operations		28,242	26,695
Acquisitions		56	1,279
Gains from sale of investment property		428	164
<b>Profit on Ordinary Activities Before Interest</b>		<b>28,726</b>	28,138
Interest receivable and financial income		1,017	592
Interest payable and related charges	4	(19,265)	(18,422)
<b>Profit on Ordinary Activities Before Taxation</b>	6	<b>10,478</b>	10,308
Tax on Profit on ordinary activities	8	(726)	(871)
<b>Profit For The Financial Year</b>	9	<b>9,752</b>	9,437
Dividends	10	(6,473)	(6,070)
<b>Retained Profit For The Year</b>	23	<b>3,279</b>	3,367
<b>Earnings per Share</b>	11	<b>8.7p</b>	8.7p

# Consolidated Balance Sheet ... at 31 December 1997

	Notes	1997 £000	1996 £000
<b>Fixed Assets</b>			
<i>Tangible assets</i>	12	373,719	364,965
<i>Investments</i>	13	4,294	41
		<b>378,013</b>	365,006
<b>Current Assets</b>			
<i>Stocks - trading properties</i>	14	1,385	365
<i>Debtors - amounts falling due after more than one year</i>	15	3,203	3,751
<i>Debtors - amounts falling due within one year</i>	15	4,349	4,180
<i>Investments</i>	16	211	202
<i>Cash at bank and in hand</i>		18,944	16,786
		<b>28,092</b>	25,284
<i>Creditors: amounts falling due within one year</i>	17	<b>(25,618)</b>	(27,686)
<b>Net Current Assets/(Liabilities)</b>		<b>2,474</b>	(2,402)
<b>Total Assets Less Current Liabilities</b>		<b>380,487</b>	362,604
<i>Creditors: amounts falling due after more than one year</i>	18	<b>(199,364)</b>	(207,213)
<b>Net Assets</b>		<b>181,123</b>	155,391
<b>Capital and Reserves</b>			
<i>Called up share capital</i>	21	28,245	27,649
<i>Share premium account</i>	23	46,098	43,603
<i>Revaluation reserve</i>	23	63,705	42,692
<i>Other reserves</i>	23	18,892	19,300
<i>Profit and loss account</i>	23	24,183	22,147
<b>Total Equity Shareholders' Funds</b>		<b>181,123</b>	155,391

The financial statements on page 22 to 41 were approved by the Board of Directors on 27 March 1998 and were signed on its behalf by:

**Mr S A Mörtstedt**

Director

**Mr G V Hirsch**

Director

# Consolidated Cash Flow Statement ... for the year ended 31 December 1997

	Notes	1997 £000	1996 £000
<b>Net cash inflow from operating activities</b>	24	<b>28,294</b>	27,540
<b>Returns on investments and servicing of finance</b>			
<i>Interest received</i>		976	504
<i>Interest paid</i>		(18,848)	(16,576)
<i>Interest rate caps purchased</i>		(281)	(686)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(18,153)</b>	(16,758)
<b>Taxation paid</b>		<b>(893)</b>	(695)
<b>Capital expenditure</b>			
<i>Purchase and enhancement of properties</i>		(2,242)	(19,568)
<i>Sale of investment properties</i>		11,730	164
<i>Disposal of other fixed assets</i>		-	21
<i>Purchase of other fixed assets</i>		(4,362)	(88)
<b>Net cash inflow/(outflow) from capital expenditure</b>		<b>5,126</b>	(19,471)
<b>Equity dividends paid</b>		<b>(3,128)</b>	(3,173)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>		<b>11,246</b>	(12,557)
<b>Management of liquid resources</b>			
<i>Cash released/(placed) on short term deposits</i>		596	(7,179)
<i>Current asset investments</i>		(9)	(202)
<b>Net cash inflow/(outflow) from the management of liquid resources</b>		<b>587</b>	(7,381)
<b>Financing</b>			
<i>Expenses paid in connection with share issue</i>		(6)	(11)
<i>New loans</i>		21,968	49,363
<i>Repayment of loans</i>		(30,049)	(31,753)
<b>Net cash (outflow)/inflow from financing</b>		<b>(8,087)</b>	17,599
<b>Increase/(decrease) in cash</b>		<b>3,746</b>	(2,339)

# Statement of Total Recognised Gains & Losses ... for the year ended 31 December 1997

	<i>1997</i> <b>£000</b>	<i>1996</i> <b>£000</b>
<i>Profit for the financial year</i>	<b>9,752</b>	9,437
<i>Unrealised surplus on revaluation of properties</i>	<b>18,770</b>	9,675
<i>Realised surplus on revaluation of properties</i>	<b>1,000</b>	-
<i>Currency translation differences on foreign currency net investments</i>	<b>(408)</b>	(651)
<i>Other recognised gains relating to the year</i>	<b>19,362</b>	9,024
<i>Total gains and losses recognised since last annual report</i>	<b>29,114</b>	18,461

There is no material difference between the profit before taxation and the retained profit for the year as disclosed on page 22 and their historical cost equivalents.

## Reconciliation of Movements in Shareholders' Funds

... for the year ended 31 December 1997

	<i>1997</i> <b>£000</b>	<i>1996</i> <b>£000</b>
<i>Profit for the financial year</i>	<b>9,752</b>	9,437
<i>Dividends</i>	<b>(6,473)</b>	(6,070)
<i>Other recognised gains relating to the year</i>	<b>3,279</b>	3,367
<i>New share capital issued</i>	<b>3,097</b>	5,235
<i>Expenses of share issue</i>	<b>(6)</b>	(11)
<i>Net additions to shareholders' funds</i>	<b>25,732</b>	17,615
<i>Opening shareholders' funds</i>	<b>155,391</b>	137,776
<i>Closing shareholders' funds</i>	<b>181,123</b>	155,391

# Company Balance Sheet ... at 31 December 1997

	<i>Notes</i>	<b>1997 £000</b>	<b>1996 £000</b>
<b>Fixed Assets</b>			
<i>Investments</i>	13	<b>21,720</b>	17,720
<b>Current Assets</b>			
<i>Debtors – amounts falling due within one year</i>	15	<b>79,065</b>	80,952
<i>Cash at bank and in hand</i>		<b>7,367</b>	7,911
<hr/>			
<b>Creditors: amounts falling due within one year</b>	17	<b>86,432</b>	88,863
		<b>(16,716)</b>	(14,533)
<b>Net Current Assets</b>		<b>69,716</b>	74,330
<hr/>			
<b>Total Assets Less Current Liabilities</b>		<b>91,436</b>	92,050
<hr/>			
<b>Net Assets</b>		<b>91,436</b>	92,050
<hr/>			
<b>Capital and Reserves</b>			
<i>Called up share capital</i>	21	<b>28,245</b>	27,649
<i>Share premium account</i>	23	<b>46,098</b>	43,603
<i>Other reserves</i>	23	<b>4,599</b>	4,599
<i>Profit and loss account</i>	23	<b>12,494</b>	16,199
<b>Total Equity Shareholders's Funds</b>		<b>91,436</b>	92,050

The financial statements on page 22 to 41 were approved by the Board of Directors on 27 March 1998 and were signed on its behalf by:

**Mr S A Mörtstedt**

*Director*

**Mr G V Hirsch**

*Director*