



CLS Holdings plc
Annual Report & Accounts

2007

→ QUALITY IN EVERYTHING WE DO...





INVESTORS IN EUROPEAN COMM

- CLS IS A COMMERCIAL PROPERTY INVESTMENT COMPANY THAT HAS BEEN LISTED ON THE LONDON STOCK EXCHANGE SINCE 1994.
- WE OWN AND MANAGE A DIVERSE PORTFOLIO IN EXCESS OF £1.1 BILLION OF MODERN, WELL-LET OFFICE AND COMMERCIAL PROPERTIES IN THE UK, FRANCE, GERMANY AND SWEDEN.
- OUR PROPERTIES HAVE BEEN SELECTED FOR THEIR POTENTIAL TO ADD VALUE AND GENERATE HIGH RETURNS ON CAPITAL INVESTMENT.



ERCIAL PROPERTY

We aim to achieve this by continuing to:

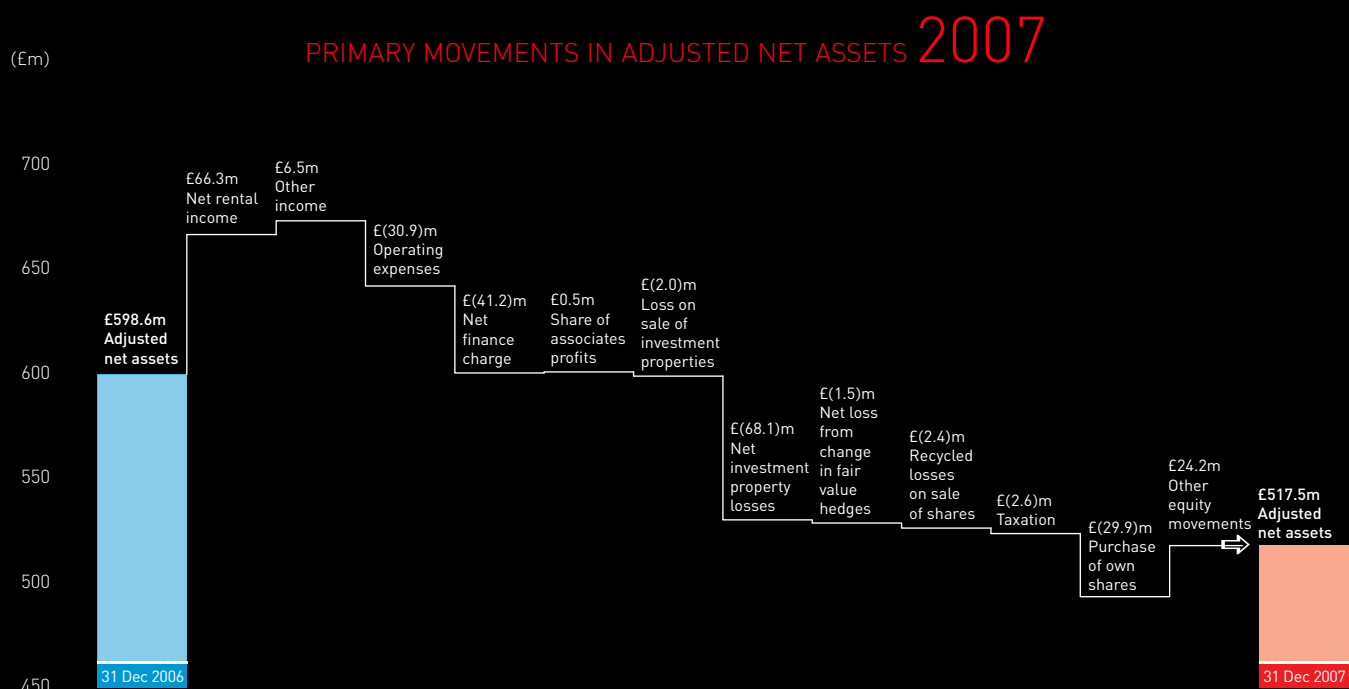
- Purchase modern, high quality, well-let office properties in good locations in selected European Cities
- Use our in-house development teams to refurbish or redevelop appropriate properties
- Focus on minimising vacant space within the portfolio
- Provide our tenants with high quality accommodation at competitive rates
- Develop long-term relationships with our tenants
- Maintain strong links with a wide variety of banks and other sources of finance
- Respond quickly to new opportunities
- Carefully assess and manage our business risks

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FINANCIAL HIGHLIGHTS

- **Adjusted Net Asset Value per share*** 764.2 pence, down by 7.3 per cent from 824.4 pence at 31 December 2006 (Statutory NAV per share 595.1 pence, down 3.6 per cent from 617.3 pence at 31 December 2006).
- **Adjusted net assets compared to market capitalisation*** £517.6 million compared to market capitalisation of £224.4 million as at 26 March 2007, a discount of 56.7 per cent. (Statutory NAV including deferred tax provision, £403.1 million).
- **Property portfolio (including Joint ventures)** valued at £1.175 billion, up 2.8 per cent from £1.143 billion at December 2006 (including purchases of £29.0 million, refurbishments of £23.1 million, revaluation loss of £67.3 million and foreign exchange gain of £47.0 million).
- **Net rental income** £66.3 million, up 1.2 per cent from £65.5 million for year to 31 December 2006.
- **Year end cash** £122 million (December 2006: £157.6 million).
- **Loss before tax** £72.6 million, (December 2006: profit £176.6 million).
- **Loss after tax attributable to equity shareholders** £32.5 million (December 2006: profit £153.8 million).
- **2008:** Sale of interest in London Bridge Quarter for £30 million on 9 January 2008.

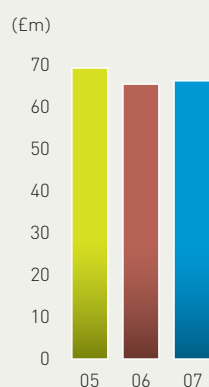
*see glossary of terms on page 100



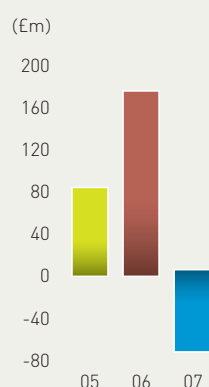
RESULTS AT A GLANCE

	31 Dec 07 £m	31 Dec 06 £m	Up/(Down) %
INCOME STATEMENT (non-statutory format)			
Net rental Income	66.3	65.5	1.2%
Other operating income and associate company results*	7.1	6.0	18.3%
(Losses)/gains on sale of investment properties/subsidiaries/associates	(2.0)	1.0	(300.0%)
Overhead and property Expenses	(30.9)	(21.0)	47.1%
Operating profit (excluding gains/losses on investment properties)	40.5	51.5	(21.4%)
Net finance cost	(41.2)	(37.0)	11.4%
Underlying (loss)/profit (excluding gains/losses on investment properties)	(0.7)	14.5	(104.8%)
Fair value (losses)/gains investment properties	(68.1)	162.1	(142.0%)
Other fair value losses on financial instruments	(1.5)	–	–
Loss provisions on share sales (transferred from other reserves)	(2.3)	–	–
(Loss)/profit before tax	(72.6)	176.6	(141.1%)
Tax – current	(2.6)	(1.2)	116.7%
Tax – deferred	42.3	(19.1)	(321.5%)
Discontinued operations	–	(2.5)	(100.0%)
(Loss)/profit for the year	(32.9)	153.8	(121.4%)
Minority interest	0.4	–	–
(Loss)/profit for the year attributable to equity holders	(32.5)	153.8	(121.1%)
Adjusted earnings per share*	(9.6)p	17.0p	
(Loss)/earnings per share	(45.8)p	196.7p	
Interest Cover (times)	1.3	1.8	

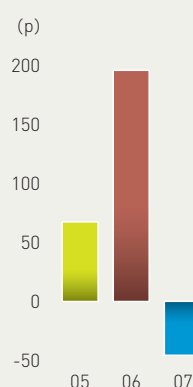
NET RENTAL INCOME



PROFIT/(LOSS) BEFORE TAX



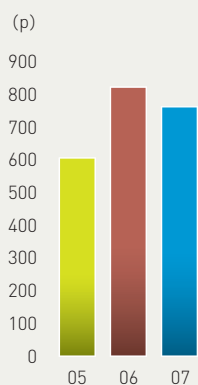
EARNINGS PER SHARE



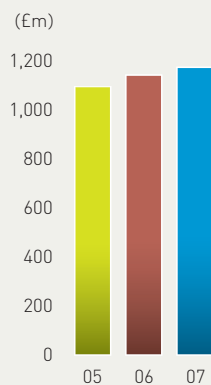
	31 Dec 07 £m	31 Dec 06 £m	Up/(Down) %
BALANCE SHEET			
Property portfolio	1,175.3	1,143.5	2.8%
Borrowings	(798.7)	(683.8)	16.8%
Cash	122.0	157.6	(22.6%)
Other	(95.5)	(169.2)	(43.6%)
Net asset value	403.1	448.1	(10.0%)
Share capital	18.7	20.0	(6.5%)
Reserves	384.4	428.1	(10.2%)
Shareholders' funds	403.1	448.1	(10.0%)
Adjusted NAV per share *	764.2p	824.4p	(7.3%)
Statutory NAV per share *	595.1p	617.3p	(3.6%)
Distribution per share from tender offer buy-backs	31.5p	69.9p	(55.0%)
Adjusted gearing *	131.7%	88.9%	42.8%
Statutory gearing *	169.1%	118.7%	50.4%
Adjusted solidity *	37.5%	44.3%	(6.8%)
Statutory solidity *	29.1%	33.1%	(4.0%)
Shares in issue (000's) – excluding treasury shares	67,740	72,605	(6.7%)
Adjusted net assets *	517.6m	598.6m	(13.5%)
Statutory net assets*	403.1m	448.1m	(10.0%)

*see glossary of terms on page 100

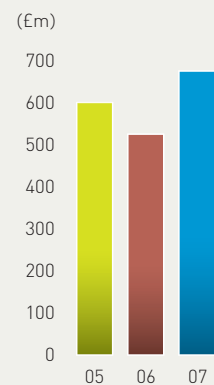
ADJUSTED NET ASSET VALUE PER SHARE



PORTFOLIO VALUATION



NET DEBT





BUSINESS HIGHLIGHTS

PROPERTY ACQUISITIONS

- **In Germany**, the Rathaus Centre which is predominantly an office property in Bochum was purchased at a cost of £12.8 million. Fangdickstrasse, an office property in Hamburg was acquired for £11.2 million and Suederhastedt a property let as a nursing home was purchased at a cost of £1.4 million.
- **In France**, a 2573 sq m office property situated in Neuilly Plaisance, Paris was purchased for £3.7 million.

PROPERTY DISPOSALS

- **No disposals were completed during 2007** but several sales have either settled or are in the pipeline in the first half of 2008 including sale of the London Bridge Quarter incorporating the Shard.

PROPERTY DEVELOPMENT

- **There was development expenditure of £11.9 million** relating to London Bridge Quarter incorporating the Shard.
- **Refurbishment works costing £5 million continued at Spring Gardens**, Vauxhall with two remaining infill blocks successfully completed adding 2,448 sq m of new offices to the estate which is now fully let.
- **The completion of refurbishment works at Great West House**, Brentford successfully attracted new tenants British Sky Broadcasting and Global Refund Limited.
- **£1.2 million was spent on refurbishment** at Cambridge House, Hammersmith leading to new lettings.
- **The Forum Building in Lyon benefited from a full renovation** at a cost of £1.1 million including a brand new air-conditioning system.



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BUSINESS ACQUISITIONS & INVESTMENTS

- **The Group acquired a 29.1% stake in Catena AB**, a listed Swedish property company at a cost of £27.9 million.
- **The Group also increased its stake in Bulgarian Land Development plc** from 17% to 28.7% at a cost of £7.2 million.
- **Equity investments including Keronite and Amino Holdings plc were disposed of** during the year for proceeds of £7 million and a small current year loss of £0.3 million.



CHAIRMAN'S STATEMENT

SINCE THE TURN OF THE MILLENNIUM WE HAVE BENEFITED FROM A STRONG INVESTMENT MARKET, HISTORICALLY LOW INTEREST RATES, EASILY ACCESSIBLE LOAN CAPITAL AND STRONG DEMAND FOR PROPERTY ASSETS.



Conoco House, London



CLS Holdings plc

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INTRODUCTION

Since the turn of the millennium we have benefited from a strong investment market, historically low interest rates, easily accessible loan capital and strong demand for property assets. The second half of 2007 was a very different story and the trigger, was the crisis in the US sub-prime lending market. The initial impact was a paralysis in the lending environment, the effective closure of the securitisation market and a marked increase in the cost of borrowing.

As a result there has been a significant fall in commercial real estate values, a number of large investment transactions founded and we have entered a period where many investors are watching and waiting for values to stabilise.

The effect of this on CLS has been twofold. Firstly, the property values in our core (non-joint venture) portfolio have fallen by £29.7 million or 2.9 per cent since 31 December 2006. Secondly, in early January 2008, further to difficulties in obtaining development finance, we completed the sale of our interest in the London Bridge Quarter ('LBQ') project which crystallised the fall in value of our interest in its net assets by £38.4 million. Both of these devaluations were fully reflected in the results for the year ended 31 December 2007.

The reduction in property values at the year end caused cash calls or deposits to be made in respect of some UK loans although these did not exceed £10 million.

The outcome has resulted in a reduction in our adjusted net asset value per share from 824.4 pence at 31 December 2006 to 764.2 pence per share at 31 December 2007, a fall of 60.2 pence or 7.3 per cent.

BUSINESS REVIEW 2007

In common with most other UK quoted commercial property investors, our shares fell significantly since the beginning of the year, from 740 pence per share to 331.25 pence currently, a reduction of 55 per cent. However, unlike many of our contemporaries, we not only hold assets in the UK but we are a pan European investor, with substantial assets in France, Germany and Sweden whose markets at any rate have not as yet, been as badly affected as the UK.

The Group's position is set out below:

- Income stream of £71.4 million per annum.
- Average lease lengths of 7.7 years.
- 34 per cent of rent generated from lettings to government.
- Overall vacancy rate of 4.3 per cent.
- Cash balances of £122.0 million.

- Loans are borrowed from over twenty high quality banking institutions.
- The bulk of CLS' assets consist of smaller and medium sized office properties. The lending market in that area is more active than that for larger properties, although it has been noted that some banks are not taking business with new customers with whom they have no track record.
- The Group has borrowings of £798.7 million of which 63 per cent are fixed and 37 per cent are floating rates. Our fixed rate borrowings (including margin) cost on average 6.18 per cent p.a. and variable rate borrowing costs 5.84 per cent p.a. All of our net variable rate borrowings are capped at an average rate of 4.8 per cent, excluding margin.
- Loans are secured on the properties to which they relate, are non-recourse and there is minimal cross collateralisation within the portfolio.

UK – Last year, the UK market fell into two distinct periods. The first six months saw high levels of demand for investment opportunities which slowed considerably following the collapse in the US sub-prime market in the second half of the year. Yields moved out due to the lack of demand as a result of inability to secure investment finance. The Investment Property Databank (IPD) reported a fall of 8.7 per cent in the final quarter of the year, the largest quarterly fall since records began and a reduction of 4.4 per cent for the year as a whole. The volatility has continued into the New Year although borrowing restrictions have eased somewhat, particularly for transactions under £30 million.

The lending crisis had a significant impact on the proposed development at London Bridge Quarter. The joint venture companies were very close to securing full development funding when the crisis broke. This effectively closed opportunities to fund development of the project. We therefore entered negotiations to sell our one third interest in the project to a substantial investing consortium. Despite the volatile market we completed the corporate sale on 9 January 2008 at the agreed value for our share of £30 million.

Contrary to the state of the investment market, occupational demand has remained strong during the entire year and in fact the vacant space in the UK portfolio reduced from 7.6 per cent at 31 December 2006 to 5.8 per cent at 31 December 2007.

In addition, our intensive asset management of the portfolio has resulted in the extension of a number of leases to December 2016, including three Capgemini leases at Hoskyns House, Vauxhall.

Three UK properties, Spring Gardens, Vauxhall; New Printing House Square; Grays Inn Road and Brent House, Wembley are in the main, let to government tenants with total value of

CHAIRMAN'S STATEMENT (continued)

£217.2 million almost 36.3 per cent of the UK portfolio. The leases at Spring Gardens expire in 2026 and approximately half are index linked; the leases at New Printing House Square expire in 2025. The yield on these properties is currently approximately 6.0 per cent, with a loan to value ratio of 71.0 per cent.

FRANCE – The French division remains very profitable, comprising 40 properties valued at just less than £355.3 million which are mainly located in Paris. The value of the French portfolio remained stable during 2007, with a small uplift of £1.1 million and is valued on an average yield of 6.6 per cent with a loan to value ratio of 60 per cent.

The vacant space has remained low, at 4.0 per cent and rents are subject to indexation based on the cost of building index. The index has increased by 6.7 per cent during the year.

GERMANY – As in France, our German portfolio benefits from indexation of rents, although in general this works on a cumulative basis until a threshold is broken at which point the uplift in rent is recognised. During the year the index increased by 3.3 per cent.

The current vacant space in Germany, reduced from 8.9 per cent at June 2007 to 2.4 per cent, following the letting of our property in Bochum. The 25,115 sq m building had been purchased in March 2007 in which over 42 per cent of the space had been vacant for a number of years. Our pro-active management approach has resulted in all of this space being let on a 30 year index linked lease to the local government. Before the income can be recognised, refurbishment works are required, which are budgeted at an all in cost of £14 million.

SWEDEN – Following the sale of the Solna Business Park last year at a yield to the purchaser of just under 6 per cent, the Swedish property assets are now only represented by Vanerparken, 45,206 sq m of offices, health care and educational facilities. Negotiations are at an advanced stage with the local authority, to take up the majority of the 11,700 sq m being vacated by the university in September 2008. The portfolio is valued at £49.6 million, on a yield of 8.6 per cent.

During the year the Swedish division also acquired 29.1 per cent of Catena AB ('Catena') at a cost of £ 27.9 million. Due to the size of our holding and representation on the Board, we have treated the company as an associate. Catena is a Nordic real estate group, quoted on the Stockholm stock exchange. It owns 30 properties valued at £193.8 million located throughout Sweden, Denmark and Norway. Catena's main tenant is Bilia, a leading Scandinavian car sales and service company.

EQUITY INVESTMENTS – During the year we sold a large proportion of the UK equity investment portfolio for proceeds of £7.0 million, including our investments in Keronite and Amino Holdings plc. The net loss to the Group of the sale of shares in 2007, over and above provisions previously made was £0.3 million. Additionally, mark to market provisions of £2.4 million, made in previous years against other reserves, have been recycled through the face of the income statement now that our interest in these assets has been sold.

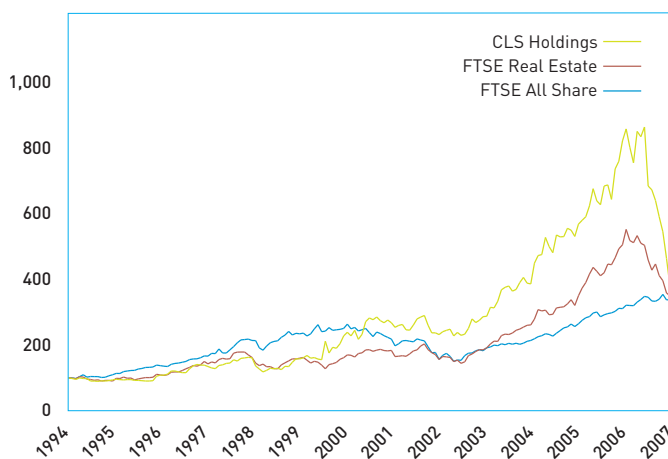
During the year the Group increased its stake in Bulgarian Land Development plc ('BLD') from 17 per cent to 28.7 per cent, at a cost of £7.2 million. BLD owns a number of sites, both on the Black Sea Coast and in Sofia, intended for residential development, the first of which is a coastal resort complex of 202 villas and apartments near Varna due to be completed in mid 2008. To date 127 units (60 per cent) have been secured as forward sales. Due to the size of the holding and the significant influence exerted through Board representation, the company has been treated as an associate company investment with a carrying value of £11.6 million.

Total return to shareholders

The group consistently outperformed both the FTSE all share and FTSE real estate indices, however in June 2007 share prices fell in anticipation of the downturn in the commercial property market which occurred in the second half of 2007. Since that time these indices have converged. The graph below, independently sourced by DataStream, includes conventional dividend payments but excludes the positive impact to CLS shareholders of capital distributions by CLS through tender offer buy-backs.

Total shareholder return

Since CLS' introduction to the stock exchange



Source: DataStream



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Distributions

During 2007 we distributed £22.6 million to shareholders by way of tender offer buy-backs of 3.3 million shares, equating to 31.5 pence per share.

Purchase of own shares

1.6 million of own shares were bought back from the market for cancellation at an average cost of 451 pence compared to a closing adjusted NAV per share of 764.2 pence.

THE FUTURE

During 2008 we intend to focus all of our energy and creativity on our core property operations. During the first half of 2008 it is our intention to sell some selected properties in the UK, France and Germany with a view to generating cash for potential purchasing opportunities in the future. Other primary objectives of the divisions are set out below:

- In the UK we are working hard to add value through the development of sites we currently own and will concentrate on achieving their full design potential in the coming year
- The French division will focus on maintaining its strong revenue and profit flows from lettings and to minimise vacancies.
- Our German division will focus its attention on the efficient development of Bochum, to programme and to budget and will continue to work closely with our tenants and property managers to optimise lettings.

Proposed restructuring

The Board is considering a number of options to restructure the Group in order to release distributable reserves for future distributions, align the structure to the Group's pan-European operational focus and to enable the Group to compete more effectively with other UK property investors enjoying REIT status.

As a part of this process, consideration is being given to the possibility of migrating to another established European location, in which case it is likely that the Company would re-list, either in London or another mainstream European stock market.

It may take several months before a firm proposal has been established, at which point a proposition will be formally put to shareholders.

It is not proposed to make a distribution until the restructuring of the Group has been undertaken and the appropriate distributable reserves have been realised.

CONCLUSION

2007 has been a tough year, however, despite this we have accomplished a number of difficult objectives. We do not anticipate life will become much easier during 2008, and it is possible property values and consequently our NAV will further reduce during the course of this year. We are however well placed to achieve our clearly defined goals for the year and to take advantage of opportunities as they arise.

This has also not been an easy year for our staff and I would like to thank them for their dedication, hard work, loyalty and enthusiasm during this period.

Property investment is a long-term, co-operative activity and I would therefore also like to thank our shareholders, our bankers and our tenants, for their continued involvement and support.

This is my last report as Chairman of CLS Holdings plc as Anders Böös has agreed to take over this position with effect from our next AGM in May 2008. I will continue as Vice Chairman. Tom Thomson will step down from this post but will remain on the Board as a non-executive director.

Sten Mortstedt

Executive Chairman

27 March 2008



FINANCIAL REVIEW

INTRODUCTION

Due to a significant downturn in commercial property market in the second half of 2007, the Group has sustained a loss before taxation of £72.6 million for the year (31 December 2006: profit of £176.6million). Adjusted net assets reduced from £598.6 million at 31 December 2006 to £517.6 million, a reduction of £81.0 million or 13.5 per cent (net assets from £448.1 million to £403.1 million).

LOSS BEFORE TAX – The loss before tax of £72.6 million was principally caused by a reduction in the valuation of the Group's property assets. The valuation of our wholly owned property assets reduced by £29.7 million and, the value of our one third share of Southwark Towers (The Shard site) and New London Bridge House comprising LBQ fell by £38.4 million during the year. The sale of our interest in LBQ exchanged and completed on 9 January 2008.

TAX – The charge for current tax was £2.6 million, mainly incurred in respect of the French and Swedish divisions. The credit to deferred tax of £42.3 million reflected a reduction in property values and a revision of the method of calculation in June 2007. The revision included an indexation allowance within the UK computation which resulted in a credit of £31.4 million.

NET ASSETS – Adjusted NAV of 764.2 pence per share (December 2006: 824.4 pence), reduced by 60.2 pence per share or 7.3 per cent during 2007 (Statutory NAV of 595.1 pence per share reduced by 22.2 pence per share or 3.6 per cent over the same period).

GEARING AND INTEREST COVER

Adjusted gearing at the year end was 131.7 per cent (December 2006: 88.9 per cent) (statutory gearing was 169.1 per cent – December 2006: 118.7 per cent).

Had the sale of LBQ on 9 January 2008 taken place just prior to the year end, the effect would have been to decrease adjusted gearing to 113.1 per cent and statutory gearing to 145.2 per cent at the date.

Recurring net interest payments and financial charges (excluding LBQ) were covered by operating profit (excluding fair value adjustments) by 1.3 times (2006: 1.8 times).

DISTRIBUTIONS – During the year the Company distributed £22.6 million to shareholders by way of tender offer buy-backs (31.5 pence per share). This compares to distributions of £52.5 million for the year to 31 December 2006 (66.9 pence per share) including a special distribution subsequent to the sale of Solna Business Park. The number of shares purchased through the two tender offer buy-backs amounted to 3.3 million shares representing 4.6 per cent of shares in issue on 1 January 2007.

CASH – The Group held £122.0 million cash as at 31 December 2007 (December 2006: £157.6 million).

REVIEW OF THE INCOME STATEMENT

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

	2007 Total £m	LBQ £m	UK £m	France £m	Germany £m	Sweden £m	Lunar- works £m	Equity Invest- ments £m	2006 £m
Net rental income	66.3	2.0	28.6	22.2	9.5	4.0	–	–	65.5
Other income (incl associates)	7.1	–	1.0	0.1	–	0.6	5.7	(0.3)	6.0
	73.4	2.0	29.6	22.3	9.5	4.6	5.7	(0.3)	71.5
Operating expenses	(30.9)	(8.8)	(5.1)	(3.7)	(3.2)	(2.0)	(6.5)	(1.6)	(21.0)
Net finance expense	(41.2)	(5.5)	(23.2)	(3.4)	(8.6)	1.2	0.1	(1.8)	(37.0)
Loss on sale of investment properties	–	–	–	–	–	–	–	–	(1.0)
(Loss)/gain on sale of subsidiaries/ associates	(2.0)	–	–	–	–	(2.0)	–	–	1.9
Underlying (loss)/profit	(0.7)	(12.3)	1.3	15.2	(2.3)	1.8	(0.7)	(3.7)	14.4
Fair value (losses)/gains on investment properties	(68.1)	(38.4)	(24.6)	1.1	(3.9)	(2.3)	–	–	162.1
Other fair value (losses)/gains	(1.5)	–	(2.0)	0.4	0.1	–	–	–	0.1
Loss provisions on share sales (transferred from other reserves)	(2.3)	–	–	–	–	–	–	(2.3)	–
(Loss)/profit before tax	(72.6)	(50.7)	(25.3)	16.7	(6.1)	(0.5)	(0.7)	(6.0)	176.6
Tax – current	(2.6)	0.2	(0.1)	(1.5)	(0.1)	(0.9)	(0.2)	–	(1.2)
Tax – deferred	42.3	6.2	41.3	(6.5)	1.1	0.2	–	–	(19.1)
Loss on discontinued operations	–	–	–	–	–	–	–	–	(2.5)
(Loss)/profit before minority interest	(32.9)	(44.3)	15.9	8.7	(5.1)	(1.2)	(0.9)	(6.0)	153.8
Minority interest	0.4	–	–	–	–	–	0.1	0.3	–
(Loss)/profit for the year attributable to equity holders	(32.5)	(44.3)	15.9	8.7	(5.1)	(1.2)	(0.8)	(5.7)	153.8

NET RENTAL INCOME – of £66.3 million increased by 1.2 per cent (December 2006: £65.5 million) primarily due to increased rentals of £1.0 million in the UK principally at Spring Gardens, Great West House and One Leicester Square. French rentals increased by £1.9 million reflecting increased indexation, higher occupation and property acquisitions. German acquisitions in 2006 resulted in additional rent of £4.9 million in 2007. These increases were offset by reduced rental in Sweden of £7 million principally due to the sale of Solna Business Park, Stockholm in August 2006.

OTHER INCOME – amounted to £7.1 million (December 2006: £6 million) and included a £5.7 million contribution to profit from Lunarworks, a contribution of £0.6 million from our associate, Catena and a loss of £0.1 million from our associate BLD. A net loss of £0.3 million arose on the disposal of shares in respect of the disposal of the majority of our UK share portfolio and Swedish financial institutions. Property management fees amounted to £0.6 million.

OPERATING EXPENSES – Operating expenses set out in the financial results table above, comprised administrative expenditure of £27.7 million (December 2006: £17.5 million) and net property expenses of £3.2 million (December 2006: £3.5 million)

ADMINISTRATIVE EXPENDITURE – amounted to £27.7 million (December 2006: £17.5 million):

	2007 £m	2006 £m	Difference £m
Core property group	12.5	11.8	0.7
LBQ	8.7	1.4	7.3
Lunarworks	6.5	4.3	2.2
Total	27.7	17.5	10.2

LBQ overhead costs incurred during the year were £8.7 million as a result of the increased activity in developing and preparing the project for sale. Main items of expenditure were legal fees and related costs amounting to £5.4 million and management costs of £1.7 million. Goodwill of £1.3 million relating to the project was written off during the year.

Lunarworks expenditure of £6.5 million was included for a full year in 2007 compared to 8 months in the previous year.

FINANCIAL REVIEW (continued)

NET PROPERTY EXPENSES – of £3.2 million (December 2006: £3.5 million) included advertising and marketing costs of £0.1 million, legal, letting and other fees of £0.7 million and void costs of £0.4 million (mainly at Great West House, Brentford, and Vista Centre, Hounslow). Repair and maintenance costs were £0.4 million, depreciation amounted to £ 0.2 million and bad debts were £0.4 million.

NET FINANCE EXPENSES – amounted to £41.2 million (December 2006: £31.6 million – excluding exceptional interest of £5.4 million)

Finance costs of £47.8 million increased by £7.9 million compared to the previous year of £39.9 million.

During the latter part of 2007, short-term money markets rates on which our floating borrowing rates are based, increased significantly:

- Average GBP 3 months Libor for 2006 was 4.9% and 6.2% in 2007.
- Average EUR 3 Months Euribor for 2006 was 3.1% and 4.25% for 2007.
- Average SEK 3 Months STIBOR was 2.6% in 2006 and 4.1% in 2007.

Based on the gross floating rate debt outstanding at the beginning of the year of £277.3 million the assessed impact of the above interest rate increases is £3.3 million.

Other significant factors influencing the increase in finance costs were:

UK

- The refinancing of Spring Gardens accounted for an increase of £0.8 million in interest expense.
- Refinancings in late 2006 and 2007 contributed to increased interest of £0.3 million in relation to Cambridge House and Ingram House, £0.3 million at Chancel House and £0.1 million for Dukes Road.
- Write off of arrangement fees £0.4 million.

LBQ

- Our share of interest relating to the development loan at LBQ amounted to £5.6 million, showing an increase over the previous year of £2.6 million due to increased development financing and £0.4 million in write off of arrangement fees.

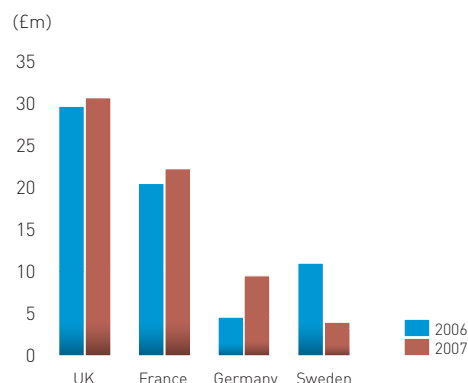
Germany

- Increased loans due to financing the expanded portfolio for a full year in 2007, was the main contributing factor to the additional interest payable of £3.1 million.

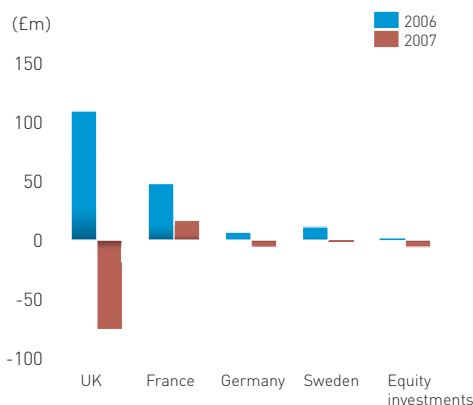
Sweden

- Interest payable reduced by £3.4 million, principally due to the sale of Solna Business Park in August 2006.

NET RENTAL INCOME



PROFIT/(LOSS) BEFORE TAX



Interest receivable of £6.6 million was earned from average cash reserves held by the Group during the year of £140 million.

Exceptional interest expense There was no exceptional interest in the year, in 2006 there were break costs in respect of financings at Solna Business Park of £2.7 million and LBQ of £2.7 million.

Analysis of net finance expense*

	2007 £m	2006 £m	Difference £m
Interest receivable	5.9	5.1	0.8
Foreign exchange	0.7	3.2	(2.5)
Interest receivable and similar income	6.6	8.3	(1.7)
Interest payable and similar charges	(47.8)	(39.9)	(7.9)
Exceptional interest expense	–	(5.4)	5.4
Net finance expense*	(41.2)	(37.0)	(4.2)

*Before fair value movement in interest rate hedging instruments.

The average cost of borrowing for the Group at 31 December 2007, is set out below:

	UK	France	Germany	Sweden	Total
December 2007					
Average interest rate on fixed rate debt	6.8%	4.6%	5.1%	5.4%	6.2%
Average interest rate on variable rate debt	7.2%	5.4%	5.5%	5.7%	5.8%
Overall weighted average interest rate	7.0%	5.2%	5.2%	5.6%	6.1%
December 2006					
Average interest rate on fixed rate debt	7.3%	4.6%	5.0%	5.5%	6.4%
Average interest rate on variable rate debt	6.4%	4.3%	4.5%	3.9%	5.1%
Overall weighted average interest rate	7.0%	4.4%	4.8%	5.4%	5.9%

Financial hedging instruments

The adverse impact of fair value movements in interest rate hedging instruments was £1.5 million.

LOSS ON SALE OF SUBSIDIARIES AND ASSOCIATES

The expenditure of £ 2 million related to the discharge of obligations in respect of the sale of Solna in 2006.

TAXATION

Current tax – In 2007 the Group's current taxation charge has benefited from the utilisation of losses and significant capital allowances and amortisation deductions. Outside the UK these factors will have less effect in the future as corporation tax losses are used against expected profits and as amortisation deductions decrease in existing subsidiaries. In the UK, losses being carried forward are expected to be available to offset income profits for 2008.

Deferred tax – The results of the Group include full provision for deferred taxation relating to potential gains on the sale of property at current valuation, as required by IAS 12. The amount provided represents the maximum potential tax liability on gains from property disposals.

The method of calculation for the estimate of deferred tax has been revised to include the effect of indexation allowance available if a property in the UK was to be sold. The change in estimate has resulted in a credit to the income statement in the period of £31.4 million.

For the year ended 31 December 2007 the IAS 12 deferred tax credit included in the profit and loss account was £42.3 million and the provision for deferred tax reduced net assets by £114.6 million (31 December 2006: charge to tax of £19.1 million and reduction in net assets of £150.4 million respectively).

We consider it is unlikely that this full liability will crystallise because it takes no account of the way in which the Group would realise these gains. In particular the deferred tax provision takes no account of the way in which properties are expected to be sold or of elections available to ensure that deductions claimed previously for capital allowances are not reversed.

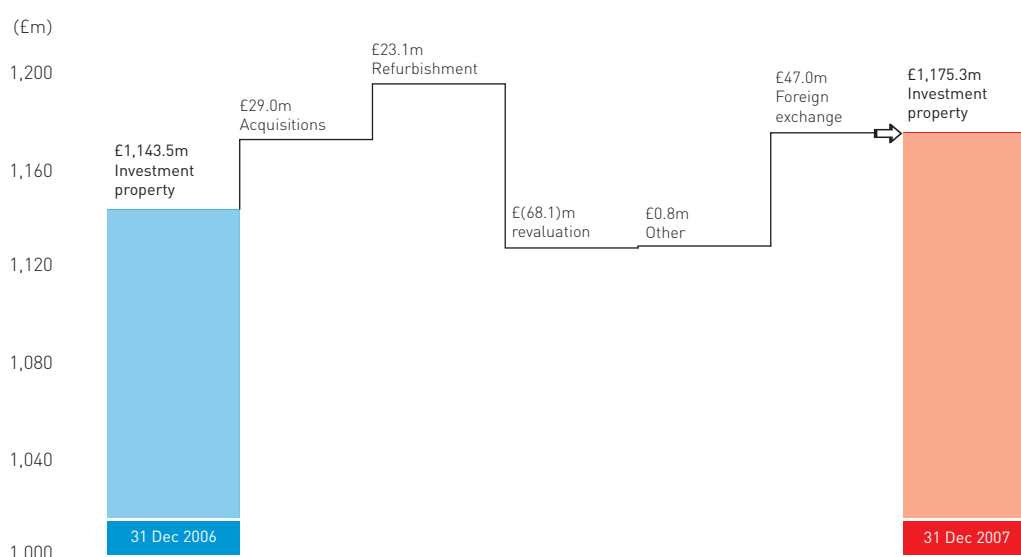
FINANCIAL REVIEW (continued)

REVIEW OF THE BALANCE SHEET

INVESTMENT PROPERTIES – The Group's property portfolio amounted to £1,175.3 million, showing a net increase of £31.8 million over its value at 31 December 2006 of £1,143.5 million. The movement in the portfolio is set out below:

	Group £m	UK £m	France £m	Germany £m	Sweden £m
Opening assets	1,143.5	640.4	318.3	135.1	49.7
Purchases	29.0	–	3.6	25.4	–
Refurbishment	23.1	20.8	1.8	0.4	0.1
Disposals	–	–	–	–	–
Revaluation	(67.3)	(62.7)	1.1	(3.4)	(2.3)
Foreign exchange	47.0	–	30.5	14.3	2.2
Closing assets	1,175.3	598.5	355.3	171.8	49.7

MOVEMENTS IN INVESTMENT PROPERTY PORTFOLIO



PURCHASES – Four property investments were made during the year, three in Germany and one in France.

The three German properties purchased were Bochum, a predominantly office property of 25,171 sq m near Düsseldorf, the cost of which was £12.8 million; Fangdiekstrasse, an office property of 12,968 sq m in Hamburg the cost of which was £11.2 million; and Suederhastedt, a property let as a nursing home, was purchased for a cost of £1.4 million.

The French property purchase was a 2,572 sq m office property situated in Neuilly Plaisance, Paris, the cost of which was £3.6 million.

REFURBISHMENT – In the UK, expenditure on refurbishments amounted to £20.8 million, of which £11.9 million related to CLS' share of development expenditure at LBQ. Additionally £5.0 million was expended on refurbishment works at Spring Gardens, £2.6 million to complete the works at Great West House and £1.2 million relating to refurbishment at Cambridge House.

In France, refurbishment works were expended amounting to £1.8 million in respect of various properties. Other expenditure amounted to £0.4 million, principally in Germany.

There were no disposals during the year.

FOREIGN EXCHANGE – The gross foreign exchange translation gain on properties was £47 million, of which £30.5 million related to France, £14.3 million was in respect of Germany and £2.2 million arose in Sweden. Taking into account the effect of foreign exchange translation on loans to finance these assets, the net effect was a gain of £16.9 million.

Based on the valuations at 31 December 2007 and annualised contracted rent receivable at that date of £71.4 million, the portfolio shows a yield of 6.5 per cent. This excludes LBQ which was sold on 9 January 2008.

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

	Total £m	UK £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity Invest- ments £m	%
Investment Properties	1,175.3	598.5	51.0%	355.3	30.2%	171.8	14.6%	49.7	4.2%		
Property loans*	(765.7)	(406.0)	53.0%	(211.4)	27.6%	(118.3)	15.5%	(30.0)	3.9%		
Equity in Property Assets	409.6	192.5	47.0%	143.9	35.1%	53.5	13.1%	19.7	4.8%		
Other	108.0	35.0	32.4%	10.2	9.5%	2.9	2.7%	21.0	19.4%	38.9	36.0%
Net Adjusted Equity	517.6	227.5	44.0%	154.1	29.8%	56.4	10.8%	40.7	7.9%	38.9	7.5%

**Equity in
Property as
a Percentage
of Investment**

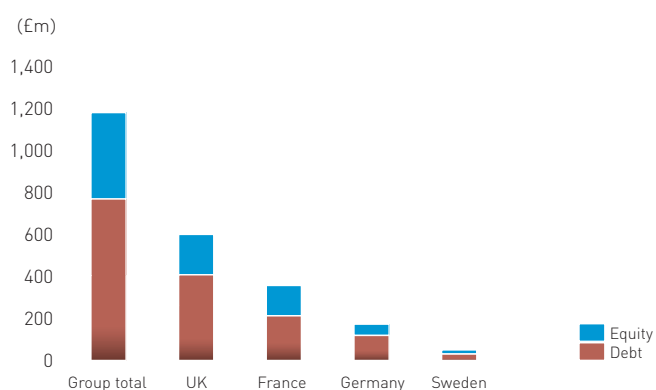
34.9%	32.2%	40.5%	31.1%	39.6%
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	Total £m	UK £m	France £m	Germany £m	Sweden £m	Equity Invest- ments £m
Opening Adjusted Equity	598.6	367.1	130.2	40.7	25.7	34.9
(Decrease)/increase (81.0)	(139.6)		23.9	15.7	15.0	4.0
Closing Adjusted Equity	517.6	227.5	154.1	56.4	40.7	38.9

*Non-property loans relating to the financing of our investment in Catena AB and other non-property assets were included within "other" and amounted to €33.1 million.

†The following exchange rates were used to translate assets and liabilities at the year end; Euro/GBP 1.3571 SEK/GBP 12.789%.

DEBT/EQUITY FINANCING OF PROPERTY ASSETS BY REGION



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 and swaps have been taken out with prime banks. The Group has hedged all of its interest rate exposure and a significant proportion of its foreign exchange rate exposure.

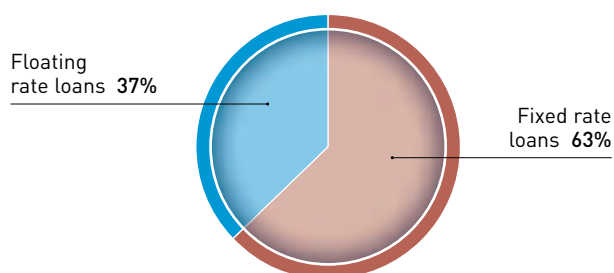
FINANCIAL REVIEW (continued)

Net Interest Bearing Debt

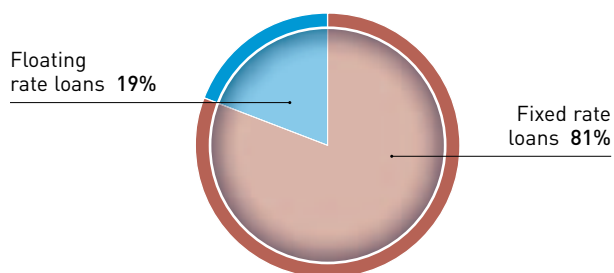
	Total £m	%	UK £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity invest- ments £m	%
2007												
Fixed Rate Loans	(501.2)	62.8	(328.6)	80.9	(73.2)	34.6	(78.7)	66.5	(20.7)	39.2	–	–
Floating Rate Loans	(297.5)	37.2	(77.4)	19.1	(138.1)	65.4	(39.6)	33.5	(32.1)	60.8	(10.3)	100.0
	(798.7)	100.0	(406.0)	100.0	(211.3)	100.0	(118.3)	100.0	(52.8)	100.0	(10.3)	100.0
Bank and cash	122.0		67.6		16.4		4.5		22.9		10.6	
Net Interest Bearing Debt	(676.7)	100.0	(338.4)	50.0	(194.9)	28.8	(113.8)	16.8	(29.9)	4.4	0.3	–
2006	(526.2)	100.0	(247.7)	47.1	(180.7)	34.3	(92.0)	17.5	(7.9)	1.5	2.1	(0.4)

Non interest bearing debt, represented by short-term creditors, amounted to £59.7 million (December 2006: £66.9 million). Borrowings, gross of arrangement fees, amounted to £803.7 million (December 2006: £689.7 million).

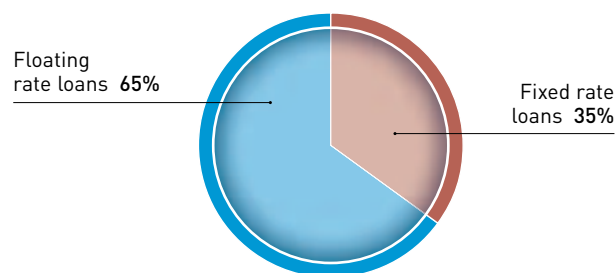
GROUP TOTAL



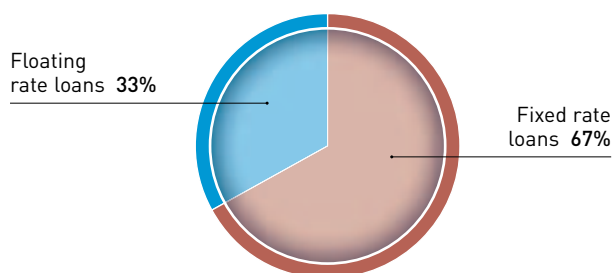
UNITED KINGDOM



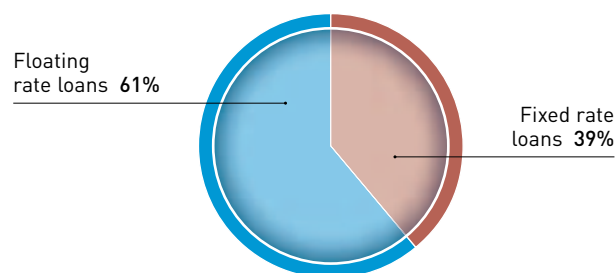
FRANCE



GERMANY



SWEDEN



Interest rate caps

	Total %	UK %	France %	Germany %	Sweden %
2007					
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	4.8	5.5	4.8	4.6	4.5
Average tenure	3.3 years	2.0 years	3.3 years	3.4 years	0.8 years
2006					
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	4.9	5.6	4.6	4.6	4.5
Average tenure	3.8 years	3.0 years	4.1 years	4.4 years	1.8 years

At the end of 2007, 62.8 per cent of gross debt was fixed (December 2006: 59.9 per cent). This increase in fixed rate funding is mainly due to the re-financing of UK properties, the majority of it being agreed at or swapped into fixed rate.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond. This bond has a current outstanding balance of £36.7 million (December 2006: £37.4 million) at an interest rate of 10.7 per cent with a maturity date of 2025; and a zero coupon bond, with a current outstanding balance of £6.9 million (December 2006: £6.2 million), with matching interest rate and maturity date. This debt instrument has a significant adverse effect on the average interest rate.

The net borrowings of the Group at 31 December 2007 were £676.8 million (December 2006: £526.2 million), the increase being influenced by refurbishment and acquisition expenditure of £69 million, distributions of £22.6 million, market purchase of own shares of £7.3 million and investment in BLD and Catena of £35.2 million. There was also an adverse translation effect in respect of loans held in Euros and SEK of £31.2 million.

The contracted future cash flows from the properties securing the loans continue to cover all interest and ongoing loan repayment obligations. Of the Group's total bank debt of £798.7 million £103 million (12.9 per cent) is repayable within the next 12 months (including £66.2 million in respect of LBQ which was sold on 9 January 2008), with £340.8 million (42.7 per cent) maturing after more than five years.

The Group continues to monitor covenant compliance with its lenders and is satisfied that there is sufficient headroom within its cash resources to rectify any potential covenant breaches that could occur even when tested under assumptions of significant declines in property values and rental streams.

EQUITY INVESTMENTS – Existing equity investments held amounted to £8.4 million (December 2006: £16.2 million). The majority by value are listed investments, which are carried at market value, and represent 0.06 per cent of the gross assets of the Group.

INVESTMENT IN ASSOCIATE COMPANIES – The Group holds investments in two associate companies the value of which is carried in our books at £42.3 million. The Group holds 28.65 per cent of Bulgarian Land Developments plc, carried at £11.6 million after our share of its losses in the year which amounted to £0.1 million. During the first half of the year, the Group invested £27.9 million to purchase 29.0 per cent in Catena AB, which made a positive contribution to the Group results of £2.8 million including positive foreign exchange movement of £2.1 million.

FINANCIAL REVIEW (continued)

SHARE CAPITAL – The share capital of the Company amounted to £18.7 million at 31 December 2007, represented by 74,849,736 ordinary shares of 25 pence each, of which 7,109,279 shares were held as Treasury shares following the tender offer buy-backs and market purchases made during the year. At 31 December 2007 there were therefore 67,740,457 shares quoted on the main market of the London Stock Exchange.

The Treasury shares are not included for the purposes of any proposed tender offer buy-backs or for calculating earnings and NAV per share.

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2007 resulting in the purchase and cancellation of 3,318,960 million shares. The two tender offer buy-backs distributed £22.6 million to shareholders.

Market purchases during 2007 totalled 1,575,251 shares at an average price of 451 pence per share.

The weighted average number of shares in issue during the year was 71,091,071 (December 2006: 78,192,301).

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

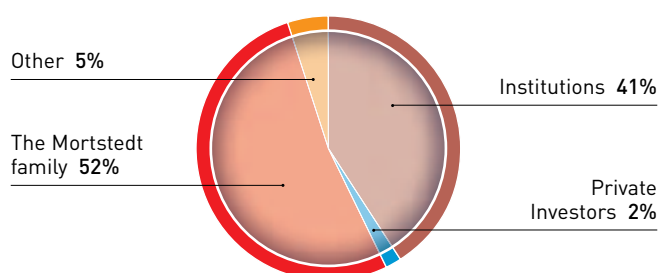
	No. of shares Million 2007	No. of shares Million 2006
Opening shares in circulation	72.6	80.1
Tender offer buy-back	(3.3)	(7.4)
Buy-backs in the market	(1.6)	(0.3)
Shares issued for the exercise of options	–	0.2
Closing shares in circulation	67.7	72.6
Shares held in Treasury by the Company	7.1	7.5
Closing shares in issue	74.8	80.1

An analysis of the ownership structure is set out below:

	No. of shares	Percentage of shares
Institutions	27.5	40.6%
Private investors	1.1	1.6%
The Mortstedt family	35.5	52.5%
Other	3.6	5.3%
Shares held in Treasury by the Company	67.7 7.1	100.0%
Total	74.8	

At 31 December 2007 there were 405,000 options in existence with an average exercise price of 261.6 pence.

ANALYSIS OF SHARE OWNERSHIP





PROPERTY REVIEW

INTRODUCTION

We continue to focus on building a portfolio of low risk, high return properties and to actively manage our buildings to maximise long-term capital returns. Our core areas of operation are the UK, France, Germany and Sweden.

At 31 December 2007, the Group owned 104 properties with a total lettable area of 480,684 sq m (5,174,042 sq ft) (excluding LBQ which was sold on 9 January 2008) of which 42 properties were in the UK, 40 in France, 17 in Germany, 4 in Sweden and 1 in Luxembourg. We had 529 commercial tenants and 17 residential tenants.

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

	Contracted Rent £m	%	Net rent £m	%	Book Value £m	%	Yield on net rent %	Yield when fully let %
London South Bank	10.7	15.0%	10.7	15.5%	186.7	17.5%	5.7%	
London Mid town	7.0	9.8%	7.0	10.1%	100.9	9.5%	6.9%	
London West	5.3	7.4%	4.5	6.5%	79.8	7.5%	5.6%	
London West End	3.7	5.2%	3.6	5.2%	66.0	6.2%	5.5%	
London South Bank – JVs	0.2	0.3%	0.2	0.3%	2.9	0.3%	–	
London North West	2.1	2.9%	1.9	2.8%	27.0	2.5%	6.9%	
London South West	1.6	2.2%	1.6	2.3%	21.0	2.0%	7.6%	
Outside London	0.2	0.3%	0.2	0.3%	1.5	0.1%	16.3%	
London City Fringes	0.2	0.3%	0.2	0.3%	2.9	0.3%	7.4%	
Total UK	31.0	43.4%	29.9	43.3%	488.7	45.9%	6.1%	6.6%
France Paris	18.9	26.5%	18.8	27.3%	283.4	26.6%	6.6%	
France Lyon	3.0	4.2%	3.0	4.3%	45.2	4.3%	6.6%	
France Lille	0.6	0.8%	0.6	0.9%	8.9	0.8%	6.3%	
France Antibes	0.5	0.7%	0.5	0.8%	7.2	0.7%	7.2%	
Total France	23.0	32.2%	22.9	33.3%	344.7	32.4%	6.6%	7.0%
Luxembourg	0.9	1.3%	0.9	1.3%	10.6	1.0%	8.5%	
Total Luxembourg	0.9	1.3%	0.9	1.3%	10.6	1.0%	8.5%	8.5%
Germany Munich	4.7	6.6%	4.7	6.8%	67.7	6.4%	6.9%	
Germany Hamburg	2.6	3.7%	2.6	3.8%	38.9	3.6%	6.7%	
Germany Berlin	2.5	3.5%	2.2	3.2%	40.2	3.8%	5.6%	
Germany Bochum	0.8	1.1%	0.6	0.9%	14.1	1.3%	4.2%	
Germany Stuttgart	0.6	0.8%	0.6	0.9%	8.5	0.8%	6.9%	
Germany Düsseldorf	0.2	0.3%	0.2	0.3%	2.1	0.2%	12.0%	
Total Germany	11.4	16.0%	10.9	15.9%	171.5	16.1%	6.4%	6.7%*
Sweden Vänersborg	5.1	7.1%	4.3	6.2%	49.6	4.6%	8.6%	
Total Sweden	5.1	7.1%	4.3	6.2%	49.6	4.6%	8.6%	8.7%
Group Total	71.4	100.0%	68.9	100.0%	1,065.1	100.0%	6.5%	6.8%
Group Total as above	71.4	68.9	1,065.1					
Share of LBQ JV	1.1	1.1	110.2					
Group Total inc share of JVs	72.5	70.0	1,175.3					

Conversion rates: Euro/GBP 1.3571 SEK/GBP 12.789%. Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2007 will increase by refurbishment expenditure of approximately £12.8 million in respect of the Bochum property in Germany.

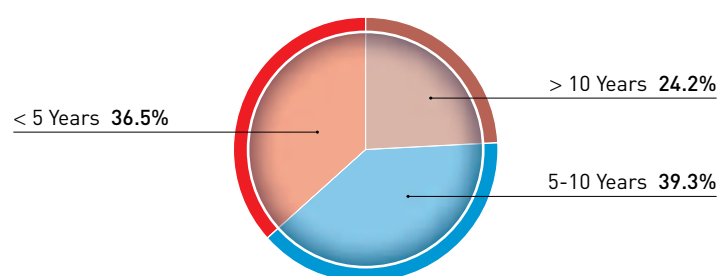
PROPERTY REVIEW (continued)

RENT ANALYSED BY LENGTH OF LEASE AND LOCATION – The table below shows rental income by category and the future potential income available from new lettings and refurbishments.

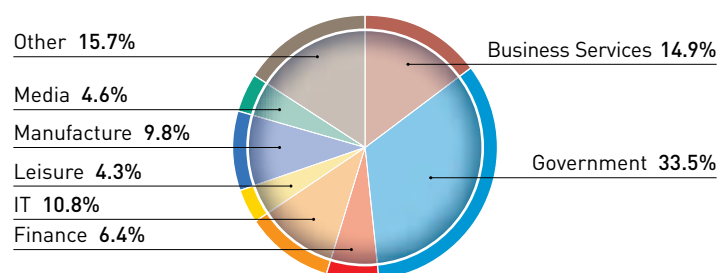
	Sq. m (000)	Sq. ft (000)	Contracted aggregate rental £m	Unlet space at ERV £m	Space under refurbishment or with planning consent £m	Total £m	Total %
UK >10 yrs	63.3	681.8	14.9	–	–	14.9	45.1%
UK 5-10 yrs	38.1	409.7	8.1	–	–	8.1	24.7%
UK < 5 yrs	35.1	377.2	8.0	–	–	8.0	24.1%
Development Stock	2.0	21.9	–	0.1	–	0.1	0.3%
Vacant	9.9	106.7	–	1.9	–	1.9	5.8%
Total UK	148.4	1,597.3	31.0	2.0	–	33.0	100.0%
France > 10 yrs	2.8	30.1	0.5	–	–	0.5	2.1%
France 5-10 yrs	71.8	773.0	12.4	–	–	12.4	51.8%
France < 5 yrs	63.7	685.9	10.1	–	–	10.1	42.1%
Vacant	6.2	66.8	–	1.0	–	1.0	4.0%
Total France	144.5	1,555.8	23.0	1.0	–	24.0	100.0%
Luxembourg < 5 yrs	3.7	39.8	0.9	–	–	0.9	100.0%
Total Luxembourg	3.7	39.8	0.9	–	–	0.9	100.0%
Germany > 10 yrs	22.4	241.2	1.9	–	–	1.9	14.5%
Germany 5-10 yrs	39.2	421.6	3.7	–	–	3.7	28.9%
Germany < 5 yrs	59.3	638.5	5.8	–	–	5.8	45.5%
Development Stock	14.6	156.7	–	–	1.1	1.1	8.7%
Vacant	3.4	36.5	–	0.3	–	0.3	2.4%
Total Germany	138.9	1,494.5	11.4	0.3	1.1	12.8	100.0%
Sweden > 10 yrs	–	–	–	–	–	–	0.0%
Sweden 5-10 yrs	29.4	316.2	3.8	–	–	3.8	74.4%
Sweden < 5 yrs	15.0	161.4	1.3	–	–	1.3	24.8%
Vacant	0.8	9.0	–	0.1	–	0.1	0.8%
Total Sweden	45.2	486.6	5.1	0.1	–	5.2	100.0%
Group > 10 yrs	88.5	953.1	17.3	–	–	17.3	22.7%
Group 5-10 yrs	178.5	1,920.5	28.0	–	–	28.0	37.0%
Group < 5 yrs	176.8	1,902.8	26.1	–	–	26.1	34.4%
Development Stock	16.6	178.6	–	0.1	1.1	1.2	1.6%
Vacant	20.3	219.0	–	3.3	–	3.3	4.3%
Group Total	480.7	5,174.0	71.4	3.4	1.1	75.9	100.0%
Group Total as above	480.7	5,174.0	71.4	3.4	1.1	75.9	
Share of LBQ JV	10.4	112.2	1.1	0.9	–	2.0	
Group Total including share of JVs	491.1	5,286.2	72.5	4.3	1.1	77.9	



GROUP CONTRACTED RENT ANALYSED BY LEASE LENGTH



RENT BY SECTOR



We estimate that open market rents are approximately 0.5 per cent lower than current contracted rents receivable, which represents a potential reduction of £0.2 million. An analysis of the net change is set out below:

	Contracted Rent £m	Estimated Rental Value £m	Reversionary Element £m
UK	31.0	31.7	0.7
France and Luxembourg	24.0	24.0	–
Germany	11.4	12.0	0.6
Sweden	5.0	3.5	(1.5)
Total	71.4	71.2	(0.2)

The total potential gross rental income (comprising contracted rentals, and estimated rental value of un-let space) of the portfolio is £75.9 million p.a.



HIGHLIGHTS of 2007

- Spring Gardens – completed construction of two remaining infill blocks adding 2,448 sq m which is fully let
- Great West House – following completion of refurbishment is now close to 80% occupancy
- Hoskyns House site – redevelopment plans postponed as principal tenant has extended lease
- At end of 2007 vacancy stood at 5.8% down from 7.6% in December 2006

UK PORTFOLIO

THE YEAR STARTED STRONGLY WITH STABLE YIELDS AND INCREASING OFFICE RENTS.



Great West House, London



CLS Holdings plc

Annual Report & Accounts

Over the course of the year, the value of the UK portfolio fell by 6.5 per cent (£41.9 million) from £640.4 million to £598.5 million (including the London Bridge Quarter project ('LBQ') joint venture). The value of the core portfolio fell by 3.0 per cent (15.3 million) and the value of the joint ventures by 19.4 per cent (£26.6 million).

Since 30 June 2007 the value of the UK portfolio fell by 8.3 per cent (£53.9 million) from £652.4 million. Of this, the core portfolio fell by 6.3 per cent (£32.7 million) and LBQ fell by 16.1 per cent (£21.1 million) related to the core portfolio and 3.73 per cent (£24.33 million) to the joint ventures.

The year started strongly with stable yields and increasing office rents. The high level of investment activity during the first half of the year slowed considerably in the summer as the markets assessed the impact of the US sub-prime crisis and the resultant 'credit crunch'. Finance for property investment became increasingly hard to find and the few investment transactions taking place confirmed a correction in investment yields across all sectors was underway.

2007 was still a busy year across the UK portfolio with a number of significant new lettings, lease re-gearings and improvement works adding value.

At Spring Gardens, Vauxhall, we completed the construction of the two remaining infill blocks adding 2,448 sq m (26,384 sq ft) of new offices increasing the entire estate to 18,475 sq m (198,865 sq ft). A final reversionary lease for Unit 2 completed in December and Spring Gardens is now fully let to the Government until February 2026 at a rent of £6.5 million per annum. 45 per cent of the income is subject to annual RPIX rent reviews, whilst the remaining 55 per cent is subject to open market reviews until June 2015 when it also reverts to annual RPIX linked increases.

Following the completion of the refurbishment of Great West House in Brentford, British Sky Broadcasting has taken leases on 3,382 sq m (36,400 sq ft) over 7 floors and a further 4,200 sq ft has been let to Global Refund Limited. The Business Centre operated by our subsidiary Instant Office has successfully traded from 10,400 sq ft on the lower floors and at the end of the year had achieved close to 80 per cent occupancy.

The other major occupier of Great West House, Allianz Insurance plc agreed to move its break option from September 2008 to September 2011 in respect of 2,973 sq m (32,004 sq ft) in GW2.

The vacancy rate at Great West House is now down from 47 per cent at the beginning of the year to 27 per cent or 3,952 sq m (42,540 sq ft).

Plans to submit a planning application for our 2.5 acre Hoskyns House site adjacent to Vauxhall underground and mainline station were re-assessed in the summer when the principal tenant, Capgemini sought to renew their leases beyond the March 2009 expiry.

Capgemini currently occupy 10,427 sq m (112,235 sq ft) of offices and warehouse accommodation in three buildings

at £1,736,000 p.a. We have signed new reversionary leases on all three buildings from March 2009, expiring in December 2016 at a rent of £1,886,000 pa, representing an increase of £150,000 pa. The new leases include the ability for us to break in December 2014, giving us the option to implement a comprehensive re-development at that time.

Another important transaction progressed during 2007 was the sale of our interests in the London Bridge Quarter project to Zijaj Limited. The outline terms of the sale were agreed in October 2007 and involved the sale of our interests in both Southwark Towers (The Shard) and New London Bridge House. The sale exchanged and completed in early January 2008 at a price of £30m cash. We are very proud of our involvement in this landmark London development and we look forward to its completion ahead of the Olympics in 2012.

The sale of Vista Centre, Heathrow to Vista Property Investments Limited completed on 2 February 2008. Vista Centre provides 9,508 sq m (102,345 sq ft) of multi-let offices together with a restaurant, gymnasium and swimming pool. CLS acquired the property in 1995 for £10.8 million and in 1999 received £8 million from the tenant for a surrender of their lease. The building was subsequently refurbished and the leisure facilities added.

The sale completed on 1st February 2008 at a price of £12.8 million, representing a 5.3 per cent discount to the June 2007 valuation. Tenants included the Metropolitan Police and Airline Business. Approximately 36 per cent of the building was vacant.

At Chancel House we achieved a noteworthy increase in the December 2006 rent review with Trillium who have a lease over 4,366 sq m (46,996 sq ft) or 63 per cent of the entire building. The review was index based and resulted in an increase of 15.8 per cent from £430,740 to £498,796 pa. The next review is in December 2011 and the lease expires in March 2018.

New lettings were secured at Cambridge House in Hammersmith totalling 1,211 sq m (13,035 sq ft). The Prostate Cancer Charity acquired 586 sq m (6,308 sq ft); Open Society Foundation 325 sq m (3,498 sq ft) and Control Risks Screening Limited 300 sq m (3,230 sq ft). Further lettings were completed during the year at Quayside in Fulham, CI Tower, New Malden and Ingram House, John Adam Street, Covent Garden.

At the end of 2007 our vacancy rate stood at 5.8 per cent, down from 7.6 per cent in December 2006.

Our priority for 2008 is to make sure we consolidate and strengthen our rental income and reduce the vacancy rate. In this regard it is worth mentioning that in excess of 46 per cent of our UK rental income is derived from Government or tenants guaranteed by the Government. We will continue to consider selective sales across the portfolio and look forward to sourcing new opportunities later in the year.



HIGHLIGHTS of 2007

- Paris office building acquired in April for £3.7 million
- Significant new leases, renewals and extensions completed
- Renovation of the Forum building in Lyon

FRENCH PORTFOLIO

WE NEGOTIATED LEASE EXTENSIONS
AND RENEWALS OVER 13,276 SQ M
PRODUCING A REVENUE OF
£2.1 MILLION.



Forum, Lyon



CLS Holdings plc

Annual Report & Accounts

During 2007, the French economy grew by 1.9 per cent however it is predicted that growth in 2008 is unlikely to exceed 1.8 per cent.

2007 was a record year for investment, with £18.5 billion invested in commercial real estate, 17 per cent over and above the £15.8 billion invested in 2006.

The total volume of take-up in the Paris region for 2007 reached 2,713,100 sq m. The immediate supply of office space continued to fall gently to stand at 2.4 million sq m, or 3 per cent lower than the previous year. The average vacancy rate in the Paris region at the end of the year was 4.8 per cent.

In April, we acquired an office building known as Van Gogh, offering a floor area of 2,573 sq m located in the Eastern suburbs of Paris, in Neuilly Plaisance, the cost of which was £3.7 million.

During 2007, new leases were completed in respect of 5,407 sq m of space representing approximately 3.7 per cent of the portfolio and revenue of £0.9 million. Additionally we negotiated lease extensions and renewals over 13,276 sq m producing a revenue of £2.1 million, including a new firm 6 year lease with JET TOURS over 4,417 sq m in Ivry Sur Seine, a new firm 4 year lease with SPICERS over 2,665 sq m in Villepinte, a 3/6/9 year lease with DATABASE over 1,193 sq m in La Garenne Colombes and a 3/6/69 year lease with STREAM over 1,502sq m in Vélizy.

We have also completed the full renovation of 6,340 sq m in our Forum building in Lyon. The work included the installation of a brand new heating-cooling air system. Total cost was £1.1 million. This renovation was in accordance with the new 3/6/9 year lease completed for 4,248sq m with our main tenant April Insurance.

At the end of 2007 the vacancy rate was 4.0 per cent.



HIGHLIGHTS of 2007

- Acquired three new properties at a cost of €36,6 million
- Let 23,800 sq m in 30 year lease with the city of Bochum
- Commenced significant refurbishment works at Rathaus Centre, Bochum
- Vacancy rate down to 2.4%

GERMAN PORTFOLIO

ACTIVITY IN THE FIRST HALF OF THE YEAR CONTINUED TO BE BOOSTED ONCE AGAIN BY HIGHLY LEVERAGED FOREIGN INVESTORS.





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The German economy grew by 2.5 per cent in 2007 and GDP is expected to decrease by 2.0 per cent in 2008, the unemployment rate decreased to 8.1 per cent in 2007 and is expected to decrease further to 7.5 per cent by the end of 2008.

The commercial investment market activity continued to grow, by 9 per cent in 2007 with €75.0 billion changing hands. Activity in the first half of the year continued to be boosted once again by highly leveraged foreign investors. Take up in the letting market increased by 15 per cent in 2007 over 2006 and average rents edged up.

The credit crisis in the second half of 2007 slowed down German investment activities.

We acquired three new properties at a cost of €36.6m in 2007 all purchased in the first half of the year. We succeeded in the letting of 23,800 sq m in a 30-year-lease with the City of Bochum and have started the refurbishment of the former service and shopping centre Rathaus Center Bochum located in the city centre of Bochum. By taking into account the new Bochum lease and further leases of around 4,000 sq m the vacancy rate has dropped down to 2.4 per cent. Furthermore we have actively reviewed the cost structure in our properties and have exchanged certain property managers to enhance the service level and to reduce costs.



HIGHLIGHTS of 2007

- Rents have increased by 10-15%
- Vacancy rate 0.8%
- Approximately 90% let to government tenants

SWEDISH PORTFOLIO

THE STRONG DEMAND IN THE INVESTMENT MARKET CONTINUED THROUGHOUT THE YEAR.





CLS Holdings plc

Annual Report & Accounts

The strong demand in the investment market continued throughout the year. The total investment amounted to £10.6 billion (SEK 135 billion) against £13.7 billion (SEK 175 billion) for 2006. At the end of the year the market showed a yield increase of approximately 50 points. The current financial turmoil, which began with the sub prime loans in the US, seems to have continued and is now starting to have an impact on the property market in Sweden.

The Swedish economy has performed well during 2007 but slowed down during Q3 and Q4 due to lower exports. The growth in GDP was 2.7 per cent in 2007 compared to the forecasted 3.2 per cent and the expected growth for 2008 is 2.1 per cent. The unemployment rate has fallen to 5.5 per cent and is expected to continue to fall marginally.

The letting market rents have been very stable with an increase of approximately 10-15 per cent.

Our property portfolio Vänerparken in Vänersborg near Gothenburg consists of approximately 45,206 sq m and has a vacancy rate of 0.8 per cent. Around 90 per cent of the area is let to Swedish Government related tenants who has taken office space at Vänerparken and also offering services such as healthcare, education, a leisure water park and restaurant facilities.

The university, occupying 11,783 sq m, has decided to centralise their four current campus locations to a new site and will vacate their premises at Vänerparken by the end of July 2008.

We are in the final stages of signing a new lease agreement for most of the vacated area with the local authority. We continue to monitor the market to assess investment opportunities where we can see future potential value.

SCHEDULE OF GROUP PROPERTIES

Properties UK	Address	Freehold/ Leasehold	Area m ²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Spring Gardens	Tinworth Street, London SE11	Freehold	19,273	207,453	Offices	1990
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,295	283,037	Offices	1996
Leicester Square	1 Leicester Square, London WC2	Freehold	3,328	35,822	Cinema/Retail/ Leisure	1999
Great West House	Great West Road, Brentford, Middx TW8	Freehold	14,446	155,495	Offices	2005
Cap Gemini House	95 Wandsworth Rd, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/Industrial	1995
Coventry House	21/24 Coventry St. & 35a Haymarket, London SW1	Freehold	656	7,061	Restaurant/ Residential/ Advertising	2002
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,538	81,138	Offices	2002
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,628	71,343	Offices	1998
Westminster Tower	3 Albert Embankment, London SE1	Freehold	4,473	48,147	Offices	2004
Property value £10m – £20m						
Brent House	349/357 High Road, Wembley, Middx HA9	Freehold	9,127	98,242	Offices	1995
Vista Office Centre	Salisbury Road, Hounslow, Middx TW4	Freehold	9,512	102,386	Offices	1999
Chancel House	Neasden Lane, London NW10	Freehold	6,940	74,702	Offices	1990
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,181	34,240	Offices/Residential	1993
Property value < £10m						
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,124	12,099	Offices	2004
Quayside	William Morris Way, London SW6	Freehold	3,065	32,991	Offices	1989
Conoco House	200 Great Dover Street, London SE1	Leasehold	3,376	36,339	Offices	1960's
Dukes Road	22 Dukes Road, London WC1	Freehold	1,067	11,485	Offices	1980's
London House	271/273 King St, Hammersmith, London W6	Freehold	1,426	15,349	Business Centre	2001
King Street	275/281 King Street, London W6	Freehold	1,895	20,398	Offices	1999
Tinworth Street	2/10 Tinworth Street, London SE11	Freehold	1,263	13,595	Industrial/Offices	Early 1900's
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,356	Studio/Workshops/ Offices	2001
Bondway	80/84 Bondway, London SE11	Freehold	1,636	17,610	Offices	Early 1900's
Satellite House	15/23 Baches Street London N1	Freehold	1,450	15,608	Offices	1980
Zest Nightclub	Princess Street, Ipswich, Suffolk, IP1	Freehold	1,951	21,000	Nightclub	1999
Bondway	86 Bondway, London SE11	Freehold	891	9,591	Offices	2001
Deanery Street	2 Deanery Street, London W1	Freehold	193	2,077	Offices/Residential	1988
The Rose	35 Albert Embankment, London SE11	Freehold	531	5,716	Leisure	Early 1900's
Wandsworth Road	101/103/107 Wandsworth Road, London SW8	Freehold	388	4,176	Residential	Early 1900's
Vauxhall Walk	108 Vauxhall Walk, London SE11	Freehold	600	6,458	Car parking	Early 1900's
Vauxhall Walk	110 Vauxhall Walk, London SE11	Freehold	790	8,503	Industrial/Offices	1990
The View	20 Palace Street, London SW1	Leasehold	164	1,765	Residential	2005
Western House	5 Glasshouse Walk, London SE11	Freehold	538	5,791	Offices	1900's
Miles Street	18/20 Miles Street, London SE11	Freehold	152	1,636	Offices	2001
Tinworth Street	16 Tinworth Street, London SE1	Freehold	218	2,347	Industrial	1995
Vauxhall Walk	92/98 Vauxhall Walk, London SE11	Freehold	97	1,044	Offices	Early 1900's
Holland Park Avenue	London W11	Freehold	–	–	Residential	1997
Share of joint venture						
Southwark Towers	32 London Bridge Street, London SE1	Leasehold	6,321	68,039	Offices	1960's
New London Bridge House	25 London Bridge Street, London SE1	Freehold	4,105	44,186	Offices	1960's
Fielden House	28-42 London Bridge Street, London SE1	Freehold	755	8,127	Offices	1960's
UK Properties at 31 December 2007		Sub total	158,826	1,709,587		

SCHEDULE OF GROUP PROPERTIES

Properties Sweden	Address	Freehold/ Leasehold	Area m ²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Vänerparken	Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,206	486,593	Offices/Education/ Residential/Leisure/ Hospital	Various
Swedish Properties at 31 December 2007			Sub total	45,206	486,593	
Properties France and Luxembourg						
Property value > £20m						
Rueil 2000	15/21 Avenue Edouard Belin, 92500 Rueil-Malmaison, Paris	Freehold	7,769	83,625	Offices	1992
Edouard Belin	1 Avenue Edouard Belin, 92500 Rueil Malmaison, Paris	Freehold	9,849	106,014	Offices	1992
Property value £10m – £20m						
Eugène Ruppert	16 Rue Eugène Ruppert, L2453 Luxembourg	Freehold	3,698	39,805	Offices	1991
Le Debussy	77/81 Boulevard de la République, 92250 la Garenne Colombes, Paris	Freehold	4,206	45,273	Offices	1992
Le Quatuor	168 Avenue Jean Jaurès, 92120 Montrouge, Paris	Freehold	5,131	55,230	Offices	1991
Le Sigma	Place de Belgique, 90 Bld de L'Europe, 92250 La Garenne Colombes, Paris	Freehold	6,599	71,031	Offices	1993
Jean Jaurès	120 Rue Jean Jaurès, 92300 Levallois Penet	Freehold	4,219	45,413	Offices	1993
Forum	27/33 Rue Maurice Flandin, 69003 Lyon	Freehold	6,910	74,379	Offices	1990
Charenton Bercy	2 Rue du Nouveau Bercy, 94220 Charenton, Paris	Freehold	5,227	56,263	Offices	1994
Le Sirius	9/11 Rue Jean Mazet, 94200 Ivry sur Seine, Paris	Freehold	7,088	76,295	Offices	1989
Rue Raspail	23 Rue Raspail, 94200 Ivry sur Seine	Freehold	5,570	59,955	Offices	1993
Petits Champs	48 Rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,375	Offices	1972
Property value < £10m						
Van Gogh	6 rue Van Gogh, 93560 Neuilly Plaisance	Freehold	2,573	27,696	Offices	1993
Villa Angelica	58/60 Avenue Général Leclerc, 92340 Bourg la Reine, Paris	Freehold	3,771	40,591	Offices	2002
Marcel Pourtout	5 Avenue Marcel Pourtout, 92500 Rueil Malmaison, Paris	Freehold	2,219	23,885	Offices	1990
Mission Marchand	56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,784	29,967	Offices	1993
Front de Parc	109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,220	Offices	1989
Equinoxe II	1 bis Avenue du 8 Mai, 1945, St Quentin en Yvelines, Paris	Freehold	4,235	45,585	Offices	1995
La Madeleine	105 Avenue de la République, 59110 Lille	Freehold	4,603	49,546	Offices	1979
Le Sully	Îlot 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	30,117	Offices	2006
Bellevue	95/97Bis Rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,833	Offices	1988
Colombus	1 Rond Point de L'Europe, 92250 La Garenne-Colombes, Paris	Freehold	3,162	34,035	Offices	1990
Rue Nationale	96 Rue Nationale, 59000 Lille	Freehold	2,243	24,143	Offices	1975
Rhône Alpes	235 Cours Lafayette, 69006 Lyon	Freehold	3,142	33,820	Offices	1993
D'Aubigny	27 Rue de la Villette, 69003 Lyon	Leasehold	4,316	46,457	Offices	1990
Park Avenue	81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,736	Offices	1988/89
Capitaine Guynemer	53/55 Rue du Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	2,171	23,368	Offices	1993

SCHEDULE OF GROUP PROPERTIES

Properties France and Luxembourg	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value < £10m (continued)						
Philippe Auguste	83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,725	18,568	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	46,640	Offices	1990
Edouard Vaillant	28/30 Rue Edouard Vaillant, 92300 Levallois Perret, Paris	Freehold	1,706	18,363	Offices	1996
Rue Pierre Timbaud	2 Rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,122	Offices	1994
Le Foch	62 Avenue Foch, 92250 la Garenne Colombes, Paris	Freehold	196	2,110	Offices	1992
Santos Dumont	23 Avenue Louis Breguet, 78140 Velizy, Paris	Freehold	3,701	39,837	Offices	1991
Solférino	16 Rue de Solférino, 92100 Boulogne, Paris	Freehold	1,046	11,259	Offices	1991
Général Leclerc	58 Avenue Général Leclerc, 92100 Boulogne, Paris	Freehold	525	5,651	Offices	1992
Rue Stephenson	18 Rue Stephenson, 75018 Paris	Freehold	538	5,791	Offices	1994
Georges Clémenceau	2 Boulevard Georges Clémenceau 92400 Courbevoie, Paris	Freehold	1,972	21,226	Offices	1972
Le Gauguin	47 Allée des Impressionnistes, 93420 Villepinte, Paris	Freehold	4,900	52,743	Offices	1989
Croissy Beaubourg	3 Allée du 1er Mai, 77420 Croissy Beaubourg, Paris	Freehold	3,199	34,434	Offices	1993
Rue Goubet	18-26 Rue Goubet, 75009 Paris	Freehold	1,268	13,649	Offices	1970
France and Luxembourg Properties at 31 December 2007		Sub total	148,235	1,595,589		
Properties Germany						
Property value > £20m						
Adlershofer Tor	Rudowerchaussee 12, D-12489 Adlershofer Tor, Berlin	Freehold	19,722	212,286	Offices/Retail	2003
BrainLAB	Kapellenstrasse 12, Feldkirchen D-85622, Munich	Freehold	16,313	175,592	Offices	2006
Planegg	Maximilian Forum, Lochhamer Str 11-15, D-82152, Munich	Freehold	13,819	148,746	Offices	1993/1994
Property value £10m – £20m						
Bochum	Hans-Böckler-Strasse 19, 44787, Bochum	Freehold	25,171	270,938	Offices	1982
Fangdieckstrasse	Fangdieckstrasse 75, 75a,b, 22547 Hamburg	Freehold	12,969	139,597	Offices	2000
Grafelfing	Lochhamer Schlag 1, Munich	Freehold	7,050	75,886	Offices	2000
Property value < £10m						
Süderhastedt	Dorfstrasse 14, 25727 Süderhastedt	Freehold	1,185	12,755	Nursing home	1991
Jarrestrasse	Jarrestrasse 8 - 10, D-22303, Hamburg	Freehold	5,645	60,762	Offices	2001
STEP 9	Wankelstrasse 12, D-70563, Stuttgart	Freehold	5,208	56,058	Offices	2004
Bismarkstrasse	Bismarckstrasse 105 / Leibnitzstrasse 11 - 13, Charlottenburg, Berlin	Freehold	5,944	63,981	Offices	1960/2004
Merkurring	Merkurring 33-35, D-22143, Hamburg	Freehold	8,262	88,931	Offices	2001/2003
Unterschleissheim	Lise-Meitner-Strasse 4, D-85716, Munich	Freehold	2,947	31,721	Offices	2004
Landshut	Roider-Jackl-Strasse, Landshut	Freehold	3,633	39,105	Offices	2003
Rüdesheimer Strasse	Rüdesheimer Strasse 9, D-80686, Munich	Freehold	2,587	27,846	Offices	2003
Harburger Ring 33	Harburger Ring 33, D-21073, Hamburg	Freehold	3,300	35,521	Offices	1994
Frohbösestrasse	Frohbösestrasse 12, D-22525, Hamburg	Freehold	1,993	21,452	Offices	2003
Schanzenstrasse	Schanzenstrasse 76, D-40549, Düsseldorf	Freehold	3,095	33,314	Residential	1980
German properties at 31 December 2007		Sub total	138,843	1,494,491		
TOTAL ALL PROPERTY			491,110	5,286,260		

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DIRECTORS, OFFICERS AND ADVISERS

Directors

Sten A Mortstedt (Executive Chairman)
Per H Sjöberg (Chief Executive Officer)
Steven F Board FCCA (Chief Operating Officer)
Thomas J Thomson BA (Non-executive Vice Chairman)
Anders Böös (Non-executive director)
Malcolm Cooper[†] (Non-executive director)
James F Dean FRICS^{*††} (Non-executive Director)
H O Thomas Lundqvist^{*†} (Non-executive Director)
Bengt F Mortstedt Juris Cand (Non-Executive Director)

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Company Secretary

Steven F Board FCCA

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DIRECTORS' REPORT

for the year ended 31 December 2007

The Directors present their report and the audited financial statements for the year ended 31 December 2007. The Chairman's Statement and Financial Review should be read in conjunction with this report.

1 PRINCIPAL ACTIVITIES

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

2 REVIEW OF BUSINESS

The Consolidated Income Statement for the year is set out on page 53.

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

Details of use by the Group of financial instruments are set out in the Financial Review on pages 17 to 19 and in the Notes to the consolidated financial statements, Note 2.9 (pages 61 to 63) and Note 3 (pages 66 to 69). Risk Management objectives are detailed in Note 3.3 (pages 67 to 69).

3 DIVIDENDS

In lieu of paying an interim cash dividend in 2007 the Company distributed £9,290,370 to shareholders (equivalent to 13.2 pence per share) by way of tender offer buy-back completed in November 2007 (2006: distribution of £40,295,523 or 51.6 pence per share). The distribution made in November 2006 was larger than usual further to the Board's decision to make a special distribution following the sale of the Solna Business Park in August 2006.

It is proposed to announce details of a distribution in conjunction with the restructuring of the Group later in the year.

4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company made market and tender-offer purchases totalling 4,894,211 of its own shares at a cost of £29,670,825, an average of 606 pence per share. This represents £1,223,553 in nominal value, or 6.54 per cent of the issued share capital as at the year end. All of the 3,318,960 shares purchased through the tender offers, 1,163,140 of the shares purchased through the market, and 750,000 of shares held as Treasury shares, totalling 5,232,100 shares, were cancelled during the year. All other shares purchased through the market have been retained as Treasury shares.

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

At the 2007 Annual General Meeting the Company was authorised to make market purchases of up to 7,082,262 ordinary shares. Since last year's Annual General Meeting, as at 9 April 2008, the Company has made market purchases of 2,002,705 shares and therefore still has authority to purchase 5,079,557. Included within these market purchases were purchases of 438,935 shares since the year end at a cost of £1,550,008.95. 329,930 of these shares purchased since the year end were retained as Treasury shares and 109,005 shares were cancelled.

Three purchases made between 14 January and 25 March 2007 were made pursuant to an Agreement entered into with an independent third party as announced on 11 January 2008, which enabled ordinary shares to be purchased on behalf of the Company and within certain pre-set parameters during the Close Period.

A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 6,730,152 shares.

5 SHARE CAPITAL

Changes in share capital are shown in Note 22 of the Notes to the consolidated financial statements on page 82. At 31 December 2007 there were 74,849,736 ordinary shares of 25 pence in issue, of which 7,109,279 shares were held as Treasury shares.

Therefore the total number of voting rights in CLS Holdings plc at the same date was 67,740,457 shares equating to the number of shares in issue excluding treasury shares. At 31 December 2007 there were share options for 405,000 shares outstanding (2006: 435,000). Details of the Directors' share options are shown in the Directors' Remuneration Report on page 50.

6 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2007 was carried out by Allsop & Co for the UK and Sweden, and DTZ for France and Germany which produced an open market value of £1,175.3 million (2006: £1,143.5 million). On the basis of these valuations adjusted net assets per share amounted to 764.2 pence (2006: 824.4 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 2007.

7 POST BALANCE SHEET EVENTS

See Note 35 to the consolidated financial statements on page 92 for a description of events after the balance sheet date.

DIRECTORS' REPORT (continued)

for the year ended 31 December 2007

8 DIRECTORS

The current Directors of the Company are shown on page 36. Malcolm Cooper was appointed to the Board on 22 May 2007 and Anders Böös was appointed on 13 September 2007. On 21 May 2007 Keith Harris resigned as a Non-Executive Director and on 23rd November 2007 Dan M Bäverstam resigned as Chief Financial Officer.

The statement of Directors' remuneration and their interests in shares and share options of the Company are set out in the Directors' Remuneration Report on pages 46 to 50.

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

Executive Directors:

Sten A Mortstedt, aged 68, has a consistent track record during a period of over 40 years, of building profitable and sustainable businesses both within the field of property and in a wide variety of other commercial sectors. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years he had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which he successfully floated on the Stock Exchange in Stockholm, in 1981.

Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987 and took the Company to a listing on the main market of the London Stock Exchange in 1994. Since that time, as Executive Chairman he has been a driving force in this pan-European Group in generating growth in profits and asset values. As announced on 27 March 2008 in the Preliminary Financial Results for the year-ended 31 December 2007, Sten Mortstedt will be taking the role of Vice Chairman from the 2007 Annual General Meeting.

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

He runs his global interests from his residence in Switzerland.

Per H Sjöberg, aged 46, graduated from Stockholm University with a Bachelor degree in Business Administration. He is also an engineer and has experience of a number of large development projects globally. Before joining CLS Per was managing owner of a project and construction management company that he established in 1996. He has been responsible for property development activities at the Group since 1 November 2001 and was appointed to the main board as Group Development Director on 6 February 2004. On 1 January 2006, he took office as the Chief Executive Officer of the Group. On behalf of CLS he is also Non-Executive Chairman of Bulgarian Land Development plc, an AIM listed company in which CLS holds 28.65% of its shares and a Non-Executive Director of Catena AB, a Nordic Real Estate Company quoted on the Stockholm stock exchange, in which CLS holds 29.06% of its shares.

Steven F Board, aged 53, joined the Company in December 1998 and was appointed to the Board on 25 February 2003. He is Chief Operating Officer with overall responsibility for the Group's Europe-wide financial and IT systems, financial and management reporting and administrative matters. Prior to joining the Company he was Finance Director for St. George Developments, part of the Berkeley Group plc. He previously held directorships within Alfred McAlpine PLC and senior management positions within British Telecommunications plc. He qualified as an accountant in 1980.

Non-Executive Directors:

Thomas J Thomson, aged 57, has a BA (Hons) in law from Kent University and qualified as a solicitor with Reynolds Porter Chamberlain in 1976. From 1979 to March 1994 he was a partner with Taylor Walton Solicitors. He was Company Secretary and solicitor to CLS from its inception in 1983 until 2001, initially as a partner in Taylor Walton and since 1994 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004. On 1 January 2006 he retired as Chief Executive and became Non-Executive Vice Chairman and at the 2008 AGM he will step down from the post of Non-Executive Vice Chairman and remain on the Board as a Non-Executive Director.

Anders C Böös, aged 43, is highly regarded in the Scandinavian business community and he also has detailed experience of UK business operations. He is chairman of both Cision AB and Industrial & Financial Systems AB ("IFS"), which are listed in Stockholm, and holds several other non-executive directorships. Cision AB is a media intelligence firm with 2,500 employees across 10 countries. IFS AB is one of the world's leading providers of component-based business software and is represented in more than 45 countries and has 2,600 employees. Prior to his current assignments, Anders was the Chief Executive Officer of Drott AB, at the time the largest real estate company in the Scandinavian region. Before joining Drott, he was the Chief Executive Officer of HQ AB, a leading Investment & Private Bank in Sweden. Anders Böös joined the Board in September 2007 and it is proposed that he will become Non-Executive Chairman with effect from the 2008 Annual General Meeting, subject to approval of the shareholders.

Malcolm C Cooper, aged 48, is Group Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991. Prior to that he worked for Anderson Consulting (now Accenture). He has a first in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers, where he is the current President. He joined the Board in May 2007 and chairs the Audit Committee.

James F Dean, aged 53, has worked for Savills plc since 1973, becoming a partner in 1983, and a director of Savills plc between 1987 and 1999. He remains a director of Savills Financial Holdings PLC and Savills Commercial and is also a director of Daniel Thwaites Plc and a number of private companies. He joined the Board on 9 April 1999.

8 DIRECTORS (CONTINUED)

H O Thomas Lundqvist, aged 63, 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 F Mörtstedt, aged 59, holds a Bachelor of Law degree from Stockholm University. He began his career as a Junior Judge of the Växjö District Court and in 1974 he joined Citadellet AB, the Mörtstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the Board of the Company as an Executive Director. He became a Non-Executive Director in September 1998.

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

The Board recognises that Thomas Lundqvist and James Dean, having served for more than 9 years as Directors, no longer meet the criteria for independence set out in the Combined Code. After careful review, it is the opinion of the Board that they remain independent of the management of the Company, having regard to their financial independence and other commercial interests. It is the Board's view that they add significant value to the operation of the Company through their combined knowledge and experience. However, as recommended under the Combined Code, James Dean, Bengt Mörtstedt, Thomas Lundqvist and Tom Thomson will retire annually and, being eligible, they will seek re-election to the Board at the Annual General Meeting.

As the 2008 Annual General Meeting is the first AGM since their appointments to the Board, both Anders Böös and Malcolm Cooper will stand for election by shareholders. In accordance with the Articles of Association, Per Sjöberg will retire by rotation at the Annual General Meeting and, being eligible, will seek re-election to the Board.

The Board recommends to the shareholders the re-election of the retiring Directors.

9 DIRECTORS' SHAREHOLDINGS AND MAJOR INTERESTS IN THE COMPANY'S SHARES

The interests of the Directors in the share capital of the Company at the beginning and end of the year are detailed in the Directors' Remuneration Report on page 50.

Other than the interest of the Mörtstedt family referred to in Note 8 of the Directors' Remuneration Report, as at 9 April 2008 the Company has been notified of the following major interests in the Company's issued share capital:

	No. of shares	%
Legal & General Group plc	2,199,331	3.27
AXA S.A.	3,369,675	5.01

10 EMPLOYEES

The Group's policies on employment are summarised in the report on Corporate Responsibility on page 51.

11 INSURANCE OF DIRECTORS AND INDEMNITIES

The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers. Since August 2007, the Company has granted indemnities to each of the Directors and other senior executives, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as directors or employees of the Company or of one or more of its subsidiaries or associates.

12 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 19 days total invoices received for the year as a whole (2006: 16 days). The Company has no trade creditors (2006: nil).

DIRECTORS' REPORT (continued)

for the year ended 31 December 2007

13 AUDITORS

During the year Deloitte & Touche LLP were appointed as auditors to the Group in place of PricewaterhouseCoopers LLP who resigned on 22 May 2007 having confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of shareholders or creditors of the Company in accordance with the Companies Act 1985. A resolution to appoint Deloitte & Touche LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

14 2008 ANNUAL GENERAL MEETING

It is proposed that the 2008 Annual General Meeting will be held on Tuesday 20 May 2008. Confirmation of this and a circular and notice of meeting including any explanatory notes for the resolutions to be proposed will be posted to shareholders.

15 DISCLOSURE OF INFORMATION TO AUDITORS

Each Director has confirmed that:

- So far as he is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- He has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

16 GOING CONCERN

After making enquiries, the Directors consider that the Company has adequate resources to continue operating for the foreseeable future. Accordingly they consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

By order of the Board

Per H Sjöberg
Director
17 April 2008

CORPORATE GOVERNANCE

for the year ended 31 December 2007

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

1 COMBINED CODE

The Board supports the principles of good governance as set out in the Combined Code 2006. Save as identified and explained below, the Board considers that it has complied with all the provisions of the Combined Code.

2 THE BOARD

The Board currently comprises three Executive Directors, including the Chairman, and six Non-Executive Directors. During the year on 21 May 2007 Keith Harris retired as a Non-Executive Director and on 23 November 2007 Dan Bäverstam, Chief Financial Officer, resigned from the Board. On 22 May 2007 Malcolm Cooper and on 13 September 2007 Anders Böös were appointed as independent Non-Executive Directors.

As announced in the Preliminary Financial Results for the year ended 31 December 2007, which were released on 27 March 2008, at the Annual General Meeting, which is to be held in May 2008, Anders Böös will be proposed as Non-Executive Chairman and Sten Mortstedt will step down as Executive Chairman and become Executive Vice Chairman. Tom Thomson will step down from this post but will remain on the Board as a Non-Executive Director.

The Board notes that the Combined Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. The Board has determined that Anders Böös, Malcolm Cooper, James Dean and Thomas Lundqvist are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. The Board is satisfied with the balance between Executive and Non-Executive Directors which allows it to exercise objectivity in decision-making and proper control of the Company's business. The Board considers its composition is appropriate in view of the size and requirements of the Group's business and the need to maintain a practical balance between Executives and Non-Executives.

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

All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and are subject to re-election at least every three years. Non-Executive Directors are appointed for a specific term of office which provides for their removal in certain circumstances, including under section 168 of the Companies Act 2006. The terms of appointment of the Non-Executive Directors can be obtained by request to the Company Secretary.

The Board has appointed James Dean to be the Senior Independent Director. As recommended by the Combined Code, James Dean is available to shareholders who cannot appropriately approach either the Chairman or the Chief Executive about a Company matter.

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

Board members are given appropriate documentation in advance of each Board and Committee meeting and Senior executives below Board level attend Board meetings to present and discuss their areas of speciality. 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 income statement, cash flows and gearing.

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

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.

CORPORATE GOVERNANCE (continued)

for the year ended 31 December 2007

2 THE BOARD (CONTINUED)

The Board met five times during the year and is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources. The Board has a formal schedule of matters specifically reserved to it for decision, which is kept under review and was last revised in December 2006; other decisions are dealt with as day-to-day matters by management. Directors are, where necessary, able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if and when required.

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

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

		Board	Audit Committee	Remuneration Committee
Number of meetings held		5	4	1
Sten Mortstedt	Executive Chairman	5/5		
Per Sjöberg	Chief Executive Officer	5/5		
Dan Bäverstam ⁽¹⁾	Chief Financial Officer	4/4		
Steven Board	Chief Operating Officer	5/5		
Anders Böös ⁽²⁾	Non-Executive Director	2/2	1/1	
Malcolm Cooper ⁽³⁾	Non-Executive Director	4/4	2/2	
Tom Thomson	Non-Executive Vice Chairman	5/5		
Keith Harris ⁽⁴⁾	Non-Executive Director	0/1	1/2	1/1
James Dean	Non-Executive Director	5/5	4/4	1/1
Thomas Lundqvist	Non-Executive Director	5/5	4/4	0/0
Bengt Mörtstedt	Non-Executive Director	5/5		

⁽¹⁾ Resigned from the Board 23 November 2007

⁽²⁾ Appointed to the Board 13 September 2007

⁽³⁾ Appointed to the Board 22 May 2007

⁽⁴⁾ Retired from the Board 21 May 2007

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

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

The Non-Executive directors may seek information from any employee of the Group and obtain external professional advice at the expense of the Company if considered necessary.

The Company has arranged appropriate insurance cover in respect of legal action against its directors and officers. Since August 2007, the Company has granted indemnities to each of the Directors and other senior executives, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as directors or employees of the Company or of one or more of its subsidiaries or associates.

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

The Board is assisted by the following Committees:

3 THE AUDIT COMMITTEE

The Audit Committee was Chaired by Keith Harris until his retirement on 21 May 2007. On 22 May 2007 Malcolm Cooper was appointed to the Committee and as its Chairman. The Audit Committee also comprises James Dean, Thomas Lundqvist and, since his appointment to the Board on 13 September 2007, Anders Böös. The Committee consists solely of independent non-executive directors. The Board is satisfied that Malcolm Cooper has recent and relevant financial experience for the purposes of paragraph C.3.1 of the Combined Code. Anders Böös will step down from the Audit Committee at the time that he is appointed Chairman of the Company.

The Committee has met four times during the year. The Chief Operating Officer, financial controller and external auditor are normally invited to attend the meetings.

The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the independence and objectivity of the auditors. The terms of reference of the Committee reflect current best practice, including authority to:

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

During the year the Committee recommended to the Board the appointment of Deloitte & Touche LLP in place of PricewaterhouseCoopers LLP who resigned as auditors on 22 May 2007 having confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of shareholders or creditors of the Company in accordance with the Companies Act 1985.

During the year the Committee formally reviewed the interim and annual reports and associated interim and preliminary year-end results announcements, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to those.

The Committee also met with the Group's valuation agents, Allsop & Co and DTZ, to discuss methodology to be utilised for the year-end valuations of the group's properties, this thought to be especially important in a volatile market.

Due to the relatively low number of personnel employed within the Group, the nature of the business and the current control and review systems in place, the Board has decided not to establish a separate internal audit department.

4 THE REMUNERATION COMMITTEE

The Remuneration Committee comprises two Non-Executive Directors, James Dean and Thomas Lundqvist, who was appointed to the Committee following the retirement of Keith Harris. The Board has considered the Combined Code's recommendation that the Remuneration Committee should be formed of three Non-Executive Directors however it believes that the purposes of the Committee are best achieved by the appointed two Non-Executive Directors. The Remuneration Committee has met formally once but held various other informal discussions during the year. The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme and Company Share Option Plan. The Committee meets at least once a year. Full details of the Committee's work is given in the Remuneration Report on pages 46 to 50.

5 NOMINATIONS

The Board of Directors has considered the appointment of a separate Nomination Committee, as recommended by the Combined Code, however due to the size and nature of the Company, this function is carried out by the Executive Chairman and other Directors, Non-Executive and Executive, as appropriate for each appointment being considered.

CORPORATE GOVERNANCE (continued)

for the year ended 31 December 2007

6 INTERNAL CONTROL

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

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

Set out on pages 8 to 31 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.

7 DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

8 SHAREHOLDER RELATIONS

The Group issues full annual accounts to each of its shareholders and at the half-year an Interim Report is sent to all shareholders. In addition, all press releases are included on the Company's website at www.clsholdings.com on the Press Centre, "Press Centre" and "RNS Announcements" pages.

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

9 PROXY VOTING

The proxy forms for the Annual General Meeting and also the Extraordinary General Meeting which were held in 2007 included a "vote withheld" box. Details of the proxies lodged for the AGM and the EGM, which was held in November 2007, were announced and are on the Company's website at www.clsholdings.com on the Press Centre, RNS Announcements page.

10 AUDITOR INDEPENDENCE

The Audit Committee reviews the work undertaken by the external auditor and assesses annually its independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

11 JOINT VENTURES & ASSOCIATES

This Corporate Governance report applies to the Company and its subsidiaries. It does not include joint ventures or associates.

12 NON-COMPLIANCE WITH THE COMBINED CODE

With the exception of the absence of a Nominations Committee, that the Remuneration Committee consists of two independent Non-Executive Directors as commented on in further detail above, and that the Chairman is not independent, the Company has complied throughout the financial year with the provisions of the Combined Code. As mentioned above, it is proposed that Anders Böös, who is independent, be appointed as Non-Executive Chairman with effect from the 2008 Annual General Meeting.

By order of the Board

Per H Sjöberg
Director
17 April 2008

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2007

The report on remuneration of the Directors for the year ended 31 December 2007 is set out below and has been prepared in accordance with the applicable statutory regulations.

Certain sections of this Report are subject to statutory audit, as required by the Companies Acts 1985 and 2006. Those sections are indicated in the section title. All other sections have not been audited.

1 THE WORK OF THE REMUNERATION COMMITTEE

The Board has appointed a Remuneration Committee that is chaired by James Dean and included Keith Harris until his retirement on 21 May 2007, following which Thomas Lundqvist was appointed to the Committee. The Committee members are considered to be independent Non-Executive Directors. The remit of the Committee is to consider and recommend to the Board:

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

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

2 REMUNERATION POLICY

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

Executive Directors

Consistent with this policy, emoluments awarded to Executive Directors are intended to be competitive and comprise a mix of both performance and non-performance related remuneration and include discretionary awards. This is designed to incentivise Directors and to align their interests with those of shareholders, whilst adhering to the goals of Corporate Governance. Non-discretionary awards are not made.

The Remuneration Committee carefully considers on a regular basis the market positioning of the remuneration and emoluments of the Directors against a group of appropriate quoted real estate companies. CLS does not operate any long term incentive plans.

The criteria used for judging the Executive Directors' fees are:

- Their own personal performance measured against specific targets
- The financial performance of the Group as measured against budget, and
- Total return to shareholders.

The Remuneration Committee believes in incentivising the Directors taking account of the overall emoluments paid, having carefully reviewed these to ensure that they are not paid excessively in comparison to peer group companies.

The Board does not anticipate any significant change to its remuneration policy in the year ending 31 December 2008. The Executive Directors salaries were not increased at 1 January 2008.

2 REMUNERATION POLICY (CONTINUED)

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Board, having received the recommendations of the Executive Directors. Their remuneration consists of fees for their services to the Board and any additional services such as chairing Board Committees and other services. Thomas Lundqvist also receives a fee as a Non-Executive Director of CLS Capital Partners Limited, the investment division.

Basic salaries

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

Performance-Related Remuneration

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

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

The remuneration of the Non-Executive Directors does not include a performance-related element except that Tom Thomson received a bonus further to a specific project undertaken.

For the year ended 31 December 2007, the apportionment of remuneration and other benefits between discretionary performance-related and non-performance related elements was as follows:

Director	Performance-related	Non Performance-Related
Sten Mortstedt	Nil	100%
Per Sjöberg	41%	59%
Dan Bäverstam	Nil	100%
Steven Board	32%	68%
Tom Thomson	33%	67%
Anders Böös	Nil	100%
Malcolm Cooper	Nil	100%
James Dean	Nil	100%
Keith Harris	Nil	100%
Thomas Lundqvist	Nil	100%
Bengt Mörtstedt	Nil	100%

DIRECTORS' REMUNERATION REPORT (continued)

for the year ended 31 December 2007

3 DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2007, the remuneration received by the Directors was as set out in the table below.

	2007 Fee as Director £000	2007 Salary £000	2007 Other fees £000	2007 Benefits in kind £000	2007 Total emoluments £000	2007 Pension Contributions £000	2007 Other benefits/ Performance related £000	2007 Total Remuneration £000	2006 Total Remuneration £000
Executive									
Sten Mortstedt (Executive Chairman)	–	175	300 ⁽¹⁾	–	475	–	–	475	575
Per Sjöberg ⁽²⁾ (Chief Executive Officer)	–	241	–	2	243	11	175	429	441
Dan Bäverstam ⁽³⁾ (Chief Financial Officer)	–	186	81 ⁽⁴⁾	3	270	209 ⁽⁵⁾	–	479	439
Steven Board (Chief Operating Officer)	–	203	–	3	206	10	100	316	428
Non-Executive									
Tom Thomson (Non-Executive Vice-Chairman)	–	151	–	3	154	5	75	234	178
Anders Böös ⁽⁶⁾	10	–	–	–	10	–	–	10	–
Malcolm Cooper ⁽⁷⁾	21	–	–	–	21	–	–	21	–
James Dean	40	–	–	–	40	–	–	40	37
Keith Harris ⁽⁸⁾	16	–	20 ⁽⁹⁾	–	36	–	–	36	37
Thomas Lundqvist	40	–	31 ⁽¹⁰⁾	–	71	–	–	71	45
Bengt Mortstedt	35	–	–	–	35	–	–	35	32
2007	162	956	432	11	1,561	235	350	2,146	
2006	138	845	413	9	1,405	418	389	2,212	

This table is audited

⁽¹⁾ Charges by consultancy companies for services rendered in regard to specific projects. These fees have been reviewed by management and found to be at appropriate market rates and were subsequently approved by the Remuneration Committee.

⁽²⁾ Fees earned in respect of Per Sjöberg's appointments as Non-Executive Director of Bulgarian Land Development plc and Cateria AB are paid to the Company and not to the Director.

⁽³⁾ Resigned from the Board on 23 November 2007.

⁽⁴⁾ The Company did not wish Dan Bäverstam to work out his notice and accordingly made a termination payment in lieu of his contractual notice period to November 2008. The figure above also includes a payment in lieu of annual leave.

⁽⁵⁾ This amount includes £200k as part of his payment in lieu of contractual notice.

⁽⁶⁾ Appointed to the Board on 13 September 2007.

⁽⁷⁾ Appointed to the Board on 22 May 2007

⁽⁸⁾ Retired from the Board on 21 May 2007.

⁽⁹⁾ The Company did not wish Keith Harris to work out his notice and accordingly made a termination payment in lieu of his contractual notice period to November 2007.

⁽¹⁰⁾ This includes charges of £21k by a consultancy company for services rendered in regard to specific projects and £10k is fees in respect of his role as a non-executive director of CLS Capital Partners Ltd, the investment division.

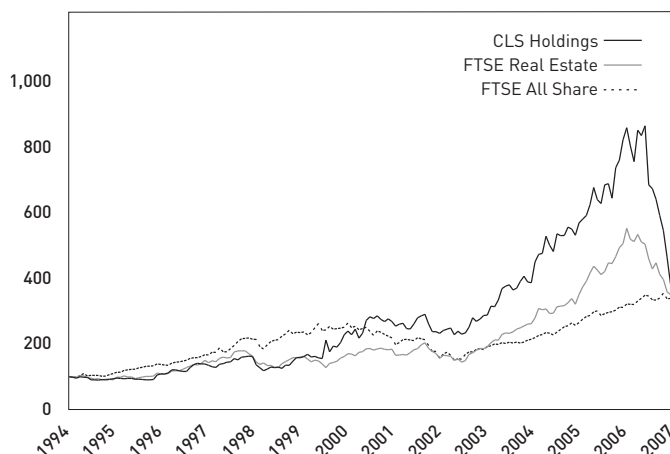
The benefits provided to Executive Directors are permanent health and private medical insurance, and pension contributions and life assurance under the Company's defined contribution pension scheme of which four Directors were members (2006: four). No car or car allowance is provided to any Director (2006: Nil).

4 DIRECTORS' PENSION ENTITLEMENT (AUDITED)

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 (2006: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2006: 5 per cent).

5 SHARE PERFORMANCE GRAPH

The following graph shows the Company's performance measured by total shareholder return (TSR) since the Company was listed on the London Stock Exchange compared with the TSR performances of the FTSE All Share companies and the FTSE Real Estate Index over the same period. The FTSE Real Estate Index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates. The Company consistently outperformed both indices, however in June 2007 share prices fell in anticipation of the downturn in the commercial property market which occurred in the second half of 2007. Since that time these indices have converged. The graph below includes conventional dividend payments but excludes the positive impact to CLS shareholders of capital distributions by the Company through tender offer buy-backs.



6 SHARE OPTIONS (AUDITED)

The Board has delegated to the Remuneration Committee the authority to grant options under the Company's 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme) and under the Company's Unapproved Share Option Scheme.

Share options have normally been awarded to Executive Directors on the commencement of employment and there is no policy to provide options to Directors on an annual basis. It is policy not to provide share options to Non-Executive Directors.

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

Details of options held by Directors are set out below.

Director	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	No. at 1 Jan 2007	Granted in year	Exercised in year	Market price at exercise (pence)	Lapsed in year	No. at 31 Dec 2007
Per Sjöberg										
unapproved	27.09.05	27.09.08	26.09.12	458.25	73,500	–	–	–	–	73,500
CSOP	21.12.05	21.12.08	20.12.12	492.75	6,088	–	–	–	–	6,088
unapproved	21.12.05	21.12.08	20.12.12	492.75	412	–	–	–	–	412
					80,000	–	–	–	–	80,000
Tom Thomson										
approved	20.12.01	20.12.04	19.12.11	212.50	14,000	–	–	–	–	14,000
unapproved	20.12.01	20.12.04	19.12.08	212.50	311,000	–	–	–	–	311,000
					325,000	–	–	–	–	325,000

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

The highest, lowest and average mid-market share price in the year were 775 pence, 307 pence and 594.05 pence, respectively. The year end share price was 325 pence.

DIRECTORS' REMUNERATION REPORT (continued)

for the year ended 31 December 2007

7 DIRECTORS' SERVICE CONTRACTS

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

During the year Tom Thomson's service was provided further to an Agreement which expired on 31 December 2007. Except for this and since that Agreement's expiry, in accordance with best practice, Non-Executive Directors are not appointed on service contracts, but there are letters of appointment in place for each Non-Executive Director. All of the Non-Executive Directors are appointed until such time as they are not re-elected. As recommended under the Combined Code all of the Non-Executive Directors that have served for more than nine years retire annually and are able to seek re-election at the Annual General Meeting. If they fail to be re-elected their terms of appointment will cease.

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

Name	Contract date	Notice period
Sten Mortstedt	28.04.94	12 months
Per Sjöberg	27.09.05	12 months
Dan Bäverstam ⁽¹⁾	05.10.01	12 months
Steven Board	01.12.98	12 months
Tom Thomson	25.01.08	3 months
Anders Böös ⁽²⁾	03.10.07	3 months
Malcolm Cooper ⁽³⁾	15.06.07	3 months
James Dean	09.04.99	6 months
Keith Harris ⁽⁴⁾	28.04.94	6 months
Thomas Lundqvist	20.12.95	6 months
Bengt Mörtstedt	18.12.98	6 months

⁽¹⁾ Resigned on 23 November 2007

⁽²⁾ Appointed to the Board on 13 September 2007

⁽³⁾ Appointed to the Board on 22 May 2007

⁽⁴⁾ Retired on 21 May 2007

8 INTERESTS IN SHARES

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

	31 December 2007* Ordinary shares of 25p	31 December 2006† Ordinary shares of 25p
Sten Mortstedt	30,680,032	32,153,682
Per Sjöberg	74,001	36,324
Dan Bäverstam	224,029	200,519
Steven Board	86,641	76,769
Tom Thomson	114,385	108,790
Anders Böös	–	–
Malcolm Cooper	–	–
James Dean	20,522	21,507
Keith Harris	6,975	6,975
Thomas Lundqvist	110,115	106,440
Bengt Mörtstedt	4,860,130	5,093,577

* Or at date of resignation or retirement, if earlier

† Or at date of appointment, if later

All of the above interests in shares were held beneficially for the Directors concerned. Except for 291 shares held in the name of his wife, Sten Mortstedt's shares in which he is beneficially interested have been transferred to be held in trust, as announced on 4 July 2007. There have been no changes to the holdings shown above between the 31 December 2007 and the date of this Report except that Tom Thomson sold 79,121 shares on 3 April 2008 and Per Sjöberg purchased 10,000 shares on 15 April 2008.

9 LONG-TERM INCENTIVE SCHEME

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

10 WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board,

James Dean

Chairman

Remuneration Committee

17 April 2008

CORPORATE RESPONSIBILITY

for the year ended 31 December 2007

1 RESPONSIBILITY

The Executive Board takes responsibility for Corporate Responsibility of the Group and ensures that the philosophy is broadcast to and encourages its support by all employees throughout the Group.

The Group ensures that it is compliant with all legislation including environmental legislation in those countries in which it operates.

2 ENVIRONMENT

The Board is aware of the Company's environmental impact and therefore seeks to both minimise adverse effects and enhance positive effects. The Company is committed to a responsible and forward-looking approach to environmental issues and encourages recycling, energy conservation and, where practical, the use of alternative energy supplies.

When conceiving, designing and developing new build projects we place high priority on achieving and bettering the guidelines for sustainability and renewable energy sources.

Throughout the portfolio, regular maintenance and any improvement projects seek to maximise efficiency of the Group's buildings and to reduce energy consumption, with consideration of the needs of our tenants' and the age of our buildings. When upgrading or refurbishing properties it is recognised that the principal issues that require management are minimising local environmental impact, particularly noise and dust; managing construction waste and sourcing materials responsibly. Recycling opportunities are continually reviewed and implemented where possible.

Examples of this approach would include the installing electricity check meters when carrying out refurbishments; sourcing only Green Tariff electricity supplies for our multi-let properties and using video-conferencing to reduce the need to travel between our European offices.

3 EMPLOYEES

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

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

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

4 CHARITABLE CONTRIBUTIONS

During the year, 25 of the Company's London employees took part in a fun run for Land Aid Charitable Trust, the real-estate sector charity which assists the homeless. In addition the contributions made by the Group during the year for charitable purposes were £11,345 (2006: £5,734).

Neither the Company nor any of its subsidiaries made any donations of a political nature during the year.

5 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.

6 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLS HOLDINGS PLC

We have audited the group financial statements of CLS Holdings plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, and the related notes 1 to 35. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2007.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, and the Financial and Property Reviews that is cross referred from the Review of Business section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the group financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
17 April 2007

CONSOLIDATED INCOME STATEMENT

31 December 2007

	Notes	Year ended 31 December 2007 £000	Year ended 31 December 2006 £000
Continuing operations			
Revenue	5	87,992	86,097
Rental and similar revenue		70,042	69,804
Service charge and similar revenue		12,260	11,828
Service charge expense and similar charges		(16,007)	(16,129)
Net rental income		66,295	65,503
Net income from non-property activities		5,690	4,465
Other operating (expense)/income	6	(1,568)	2,718
Administrative expenses	7	(27,724)	(17,539)
Net property expenses	7	(3,161)	(3,495)
Operating profit before (losses)/gains on investment properties		39,532	51,652
Net (losses)/gains from fair value adjustment on investment properties	13	(68,077)	162,060
Profit on disposal of associate/part share of joint venture	16	-	3,721
Loss on disposal of subsidiaries	31	(1,974)	(1,797)
Loss from sale of investment properties		-	(952)
Operating (loss)/profit		(30,519)	214,684
Finance income	9	6,557	8,335
Finance costs	10	(49,218)	(39,948)
Exceptional finance costs	10	-	(5,251)
Total finance costs		(49,218)	(45,199)
Share of profit/(loss) of associates after tax	16	537	(1,206)
(Loss)/profit before tax		(72,643)	176,614
Taxation – current		(2,610)	(1,225)
Taxation – deferred		42,342	(19,058)
Tax credit/(charge)	11	39,732	(20,283)
(Loss)/profit for the period from continuing operations		(32,911)	156,331
Discontinued operations:			
Loss for the period from discontinued operations after tax	32	-	(2,538)
(Loss)/profit for the period		(32,911)	153,793
Attributable to equity holders of the parent		(32,549)	153,793
Attributable to minority interests		(362)	-
		(32,911)	153,793
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in pence per share)			
Basic	12	(45.8)	196.7
Diluted	12	(45.8)	195.6
(Loss)/earnings per share for (loss)/profit from continuing operations attributable to the equity holders of the Company during the year (expressed in pence per share)			
Basic	12	(45.8)	199.9
Diluted	12	(45.8)	198.8

The notes on pages 57 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	As at 31 December 2007 £000	As at 31 December 2006 £000
Non-current assets			
Investment properties	13	1,175,291	1,143,451
Property, plant and equipment	14	1,832	1,995
Intangible assets	15	19,538	18,846
Investments in associates	16	42,305	–
Other investments	17	8,424	16,193
Derivative financial instruments	18	1,268	1,072
Deferred income tax	25	2,880	4,536
Trade and other receivables	19	49	787
		1,251,587	1,186,880
Current assets			
Trade and other receivables	19	9,070	9,204
Derivative financial instruments	18	1,208	943
Cash and cash equivalents	20	122,030	157,571
		132,308	167,718
Total assets		1,383,895	1,354,598
Non-current liabilities			
Deferred income tax	25	117,439	154,922
Borrowings, including finance leases	26	695,675	657,485
		813,114	812,407
Current liabilities			
Trade and other payables	24	59,667	66,892
Current income tax		2,690	818
Derivative financial instruments	18	2,307	–
Borrowings, including finance leases	26	103,025	26,342
		167,689	94,052
Total liabilities		980,803	906,459
Net assets		403,092	448,139
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	18,712	20,021
Share premium reserve	23	69,824	69,712
Other reserves	23	61,198	42,462
Retained earnings		254,432	316,840
		404,166	449,035
Minority interest		(1,074)	(896)
Total equity		403,092	448,139

These financial statements were approved by the Board of Directors and authorised for issue on 17 April 2008 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr P Sjöberg
Director

The notes on pages 57 to 92 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2007

	Notes	Attributable to equity holders of the Company			Minority Interest £000	Total £000
		Share capital £000	Other reserves £000	Retained earnings £000		
Balance at 1 January 2006		21,382	116,042	217,252	(896)	353,780
Arising in the year:						
Fair value gains/(losses):						
– available-for-sale financial assets	23	–	(4,871)	–	–	(4,871)
– cash flow hedges	23	–	1,808	–	–	1,808
Currency translation differences on foreign currency net investments	23	–	(2,459)	–	–	(2,459)
Purchase of own shares expense		–	–	(307)	–	(307)
Purchase of own shares	22	(1,361)	1,361	(53,902)	–	(53,902)
Employee share option scheme	22/23	–	293	4	–	297
Net expense recognised directly in equity		(1,361)	(3,868)	(54,205)	–	(59,434)
Profit for the year		–	–	153,793	–	153,793
Total increase/(decrease) in equity for the year		(1,361)	(3,868)	99,588	–	94,359
Balance at 31 December 2006		20,021	112,174	316,840	(896)	448,139
Arising in the year:-						
Fair value gains/(losses):						
– available-for-sale financial assets	23	–	1,716	–	–	1,716
– cash flow hedges	23	–	(1,206)	–	–	(1,206)
Currency translation differences on foreign currency net investments	23	–	16,917	–	–	16,917
Purchase of own shares expense		–	–	(190)	–	(190)
Purchase of own shares	22	(1,120)	1,120	(29,669)	–	(29,669)
Employee share option scheme	22/23	–	112	–	–	112
Treasury shares cancellation		(189)	189	–	–	–
Change in minority interest		–	–	–	184	184
Net income/(expense) recognised directly in equity		(1,309)	18,848	(29,859)	184	(12,136)
Loss for the year		–	–	(32,549)	(362)	(32,911)
Total increase/(decrease) in equity for the year		(1,309)	18,848	(62,408)	(178)	(45,047)
Balance at 31 December 2007		18,712	131,022	254,432	(1,074)	403,092

The notes on pages 57 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2007

	Notes	Year ended 31 December 2007 £000	Re-stated Year ended* 31 December 2006 £000
Cash flows from operating activities			
Cash generated from operations	28	54,141	44,089
Interest paid		(43,553)	(41,641)
Income tax paid		(739)	(2,206)
Net cash inflow from operating activities		9,849	242
Cash flows from investing activities			
Purchase of investment property		(36,706)	(123,533)
Capital expenditure on investment property		(19,974)	(49,128)
Proceeds from sale of investment property		-	3,608
Purchases of property, plant and equipment		(821)	(1,029)
Proceeds from sale of property, plant and equipment		31	433
Purchase of equity investments		(8,229)	(6,746)
Proceeds from sale of equity investments		10,825	-
(Purchase)/disposal of interests in associate/joint venture		(35,150)	2,141
Purchase of subsidiary undertaking net of cash acquired		(1,509)	(12,082)
Proceeds on disposal of subsidiary undertakings net of cash sold		(12,305)	137,571
Interest received		5,820	5,084
Net cash outflow from investing activities		(98,018)	(43,681)
Cash flows from financing activities			
Issue of shares		112	293
Purchase of own shares		(29,861)	(54,209)
New loans		120,675	218,503
Issue costs of new bank loans		(1,416)	(858)
Purchase of financial instruments		(410)	(923)
Repayment of loans		(38,894)	(81,088)
Net cash inflow from financing activities		50,206	81,718
Net (decrease)/increase in cash and cash equivalents		(37,963)	38,279
Foreign exchange gain/(loss)		2,083	1,130
Cash and cash equivalents at the beginning of the year		157,571	118,162
Cash and cash equivalents at the end of the year	20	122,030	157,571

* Note 2.1

The notes on pages 57 to 92 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

1 GENERAL INFORMATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 1985 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property and financial instruments (including certain equity investments and derivative financial instruments) either through profit or loss or equity, as appropriate.

New standards and interpretations

In the current year, the Group has adopted IFRS 7 'Financial Instruments: Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital. Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies'; IFRIC 8 'Scope of IFRS 2'; IFRIC 9 'Reassessment of Embedded Derivatives'; and IFRIC 10 'Interim Financial Reporting and Impairment'. The adoption of these Interpretations has not led to any changes in the Group's accounting policies. In addition, the Group has elected to adopt the following in advance of their effective dates:

- IAS 23 (Revised) 'Borrowing Costs' (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 13 'Customer Loyalty Programmes' (effective for accounting periods beginning on or after 1 July 2008)

The revisions made to IAS 23 have had no impact on the Group's accounting policies. The principal change to the standard, which was to eliminate the previously available option to expense all borrowing costs as incurred, has had no impact on these financial statements because the group's borrowings are mainly in relation to investment properties that are valued at fair value and so are excluded from the scope of the revised standard.

The adoption of IFRIC 13 has had no impact on these financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 3 (Revised) 'Business Combinations'
- IFRS 8 'Operating Segments'
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'
- IFRIC 12 'Service Concession Agreements'
- IFRIC 14 'IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

The main change resulting from the reissue of IFRS 3 is that investments in associates will be permitted to be valued at fair value as an alternative to the equity method that is currently prescribed. The directors do not anticipate any material changes will arise as a result of this.

The principal changes resulting from the issue of IFRS 8 which replaces IAS 14 Segment Reporting is that the requirements of the IFRS are based on the information about the components of the Group that management uses to make decisions about operating matters. The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by management and also measurement of amounts reported for each operating segment item to be the measure reported to management. The main impact on these financial statements in future years will be that joint ventures and non property investments will be disclosed in more detail.

The directors anticipate that the adoption of the IFRIC Interpretations in future periods will have no material impact on the financial statements of the Group.

Comparative information

In the 2006 consolidated statement of cashflows, proceeds from the disposal of a subsidiary have been reclassified out of cashflows from operations into cashflows from investing activities. Gains/losses on foreign exchange have been reclassified in 2006 from cashflows from operations to the main body of the cashflow statement.

In the 2006 income statement service charge income of £5,265,094 was netted against service charge expense of £5,377,751 with the net expense of £112,657 shown in the service charge expense line item. In these financial statements the 2006 comparatives have been adjusted to show these amounts gross in the respective income and expense line items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Business combinations

(a) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination that meet the recognition criteria under IFRS 3 are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

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

(b) Joint ventures

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

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

(c) Associates

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

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

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

2.3 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication of impairment. If the recoverable amount of the cash generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the units pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Segment information

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

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

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

(c) Consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises freehold land, freehold buildings, land held under operating leases and buildings held under finance leases.

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

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

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

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

Changes in fair values are recorded in the income statement.

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

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

2.7 Property, plant and equipment

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

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

Plant and equipment	4 – 5 years
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The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

2.8 Intangible assets

Intangible assets comprise acquired separable trade names, customer relationships, technology and internally generated development and other costs. Intangible assets acquired separately are capitalised at cost and in respect of business combinations are capitalised at fair value at the date of acquisition. Following initial recognition, the cost model is applied. The useful lives of intangible assets are assessed as either finite or indefinite. Where assessed as finite, the asset is amortised over its estimated useful life on a straight line basis. All intangible assets are reviewed for impairment annually.

Trade names	11 years
Customer relationships	10-11 years
Technology	4 years
Capitalised development and other costs	indefinite

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially recognised at fair value, plus transaction costs, except for those financial assets classified as fair value through the profit or loss, which are initially measured at fair value.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose and is determined at the time the investments were acquired.

Financial assets include other investments (note 17), derivative financial instruments (note 18), trade and other receivables (note 19) and cash and cash equivalents (note 20).

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

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

Financial assets at fair value through the profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

(b) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted on an active market are classified as loans and receivables.

Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

(c) Held to maturity investments

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

(d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or are not classified in any of the other categories.

Available for sale financial assets are measured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is included in profit or loss for the period. Dividends on available for sale financial assets are included in profit or loss when the Group's right to receive the dividend is established.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Derecognition of financial assets

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

Impairment of financial assets

Financial assets other than financial assets at fair value through the profit or loss are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. For shares classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

With the exception of available for sale financial assets, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not have been recognised.

In respect of available for sale financial assets, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified either as financial liabilities at fair value through the profit or loss or as other financial liabilities.

(a) Financial liabilities at fair value through the profit or loss

Financial liabilities are classified as fair value through the profit or loss where they are either held for trading or are designated as fair value through the profit or loss. The Group holds derivatives that are not part of a designated hedging relationship that are classified as held for trading.

Financial liabilities at fair value through the profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(b) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with accrued interest expense recognised on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

Derivative financial instruments

The Group uses derivatives including swaps and interest rate caps to help manage its interest rate and foreign exchange rate risk.

Derivatives are recognised initially at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (i) fair value hedges;
- (ii) cash flow hedges; or
- (iii) hedges of net investments in foreign operations.

Hedge accounting

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

(a) Fair value hedge accounting

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

(b) Cash flow hedge accounting

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

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

(c) Hedges of net investments in foreign operations

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

(d) Derivatives that do not qualify for hedge accounting

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

2.10 Non current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are stated at the lower of carrying amount and fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed a plan to sell which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

2.11 Impairment of assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Income tax

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using rates that are expected to apply in the period when the liability is settled or the asset is realised in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred income tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set off and the Group intends to settle its current tax assets and liabilities on a net basis.

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

2.13 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the director's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of sales taxes and value added taxes.

(a) Rental and similar revenue

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

(b) Service charge and similar revenue

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

(c) Other operating income

Revenue from the sale of goods and services is booked when the revenue can be calculated reliably, and the risks and benefits have been transferred to the buyer. Revenues are booked net, i.e. after deductions for VAT and discounts.

(d) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

(e) Gain on disposal of investment property

Gain or loss on disposal of investment property is recognised when the risks and rewards of ownership have been transferred to the buyer. This normally occurs when legal title passes to the buyer. In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. In such cases, the nature and extent of the Group's continuing involvement determines how the transaction is accounted for. If it is accounted for as a sale, the continuing involvement of the Group may delay the recognition of revenue. The Group also considers the means of payment and evidence of the buyer's commitment to complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provides insufficient evidence of the buyers commitment to complete payment, revenue is recognised only to the extent that cash is received.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases. Certain operating leases for land that is classified and accounted for as investment property pursuant to IAS 40 Investment properties are accounted for as if they were finance leases.

(a) A Group company is the lessee

- (i) Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the term of the relevant lease.
- (ii) Assets held under finance leases are recognised as assets at the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Each lease payment is allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

(b) A Group company is the lessor

- (i) Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.
- (ii) Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic return on the Group's net investment outstanding in respect of the leases.

2.16 Employee benefits

(a) Pension obligations

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

(b) Share-based compensation

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

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

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Tender offer buy-backs

In lieu of paying dividends, a distribution by way of a share buy-back is made twice yearly. Shares purchased by way of the tender offer are cancelled, unless the Company is within the limit of 10% of its own shares that it is permitted to hold in which case the shares are retained as treasury shares.

Where the Company purchases its own shares out of free reserves and the shares are subsequently cancelled, a sum equal to the nominal value of the shares so purchased is transferred to the capital redemption reserve account.

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

2.19 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or nature to enable a full understanding of the Group's financial performance.

Transactions which may give rise to exceptional items are principally gains or losses on disposals of investments, subsidiaries and early termination of debt instruments.

3 FINANCIAL INSTRUMENTS

3.1 Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.9 to the financial statements.

3.2 Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 26, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Gearing ratio

The Group's directors review the capital structure. As part of this review they consider the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2007 £000	2006 £000
Debt	803,717	689,713
Cash and cash equivalents	122,030	157,571
Net debt	681,687	532,142
Equity	403,092	448,139
Net debt to equity ratio	169%	119%

Debt is defined as long and short term borrowings excluding unamortised issue costs as detailed in note 26. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements except to the extent that debt covenants may require group companies to maintain ratios such as debt to equity (or similar) at certain levels.

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management approach seeks to minimise potential adverse effects on the Group's financial performance whilst maintaining flexibility.

Risk management is carried out by the central treasury department (Group Treasury) in close co-operation with the Group's operating units and with guidance from the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates and to a lesser extent other price risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching assets and liabilities in terms of duration, interest payments and currency. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures that risk.

(i) Foreign exchange risk

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

Group Treasury manages the entire foreign exchange risk exposure for the Group and monitors the Group's exposure on a regular basis. The general policy of the Group is to match the currency of investments acquired with the related borrowing which largely eliminates foreign exchange risk on property investments. A portion of the remaining operations, equating to the net assets of the foreign property operations is un-hedged. In some cases where foreign exchange risk arises from future commercial transactions the group will hedge the future committed commercial transactions using foreign exchange swaps or forward foreign exchange contracts.

The Group's principal foreign currency exposures are in respect of the Euro and the Swedish Kroner. A 10% movement in the value of Sterling against the Euro would result in an income statement variance of less than £1 million and an equity movement of less than £25 million. A 10% movement in the value of Sterling against the Swedish Kroner would result in an income statement variance of less than £1 million and an equity movement of less than £10 million. 10% is the sensitivity rate representing management's assessment of the reasonable possible change in foreign exchange rates.

(ii) Interest rate risk

The Group's most significant interest rate risk arises from its long-term variable rate borrowings. Interest rate risk is regularly monitored by Group Treasury and by the Board on both a country basis and on a Group basis. The Board's policy is to minimise variable interest rate exposure whilst maintaining the flexibility to borrow at the best rates and with consideration to potential penalties on termination of fixed rate loans. To manage its exposure the Group uses variable to fixed interest rate swaps, interest rate caps and also natural or passive hedging from cash held on deposit.

In assessing risk, a range of scenarios is taken into consideration such as refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the profit and loss account for a defined shift in the underlying interest rate. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for those liabilities that represent the major interest-bearing positions. Based upon the results of the various scenarios, the Group manages its variable interest-rate risk by using a combination of floating-to-fixed interest-rate swaps, caps, floors and collars. Interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The table below shows the effect on the income statement and to equity that would result from an increase or decrease of 0.5% in market interest rates which is an amount management believe to be reasonable in the current market. All other factors are held constant.

	2007 Income statement £000	2007 Equity £000	2006 Income statement £000	2006 Equity £000
Scenario: Shift of 50 basis points				
Cash +50 basis points	545	545	566	566
Variable borrowings (including caps) +50 basis points	(815)	(815)	(1,541)	(1,541)
Cash -50 basis points	(545)	(545)	(566)	(566)
Variable borrowings (including caps) - 50 basis points	1,263	1,263	1,541	1,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives (continued)

(a) Market risk (continued)

(iii) Other price risk

Equity investments

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

In order to manage the risk in relation to the holdings of equity securities the Group holds a diversified portfolio. Diversification of the portfolio is managed in accordance with the limits set up by the Group. This activity is not a core business of the group and changes in value of the investments would not have a material impact.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, some derivative financial instruments and deposits with financial institutions, as well as credit exposures to tenants, including outstanding receivables and committed transactions. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets that are carried in the balance sheet, including derivatives with positive market values.

For credit exposure other than exposure to tenants, the directors believe that counterparty risk is minimised as the banks and institutions used by the Group are well known and considered reputable. However the Group additionally has policies that limit the amount of credit exposure to any financial institution.

With regard to the credit risk in relation to tenants, the Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to tenants is assessed by a process of internal and external credit scoring. The Group also reduces its credit risk to tenants by obtaining bank guarantees from the tenant company or its parent and receipted rental deposits as appropriate in individual circumstances. The overall credit risk in relation to tenants is monitored on a regular basis to ensure that the policies in place achieve the desired objective. Moreover a significant proportion of the Group portfolio is let to Government tenants which can be considered financially secure. Management do not expect any significant losses in relation to receivables.

(c) Liquidity risk

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long term requirements. The Group maintains adequate levels of liquid assets to fund operations and to allow the Group to quickly react to potential new opportunities in the dynamic market in which it operates.

Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow so that future requirements can be managed effectively.

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities, as at the balance sheet date, into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts represent undiscounted cash-flows. Amounts due within 1 year are equivalent to the carrying values in the balance sheet as the impact of discounting is not significant in respect of this.

At 31 December 2007	Less than 1 year £000	1-2 years £000	2-5 years £000	> 5 years £000
Non-derivative financial liabilities				
Borrowings	103,024	53,243	295,893	310,865
Interest payments on borrowings ⁽ⁱ⁾	42,190	40,221	92,663	117,218
Trade and other payables	59,667	–	–	–
Forward foreign exchange contracts				
Cash flow hedges				
Outflow	(35,000)	–	–	–
Inflow	35,054	–	–	–

At 31 December 2006	Less than 1 year £000	1-2 years £000	2-5 years £000	> 5 years £000
Non-derivative financial liabilities				
Borrowings	26,107	122,060	216,534	271,652
Interest payments on borrowings ⁽ⁱ⁾	37,648	36,042	90,987	132,588
Trade and other payables	66,892	–	–	–
Forward foreign exchange contracts				
Cash flow hedges				
Outflow	–	–	–	–
Inflow	–	–	–	–

⁽ⁱ⁾ The interest on borrowings is calculated based on borrowings held as at 31 December without taking into account future issues. Floating rate interest is estimated using a future interest rate curve as at 31 December.

3.4 Fair value estimation

- Foreign currency swaps and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Interest rate swaps and caps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates.
- The fair value of an off market unquoted option to acquire shares in an associated company is considered to be its transaction price.
- The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include equity investments.
- The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Except for investment in associates in note 16 and borrowings set out in note 26, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical estimates and judgements that the directors have made in the process of applying the Group's accounting policies and that have most significant effect on the amounts recognised in the financial statements.

(a) Fair value of investment properties

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

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

(b) Income Taxes

The Group is subject to income taxes in different jurisdictions and estimation is required to determine the worldwide provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which determination is made.

(c) Impairment of goodwill and other intangible assets

When assessing possible impairment of goodwill and other intangible assets the Group is required to make an assessment of recoverable amounts. Recoverable amount is calculated as the higher of fair value less costs to sell and value in use. In making these assessments, assumptions are required to be made based upon information available at the time.

5 SEGMENT INFORMATION

Primary reporting format – geographical segments

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

- (i) United Kingdom
- (ii) France
- (iii) Germany
- (iv) Sweden

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

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

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

5 SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2007 are as follows:

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
Continuing operations						
Revenue	38,510	27,577	11,181	10,724	–	87,992
Operating profit before gains/(losses) on investment properties	17,585	18,561	6,342	(2,956)	–	39,532
Net (loss)/gain from fair value adjustment on investment properties	(62,988)	1,101	(3,927)	(2,263)	–	(68,077)
Loss from sale of investment properties	–	35	–	(2,009)	–	(1,974)
Finance income	4,246	435	96	1,780	–	6,557
Finance costs	(31,833)	(10,304)	(5,460)	(1,621)	–	(49,218)
Share of profit of associates after tax	–	–	–	537	–	537
Loss before tax	(72,990)	9,828	(2,949)	(6,532)	–	(72,643)
Tax (charge)/credit on loss	(10)	(1,474)	(79)	(1,047)	42,342	39,732
(Loss)/profit for the year from continuing operations	(73,000)	8,354	(3,028)	(7,579)	42,342	(32,911)

Other information:

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
Assets	661,514	376,302	177,469	123,425	2,880	1,341,590
Associates	–	–	–	42,305	–	42,305
Total assets	661,514	376,302	177,469	165,730	2,880	1,383,895
Total liabilities	445,555	222,227	121,064	74,519	117,439	980,804
Capital expenditure	20,803	5,491	26,175	484	–	52,953
Depreciation and amortisation	1,820	13	–	1,010	–	2,843

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

The segment results for the year ended 31 December 2006 are as follows:

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
Continuing operations						
Revenue	36,204	25,725	5,331	18,837	–	86,097
Operating profit before gains on investment properties	21,637	18,460	2,507	9,048	–	51,652
Net gain from fair value adjustment on investment properties	105,925	35,814	7,047	13,274	–	162,060
Profit on disposal of associate	3,721	–	–	–	–	3,721
Loss on disposal of subsidiaries	–	–	–	(1,797)	–	(1,797)
Loss from sale of investment properties	–	(952)	–	(2,009)	–	(2,961)
Finance income	4,898	911	21	2,505	–	8,335
Finance costs	(24,722)	(5,441)	(2,836)	(6,949)	–	(39,948)
Exceptional finance costs	(2,687)	–	–	(2,564)	–	(5,251)
Share of (loss)/profit of associates after tax	(1,423)	–	–	217	–	(1,206)
Profit before tax	107,349	48,792	6,739	11,725	–	174,605
Tax charge on profit	(184)	(869)	(20)	(152)	(19,058)	(20,283)
Profit for the year from continuing operations	107,165	47,923	6,719	11,573	(19,058)	154,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

5 SEGMENT INFORMATION (CONTINUED)

Other information:

	United Kingdom €000	France €000	Germany €000	Sweden €000	Unallocated €000	Total €000
Total assets	767,774	335,406	139,826	107,056	4,536	1,354,598
Total liabilities	364,739	205,200	99,143	82,455	154,922	906,459
Capital expenditure	54,739	11,053	116,660	8,052	–	190,504
Depreciation and amortisation	508	11	1	584	–	1,104

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

Secondary reporting format – business segments

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

- (i) Investment property, and
- (ii) Other investments

	2007 €000	2006 €000
Continuing operations		
Revenue		
Investment property	82,302	81,632
Other investments	5,690	4,465
	87,992	86,097
Total assets		
Investment property	1,332,019	1,309,887
Other investments	51,876	44,711
	1,383,895	1,354,598
Capital expenditure		
Investment property	52,506	189,643
Other investments	447	861
	52,953	190,504

6 OTHER OPERATING (EXPENSE)/INCOME

	2007 €000	2006 €000
(Loss)/gain on disposal of equity investments	(314)	36
Loss on disposal of available for sale equity investments	(2,391)	–
Change in equity investments designated at fair value	(348)	222
Other investment related income	408	321
Other property related income	1,077	2,139
Total	(1,568)	2,718

7 EXPENSES BY NATURE

	2007 £000	2006 £000
Audit services		
Audit of parent Company and consolidated accounts	101	119
Audit of the Company's subsidiaries pursuant to legislation	138	138
Non-audit services – fees payable to the Company's auditor and its associates for other services		
Other services pursuant to legislation	47	14
Other services	–	22
Depreciation and amortisation	2,814	1,102
Loss on disposal of property, plant and equipment	115	165
Repairs and maintenance	403	361
Bad debt expense	407	122
Employee benefits expense (note 8)	10,363	9,980
Legal and professional fees	10,081	4,503
Operating lease rentals	1,167	754
Other expenses	5,249	3,754
Total	30,885	21,034
Classified as:		
Administrative expenses	27,724	17,539
Net property expenses	3,161	3,495
Total	30,885	21,034

The Group incurred £0.4m of void costs in the year.

8 EMPLOYEE BENEFITS EXPENSE

	2007 £000	2006 £000
Wages and salaries	7,338	7,761
Social security costs	1,489	1,051
Share options granted to directors and employees	–	4
Pension costs – defined contribution plans	527	275
Other employee related expenses	1,009	889
Total	10,363	9,980

We consider key management to be the directors of the Group.

Please refer to the Directors' Remuneration Report for details of their emoluments.

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

	Property	Other operations	2007 Total	Property	Other operations	2006 Total
Male	27	46	73	28	42	70
Female	33	19	52	38	26	64
Total	60	65	125	66	68	134

9 FINANCE INCOME

	2007 £000	2006 £000
Finance income		
Foreign exchange variances	726	3,251
Interest income	5,831	5,084
Total	6,557	8,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

10 FINANCE COSTS

	2007 £000	2006 £000
Interest expense		
Bank loans	39,696	33,392
Debenture loans	4,703	4,707
Finance leases	73	183
Other interest	964	235
Amortisation of issue costs of loans	2,295	1,549
Derivative financial instruments (note 18)		
Interest-rate swaps: transactions not qualifying as hedges	2,441	(302)
Interest-rate caps, collars and floors: transactions not qualifying as hedges	(954)	184
Total	49,218	39,948

Exceptional finance costs

During 2006 the Group suffered exceptional loan break costs of £5,251 thousand. These were payable on the disposal of Solna Business Park, £2,564 thousand and on the refinancing of the joint venture companies holding the investments in Southwark Towers and New London Bridge House, £2,687 thousand.

11 INCOME TAX EXPENSE

Year ended 31 December 2007	Continuing operations £000
Current tax	2,610
Deferred tax (note 25)	(42,342)
Total	(39,732)
Year ended 31 December 2006	Continuing operations £000
Current tax	1,225
Deferred tax (note 25)	19,058
Total	20,283

In addition to the deferred tax release credited to the income statement in the current year, a deferred tax charge of £318 thousand (2006: a deferred tax charge of £107 thousand) has been recognised directly in equity (see note 25).

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

	2007 £000	2006 £000
(Loss)/profit before tax		
Continuing operations	(72,643)	176,614
Tax calculated at blended tax rates	19,185	53,744
Expenses not deductible for tax purposes	1,471	6,397
Tax effect of unrecognised losses in associates and joint ventures	7,797	(9,517)
Previously unrecognised tax losses	2,059	(3,302)
Change in calculation method of calculation of deferred tax*	(31,400)	0
Different taxation treatment of disposals	27	(28,163)
Deferred tax assets not recognised	85	825
Adjustment in respect of prior periods	(586)	299
Tax (credit)/expense for the year	(39,732)	20,283

* During the year, the method of calculation for the estimate of deferred tax has been revised to include the effective indexation allowance available if a property in the UK is ultimately sold rather than held for indefinite use. The change has resulted in a credit to the income statement in the year of £31.4 million.

The weighted average applicable tax rate was 26.4 per cent (2006: 30.4 per cent).

12 EARNINGS PER SHARE

Basic

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

The weighted average number of shares for the period was 71,091,971 (2006: 78,192,301).

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. Where the conversion of potential shares would have the opposite effect by increasing earnings per share or decreasing loss per share from continuing operations, they are considered to be antidilutive and so are not included in the calculation of diluted earnings per share.

Instruments that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2007 comprise share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. The effect of these antidilutive securities would have been to increase weighted average shares by 405,000 shares (2006: 435,000 shares were treated as dilutive).

	2007 Loss £000	2007 Loss per share Pence	2006 Earnings £000	2006 Earnings per share Pence
(Loss)/earnings per share:				
Basic (loss)/earnings per share	(32,549)	(45.8)	153,793	196.7
Dilution				
Share options	-	-	-	(1.1)
Diluted (loss)/earnings per share	(32,549)	(45.8)	153,793	195.6
(Loss)/earnings per share from continuing operations:				
Basic (loss)/earnings per share	(32,549)	(45.8)	153,793	196.7
Less discontinued operations				
Losses from discontinued operations after tax	-	-	2,538	3.2
Basic (loss)/earnings per share – continuing operations	(32,549)	(45.8)	156,331	199.9
Dilution				
Share options	-	-	-	(1.1)
Diluted (loss)/earnings per share – continuing operations	(32,549)	(45.8)	156,331	198.8
Loss per share from discontinued operations:				
Discontinued operations				
Losses from discontinued operations after tax	-	-	(2,538)	(3.2)
Basic loss per share – discontinued operations	-	-	(2,538)	(3.2)
Dilution				
Share options	-	-	-	-
Diluted loss per share – discontinued operations	-	-	(2,538)	(3.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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13 INVESTMENT PROPERTIES

	2007 £000	2006 £000
At beginning of year	1,143,451	1,096,361
Exchange rate variances	47,026	(5,198)
Acquisitions	28,960	129,585
Capital expenditure	23,175	45,092
Transfer from Property, plant and equipment (note 14)	–	14,210
Disposal – property	–	(23,798)
Disposals – business	–	(275,674)
Net (loss)/gain from fair value adjustments on investment properties	(68,077)	162,060
Rent free period debtor adjustments	756	813
At end of year	1,175,291	1,143,451

The investment properties were revalued at 31 December 2007 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by Allsop & Co (for the UK and Swedish properties) and DTZ (for the French and German properties), who are external, professionally qualified valuers.

Investment property includes buildings held under finance leases of which the carrying amount is £113,308 thousand (2006: £122,361 thousand).

Where the Group leases out its investment property under operating leases the duration is typically 3 years or more. No contingent rents have been recognised in 2007 or 2006.

Investment properties are pledged as collateral against debt used to acquire the respective property as disclosed in note 26.

14 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £000	Property in the course of construction £000	Total £000
Cost			
At 1 January 2006	4,849	6,637	11,486
Additions	1,616	7,573	9,189
Transfer to Investment properties (note 13)	–	(14,210)	(14,210)
At 31 December 2006	6,465	–	6,465
Additions	821	–	821
Disposals	(630)	–	(630)
Exchange rate variances	87	–	87
At 31 December 2007	6,743	–	6,743
Depreciation			
At 1 January 2006	3,367	–	3,367
Depreciation charge	766	–	766
Disposals	349	–	349
Exchange rate variances	(12)	–	(12)
At 31 December 2006	4,470	–	4,470
Depreciation charge	999	–	999
Disposals	(599)	–	(599)
Exchange rate variances	41	–	41
At 31 December 2007	4,911	–	4,911
Net book value			
At 31 December 2006	1,995	–	1,995
At 31 December 2007	1,832	–	1,832

Disposals include the writeoff of fully depreciated items of £577 thousand which had no effect on profit.

Property, plant and equipment held under lease

Operating lease rental income amounting to £nil thousand (2006: £36 thousand) relating to the lease of property, plant and equipment is included in the income statement.

No plant or equipment was held by finance lease during 2007 or 2006.

15 INTANGIBLE ASSETS

	Goodwill £000	Other intangibles £000	Total £000
Cost			
At 1 January 2006	2,761	937	3,698
Additions	8,810	4,749	13,559
Transfers from investment in associates	1,283	642	1,925
At 31 December 2006	12,854	6,328	19,182
Additions	1,794	–	1,794
Exchange rate variations	505	208	713
At 31 December 2007	15,153	6,536	21,689
Amortisation			
At 1 January 2006	–	–	–
Amortisation	–	(336)	(336)
At 31 December 2006	–	(336)	(336)
Amortisation	–	(1,815)	(1,815)
At 31 December 2007	–	(2,151)	(2,151)
Net book value			
At 31 December 2006	12,854	5,992	18,846
At 31 December 2007	15,153	4,385	19,538

Goodwill

As part of the acquisition by the Lunarworks group of Internetami AB and Bilddagboken AB during the year, £1,633 thousand of goodwill has been recognised in 2007. A further £161 thousand was recognised primarily in relation to acquisition costs associated with Lunarworks from 2006. Total goodwill attributable to the Lunarworks group (including the Internetami AB and Bilddagboken AB) at 31 December 2007 was £12,392 thousand. Goodwill of £2,509 thousand relates to the acquisition of a French property portfolio in 2004. The remaining goodwill of £252 thousand relates to the acquisition of a German property business in 2005.

Intangible assets

Other intangible assets remaining at the balance sheet date relate to the acquisition of Lunarworks AB in 2006.

All amortisation charges in the year have been charged through operating expenses (see note 7). The average remaining useful lives for intangible assets with a finite useful life is 7.7 years.

16 INVESTMENTS IN ASSOCIATES

	Net assets £000	Goodwill £000	Total £000
At 1 January 2006	1,426	2,100	3,526
Disposals	(1,426)	(175)	(1,601)
Transfer to intangible assets	–	(1,925)	(1,925)
At 31 December 2006	–	–	–
Additions	29,003	10,378	39,381
Share of profit	537	–	537
Other equity movements	324	–	324
Exchange rate differences	2,063	–	2,063
At 31 December 2007	31,927	10,378	42,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

16 INVESTMENTS IN ASSOCIATES (CONTINUED)

The Group's interest in its principal associates were as follows:

Year ended 31 December 2007	Assets £000	Liabilities £000	Revenues £000	Profit / (loss) £000	Interest held in ordinary share capital %
Catena AB (incorporated in Sweden)	57,826	(34,971)	723	606	29.1
Bulgarian Land Development Plc (incorporated in Isle of Man)	17,223	(8,151)	26	(69)	28.7
Total	75,049	(43,122)	749	537	

Catena AB

In May 2007 the Group acquired a 27.6% stake in Catena AB, a listed Swedish property company, increasing this to 29.1% by 3 July 2007, for a sum of SEK382,659 thousand. On 25 October 2007 Per Sjöberg, Chief Executive Officer of CLS Holdings plc, was appointed to the board of directors of Catena AB and Henry Klotz, a senior executive of the Group, was appointed as Non-Executive Chairman of Catena. The investment in Catena was equity accounted for from that date.

The fair value (market value) of the Group's investment in Catena AB at year end was £28,033 thousand.

Bulgarian Land Development Plc

During 2007, the Company agreed to subscribe to 7,211,878 shares at a price of £1 per share in Bulgarian Land Development Plc (BLD) which is listed on the Alternative Investment Market of the London Stock Exchange. BLD develops residential and commercial property opportunities in Bulgaria.

The new subscription increased the Group's stake in BLD to 11,461,787 shares, representing 28.65 per cent of the issued share capital. In 2006 the Group's holding in BLD comprised 17% and the investment was included as an equity investment in the balance sheet.

On 14 March 2007 Per Sjöberg, Chief Executive Officer of CLS Holdings plc, became Non-Executive Chairman of BLD and BLD was equity accounted for from that date.

The fair value (market value) of the Group's investment in Bulgarian Land Development Plc at year end was £9,055 thousand.

Year ended 31 December 2006	Assets £000	Liabilities £000	Revenues £000	Profit/ (loss) £000	Interest held in ordinary share capital %
Keronite Limited (incorporated in England and Wales)	–	–	456	(1,423)	–
Lunarworks AB (incorporated in Sweden)	–	–	1,043	217	–
Total	–	–	1,499	(1,206)	

From 1 May 2006 Lunarworks AB became a wholly owned subsidiary of the Group.

In August 2006 the Group disposed of the majority of its investment in Keronite Limited and has a remaining shareholding of 6.6% which is included in equity investments in the balance sheet. The loss on disposal of Keronite Limited of £3,721 thousand is recognised in the income statement.

17 OTHER INVESTMENTS

Investments include the following:

	2007 £000	2006 £000
Available for sale financial investments carried at fair value		
Listed equity securities – UK	1,689	7,789
Listed equity securities – Sweden	4,960	1,699
Un-listed investments – UK	–	2,250
Un-listed investments – Other	13	506
Government securities – UK	107	164
	6,769	12,408
Investments designated at fair value through the profit or loss		
Listed equity securities – UK	775	461
Listed equity securities – Sweden	–	1,029
Listed equity securities – Other	263	256
Un-listed investments – UK	57	999
Un-listed investments – Sweden	519	999
	1,614	3,744
Other investments carried at cost	41	41
Total	8,424	16,193

The investments included above represent investments in listed and unlisted equity securities and government gilts that present the group with opportunity for return through dividend and interest income and trading gains or in several cases are considered to be strategic non-controlling interests. During the year a 17% holding in Bulgarian Land Development plc with a carrying amount of £4,300 thousand was transferred to investments in associates.

When equity investments are managed and their performance is evaluated on a fair value basis they are designated upon initial recognition at fair value through the profit and loss. All other equity investments are designated as available for sale. Other investments carried at cost are non financial assets such as art work.

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2007 Assets £000	2007 Liabilities £000	2006 Assets £000	2006 Liabilities £000
Non-current portion				
Interest-rate swaps – cash flow hedges	49	–	1,072	–
Interest-rate caps and floors – not qualifying as hedges	1,219	–	–	–
	1,268	–	1,072	–
Current portion				
Interest-rate swaps – cash flow hedges	–	2,307	–	–
Forward foreign exchange contracts – cash flow hedges	35	–	–	–
Interest-rate caps and floors – not qualifying as hedges	–	–	943	–
Call option on subsidiary undertaking	1,173	–	–	–
	1,208	2,307	943	–
Total	2,476	2,307	2,015	–

Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2007 was £195,703 thousand (2006: £107,489 thousand). The average period to maturity of the interest-rate swaps was 3.8 years (2006: 1.7 years).

Forward foreign exchange contracts

The group uses forward foreign exchange contracts from time to time to hedge future committed cash-flows. At 31 December 2007 the group had £35,000 thousand of outstanding foreign exchange contracts (2006: nil)

Call Option

In October 2007 the group purchased, for SEK15 million (£1,173 thousand at year end), a call option on the remaining share capital of Bilddagboken AB, a subsidiary undertaking. The strike price of the option was SEK25 million (£1,970 thousand when exercised on 22 January 2008).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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19 TRADE AND OTHER RECEIVABLES

	2007 £000	2006 £000
Non-current		
Other debtors	49	787
Current		
Trade receivables	2,910	3,989
Prepayments	1,270	1,300
Accrued income	368	432
Other debtors	4,522	3,483
	9,070	9,204
Total	9,119	9,991

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of tenants, internationally dispersed.

20 CASH AND CASH EQUIVALENTS

	2007 £000	2006 £000
Cash at bank and in hand	42,745	84,622
Short term bank deposits	79,285	72,949
Total	122,030	157,571

At 31 December 2007, Group cash at bank and in hand included £21,406 thousand (2006: £19,918 thousand) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party.

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

Cash and cash equivalents currency profile:

	Cash at bank and in hand £000	Short-term deposits £000	Total £000
Year ended 31 December 2007			
Sterling	20,602	64,677	85,279
Euro	18,549	4,459	23,008
Swedish Kroner	3,582	10,149	13,731
Other	12	–	12
Total	42,745	79,285	122,030
Year ended 31 December 2006			
Sterling	47,457	53,772	101,229
Euro	15,896	–	15,896
Swedish Kroner	21,258	19,177	40,435
Other	11	–	11
Total	84,622	72,949	157,571

21 JOINT VENTURES

At 31 December 2007 the Group had an interest in three joint ventures:

- Teighmore Limited, incorporated in Jersey, of which the Group owned 33 1/3 per cent of the ordinary share capital (2006: 33 1/3 per cent)
- New London Bridge House Limited, incorporated in England and Wales, of which the Group owned 33 1/3 per cent of the ordinary share capital (2006: 33 1/3 per cent).
- Fielden House Investments Limited, incorporated in England and Wales, of which the Group owned 33 1/3 per cent of the ordinary share capital (2006: 33 1/3 per cent)

The principal activity of the above joint venture companies is development, management and investment in commercial properties. On the 9th January 2008 the Group's interest in both Teighmore Limited and New London Bridge House Limited were sold for a combined price of £30.0 million.

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

Year ended 31 December 2007	Teighmore £000	New London Bridge House £000	Fielden House Investments £000	Total £000
Assets:				
Non-current assets	80,415	29,806	2,867	113,088
Current assets	2,218	267	117	2,602
	82,633	30,073	2,984	115,690
Liabilities:				
Non-current liabilities	–	–	2,490	2,490
Current liabilities	69,133	13,573	105	82,811
	69,133	13,573	2,595	85,301
Net assets	13,500	16,500	389	30,389
Income	701	1,139	160	2,000
Expenses	(6,021)	(1,446)	(175)	(7,642)
Loss after income tax	(5,320)	(307)	(15)	(5,642)

Year ended 31 December 2006	Teighmore £000	New London Bridge House £000	Fielden House Investments £000	Total £000
Assets:				
Non-current assets	93,361	43,344	2,684	139,389
Current assets	4,756	640	65	5,461
	98,117	43,984	2,749	144,850
Liabilities:				
Non-current liabilities	45,967	10,643	2,105	58,715
Current liabilities	9,664	928	71	10,663
	55,631	11,571	2,176	69,378
Net assets	42,486	32,413	573	75,472
Income	920	1,382	14	2,316
Expenses	(4,784)	(1,242)	(17)	(6,043)
(Loss)/profit after income tax	(3,864)	140	(3)	(3,727)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

22 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2006	85,527	20,014	1,368	21,382
Employee share option scheme: – shares issued	–	40	(40)	–
Purchase of own shares: – pursuant to tender offer	–	(476)	476	–
– pursuant to market purchase	–	(66)	66	–
Cancelled following tender offer	(5,445)	(1,361)	–	(1,361)
At 31 December 2006	80,082	18,151	1,870	20,021
Employee share option scheme: – shares issued	–	8	(8)	–
Cancellation of Treasury Shares	(750)	–	(189)	(189)
Purchase of own shares: – pursuant to market purchase	–	(103)	103	–
Cancelled following tender offer	(3,319)	(830)	–	(830)
Cancelled following market purchases	(1,163)	(290)	–	(290)
At 31 December 2007	74,850	16,936	1,776	18,712

The total authorised number of ordinary shares is 160,000,000 shares (2006: 160,000,000 shares) with a par value of 25 pence per share (2006: 25 pence per share). All shares issued are fully paid. 74,849,736 ordinary shares were in issue at year end of which 67,740,457 were quoted on the main market of the London Stock Exchange. All ordinary shares are of one class which carry no right to fixed income.

Treasury shares

Treasury shares held at 31 December 2007 were 7,109,279 (2006: 7,477,168). During the year the Company acquired 4,894,211 (2006: 7,613,019) of its own shares, of which 3,318,960 (2006: 7,350,815) were purchased through the tender offer, and 1,575,251 (2006: 262,204) were purchased on the market. During the year the Company re-issued 30,000 (2006: 160,000) of its own shares from treasury shares.

Share options

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

Date of grant	Exercise price (pence)	Exercise period	2007	2006
20 December 2001	212.5	2004–2008	311,000	311,000
20 December 2001	212.5	2004–2011	14,000	14,000
06 October 2003	240	2006–2013	–	12,500
06 October 2003	240	2006–2010	–	17,500
27 September 2005	458.25	2008–2012	73,500	73,500
21 December 2005	492.75	2008–2012	6,088	6,088
21 December 2005	492.75	2008–2012	412	412
Total			405,000	435,000

The following options were exercised during the year:

Date of exercise	Number of shares	Exercise price (pence)
29 June 2007	12,500	240.0
29 June 2007	17,500	240.0
Total	30,000	

No options were surrendered during the year and no new options were granted.

23 OTHER RESERVES

	Share premium reserve £000	Capital redemption reserve £000	Cumulative translation reserve £000	Cash flow hedge reserve £000	Fair value reserve £000	Other reserves £000	Total £000
At 1 January 2006	69,419	12,302	4,710	(537)	2,031	28,117	116,042
Employee share option scheme:							
– shares issued	293	–	–	–	–	–	293
Purchase of own shares:							
– cancellation pursuant to tender offer	–	1,361	–	–	–	–	1,361
Exchange rate variances	–	–	(2,459)	–	–	–	(2,459)
Available-for-sale financial assets:							
– net fair value losses in the period	–	–	–	–	(4,471)	–	(4,471)
– tax on net fair value losses	–	–	–	–	(400)	–	(400)
Cash flow hedges:							
– fair value gains in the period	–	–	–	1,808	–	–	1,808
At 31 December 2006	69,712	13,663	2,251	1,271	(2,840)	28,117	112,174
Employee share option scheme:							
– shares issued	112	–	–	–	–	–	112
Purchase of own shares:							
– cancellation pursuant to tender offer	–	830	–	–	–	–	830
– cancellation pursuant to market purchase	–	290	–	–	–	–	290
– cancellation of treasury shares	–	189	–	–	–	–	189
Exchange rate variances	–	–	16,917	–	–	–	16,917
Available-for-sale financial assets:							
– net fair value gains in the period	–	–	–	–	1,716	–	1,716
Cash flow hedges:							
– fair value losses in the period	–	–	–	(115)	–	–	(115)
– transfers	–	–	–	(773)	–	–	(773)
– deferred tax	–	–	–	(318)	–	–	(318)
At 31 December 2007	69,824	14,972	19,168	65	(1,124)	28,117	131,022

24 TRADE AND OTHER PAYABLES

	2007 £000	2006 £000
Current		
Trade payables	5,806	3,264
Social security and other taxes	2,089	1,375
Other payables	6,119	7,716
Accruals	36,880	44,207
Deferred income	8,773	10,330
Total	59,667	66,892

25 DEFERRED INCOME TAX

	2007	2006
Deferred tax assets:		
– to be recovered after more than 12 months	(2,880)	(4,536)
Deferred tax liabilities:		
– to be recovered after more than 12 months	117,439	154,922
Total	114,559	150,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

25 DEFERRED INCOME TAX (CONTINUED)

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

	Total £000
At 1 January 2006	132,084
Charged to the income statement	19,058
Charged to equity	107
Exchange rate variances	(863)
At 31 December 2006	150,386
Credited to the income statement	(42,342)
Charged to equity	318
Exchange rate variances	6,197
At 31 December 2007	114,559

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

	Tax losses £000	Other £000	Total £000
Deferred tax assets:			
At 1 January 2006	(7,682)	(6,343)	(14,025)
Charged to the income statement	4,138	5,162	9,300
Charged to equity	–	189	189
At 31 December 2006	(3,544)	(992)	(4,536)
Charged to the income statement	1,798	(460)	1,338
Charged to equity	–	318	318
At 31 December 2007	(1,746)	(1,134)	(2,880)

	Deduction for UK capital allowances £000	Tax on fair value adjustments to investment properties £000	Other £000	Total £000
Deferred tax liabilities:				
At 1 January 2006	15,146	130,881	82	146,109
Charged to the income statement	737	8,824	197	9,758
Release from equity	–	–	(82)	(82)
Exchange rate variances	–	(861)	(2)	(863)
At 31 December 2006	15,883	138,844	195	154,922
Credited to the income statement	(53)	(43,554)	(73)	(43,680)
Exchange rate variances	–	6,216	(19)	6,197
At 31 December 2007	15,830	101,506	103	117,439

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2007 the Group did not recognise deferred income tax assets of £7,438 thousand (2006: £6,850 thousand) in respect of losses amounting to £21,186 thousand (2006: £22,919 thousand) that can be carried forward against future taxable income or gains in those entities. The majority of deferred tax assets recognised within the 'other' category relate to properties which have fallen below original cost. Currently, losses recognised as deferred tax assets have no restrictions on being carried forward.

26 BORROWINGS, INCLUDING FINANCE LEASES

At 31 December 2007	Current £000	Non-current £000	Total borrowings £000
Bank loans	102,027	655,982	758,009
Debenture loans	785	35,914	36,699
Other loans	–	2,450	2,450
Finance lease liabilities	213	1,329	1,542
Total	103,025	695,675	798,700

At 31 December 2006	Current £000	Non-current £000	Total borrowings £000
Bank loans	24,607	605,867	630,474
Debenture loans	705	36,700	37,405
Other loans	843	13,495	14,338
Finance lease liabilities	187	1,423	1,610
Total	26,342	657,485	683,827

Arrangement fees of £5,017 thousand (2006: £5,886 thousand) have been offset against the balances in the above tables.

(a) Bank loans

Interest on bank loans is charged at fixed rates ranging between 4.52 per cent and 11.2 per cent including margin (2006: 3.87 per cent and 11.2 per cent) and at floating rates of LIBOR, EURIBOR and STIBOR or equivalent plus a margin. Fixed rate margins range between 0.68 per cent and 2.50 per cent (2006: 0.75 per cent and 2.00 per cent) and floating rate margins range between 0.77 per cent and 2.50 per cent (2006: 0.77 per cent and 2.50 per cent). All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

(b) Debenture loans

The £36,699 thousand (2006: £37,405 thousand) of debenture loans represent amortising bonds which are repayable in equal quarterly installments of £1,175 thousand (2006: £1,175 thousand) with final repayment due in January 2025. Each installment is apportioned between principal and interest on a reducing balance basis. Interest is charged at a fixed rate of 10.77 per cent, including margin. The debentures are secured by a legal charge over the relevant property and securitisation of its rental income.

(c) Other loans

Interest on other loans is at a fixed rate of 6.5% and a variable rate of LIBOR + a margin ranging between 2.0 per cent and 4.0 per cent (2006: 7.5 per cent and 11.6 per cent), including margin. The loans are secured by legal charges over the respective properties to which they relate.

(d) Loan covenants

Following the departure of a large tenant in March 2008, the prospective loan covenant in relation to a loan of €14.8 million for French property 'Le Sigma' was in breach at year end. The Group has agreed to place an amount of €0.4 million on deposit with the lending bank in order to remedy this breach.

A loan between Endicott Sweden AB ('Endicott') and Danske Bank for SEK291.2 million contains an equity to assets ratio covenant that was in breach at year end due to a late fall in the share price of Catena AB which is Endicott's only investment. The breach is currently being discussed with the bank and remedy is expected to be in the form of an additional equity injection.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

At 31 December 2007	Debt £000	Finance leases £000	Total £000
Within one year or on demand	103,808	214	104,022
More than one but not more than two years	54,114	1,177	55,291
More than two but not more than five years	301,588	–	301,588
More than five years	342,664	152	342,816
	802,174	1,543	803,717
Unamortised issue costs	(5,016)	(1)	(5,017)
Total borrowings, including finance leases net of issue costs	797,158	1,542	798,700
Less amount due for settlement within 12 months (shown under current liabilities)	(102,812)	(213)	(103,025)
Amounts due for settlement after 12 months	694,346	1,329	695,675

Of the £103.8 million due within one year, an amount of £76.4 million is repayable from the proceeds of disposal of properties.

At 31 December 2006	Debt £000	Finance leases £000	Total £000
Within one year or on demand	27,656	188	27,844
More than one but not more than two years	134,324	195	134,519
More than two but not more than five years	221,472	1,076	222,548
More than five years	304,650	152	304,802
	688,102	1,611	689,713
Unamortised issue costs	(5,885)	(1)	(5,886)
Net Borrowings, including finance leases	682,217	1,610	683,827
Less amount due for settlement within 12 months (shown under current liabilities)	(26,155)	(187)	(26,342)
Amounts due for settlement after 12 months	656,062	1,423	657,485

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

	2007 £000	2006 £000
Bank loans are repayable as follows:		
Within one year or on demand	103,024	26,107
More than one but not more than two years	53,243	122,060
More than two but not more than five years	295,893	216,534
More than five years	310,865	271,652
	763,025	636,353
Unamortised issue costs	(5,016)	(5,879)
Total bank loans net of issue costs	758,009	630,474
Less amount due for settlement within 12 months (shown under current liabilities)	(102,027)	(24,607)
Amounts due for settlement after 12 months	655,982	605,867
Debenture loans are repayable by installments as follows:		
Within one year or on demand	784	705
More than one but not more than two years	871	784
More than two but not more than five years	3,245	2,918
More than five years	31,799	32,998
Total debenture loans	36,699	37,405
Less amount due for settlement within 12 months (shown under current liabilities)	(785)	(705)
Amounts due for settlement after 12 months	35,914	36,700

26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

	2007 £000	2006 £000
Other loans are repayable as follows:		
Within one year or on demand	–	844
More than one but not more than two years	–	11,480
More than two but not more than five years	2,450	2,020
	2,450	14,344
Unamortised issue costs	–	(6)
Total other loans net of issue costs	2,450	14,338
Less amount due for settlement within 12 months (shown under current liabilities)	–	(843)
Amounts due for settlement after 12 months	2,450	13,495
Net obligations under finance leases are repayable as follows:		
Within one year or on demand	214	188
More than one but not more than two years	1,177	195
More than two but not more than five years	–	1,076
More than five years	152	152
	1,543	1,611
Unamortised issue costs	(1)	(1)
Total obligations under finance leases net of issue costs	1,542	1,610
Less amount due for settlement within 12 months (shown under current liabilities)	(213)	(187)
Amounts due for settlement after 12 months	1,329	1,423

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

	At 31 December 2007 Fixed rate financial liabilities		At 31 December 2006 Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Pound sterling	6.65	6.36	7.27	5.49
Euro	4.87	0.84	4.77	4.56
Swedish kroner	5.41	3.34	5.45	1.84

Floating rate financial liabilities bear interest at rates based on relevant LIBOR, EURIBOR, STIBOR, or equivalents, which are fixed in advance for periods of between one and six months (2006: between one and six months).

Further protection from interest rate movement is provided by interest rate caps on £44,695 thousand of debt at 5.5 per cent to 6.0 per cent expiring within 0.75 to 2.84 years (2006: £59,633 thousand of debt at 5.5 per cent to 6.0 per cent expiring within 1.75 to 3.84 years), £169,965 thousand of EURO denominated debt at 4.0 per cent to 6.0 per cent expiring within 0.58 to 4.00 years (2006: £160,772 thousand of EURO denominated debt at 4.0 per cent to 6.0 per cent expiring within 0.08 to 5.00 years), and £1,920 thousand of SEK denominated debt at 4.5 to 6.0 per cent expiring within 0.84 years (2006: £1,792 thousand of SEK denominated debt at 4.5 per cent expiring within 1.84 years).

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

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total £000
At 31 December 2007			
Pound sterling	328,531	79,875	408,406
Euro	151,922	177,760	329,682
Swedish kroner	20,704	39,908	60,612
Total	501,157	297,543	798,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

At 31 December 2006	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total £000
Pound sterling	254,785	102,378	357,163
Euro	126,063	162,427	288,490
Swedish kroner	28,923	9,251	38,174
Total	409,771	274,056	683,827

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

	Carrying amounts		Fair values	
	2007 £000	2006 £000	2007 £000	2006 £000
Current borrowings, including finance leases	103,025	26,342	103,025	26,342
Non-current borrowings, including finance leases	695,675	657,485	716,498	679,872
Total	798,700	683,827	819,523	706,214

Arrangement fees of £5,017 thousand (2006: £5,886 thousand) have been offset against the balances in the above table.

The fair value of non-current borrowings represents the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties other than a forced or liquidation sale and excludes accrued interest, discounted at the prevailing market interest rate.

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

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

	2007 £000	2006 £000
Floating rate:		
– expiring within one year	–	1,347
– expiring after one year	–	–
Total	–	1,347

The above undrawn facilities expiring within one year at 31 December 2006 were arranged to help finance the Group's proposed development projects.

27 TENDER OFFER BUY-BACKS

As noted in the Directors' Report it is not proposed that the Company pay a final dividend or buy back shares in lieu of a final dividend for 2007 until the restructuring of the group is undertaken and the appropriate distributable reserves have been realised (2006: 1 in 41 shares at 750 pence per share).

In lieu of an interim dividend the Company bought back 2 in 91 shares at 600 pence per share in November (2006: 3 in 43 shares at 740 pence per share in November).

28 CASH GENERATED FROM OPERATIONS

	2007 £000	Re-stated* 2006 £000
Operating (loss)/profit from continuing operations	(30,519)	214,684
Loss on discontinued operations	–	(2,538)
Adjustments for:		
– revaluation loss/(gain) on investment properties	68,077	(162,060)
– depreciation and amortisation	2,814	1,102
– loss on disposal of investment properties	–	952
– loss on disposal of subsidiaries	1,974	1,797
– profit on disposal of associate	–	(3,721)
– loss on disposal of equity investments	2,689	–
Changes in working capital:		
(Increase)/decrease in debtors	430	(5,456)
Increase/(decrease) in creditors	8,676	(671)
Cash generated from operations	54,141	44,089

* Note 2.1

29 CONTINGENCIES

At 31 December 2007 Group companies had guaranteed £250,195 thousand of Group Companies' liabilities (2006: £150,657 thousand). Of the amount guaranteed, £19,350 thousand (2006: £19,850 thousand) is limited to a maximum annual liability of £2,050 thousand (2006: £2,050 thousand).

As the likelihood of payment by the Company under any of these guarantees is considered remote, no provision has been made in the Group accounts.

30 COMMITMENTS

The Group leases office space under non-cancellable operating lease agreements. The future aggregate minimum lease payments under these non-cancellable operating leases are as follows:

Operating lease commitments – where a Group Company is the lessee	2007 £000	2006 £000
Within one year	592	492
More than one but not more than five years	1,121	1,264
More than 5 years	–	–
Total	1,713	1,756

Operating lease commitments – where the Group is lessor	2007 £000	2006 £000
Within one year	63,055	69,842
More than one but not more than five years	195,984	217,480
More than five years	226,785	258,275
	485,824	545,597

Other commitments

At 31 December 2007 and 2006 the Group had no contracted capital expenditure and no authorised financial commitments which were yet to be contracted with third parties

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

31 BUSINESS ACQUISITIONS AND DISPOSALS

Business acquisitions

Internetami AB

On 11 October 2007, the Group acquired a 57% shareholding of Internetami AB for total consideration of £1,449 thousand.

Internetami AB is engaged in the operation of a Swedish language online dictionary (operating under the Tyda brand) and is part of the Lunarworks group of companies which specialise in youth and community websites.

The goodwill arising on the acquisition of Internetami AB is attributable to the additional value of a strong local management team and the market potential of the brand.

From the date of acquisition to 31 December 2007 the business contributed £1 thousand to turnover and £15 thousand net loss. Had the acquisition taken place on 1 January 2007, Group revenue would have increased by £3 thousand, and profit before tax would have decreased by £52 thousand.

	Acquiree's carrying amount £000	Fair value £000	Proportion Acquired (57%) £000
Net assets acquired:			
Cash and cash equivalents	9	9	5
Property, plant and equipment	1	1	1
Trade and other payables	(30)	(30)	(17)
Intangible assets	3	3	2
	(17)	(17)	(9)
Goodwill			1,458
Total consideration			1,449
Satisfied by:			
Cash			1,449
Net cash outflow arising on acquisition:			
Purchase consideration settled in cash			1,449
Cash and cash equivalents in subsidiary acquired			(9)
			1,440

Business acquisitions

Bilddagboken AB

In February 2007, the Group acquired a 40% shareholding of Bilddagboken AB for total consideration of SEK4,040 thousand (£298 thousand). Bilddagboken AB has been accounted for as a subsidiary of the group as it is considered that the group has control as a result of control of the Bilddagboken AB board. Bilddagboken AB is engaged in the operation of a Swedish photo sharing website, part of the Lunarworks group of companies which specialise in youth and community websites. The goodwill arising on the acquisition of Bilddagboken AB is attributable to the potential for the growth of the Bilddagboken AB brand.

From the date of acquisition to 31 December 2007 the business contributed £319 thousand to turnover and a £100 thousand loss to the Group's loss before tax. There is no impact to Group results had the acquisition taken place on 1 January 2007 as the acquisition occurred at the inception of the company.

In October 2007 the Group purchased, for SEK15 million (£1,173 thousand at year end), a call option for the remaining 60% shareholding in the Bilddagboken AB. The option was exercised on 22 January 2008 for SEK25 million (£1,970 thousand on date of exercise).

31 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

	Acquiree's carrying amount £000	Fair value £000	Proportion Acquired (40%) £000
Net assets acquired:			
Cash and cash equivalents	225	225	90
Property, plant and equipment	73	73	29
	298	298	119
Goodwill			175
Total consideration			294
Satisfied by:			
Cash			294
Net cash outflow arising on acquisition:			
Purchase consideration settled in cash			294
Cash and cash equivalents in subsidiary acquired			(225)
			69

Business disposals

Solna and Lövgärdet

On 31 January 2006, the Group disposed in its interests in Lövgärdet Business AB, Lövgärdet Residential AB and Lövgärdet Capital Partners AB, the holding companies of properties at Lövgärdet, Gothenburg, Sweden. In addition, on 21 August 2006, the Group disposed of its interest in Solna Business Holdings AB and Sliparen Ett AB, the holding companies of the properties at Solna Business Park, Stockholm, Sweden. The combined loss on these disposals in 2006 was £1,797 thousand which was recognised in the income statement. During the year ended 31 December 2007, further selling costs of £1,974 thousand were incurred on the disposal of the Solna Business Park properties and this amount has been recognised in the income statement for 2007.

32 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Discontinued operations

Following management's decision in principle to exit the cable business market in 2005 the results of WightCable Limited and WightCable North Limited have been presented as discontinued operations in 2006. The Group disposed of the business and substantially all of the assets of WightCable Limited in December 2005 and WightCable North Limited in January 2006. For segmental analysis both of these businesses formed part of the UK equity investment division.

The results of the discontinued operations which have been included in the consolidated income statement for the year ended 31 December 2006, were as follows:

	2007 £000	2006 £000
Revenue	–	230
Operating expense	–	(538)
Operating loss	–	(308)
Finance expense	–	(80)
Loss before and after tax	–	(388)
Loss on disposal of assets	–	(2,150)
Loss for the year from discontinued operations	–	(2,538)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

33 RELATED PARTY TRANSACTIONS

CLSH Management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as an agent in respect of the collection of rental income for Teighmore Limited and New London Bridge House Limited, joint ventures of the Group. At 31 December 2007 the Group was owed £55 thousand by Teighmore Limited (2006: £802 thousand) and New London Bridge House Limited was owed a net amount of £697 thousand (2005: owed £39 thousand).

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt, Executive Chairman of the Group. The total payable in the year was £29 thousand (2006: £29 thousand). A company owned by Sten Mortstedt purchased accountancy services from Förvaltnings AB Klio during the year amounting to £7 thousand (2006: £7 thousand).

34 PRINCIPAL SUBSIDIARIES

The consolidated financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, the principal ones of which are listed below.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those wholly owned subsidiary companies whose results or financial position, in the opinion of the Directors, principally affected the figures of the Group.

All of these subsidiaries were incorporated in England and Wales with the exception of Vänerparken Property Investment KB, which is incorporated in Sweden, Hamersley International BV which is incorporated in the Netherlands, and Hermalux SARL which is incorporated in Luxembourg.

Brent House Limited	Hermalux SARL	Three Albert Embankment Limited*
Carlow House Limited	Ingrove Limited	Vauxhall Cross Limited*
CI Tower Investments Limited	Mohican Nominees Limited	Vänerparken Property Investment KB*
Citadel Holdings PLC	Wandsworth Road Limited	
CLSH Management Limited	New Printing House Square Limited*	
Great West House Limited*	One Leicester Square Limited	
Hamersley International BV	Spring Gardens Limited	

*held indirectly

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

35 EVENTS AFTER THE BALANCE SHEET DATE

Significant Disposals

- (i) On 9 January 2008 the Group disposed of its one third interest in London Bridge Quarter (The Shard) development for £30 million. At 31 December 2007 the asset had been written down to its fair value recognising a loss of £38.4 million plus write downs of goodwill and selling costs incurred of £4.9 million. There were no further material costs or losses incurred in the period from 31 December 2007 to the date of the sale.
- (ii) On 1 February 2008 the Group completed its sale of Vista Centre, Heathrow at a price of £12.8 million. The valuation at the time of sale was £12.5 million and selling costs were £0.5 million.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLS HOLDINGS PLC

We have audited the parent company financial statements of CLS Holdings plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes 1 to 11. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
17 April 2008

COMPANY BALANCE SHEET

31 December 2007

	Note	As at 31 December 2007 £000	As at 31 December 2006 £000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	5	99,454	84,682
		99,454	84,682
Current assets			
Trade and other receivables	6	10,560	42,226
Cash and cash equivalents	7	11,986	465
		22,546	42,691
Total assets		122,000	127,373
LIABILITIES			
Current liabilities			
Trade and other payables	10	941	5,805
Total liabilities		941	5,805
Net assets		121,059	121,568
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	18,712	20,021
Other reserves	9	89,411	87,990
Profit and loss account	9	12,936	13,557
Total equity		121,059	121,568

These financial statements were approved by the Board of Directors and authorised for issue on 17 April 2008 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr P Sjöberg
Director

The notes on pages 95 to 98 are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2007

1 GENERAL INFORMATION

The financial statements have been prepared under UK GAAP in accordance with applicable accounting standards under the historical cost convention. The following accounting policies have been applied consistently throughout the year and the preceding year unless otherwise stated. CLS Holdings plc is the ultimate parent company of the CLS Holdings group. It's primary activity is to hold shares in subsidiary companies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Investment in Group Companies

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

2.2 Pension costs

The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged to the profit and loss account represent the contributions payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2.3 Share-based compensation

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

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

2.4 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

2.5 Tender offer buy-backs

In lieu of paying dividends, a distribution by way of a tender offer buy-back is made twice yearly. Shares purchased by way of the tender offer are retained as treasury shares but only to a maximum of 10 per cent of the issued share capital.

Where the Company purchases its own shares out of free reserves and the shares are subsequently cancelled, a sum equal to the nominal value of the shares so purchased is transferred to the capital redemption reserve account.

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

2.6 Related party transactions

Advantage has been taken of the exemption allowed in FRS 8 not to disclose transactions with entities that are part of a group where consolidated accounts of the group are publicly available.

There were no other related party transactions during the year.

2.7 Payroll

The company employed eleven directors in the year. Details of their remuneration is included in the Remuneration Report on pages 46-50.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2007

3 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been presented in these financial statements. The parent Company's retained profit for the financial year was £29,240 thousand (2006: Profit of £53,552 thousand).

Audit fees for the Company were £45.5 thousand (2006: £35 thousand).

4 TENDER OFFER BUY-BACKS

As noted in the Directors' Report it is not proposed that the Company pay a final dividend or buy back shares in lieu of a final dividend for 2007 (2006: 1 in 41 shares at 750 pence per share).

In lieu of an interim dividend the Company bought back 2 in 91 shares at 600 pence per share in November (2006: 3 in 43 shares at 740 pence per share in November).

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2007 £000	2006 £000
At 1 January	84,682	81,035
Additions	26,858	3,647
Disposals	(12,086)	–
At 31 December	99,454	84,682

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. To comply with the Companies Act 1985, a full list of subsidiaries will be filed with the Company's next annual return.

6 TRADE AND OTHER RECEIVABLES

	2007 £000	2006 £000
Current		
Amounts owed by subsidiary undertakings	7,991	42,094
Prepayments and accrued income	2,463	65
Other debtors	106	67
Total	10,560	42,226

7 CASH AND CASH EQUIVALENTS

	2007 £000	2006 £000
Cash and cash equivalents	11,986	465

At 31 December 2007, the Company cash and cash equivalents included £nil of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (2006: £nil).

8 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2006	85,527	20,014	1,368	21,382
Employee share option scheme: – shares issued	–	40	(40)	–
Purchase of own shares: – pursuant to tender offer	–	(476)	476	–
– pursuant to market purchase	–	(66)	66	–
Cancelled pursuant to tender offer	(5,445)	(1,361)	–	(1,361)
At 31 December 2006	80,082	18,151	1,870	20,021
Employee share option scheme: – shares issued	–	8	(8)	–
Cancellation of treasury shares	(750)	–	(188)	(188)
Purchase of own shares: – pursuant to market purchase	–	(103)	103	–
Cancelled pursuant to market purchase	(1,163)	(291)	–	(291)
Cancelled pursuant to tender offer	(3,319)	(830)	–	(830)
At 31 December 2007	74,850	16,935	1,777	18,712

The total authorised number of ordinary shares is 160,000,000 shares (2006: 160,000,000 shares) with a par value of 25 pence per share (2006: 25 pence per share). All shares issued are fully paid.

Treasury shares

Treasury shares held at 31 December 2007 were 7,109,279 (2006: 7,477,168). During the year the Company acquired 4,894,211 (2006: 7,613,019) of its own shares, of which 3,318,960 (2006: 7,350,815) were purchased through the tender offer, and 1,163,140 (2006: 262,204) were purchased through the market. During the year the Company re-issued 30,000 (2006: 160,000) of its own shares from treasury shares.

Share options

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

Date of grant	Exercise price (pence)	Exercise period	2007	2006
20 December 2001	212.5	2004–2008	311,000	311,000
20 December 2001	212.5	2004–2011	14,000	14,000
06 October 2003	240	2006–2013	–	12,500
06 October 2003	240	2006–2010	–	17,500
27 September 2005	458.25	2008–2012	73,500	73,500
21 December 2005	492.75	2008–2012	6,088	6,088
21 December 2005	492.75	2008–2012	412	412
Total			405,000	435,000

The following options were exercised during the year:

Date of exercise	Number of shares	Exercise price (pence)
29 June 2007	12,500	240.0
29 June 2007	17,500	240.0
Total	30,000	

In addition, during the year no options were surrendered and no new options were granted.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2007

9 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves				Profit and loss account £000
	Share premium reserve £000	Capital redemption reserve £000	Other £000	Total £000	
At 1 January 2006	69,419	12,302	4,615	86,336	14,214
Employee share option scheme:					
– shares issued	293	–	–	293	–
Purchase of own shares	–	1,361	–	1,361	(53,902)
Purchase of own shares expense	–	–	–	–	(307)
Retained profit for the year	–	–	–	–	53,552
At 31 December 2006	69,712	13,663	4,615	87,990	13,557
Employee share option scheme:					
– shares issued	112	–	–	112	–
Purchase of own shares	–	1,309	–	1,309	(29,670)
Purchase of own shares expense	–	–	–	–	(191)
Retained profit for the year	–	–	–	–	29,240
At 31 December 2007	69,824	14,972	4,615	89,411	12,936

10 TRADE AND OTHER PAYABLES

	2007 £000	2006 £000
Current		
Amounts owed to subsidiary undertakings	–	16
Trade payables	62	214
Accruals and deferred income	879	5,575
Total	941	5,805

11 CONTINGENCIES

At 31 December 2007 the Company had guaranteed £87,314 thousand of Group Companies' liabilities (2006: £70,086 thousand). Of the amount guaranteed, £19,350 thousand (2006: £19,850 thousand) is limited to a maximum annual liability of £2,050 thousand (2006: £2,050 thousand).

As the likelihood of payment by the Company under any of these guarantees is extremely remote, no provision has been made in the company accounts.

FIVE YEAR FINANCIAL SUMMARY

31 December 2007

	IFRS				UK GAAP
	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Turnover and results					
Turnover	87,992	81,048	85,039	81,375	79,658
Group net rental income	66,295	65,503	69,262	67,603	62,412
Operating profit before gains/(losses) on investment properties	39,532	51,652	54,180	58,139	45,293
Fair value (losses)/gains on investment properties	(68,077)	162,060	67,173	37,236	–
Results from associate and joint venture undertakings	537	2,515	(2,322)	(1,701)	1,085
(Loss)/gain from sale of investment properties and subsidiaries	(1,974)	(2,749)	1,855	464	1,932
Profit on ordinary activities before interest	(29,982)	213,478	120,886	94,138	48,310
Net finance costs	(42,661)	(36,864)	(36,229)	(34,065)	(30,737)
Profit before taxation	(72,643)	176,614	84,657	60,073	17,573
Tax on ordinary activities – current	(2,610)	(1,225)	(1,304)	(596)	(676)
Tax on ordinary activities – deferred	42,342	(19,058)	(21,856)	(16,042)	591
Discontinued operations	–	(2,538)	(6,192)	(4,002)	–
Profit for the year	(32,911)	153,793	55,305	39,433	17,488
Share buy-backs paid and proposed	–	(53,577)	(18,353)	(15,676)	(14,607)
Net Assets Employed					
Fixed assets	1,251,587	1,186,880	1,141,265	1,056,763	901,184
Net current assets	132,308	167,718	127,014	79,559	19,078
	1,383,895	1,354,598	1,268,279	1,136,322	920,262
Non-current liabilities	(813,114)	(812,407)	(841,682)	(749,998)	(529,575)
Provision for liabilities and charges	(167,689)	(94,052)	(72,817)	(62,518)	(5,713)
Net assets	403,092	448,139	353,780	323,806	384,974
Ratios	2007	2006	2005	2004	2003
Adjusted net assets per share (pence)	764	824	607	522	446
Statutory net assets per share (pence)	595	617	442	386	439
Earnings per share (pence)	(45.8)	196.7	67.5	47.0	20.7
Gearing (%)	169	119	172	181	127
Interest cover (times)	1.3	1.66	1.48	1.67	1.57

GLOSSARY OF TERMS

NET RENT

Net rent is defined as contracted rent less net service charge costs

YIELD

Yields on net rents have been calculated by dividing the net rent by the book value

CONTRACTED RENT

Contracted rent is defined as gross annualised rent supported by a signed contract

ESTIMATED RENTAL VALUE (ERV)

The ERV of lettable space as determined biannually by the Company's valuers. This may be different from the rent currently being paid.

UNDERLYING PROFIT

Underlying profit is the profit before tax excluding net gains/losses from fair value adjustment on investment properties, profit/losses disposal of joint ventures, subsidiaries, investment properties, and exceptional items.

ADJUSTED NET ASSETS = Net assets excluding deferred tax liabilities and deferred tax assets

**STATUTORY NET ASSET
VALUE (NAV) PER SHARE** = $\frac{\text{Net assets}}{\text{Number of ordinary shares in free issue}}$

**ADJUSTED NAV
PER SHARE** = $\frac{\text{Net assets} + \text{deferred tax liabilities} - \text{deferred tax assets}}{\text{Number of ordinary shares in free issue}}$

STATUTORY GEARING = $\frac{\text{Total gross borrowings} - \text{cash}}{\text{Net assets}}$

ADJUSTED GEARING = $\frac{\text{Total gross borrowings} - \text{cash}}{\text{Net assets} + \text{deferred tax liabilities} - \text{deferred tax assets}}$

**EARNINGS PER
SHARE (EPS)** = $\frac{\text{Profit after tax attributable to ordinary shareholders}}{\text{Weighted average number of ordinary shares in free issue}}$

ADJUSTED EPS = $\frac{\text{Profit after tax attributable to shareholders of parent excluding deferred tax and fair value gains on investment properties}}{\text{Weighted average number of ordinary shares in free issue}}$

STATUTORY SOLIDITY = $\frac{\text{Total equity}}{\text{Total assets}}$

ADJUSTED SOLIDITY = $\frac{\text{Total equity} + \text{deferred tax liabilities} - \text{deferred tax assets}}{\text{Total assets} - \text{deferred tax assets}}$

**ANNUALISED ADDED
VALUE TO SHAREHOLDERS** = $\frac{\text{Pro-rated Movement in adjusted NAV} + \text{Distributions}}{\text{Opening adjusted NAV}}$

UNDERLYING PROFIT = Profit before tax before fair value gains on investment properties and non-recurring finance costs

**RECURRING INTEREST
COVER*** = $\frac{\text{*Profit before tax} - \text{*net gains from fair value adjustment on investment properties}}{\text{*Net interest payable} - \text{change in fair value of interest rate swap}}$

*excluding results of London Bridge Quarter as shown below:

FROM RESULTS AT A GLANCE (PAGE 4)

Recurring Interest Cover (see calculation method page 100)

	Dec 2007 £m	Dec 2006 £m
Net interest excluding fair value adjustment	41.2	31.6
Net interest relating to LBQ	(5.5)	(5.6)
Ongoing interest	35.7	26.0
Operating profit	40.0	48.9
Adjust for impact of LBQ		
add back operating profit	6.8	(1.8)
less recurring expense	(1.7)	–
	5.1	(1.8)
Ongoing operating profit	45.1	47.1
Recurring interest cover	1.3	1.8

From Results at a Glance (page 4)

Other operating income and associate company results of £7.1 million (2006: £6.0 million) comprises:

	2007 £m	2006 £m
Net income from non property activities	5.7	4.5
Other operating income	0.8*	2.7
Share of profit/(loss) on associate	0.6	(1.2)
	7.1	6.0

	2007 £m	2006 £m
Other operating (expense)income	(1.6)	2.7
Recycled losses on available for sale investments	2.4	–
Other operating income	0.8*	2.7

Reconciliation of statutory to disclosed adjusted statistics	Statutory figure	Deferred tax Adjustment	FV adj. on property	Adjusted figure
Net Assets (£ million)	403.1	114.5		517.6
Net assets per share (pence)	595.1	169.2		764.2
Earnings per share (pence)	(45.8)	(59.6)	95.8	(9.6)
Diluted earnings per share (pence)	(45.8)	(59.6)	95.8	(9.6)
Gearing (%)	169.1	(37.4)		131.7
Solidity (%)	29.1	8.4		37.5



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