CLS

CLS Holdings plc
Annual Report & Accounts
2009




INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

- CLS is a property investment company which has been listed on the London Stock Exchange since 1994
- We own and manage a diverse portfolio of £0.8 billion of modern, well-let office properties in the UK, France, Germany and Sweden
- Our properties have been selected for their potential to add value and to generate high returns on capital investment

1 Cap Gemini, London SW8
2 Landshut, Munich
3 Hans-Böckler-Strasse 19, Bochum
4 Quayside, Fulham

HOW WE OPERATE

Our goal is to create long-term shareholder value

We aim to achieve this by:

→ Purchasing modern, high quality, well-let properties in good locations in selected European cities

→ Using in-house development teams to refurbish or redevelop properties

→ Minimising vacant space within the portfolio

→ Providing our tenants with high quality accommodation at competitive rates

→ Developing long-term relationships with our tenants

→ Maintaining strong links with a wide variety of banks and other sources of finance

→ Responding quickly to new opportunities

Key Performance Indicators

→ **Total Shareholder Return**

Aim	– to provide a TSR of over 12% per annum over the medium term
Achievement	– 2009: 52.7%
	– 2000 to 2009: 297%

→ **Effective management of balance sheet**

Aim	– to sell assets with limited growth potential and invest in high yielding alternatives
Achievement	– 2006 to 2009: £746 million of property sales
	– 2009: corporate bond portfolio return on capital of 54.2%

→ **Administration cost ratio**

Aim	– to maintain administration costs below 15% of net rental income
Achievement	– 2009: 14.9%
	– 2008: 17.0%

→ **Occupancy rate**

Aim	– to maintain an occupancy level of over 95%
Achievement	– 2009: 95.5%
	– 2008: 95.7%

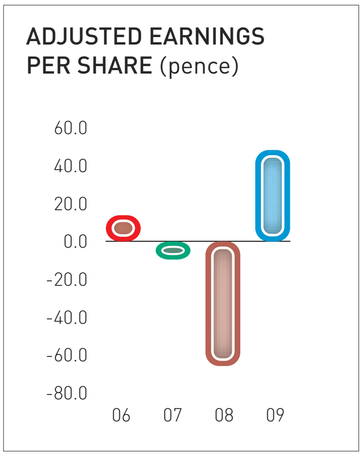
Financial highlights 2009

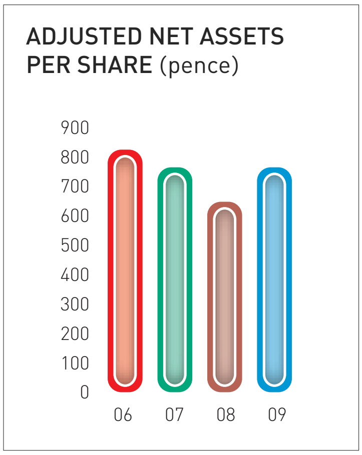
- **Adjusted net assets per share: up 18.6%** to 767.5 pence (2008: 647.2 pence)
- **Adjusted earnings per share: up to 48.2 pence** (2008: loss per share of 65.6 pence)
- **Proposed tender offer buy-back: 1 in 42 shares at 525 pence,** equivalent to 12.5 pence per share, and increasing pro forma adjusted net assets per share to 771.7 pence
- **Profit before tax: up to £18.5 million** (2008: loss of £142.1 million)
- **Profit after tax: up to £17.4 million** (2008: loss of £78.0 million)
- **Core profit: up to £23.7 million** (2008: £2.8 million)
- **Portfolio value: £813.0 million** (2008: £798.8 million) – underlying valuation movement up 7.5% in UK, down 5.6% in Europe, down 0.6% overall
- **Recurring interest cover: up at 2.1 times** (2008: 1.1 times)
- **Weighted average cost of debt: down to 4.0%** (2008: 5.8%)
- **Corporate bond portfolio: return on capital employed of 54.2%**
- **Distributions through tender offer buy-back: 77.8 pence per share** (£48.0 million)
- **Total Shareholder Return: for the year ended 31 December 2009 52.7%**
- **Occupancy rate: consistently high at 95.5%** (2008: 95.7%)
- **Proportion of rent roll let to Government tenants: 40% for the Group** and 54% in the UK

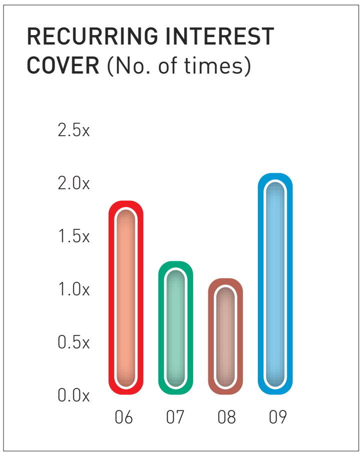
Other key data

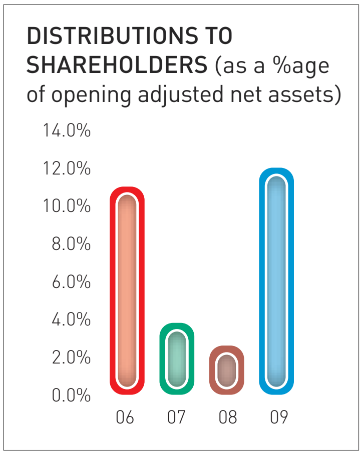
- **Net assets per share: up 17.3%** to 643.3 pence (2008: 548.4 pence)
- **Earnings per share: up to 36.4 pence** (2008: loss per share of 120.6 pence)
- **Corporate bond portfolio: £70.0 million**
- **Cash resources: £70.3 million**
- **Loan to value ratio: down to 66.9%** (2008: 72.1%)
- **Adjusted gearing: 141.7%** (2008: 101.7%)
- **Solidity: 30.2%** (2008: 31.5%)
- **Adjusted solidity: 36.4%** (2008: 37.6%)
- **Portfolio valuation: down 4.3%,** comprising an underlying fall of 0.6% and a fall of 3.7% from foreign exchange movements

A glossary of terms is set out on page 83.









Ready to build on 2009's achievements

In 2009, CLS generated a Total Shareholder Return of 52.7%. The business is well managed and strongly positioned, and management is realistic in assessing the challenges facing the Group

Well managed

→ **Cash back to shareholders v rights issues**
In January 2009 we returned £48.0 million to shareholders; collectively the UK property sector raised over £6 billion in rights issues in 2009

→ **High occupancy rate**
Notwithstanding the economic pressures across Europe we maintained a low vacancy rate throughout 2009, beginning the year at 4.3% by rental income and ending it at 4.5%

→ **High debt collection**
Our debt collection rates consistently exceeded 90% within a few days of the due date during the year

→ **Effective cash management**
At a time of benign interest rates we invested in corporate bonds which produced a return on capital employed of 54.2% in the year

1 7 Rue Eugène et Armand Peugeot, Paris
2 Vänerparken
3 Spring Gardens, London SE11

Strongly positioned

- **Longevity of income**
  95.5% of the portfolio is let, with a weighted average lease term of 8.5 years, including 10.4 years in the UK
- **Tenant mix (strong covenants)**
  40% of the rent roll is contracted to governmental organisations, and a further 26% to major corporations
- **Low weighted average cost of debt**
  Our weighted average cost of debt at the year end was 4.0%, with 50% of our debt at fixed rates
- **Improving interest cover**
  Our recurring interest cover is running at 2.1 times, up from 1.1 times in 2008
- **Solid asset base**
  At the year end we held cash of £70 million, corporate bonds of £70 million and investment properties worth £813 million

Realistic

- **Selective purchasing**
  During a year of excessive demand over supply, we chose to remain selective, acquiring one property at a cost of £29 million
- **Administration costs cut**
  We successfully implemented a cost-cutting programme before the financial crisis began, reducing our administration costs from £16.1 million in 2008 to £12.2 million in 2009
- **Addressed loan covenant issues**
  On bank loans with an aggregate value of £176.4 million, we addressed actual and potential breaches of covenants by repaying or placing on deposit new cash of £14.3 million

Effective cash management has been key

INVESTMENT PHILOSOPHY

CLS has an investment philosophy and a strategy to seek out and exploit imperfections in the market.

By this I mean that today's prices and values will always be different in the future and CLS, therefore, tries to predict price movements and then position itself to benefit from them.

In order to achieve higher returns and minimise the associated higher risks, diversification is key; CLS's main investment is in properties, but we have also invested in a portfolio of corporate bonds. Both asset classes cover a number of countries and currencies, and have exposure to different sectors. This diversification ensures that if some of the investments are unsuccessful the total return should still remain very good.

IMPERFECTIONS EXPLOITED

- In 2006, we anticipated significant falls in property values across Europe and embarked on a strategy to dispose of a number of properties. By the end of 2008 we had raised through sales almost £750 million, repaid associated debts, returned £72 million to investors and retained £150 million for subsequent investment. Consequently, whilst the UK listed property sector was repairing its collective balance sheet with right issues of over £6 billion, CLS was returning cash to shareholders.
- During the most critical period of the financial crisis we became uncomfortable with the outlook for the banking industry. In order to gain absolute protection for a large part of our liquid assets, we reduced our exposure to bank deposits and invested in government bonds.
- At the end of 2008, when we were convinced that the banking system would survive, we placed large cash deposits of 12 months' duration at interest rates of 6.15% (sterling) and 4.9% (euro), expecting rates to fall. Within four to five months interest rates were virtually zero.
- Also in the autumn of 2008 we began to invest for the long term in a portfolio of liquid corporate bonds as we believed the prevailing market prices to be too low. In 2009 the bond portfolio provided a total return of £18.0 million, adding 37 pence per share to net asset value, and at 31 December 2009 the portfolio of £70.0 million was yielding over 8.1%. The increase in value of the bonds has not been included in profit before tax due to the long-term characteristics of this new investment.
- We broke several interest rate swaps in July 2009 as we were of the opinion that the yield curve was too steep and, therefore, the swaps were undervalued, which proved to be correct. In addition, we sought to increase the extent to which our interest rate risk was mitigated by caps rather than swaps, thereby allowing us to take advantage of the prevailing low interest rate environment whilst restricting our exposure to interest rate rises. At 31 December 2009, our weighted average cost of borrowing was 4.0% and 50% of our debt was at floating rates.

We believe CLS has served investors well; in the ten years since 2000, our total shareholder return has been 297%. Over the same period, using tender buy-backs and market purchases of shares, we have returned in aggregate £266 million to shareholders; in January 2000 CLS's market capitalisation was £159 million. We believe that for the past ten years, CLS has been one of the three best performing property companies listed on the London Stock Exchange.

THE PORTFOLIO

In 2009, the property portfolio which we retained has performed well in difficult market conditions, a reflection of the strength of our rent roll and our team's active management. 40% of the Group's rental income is derived from governmental or quasi-governmental tenants, our weighted average lease length is 8.5 years, and our vacancy rate remains low at 4.5% by rental value. Further, our traditional focus on debt collection has consistently seen collection rates exceed 90% within a few days of the due date during the year.

The portfolio's valuation at 31 December 2009 reflected the defensive benefits of well-let properties. In the UK, our portfolio began to rise in value in the first half of the year, and over the twelve months showed a gain of 7.5%. In recent years the French market has been less volatile than the UK, rising neither as quickly nor as far, and falling more slowly. In 2009 our French portfolio declined in value by 6.2% in local currency and the German portfolio by 5.7%.

FINANCIALS

Net assets per share at 31 December 2009, adjusted to exclude deferred tax, were 767.5 pence, 18.6% higher than a year earlier, and 4.8% above the pro forma equivalent of 732.0 pence, after the effect of the large tender offer in January 2009. This is a good result in the light of the adverse 36.0 pence impact of sterling strengthening during the period.

We have resources available to take advantage of opportunities and face the challenges ahead from a position of strength and confidence

PROPERTY INVESTMENT

In the prevailing economic climate, we have been rigorous in assessing investment opportunities in 2009, restricting our acquisitions to the £29.2 million 7 Rue Eugène et Armand Peugeot, Rueil-Malmaison, to the west of Paris, a transaction which was completed at the end of December. Our only disposal in the year was 2 Deanery Street, London W1 for £2.2 million.

The UK market is now characterised by a far greater demand for property investment than supply and banking conditions remain relatively unfavourable. We see greater value and better conditions in both France and Germany and we will seek to take advantage of opportunities in these markets in the short to medium term.

CASH MANAGEMENT

During a year of uncertain property and financial markets, effective cash management has been key. With poor returns available from bank deposits, the Board sought to manage the Group's cash resources by exploiting opportunities which arose in the corporate bond market as explained above. The corporate bond portfolio is a part of the Company's long-term investment strategy.

A further initiative successfully executed in 2009 was the avoidance of potential breaches of covenants of bank loans with an aggregate value of £176.4 million, by repaying or placing on deposit new cash of £14.3 million. The fact that this was achieved at a time of significant banking turmoil is testament to the good relationships we enjoy with our principal lenders.

With the reduction in the appetite of banks to lend, it is encouraging that very little of our borrowing matures over the next two years.

EFFICIENCY

We successfully implemented a cost-cutting programme before the financial crisis began. In May 2008 we moved to cheaper premises in one of our own buildings and slimmed down the organisation, successfully reducing our administration costs from £16.1 million in 2008 to £12.2 million in 2009.

We believe that environmentally safe and energy-efficient buildings are both commercially beneficial and socially desirable. For this reason we incorporate environmentally effective features in our developments and convert or modify as many properties as possible. This provides an advantage in letting the buildings, creating benefits to tenants, who enjoy higher quality buildings, lower running costs and a healthier environment, and it provides cost savings for the Group and added investment value. At Solna Business Park in Sweden we developed buildings with geothermal heating and cooling systems, which cut running costs significantly, and met high specifications for air quality, sound proofing and illumination. Both of our recent developments in Germany, at Landshut and Bochum, were designed to comply with the ENEV requirements on energy saving, and at Landshut ground water is used in the cooling system for the office space. We intend to extend this programme of energy efficiency across the portfolio.

DISTRIBUTIONS

Following the substantial returns of cash to shareholders in late 2008 and early 2009, and with the share price at a discount of over 40% to adjusted net assets per share, we believe this is an appropriate time to restore our distribution policy. Accordingly, we propose to recommend a tender offer buy-back of 1 in 42 shares at 525 pence per share, and a general meeting to consider this will be convened for early April.

APPOINTMENTS

In November we welcomed John Whiteley to the Board as Chief Financial Officer, and Thomas Lundqvist succeeded Tom Thomson as Vice Chairman. In addition, David Fuller was appointed Company Secretary. I would like to thank my Board colleagues and our staff for their fortitude during demanding times, and our shareholders, lenders, customers and suppliers for their continued support.

THE FUTURE

We operate in difficult markets, with banks seeking to reduce their exposure to the real estate sector. Good property deals, such as our recent French acquisition, are scarce. The fundamentals of our business remain sound. We have resources available to take advantage of opportunities as they arise and I am delighted to report that we face the challenges ahead from a position of strength and confidence.

Sten Mortstedt
Executive Chairman
11 March 2010

Throughout 2009 we were prepared to wait for the right deal

The Group's business is divided into two operating divisions: investment properties and other investments. The investment property division is sub-divided for management purposes between the United Kingdom, France, Germany and Sweden. Other investments comprise investments in corporate bonds, in property groups Catena AB and Bulgarian Land Development plc, and in website media company Wyatt Media Group AB and other small corporate investments. At 31 December 2009, the investment property portfolio was valued at £813.0 million, and the other investments had a book value of £114.8 million.

INVESTMENT PROPERTY

OVERVIEW At 31 December 2009, the investment property portfolio was valued at £813.0 million, a fall in the year of 4.3%, of which 3.7% was due to the strength of sterling against assets held in euros and Swedish kronor. In local currency, the UK portfolio rose in value by 7.5%, France fell by 6.2%, Germany by 5.7% and Sweden by 2.0%. The property investment markets did not provide many opportunities to invest at value in the year, but towards the end of December we acquired Frères Peugeot in Paris for £29.2 million. Disposals in the year were restricted to 2 Deanery Street, London for £2.2 million. At 31 December 2009, the weighted average lease length across the Group was 8.5 years.

UNITED KINGDOM At 31 December 2009, the UK accounted for 42.7% of the investment portfolio at a value of £346.8 million, 7.5% higher than twelve months earlier on a like-for-like basis. By contrast, Investment Property Databank recorded a fall in office values across the UK of 5.9% in the year. Our valuation gain reflected a fall in yields for long-term, secure income caused by an excess of demand from investors over the available supply. The UK portfolio has a strong tenant profile with over 50% by rental value let to government tenants, and longevity of income with a weighted average lease term of over 10 years.

During the year, 2 Deanery Street, a Grade II listed building extending to 197 sq m of office accommodation, was sold with vacant possession for £2.2 million, generating a profit of £0.3 million over its 2008 valuation and representing the final disposal of properties considered to offer limited future prospects for growth. At 31 December 2009, the UK portfolio comprised 26 properties with an aggregate lettable area of 116,700 sq m.

We saw few opportunities for acquisitions offering good long-term value, with pricing generally reflecting excessive demand from overseas buyers and institutions. Nevertheless, we remain vigilant for opportunistic acquisitions. As a long-term holder of properties we have continued to carry out renovation and improvement works to a number of buildings in the UK portfolio, comprising £1.3 million in aggregate in the year, and including works at Chancel House and the installation of a new substation and refurbishment works at Cambridge House. At Westminster Tower, the electrical supply to each of the floors was replaced whilst the building remained fully occupied. At Great West House, a further floor was refurbished for the letting to Medical Professional Personnel.

Within the context of an economy in recession, the UK vacancy rate remained low at 4.5% by rental income compared to 4.4% in December 2008.

Despite the difficult market conditions, lettings were achieved at Great West House to Medical Professional Personnel and National Aviation Company of India, for 473 sq m and 299 sq m respectively, and an existing tenant at Great West House, Global Refund, acquired further space. At Quayside, 147 sq m was let to Knowledge to Action and at Ingram House 178 sq m was contracted with Ash Associates Communications. Further lettings were achieved at Spring Gardens Court, 16 Tinworth Street, 2/10 Tinworth Street and 107 Wandsworth Road.

Significant rental increases were achieved on the rent reviews at CI Tower: the annual rent from Hays Specialist Recruitment rose by 15%, and rent from Lafarge Cement UK increased by the same degree. Further rent reviews were settled at Spring Gardens, Westminster Tower and Cambridge House.

Through our close relationships with tenants we have again achieved excellent levels of debt recovery with no tenant company failures to report across the UK portfolio during the year. On average we received 94% of rent and service charge within 14 days of the due dates.

In the medium term, we plan to capitalise on the improvement of the Vauxhall area, following the recent substantial residential development of St George's Wharf, the relocation of the New Covent Garden Market, and the announcement of the new location of the United States embassy which is to open in 2016. We are pursuing development options on two sites in Vauxhall which are important projects in an improving area offering strong potential for adding value to substantial sites.

We are pursuing development options on two sites in Vauxhall which are important projects in an improving area

1 Vänerparken
2 Forum, Lyon
3 Hans-Böckler-Strasse 19, Bochum
4 Cambridge House, Hammersmith

1	4
2	
3	

FRANCE At the end of 2009, the French portfolio was valued at £222.8 million, or 27.4% of the total CLS portfolio, and had fallen by 6.2% in the year in local currency on a like-for-like basis. This compares favourably to a 2009 average fall of 16% in the French market.

Throughout 2009 we were prepared to wait for the right deal. Having appraised many opportunities in the year, on 29 December we acquired 7 rue Eugène et Armand Peugeot in Rueil-Malmaison for £29.2 million. This was a 7,350 sq m multi-let office building to the west of Paris yielding 8.3% and providing a return on equity of 16.1%. There were no disposals from the French portfolio in the year, which at the year end comprised 25 properties of 85,800 sq m with 180 tenants. Most tenancies were of the traditional French 3:6:9 year duration, and the weighted average lease length at 31 December 2009 was 5.9 years.

The French portfolio suffered no major tenancy changes in the year, but 7,200 sq m of space was relet and 8,700 sq m renewed, resulting in a year end vacancy rate of 4.2% by rental value. Among the deals closed in the year were two lettings to existing tenants in Lyon: 3,909 sq m let to Deloitte in Park Avenue; and 1,050 sq m to Deloitte's parent, Inuem, at Front de Parc. In Paris, at Le Quatuor, Montrouge, Pôle Emploi took 999 sq m, and in 96 Rue Nationale, Lille, Medef signed a lease renewal and extension on 936 sq m. Renewals and lease extensions were also completed in Paris with Micro Application on 1,315 sq m in 20/22 Rue des Petits Hôtels, with Citadines on 1,264 sq m in 120 Rue Jean Jaurès, with Camfil on 1,228 sq m in Le Debussy, and with Cesap on 606 sq m in new nine year leases.

£2.3 million was incurred in 2009 maintaining the fabric of the portfolio, in particular in Paris at Le Debussy, la Garenne-Colombes with the renovation of common parts and the replacement of the heating and cooling system at the building. Other renovation work took place in Lyon at Rhône Alpes, and in Paris at Le Quatuor, Montrouge, 95/97 Bis Rue de Bellevue, Boulogne, and 120 Rue Jean-Jaures, Levallois Perret, and in Luxembourg.

The total French investment market turnover in 2009 was €8 billion, down from €12.5 billion in 2008 and €27 billion in 2007, and the letting market was 25% down on 2008 at 1.8 million sq m. We expect the French property market to recover slowly in 2010 in line with the French economy, but with well-located assets performing the better.

GERMANY The German portfolio, 23.6% of the total portfolio, was valued at £192.1 million at 31 December 2009, a fall of 5.7% in local currency on a like-for-like basis, caused by a marginal increase in yield of typically 0.125 to 0.25%. There were no purchases or sales in the year.

During 2009 capital expenditure in Germany comprised £17.7 million in total. The second and third phases of the Landshut development, of 7,032 sq m in aggregate, were completed on time and on budget. The entire scheme was pre-let to E.ON Bayern AG for 15 years with no breaks, and added €957,000 per annum to the rent roll. In addition, the 23,800 sq m redevelopment of the Rathaus Center in Bochum was completed and handed over to the City in December 2009 under a 30 year pre-letting to the local municipality at €2,285,000 per annum.

At 31 December 2009, the German portfolio comprised 16 properties with 140,400 sq m of lettable space. During the year tenants vacated 9,611 sq m, and lettings were achieved on 5,021 sq m, resulting in an increase in our void rate to 5.8% by rental value, well below the national rate. Notable amongst the lettings, at Frohbösestrasse 12 in Hamburg, laboratory equipment manufacturer Scope Life Sciences leased 1,595 sq m, and also in Hamburg three tenants took 1,100 sq m in aggregate at Jarrestrasse 8/10. At 31 December 2009 the portfolio housed 80 tenants on a weighted average lease term of 9.3 years.

Germany's GDP fell by 5.1% in 2009, the largest decrease in 50 years; an increase of 1.5% is expected in 2010. It is within this context that activity in the German commercial investment property market fell to €10.3 billion in 2009, down from €19.6 billion in 2008 and €75.0 billion in 2007. The market was dominated by open-ended funds looking for safe core investments, in which there was a small fall in yields which is expected to continue in 2010. We were prepared not to enter the investment market in 2009 except for the right opportunity, and we will continue to be circumspect in 2010.

The office letting market was depressed in 2009, with an overall fall in activity of 28% against the previous year, which in some cities such as Munich and Düsseldorf reached around 40%. Letting activity is unlikely to increase in 2010, but there remains very limited development activity to bring further supply to the market. The national average vacancy rate increased from 8.9% in 2008 to 9.9% in 2009, and is expected to increase in 2010. Our void rate of only 5.8% is a creditable result in the prevailing economic climate.

SWEDEN Our Swedish portfolio comprises adjacent buildings located in Vänersborg, near Gothenburg, which we treat collectively as one asset of 45,500 sq m called Vänerparken. At 31 December 2009 it was valued at £51.3 million, reflecting a fall of 2.0% on a like-for-like basis, and representing 6.3% of the Group portfolio.

Since mid-2008, the local university has vacated approximately 12,500 sq m and has been replaced as a tenant by the local municipality. The City of Vänersborg has leased the entire space for 20 years, with 10 years term certain. Should the local authority exercise its break in 2019 it would be subject to a break cost of one year's rent. We now have a secure income stream of 97% of our total Swedish income from governmental tenants until mid-2015, and subject to annual indexation.

With the new letting to the City of Vänersborg, the vacancy rate at Vänerparken has fallen to 1.9% by rental value.

Investment market activity in Sweden was not immune from global sentiment, and fell in 2009 by 75% against the year before.

OTHER INVESTMENTS

Other investments at 31 December 2009 comprised investments in corporate bonds, in property groups Catena AB and Bulgarian Land Development Plc, and in website media company Wyatt Media Group AB and other small corporate investments, and represented a book value of £114.8 million in aggregate.

The corporate bond portfolio was acquired as part of the Group's long-term investment strategy in parallel with the ownership of long-term investment properties and had a value of £70.0 million at the year end against an historical cost of £58.4 million. The valuation uplift, together with interest income from the portfolio and gains on disposals, produced a total return on capital employed in the year of 54.2%.

Catena AB is a Swedish listed property investment company with a Scandinavian property portfolio valued at approximately one-quarter the size of that of CLS. During the year, the Group increased its interest in the issued share capital of Catena marginally to 29.8%, taking the aggregate cost to £28.6 million.

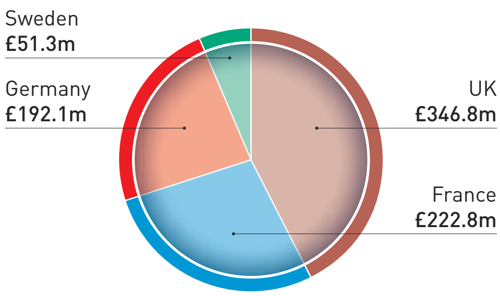
Bulgarian Land Development Plc is an AIM-listed developer of predominantly residential buildings in Bulgaria. CLS owns 47.7% of the company, acquired at a cost of £13.4 million.

RESULTS FOR THE YEAR

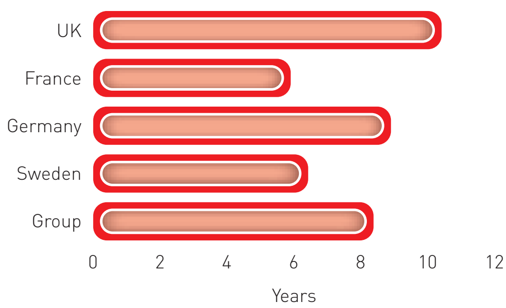
CHANGES IN PRESENTATION In the year ended 31 December 2009, a number of International Financial Reporting Standards have been applied for the first time, as explained in Note 2 to the financial statements, although none has materially affected the results for the year. In applying IFRS8 – *Operating Segments* this year for the first time we are also required under the newly issued IAS 1 (revised) *Presentation of financial statements*, to provide three balance sheets instead of the usual two and several pages of accompanying notes, even though in applying IFRS8 the balance sheets are unaffected. Also under IAS 1 (revised) this year a Statement of Comprehensive Income is presented for the first time, comprising the traditional Income Statement and other reserve movements.

HEADLINES Profit after tax attributable to the owners of the Company of £17.5 million (2008: loss of £78.1 million) generated basic earnings per share of 36.4 pence (2008: loss per share of 120.6 pence). After excluding the effect of deferred tax and the movement on the revaluation of investment properties, adjusted earnings per share were 48.2 pence (2008: loss per share of 65.6 pence). Gross property assets at 31 December 2009 rose to £813.0 million (2008: £798.8 million), net assets per share were 643.3 pence (2008: 548.4 pence) and adjusted net assets per share, which exclude deferred tax, were 18.6% higher than the previous year at 767.5 pence (2008: 647.2 pence).

PORTFOLIO BY VALUE



WEIGHTED AVERAGE LEASE LENGTH



Approximately 40% of the Group's business is conducted in the reporting currency of sterling, and 8% is in Swedish kronor, the exchange rate for which remained largely unchanged against sterling between 2008 and 2009. However, half of the Group's business is conducted in euros, the average rate of which strengthened by around 10% against sterling in 2009 compared to the previous year, adding to the profits reported in the Statement of Comprehensive Income. Towards the end of 2008 the euro strengthened significantly, reaching almost parity at the year end, but by 31 December 2009 sterling had strengthened by 7.8%, reducing the relative value of euro-based net assets. So, perversely, when compared to the previous year the Statement of Comprehensive Income benefited from the euro's strength in 2009, but the Balance Sheet at 31 December 2009 suffered from its weakness.

EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2007	1.3571	12.7896
2008 average rate	1.2575	12.0861
At 31 December 2008	1.0461	11.4474
2009 average rate	1.1233	11.9290
At 31 December 2009	1.1275	11.5689

STATEMENT OF COMPREHENSIVE INCOME Rental income for 2009 was £60.6 million, 3.9% lower than in 2008. Rents in the UK were £25.0 million, 41% of the total Group, and £1.2 million lower than 2008, virtually entirely due to disposals made in 2008. At £4.9 million, rents in Sweden were in line with last year. In Germany and France, a full year of loss of rent from disposals made in 2008 reduced rental income by £6.4 million in 2009, whilst rents from completed developments and termination payments on expiries added £2.1 million. Underlying rental income from the remaining portfolios in Germany and France rose by 1.0% in local currency but translated to a 13.1% rise due to the strength of the euro.

Following the rationalisation of the property portfolio, we embarked upon a process to address the cost base of the Group, slimming down the organisation and reducing administration costs from £19.0 million in 2007 (excluding £8.7 million relating to the investment in London Bridge Quarter which was sold at the end of that year), to £16.1 million in 2008, and £12.2 million in 2009.

The net deficit on revaluation of investment properties at 31 December 2009 was £6.7 million (2008: deficit of £103.3 million). The uplift in the UK of £24.1 million reflected a 7.5% underlying gain. In Germany and France, the underlying deficit in local currency of around 6% was doubled by the relative strength of sterling at the year end, causing a deficit of £13.5 million and £15.9 million, respectively. The deficit on revaluation of investment properties is excluded in arriving at adjusted earnings per share.

The impairment of intangible fixed assets and goodwill of £22.0 million significantly reduced adjusted earnings per share in 2008. There was no such impairment in 2009.

Net finance costs in 2009 were £25.5 million (2008: £43.0 million). Within this number, interest payable of £28.5 million (2008: £42.6 million) was lower than the previous year due to the reduction in loans which accompanied the disposals in 2008, and also due to the decision to reduce exposure to fixed rate interest rate swaps in favour of interest rate cap contracts, which enabled the Group to benefit from the prevailing low interest rate environment. The fall in interest income to £6.4 million (2008: £8.7 million) was largely due to cash balances being reduced by the £48.0 million distributed through the tender offer buy-back in January 2009. Foreign exchange variances created a loss of £9.7 million (2008: gain of £11.9 million), and the effect of marking derivatives to market at the year end produced a net gain of £6.3 million (2008: loss of £21.0 million).

Within the Other Investments division, in addition to the return of 54.2% from corporate bonds, Wyatt Media Group contributed £0.1 million (2008: loss of £2.8 million) to operating profit on turnover of £3.6 million (2008: £3.6 million), and the Group's share of Catena AB's profit after tax was £3.0 million. Bulgarian Land Development plc contributed a loss after tax of £3.3 million, which was partially offset by negative goodwill of £2.8 million occasioned when the Group bought a further 11.9% of the shares in BLD at a price below that company's net asset value.

Once again this year the current tax charge was significantly below the weighted average rate of the countries in which we do business. Our French operation was the only part of the Group which paid tax. Elsewhere in the Group, through judicious planning, tax losses absorbed taxable profits made in the year. Future profits will erode such tax losses and, thereby, the Group's ability to mitigate future tax liabilities. The tax charge also contains a deferred tax credit of £1.0 million (2008: tax credit of £67.7 million), which typically largely contains an adjustment required under IFRS for the potential tax occasioned by valuation movements on investment properties. In practice this tax is unlikely to be paid, so deferred tax is excluded from the calculations of adjusted earnings per share and adjusted net asset value.

ADJUSTED NET ASSET VALUE Adjusted net assets fell by 7.7% to £368.6 million (2008: £399.6 million), but adjusted net assets per share rose because the number of shares in issue was reduced by 2 in 9, or 22%, through the tender offer buy-back.

At 31 December 2009, adjusted net assets per share, which exclude deferred tax, were 767.5 pence (2008: 647.2 pence), a rise of 18.6%. On 7 January 2009, a tender offer of 2 in 9 shares in issue took place at 350 pence per share, which had the effect of increasing adjusted net assets per share to 732.0 pence. Profit after tax added a further 34.3 pence, and fair value movements contributed 28.2 pence. Against this, exchange rate variances reduced adjusted net assets per share by 27.0 pence.

CASH FLOW, NET DEBT AND GEARING At 31 December 2009, the Group's cash balances of £70.3 million were £125.0 million lower than twelve months previously, mainly due to the distribution of £48.0 million by way of the tender offer buy-back in January, property acquisitions and other capital expenditure of £52.0 million, and the net investment in corporate bonds of £45.9 million.

During the year gross debt reduced from £601.7 million to £592.8 million. £19.2 million was raised to finance the acquisition of Frères Peugeot in Paris, £21.1 million to finance developments in Germany, and £29.4 million for sundry working capital requirements. £57.4 million was repaid during the normal course of business, and the effect of translating euro-denominated loans into sterling at an exchange rate 7.8% different from twelve months earlier reduced the sterling value of overseas loans by £21.1 million.

Adjusted net gearing, which excludes the effect of deferred tax, was 101.7% at 31 December 2008, but rose to a pro forma 129.2% with the tender offer buy-back on 7 January. At 31 December 2009 it was 141.7%, and the weighted average loan-to-value on borrowings against properties was 66.9%. Adjusted solidity was 36.4% (2008: 37.6%).

During the year a number of fixed interest rate swap contracts were cancelled in favour of interest rate caps to take advantage of the prevailing low interest rate environment. This had the effect of reducing the weighted average cost of debt to 4.0% (2008: 5.8%), and increasing the proportion of floating rate loans to 50% of total borrowings (2008: 42.5%). In 2009 recurring interest cover rose to a comfortable 2.1 times (2008: 1.1 times).

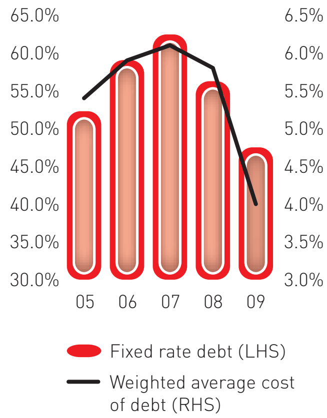
FINANCING STRATEGY The Group's strategy is to hold its investments predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 75% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. Following the significant fall in property values at 31 December 2008, actual and potential covenant breaches on loans with a value of £176.4 million were resolved through the part-repayment of loans or the placing of cash on deposit using less than £15 million in aggregate. None of the Group's debt was in breach of covenants at 31 December 2009; potential breaches could be rectified on the part-repayment of £1.9 million of principal.

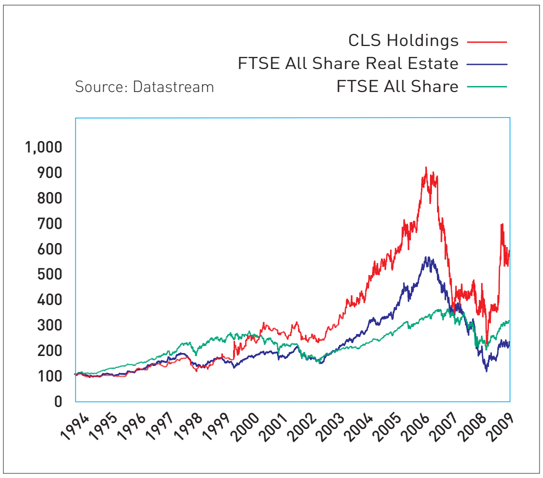
To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by the use of financial derivatives, particularly interest rate swaps and caps.

SHARE CAPITAL At 1 January 2009, there were 66,745,471 shares in issue, of which 5,000,000 were held as Treasury shares. On 7 January, under the tender offer buy-back, 13,721,215 shares were cancelled in exchange for £48.0 million distributed to shareholders. There were no other changes to share capital in the year, and at 31 December 2009 48,024,256 shares were listed on the London Stock Exchange, and 5,000,000 shares remained in Treasury.

The Directors intend to put to a general meeting of the Company in April 2010 a proposal to issue a tender offer to buy back 1 in 42 shares at 525 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 1,143,434 shares, a distribution to shareholders of £6.0 million, and 46,880,822 shares remaining, excluding Treasury shares.

PROPORTION OF FIXED RATE V COST OF DEBT





TOTAL RETURNS TO SHAREHOLDERS

In addition to the distribution associated with the tender offer buy-back in January 2009, shareholders benefited from a rise in the share price in the year from 305 pence on 31 December 2008 to 498.75 pence on 31 December 2009. Accordingly, the total shareholder return in 2009 was 52.7%.

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE All Share Real Estate and FTSE All Share indices, as set out in the graph on the left. The graph includes dividend payments made by other companies; CLS has made no dividend payments to shareholders since 1998, but instead has made capital distributions through tender offer buy-backs, which have been accounted for in the graph.

KEY PERFORMANCE INDICATORS

Our performance against our key performance indicators is set out on page 2.

1 Spring Gardens, London SE11
2 Park Avenue, Lyon
3 Hans-Böckler-Strasse 19, Bochum
4 Planegg, Munich




PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance and could cause the results to differ materially from expected or historical results. The management and mitigation of these risks are the responsibility of the Board.

Risk	Mitigation
Property investment risks Underperformance of investment portfolio impacting on financial performance due to: • Cyclical downturn in property market • Inappropriate buy/sell/hold decisions	Senior management has detailed knowledge of core markets and experience gained through many market cycles. This experience is supplemented by external advisors and financial models used in capital allocation decision-making.
• Changes in supply of space and/or tenant demand affecting rents and vacancies	The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 8.5 years and the Group's largest tenant concentration is with the Government sector (40.1 per cent).
• Poor asset management	Property teams proactively manage tenants to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted bi-weekly to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.
Other investment risks Underperformance of corporate bond portfolio	In assessing potential investments, the Group Treasury department undertakes research on the bond and its issuer, seeks third-party advice, and receives legal advice on the terms of the bond, where appropriate. The Group Treasury department receives updates on bond price movements and third party market analysis on a daily basis and reports on corporate bonds to the Board on a bi-weekly basis.
Funding risks Unavailability of financing at acceptable prices	The Group has a dedicated Treasury department and relationships are maintained with approximately 20 banks, thus reducing credit and liquidity risk. The exposure on re-financing debt is mitigated by the lack of concentration in maturities.
Adverse interest rate movements	The Group's exposure to changes in prevailing market rates is largely hedged on existing debt through interest rate swaps and caps, or by borrowing at fixed rates.
Breach of borrowing covenants	Financial covenants are monitored by the Group Treasury department and regularly reported to the Board.
Foreign currency exposure	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of the financing is generally unhedged and monitored on an ongoing basis.
Taxation risks The risk that there will be increases in tax rates or changes to the basis of taxation.	The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change.
Going concern The risk that given the economic uncertainties the Group will not have adequate working capital to remain a going concern for the next 12 months	See page 23.

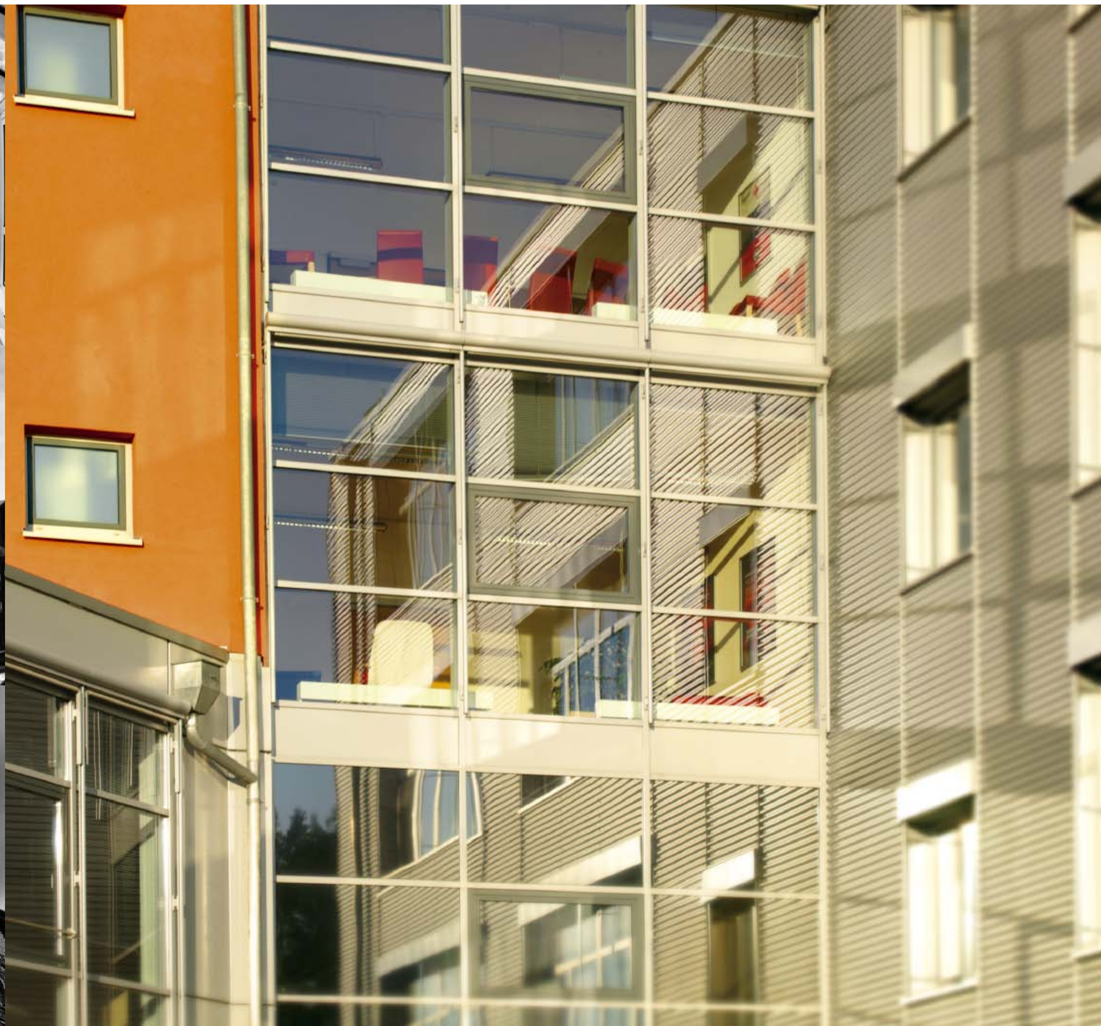
PROPERTY PORTFOLIO

A weighted average lease length of 8.5 years, 40% let to Government tenants and only 4.5% vacant

At 31 December 2009, the Group owned 68 properties containing 389 tenants in a total lettable area of 388,381 sq m. Contracted rent across the Group was £64.0 million; net rent, which is contracted rent less net service charge costs, was running at £61.9 million from properties with a book value of £813.0 million, representing a net initial yield of 7.6%. Should the vacant space at 31 December 2009 have been let at its estimated rental value (ERV) of £3.1 million per annum, the yield would have been 7.9%.

The ERV of the entire portfolio was £61.3 million, of which £58.2 million related to the let portfolio which, therefore, was 9.1% over-rented. However, around half of the over-rented element was in the UK, where the weighted average lease length was over 10 years and £1.9 million of the over-rented element in the UK was let to the Government for 16 years unexpired. 67% of the Group's rent roll extended beyond five years and 27% had over 10 years unexpired. The weighted average lease length across the Group was 8.5 years. 40% of the rent roll was let to government tenants, and a further 26% to major corporations.

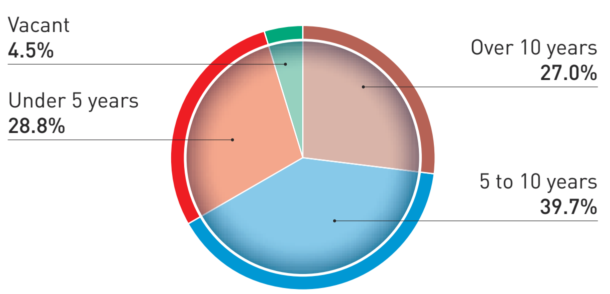
1 7 Rue Eugène et Armand Peugeot, Paris
2 Spring Gardens, London SE11
3 16 Rue de Solférino, Paris
4 Unterschleissheim, Munich



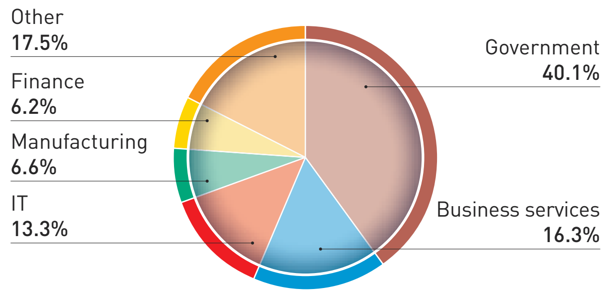
	Contracted rent £m	Net rent £m	Book value £m	Net initial yield	Yield when fully let	True equivalent yield
UK	24.8	24.0	346.8	6.7%	7.3%	6.5%
France	18.8	18.6	222.8	8.0%	8.7%	7.7%
Germany	14.6	14.4	192.1	7.2%	7.8%	7.2%
Sweden	5.8	4.9	51.3	10.5%	9.5%	8.0%
	64.0	**61.9**	**813.0**	**7.6%**	**7.9%**	

	Vacant %	Vacant @ ERV £m	Total contracted plus vacant £m	ERV of total portfolio £m	Over-rented £m	Weighted average lease length
UK	4.5%	1.3	26.1	23.3	2.8	10.4 years
France	4.2%	0.8	19.6	18.0	1.6	5.9 years
Germany	5.8%	0.9	15.5	15.1	0.4	9.3 years
Sweden	1.9%	0.1	5.9	4.9	1.0	6.4 years
	4.5%	**3.1**	**67.1**	**61.3**	**5.8**	**8.5 years**

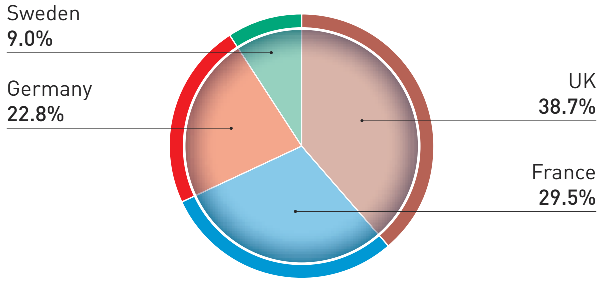
RENT BY LEASE LENGTH



RENT BY SECTOR



RENT BY GEOGRAPHY



SCHEDULE OF GROUP PROPERTIES

UNITED KINGDOM

at 31 December 2009	Tenure	Area sq m	Use
London EC4			
Clifford's Inn, Fetter Lane	Freehold	3,181	Offices
London SE1			
Westminster Tower, 3 Albert Embankment	Freehold	4,481	Offices
Fielden House, 28/42 London Bridge Street*	Freehold	753	Offices
London SW8			
Cap Gemini House, 95 Wandsworth Rd & 72/78 Bondway & 22 Miles Street	Freehold	10,427	Offices/Industrial
86 Bondway	Freehold	891	Offices
80/84 Bondway	Freehold	1,624	Offices
101/103/107 Wandsworth Road	Freehold	488	Residential
18/20 Miles Street	Freehold	152	Offices
London SE11			
Spring Gardens, Tinworth Street	Freehold	19,387	Offices
Spring Gardens Court, 79 Vauxhall Walk	Leasehold	115	Residential
2/10 Tinworth Street	Freehold	1,263	Offices/Industrial
16 Tinworth Street	Freehold	218	Industrial
92/98 Vauxhall Walk	Freehold	97	Offices
108 Vauxhall Walk	Freehold	600	Car parking
110 Vauxhall Walk	Freehold	790	Industrial
Western House, 5 Glasshouse Walk	Freehold	589	Offices
35 Albert Embankment	Freehold	527	Leisure
London WC1			
214/236 Grays Inn Road	Freehold	26,295	Offices
London WC2			
Ingram House, 13/15 John Adam Street	Freehold	1,307	Offices/Residential
Brentford			
Great West House, Great West Road, TW8	Freehold	14,400	Offices
Fulham			
Quayside, William Morris Way, SW6	Freehold	3,065	Offices
Hammersmith			
Cambridge House, 100 Cambridge Grove, W6	Freehold	6,621	Offices
Ladbroke Grove			
Buspace Studios, 10 Conlan Street, W10	Freehold	3,006	Studios/Workshops/ Offices
Neasden			
Chancel House, Neasden Lane, NW10	Freehold	6,887	Offices
New Malden			
CI Tower, High Street, KT3	Freehold	7,562	Offices
Ipswich			
Zest Nightclub, Princes Street, IP1	Freehold	1,951	Leisure
UK Properties at 31 December 2009		**116,677**	

* Share of joint venture

FRANCE AND LUXEMBOURG

at 31 December 2009	Tenure	Area sq m	Use
Paris			
48 Rue Croix des Petits Champs, 75001	Freehold	1,800	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,001	Offices
18 Rue Stephenson, 75018	Freehold	538	Offices
Le Sully, Ilôt 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	Offices
95/97 Bis Rue de Bellevue, 92100 Boulogne	Freehold	2,445	Offices
16 Rue de Solférino, 92100 Boulogne	Freehold	1,046	Offices
58 Avenue Général Leclerc, 92100 Boulogne	Freehold	525	Offices
Le Quatuor, 168 Avenue Jean Jaurès, 92120 Montrouge	Freehold	5,003	Offices
2 Rue Pierre Timbaud, 92230 Gennevilliers	Freehold	3,118	Offices
Le Sigma, Place de Belgique, 90 Bld de L'Europe, 92250 la Garenne-Colombes	Freehold	6,599	Offices
Le Debussy, 77/81 Boulevard de la République, 92250 la Garenne-Colombes	Freehold	4,198	Offices
62 Avenue Foch, 92250 la Garenne-Colombes	Freehold	196	Offices
120 Rue Jean Jaurès, 92300 Levallois Perret	Freehold	4,219	Offices
56 Boulevard de la Mission Marchand, 92400 Courbevoie	Freehold	2,784	Offices
53/55 Rue du Capitaine Guynemer, 92400 Courbevoie	Freehold	2,171	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,357	Offices
Lyon			
Forum, 27/33 Rue Maurice Flandin, 69003	Freehold	6,837	Offices
D'Aubigny, 27 Rue de la Villette, 69003	Leasehold	4,316	Offices
Rhône Alpes, 235 Cours Lafayette, 69006	Freehold	3,142	Offices
Park Avenue, 81 Boulevard de Stalingrad, Villeurbanne, 69100	Freehold	4,249	Offices
Front de Parc, 109 Boulevard de Stalingrad, 69100	Leasehold	5,223	Offices
Lille			
96 Rue Nationale, 59000	Freehold	2,644	Offices
La Madeleine, 105 Avenue de la République, 59110	Freehold	4,590	Offices
Antibes			
Le Chorus, 2203 Chemin de St Claude, Nova Antipolis, 06600	Freehold	4,333	Offices
Luxembourg			
16 Rue Eugène Ruppert, L2453	Freehold	3,698	Offices
France and Luxembourg Properties at 31 December 2009		**85,830**	

SCHEDULE OF GROUP PROPERTIES CONTINUED

GERMANY

at 31 December 2009	Tenure	Area sq m	Use
Munich			
BrainLAB, Kapellenstrasse 12, Feldkirchen D-85622	Freehold	16,313	Offices
Planegg, Maximilian Forum, Lochhamer Strasse 11/15, D-82152	Freehold	13,816	Offices
Gräfelfing, Lochhamer Schlag 1	Freehold	6,885	Offices
Rüdesheimer Strasse 9, D-80686	Freehold	2,587	Offices
Unterschleissheim, Lise-Meitner-Strasse 4, D-85716	Freehold	2,958	Offices
Hamburg			
Fangdieckstrasse 75, 75a, b, 22547	Freehold	13,037	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,568	Offices
Merkurring 33/35, D-22143	Freehold	8,262	Offices
Harburger Ring 33, D-21073	Freehold	3,364	Offices
Frohbösestrasse 12, D-22525	Freehold	1,993	Offices
Berlin			
Rudowerchausee 12, D-12489, Adlershofer Tor	Freehold	19,971	Offices/Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, Charlottenburg	Freehold	6,036	Offices
Bochum			
Hans-Böckler-Strasse 19, 44787	Freehold	24,640	Offices
Düsseldorf			
Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
Landshut			
Roider-Jackl-Strasse	Freehold	10,665	Offices
Süderhastedt			
Dorfstrasse 14, 25727	Freehold	1,185	Nursing home
German Properties at 31 December 2009		**140,375**	

SWEDEN

at 31 December 2009	Tenure	Area sq m	Use
Vänerparken			
Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,499	Offices/Education/ Residential/Leisure/ Hospital
Swedish Properties at 31 December 2009		**45,499**	
Total Portfolio at 31 December 2009		**388,381**	

DIRECTORS' REPORT

for the year ended 31 December 2009

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009. The Chairman's Statement, Business Review and Corporate Governance Report form part of this report and should be read in conjunction with it.

1 PRINCIPAL ACTIVITIES

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

2 REVIEW OF BUSINESS

The Statement of Comprehensive Income for the year is set out on page 36.

A review of results for the year, the principal risks and uncertainties facing the Group and the prospects for the future, are set out within the Chairman's Statement, Business Review and Property Portfolio on pages 6 to 20 and are incorporated into this report by reference. These also include analysis using key performance indicators and any other information required to fulfil the requirements of the Business Review.

Details of use by the Group of financial instruments are set out in the Business Review on pages 8 to 20 and in note 22 to the group financial statements. Risk Management objectives are also detailed in note 22.

3 DIRECTORS

The Directors of the Company are set out below and changes to the composition of the Board during the year can be found in the Corporate Governance Report on page 24.

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 30 to 33. Related party transactions are shown in note 31.

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

Executive Directors

Sten A Mortstedt, aged 70, is Executive Chairman of the Company. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was floated on the Stock Exchange in Stockholm in 1981. The company was sold in 1985 for a price five times higher than the introduction price and was at that time the largest property deal recorded in Scandinavia.

Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France.

He established CLS in 1987, and has been Executive Chairman since he took the Company to a listing on the main market of the London Stock Exchange in 1994.

In addition to his focus on property, he has been commercially active in a number of other investment areas. He 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.

E Henry Klotz, aged 65, was appointed to the Board as Chief Executive Officer in 2008. He joined the Group in 1999 with responsibility for the management of the Swedish operation and more recently was involved in the setting up of the German division and sourcing new business opportunities for the Group. He is a qualified engineer and economist.

On behalf of CLS he is also Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm Stock Exchange, in which CLS holds an interest of 29.8%. He is also a Non-Executive Director of Bulgarian Land Development Plc, an AIM-listed company in which CLS holds 47.7%.

John H Whiteley, aged 51, joined the Company in October 2009 and was appointed to the Board on 24 November 2009. He was previously Finance Officer at Doughty Hanson & Co Real Estate, and for ten years was Finance Director of Great Portland Estates plc, a company listed on the London Stock Exchange. He is a Fellow of the Institute of Chartered Accountants and spent nine years with Ernst & Young, after qualifying as an accountant with Spicer & Pegler.

Non-Executive Directors

H O Thomas Lundqvist, aged 65, was appointed Vice Chairman on 24 November 2009; he is Chairman of the Remuneration Committee and a member of the Audit Committee. He joined the Board in November 1990 and was Finance Director of the Company until 1995, when he became a Non-Executive Director. 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.

Malcolm C Cooper, aged 50, joined the Board in 2007; he is the Company's Senior Independent Director and Chairman of the Audit Committee. He is Global Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991. Previously he worked for Andersen Consulting. He has a first in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers.

3 DIRECTORS (CONTINUED)

Non-Executive Directors (continued)

Joseph A Crawley, aged 50, joined the Board in 2008 and is a member of the Remuneration Committee. He is Chief Executive of Kitewood Estates Limited, a property investment and development company active in London and south-east England, and has over 20 years' experience of the central London property market. He was previously employed by CLS for a number of years and was involved in the development of the Spring Gardens site.

Christopher P Jarvis FRICS, aged 54, joined the Board in 2008 and is a member of the Audit Committee. He has an M.A. from Cambridge University and is a Partner of Jarvis & Partners, a boutique real estate consultancy which he established in Berlin in 1994. Previously he was Managing Director of Richard Ellis Germany where he established the firm's Frankfurt and Berlin offices. His firm has acted as development partner for the HRO Group in Germany.

Bengt F Mörtstedt, aged 61, joined the Board as an Executive Director in 1987 and became a Non-Executive Director in 1998. Previously he was an analyst for Citadellet AB, the Mortstedt family property company in Sweden. He holds a Bachelor of Law degree from Stockholm University and before focusing on the property sector began his career as a Junior Judge of the Växjö District Court in Sweden.

Thomas J Thomson, aged 59, joined the Board in 2001 as Executive Vice Chairman and Acting Chief Executive, and was made Chief Executive in 2004. He became a Non-Executive Director in 2006. He was Non-Executive Vice Chairman from 2006 to 2009 and Company Secretary from 1983 to 2001 and from 2008 to 2009. He is a qualified solicitor and joined the Group as General Counsel in 1994, having been a partner with Taylor Walton Solicitors for many years.

In accordance with the Articles of Association, Sten Mortstedt will retire by rotation. Both Mr Lundqvist and Mr B Mörtstedt have served as Non-Executive Directors for more than nine years and, therefore, in accordance with the recommendation set out in A.7.2 of the Combined Code, retire annually. As a former Executive Director, Mr Thomson also retires annually. Each, being eligible, will seek re-election to the Board at the Annual General Meeting. In addition, Mr Whiteley, who was appointed since the last Annual General Meeting, will offer himself for reappointment at the 2010 Annual General Meeting.

The Board recommends to the shareholders the reappointment of Mr Whiteley and the re-election of the retiring Directors, given their performance and continued important contribution to the Company.

4 DIVIDENDS

In lieu of paying cash dividends it is the Company's current policy to make distributions by way of tender offer buy-backs.

The second tender offer made in 2008, by way of a Circular dated 1 December 2008 for the purchase of 2 in 9 shares at 350 pence per share, was completed in January 2009. It returned £48.0 million to shareholders, equivalent to 77.8 pence per share.

A tender offer will be put to shareholders in April 2010 for the purchase of 1 in 42 shares at a price of 525 pence per share which, if approved, will return £6.0 million to shareholders, equivalent to 12.5 pence per share.

5 PURCHASE OF THE COMPANY'S SHARES

When the above-mentioned tender offer was completed in January 2009, 13,721,215 shares were purchased and subsequently cancelled. The Company did not make any further purchases of its own shares during the year.

The Directors will continue to keep under review whether to make such purchases so long as they are in the best interests of shareholders given the cash resources of the Company and the discount of the market price of the Company's shares to its net asset value.

A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 4,802,425 shares.

6 SHARE CAPITAL

Changes in share capital are shown in note 23 of the notes to the group financial statements. At 31 December 2009, and at the date of this report, the Company's issued share capital consisted of 53,024,256 ordinary shares of 25 pence each, of which 5,000,000 shares were held as Treasury shares and all of which ranked pari passu.

The total number of voting rights in CLS Holdings plc was 48,024,256, being the number of shares in issue excluding Treasury shares. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, as well as the powers of the Directors, are set out in the Company's Articles of Association.

At 31 December 2009 the Company operated two employee share schemes: the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme); and the Company's Unapproved Share Option Scheme. There were no share options outstanding under either of these schemes at the year end or as at the date of this report (2008: none).

Details of the Directors' interests in shares are shown in the Directors' Remuneration Report on page 30.

7 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2009 was carried out by Lambert Smith Hampton for the UK, DTZ for France and Germany, and CBRE for Sweden, which produced a market value of £813.0 million (2008: £798.8 million).

8 CORPORATE GOVERNANCE

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FSA's Disclosure and Transparency Rules, can be found on pages 24 to 29 and forms part of this report.

9 EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues, including charitable donations, are summarised in the Corporate Responsibility Report on page 34. No political donations were made during 2009.

10 INSURANCE OF DIRECTORS AND INDEMNITIES

The Company has arranged insurance cover in respect of legal action against its directors and officers. The Company has granted indemnities to each of the Directors and other senior management, 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 one or more of its subsidiaries or associates.

11 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to comply with 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 23 days' purchases based on the year as a whole (2008: 22 days). The Company had no trade creditors (2008: nil).

12 AUDITORS

A resolution to reappoint Deloitte LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

13 2010 ANNUAL GENERAL MEETING

The 2010 Annual General Meeting will be held on Tuesday, 11 May 2010. The notice of meeting including explanatory notes for the resolutions to be proposed will be posted to shareholders.

14 EVENTS AFTER THE BALANCE SHEET DATE

There were no reportable events after the balance sheet date.

15 DISCLOSURE OF INFORMATION TO AUDITORS

Each Director has confirmed at the date of this report 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 s418 of the Companies Act 2006.

16 GOING CONCERN

The current economic conditions have created a number of uncertainties as set out on page 15. The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review on pages 8 to 20. The financial position of the Group, its liquidity position and borrowing facilities are described in the Business Review and in notes 21 and 22 of the financial statements.

The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, therefore, they continue to adopt the going concern basis in preparing the annual report and accounts.

The Directors' Report was approved by the Board on 11 March 2010.

By order of the Board

David Fuller BA FCIS
Company Secretary
11 March 2010

CORPORATE GOVERNANCE

1 INTRODUCTION

The principal corporate governance rules applying to UK companies listed on the London Stock Exchange are the Combined Code on Corporate Governance as updated by the Financial Reporting Council ("FRC") in June 2008 (the "Code"), the UK Financial Services Authority ("FSA") Listing Rules and the FSA's Disclosure and Transparency Rules.

The Board has overall responsibility for corporate governance and is accountable to the Company's shareholders for good governance. It is committed to achieving a high standard of corporate governance which best fits the Company and it shares the view that this contributes to better company performance by assisting the Board to discharge its duties in the best interests of shareholders.

The Board fully supports the principles of good governance as set out in the Code, which is publicly available on the FRC's website (www.frc.org.uk).

Save as identified and explained below, the Board considers that throughout 2009 it has complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.

2 THE BOARD

The Board comprises three Executive Directors, including the Executive Chairman, and six Non-Executive Directors.

Their biographies can be found on pages 21 and 22.

On 24 November 2009 John Whiteley, the Company's Chief Financial Officer, was appointed to the Board and Thomas Lundqvist, Non-Executive Director, became Vice Chairman in succession to Thomas Thomson, who remains a Non-Executive Director. As at the date of this report there were no other changes to the composition of the Board.

The Board notes that the Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. The Board recognises it is not compliant with provision A.3.2 of the Code but believes that it has demonstrated a proven track record of success which has been beneficial to shareholders notwithstanding the financial uncertainly affecting property companies over the past two years. Its experience, prudence and choice of strategic direction has, for example, meant that the Company has not been required to seek further capital from shareholders.

The Board understands the need for independent non-executive directors to challenge the views of the executive team and contribute to the Company's overall strategy. It considers its current independent Non-Executive Directors fulfil this role exceptionally well. It has determined that Malcolm Cooper and Christopher Jarvis 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. Mr Cooper is the Senior Independent Director and he is available to shareholders who do not wish to approach either the Chairman or the Chief Executive about a Company matter.

The Board has determined that, in accordance with the Code provisions, four Non-Executive Directors, Joseph Crawley, Thomas Lundqvist, Bengt Mörtstedt and Thomas Thomson, are not independent. Mr B Mörtstedt and Mr Lundqvist have both served on the Board for more than nine years. Mr B Mörtstedt is the brother of the Executive Chairman and Mr Lundqvist is the Vice Chairman of the Sten Mortstedt Family and Charity Trust. Mr Crawley has a close family tie with the Executive Chairman by way of marriage. Mr Thomson has been an employee of the Group within the last five years. The Board is satisfied with the experience, expertise and performance of each board member. They continue to add significant value to the operation of the Company through their combined knowledge and experience, and exercise objectivity in decision-making and proper control of the Company's business.

During the year the Chairman conferred with the Non-Executive Directors without the other Executive Directors present. A formal meeting of the Non-Executives took place during the year, without the Executive Directors or the Chairman present, at which a thorough review of the performance of the Board and that of the Chairman took place. The Non-Executive Directors also reviewed the composition of the Board and considered that, whilst the current Non-Executive Directors fulfil their role, a further independent Non-Executive Director would be beneficial, although no suitable candidate has yet been found.

In accordance with the Articles of Association, which can be amended by a special resolution of the shareholders, the Board has the power to appoint directors and, where notice is given signed by all the other directors, to remove a director from office. In addition all Directors are subject to reappointment 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. Those Directors seeking re-election and re-appointment at the forthcoming Annual General Meeting are detailed in the Directors' Report on page 22.

Activities of the Board

The Board met five times during the year. It 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's primary objective is to focus on adding value to the assets of the Group by identifying and assessing business opportunities as they arise and ensuring that associated potential risks are identified, monitored and controlled. The Board has a formal schedule of matters specifically reserved to it for decision, which is reviewed annually and was last revised in November 2009. Matters reserved for Board decisions include strategic long-term objectives and the capital structure of major transactions. The implementation of Board decisions and day-to-day operations of the Group are delegated to senior management.

Directors are 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.

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 which, 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 relevant forecasts, and domestic and international developments. The views of shareholders are sought by the Executive Directors and are reported back to the Board. The Board is also appraised of the views of shareholders as received by the Company's advisers.

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

The Companies Act 2006 introduced a new conflicts of interest regime for Directors. In compliance with this the Company's Articles of Association contain procedures to deal with Directors' conflicts of interest. The Board considers that these have operated effectively during the year.

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	5/5	–	–
Henry Klotz	5/5	–	–
John Whiteley(1)	1/1	–	–
Thomas Lundqvist	5/5	4/4	1/1
Malcolm Cooper	5/5	4/4	–
Joseph Crawley	5/5	–	1/1
Christopher Jarvis	5/5	4/4	–
Bengt Mörtstedt	5/5	–	–
Thomas Thomson	5/5	–	–

(1) Appointed to the Board on 24 November 2009

In addition to attending Board meetings, senior management meet regularly 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 senior management team. The Board has approved a written statement of the division of responsibilities between the Executive Chairman and the Chief Executive Officer.

The Company has arranged insurance cover in respect of legal action against its directors and officers. 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 Board is assisted by the Audit and Remuneration Committees, the Terms of Reference for which can be obtained from the Company Secretary.

3 THE AUDIT COMMITTEE

The Audit Committee comprises Malcolm Cooper (Chairman), Thomas Lundqvist and Christopher Jarvis. The Board is satisfied that Mr Cooper and Mr Jarvis are independent and Mr Cooper is regarded as having recent and relevant accounting and financial experience. As Mr Lundqvist is deemed not to be independent, the Board notes that the composition of the Committee does not comply with the recommendation contained in C.3.1 of the Code. The Committee considers that Mr Lundqvist's experience and detailed knowledge of the Group greatly assists the Committee when making decisions within its remit.

The Committee met four times during the year. Certain senior management and the external auditors are normally invited to attend the meetings.

The principal duties of the Committee are to review the half yearly and annual financial reports before their submission to the Board and to consider any matters raised by the auditors. The Committee also reviews the Interim Management Statements of the Company and the independence and objectivity of the auditors, taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services. The terms of reference of the Committee reflect current best practice, including authority to:

- recommend the appointment, re-appointment and removal of the external auditors;
- ensure the objectivity and independence of the auditors including occasions when, in accordance with the specific policy, non-audit services are provided, by monitoring fees and letters of engagement; and
- ensure appropriate "whistle-blowing" arrangements are in place.

During the year the Committee formally reviewed the preliminary year end results announcement and annual financial report and the half yearly report, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to them. It also reviewed the audit strategy and the findings of the external auditors from their review of the half yearly financial report and their audit of the annual financial report. In accordance with the Audit Committee Guidance 2008, the Committee reviewed the internal controls and risk management systems of the Group.

The Committee also met with the Group's valuers, Lambert Smith Hampton and DTZ, to discuss the methodology used for the bi-annual valuations of the Group's properties.

The external audit was last put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed, and the lead audit partner has been in place since that time. There are no contractual obligations to restrict the Company's choice of external auditor.

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 Committee recommended, and the Board has decided, not to establish an internal audit department.

4 THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Thomas Lundqvist (Chairman) and Joseph Crawley. The Remuneration Committee has met formally once during the year but held other informal discussions. 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, although no options were granted during the year. The Board notes that, as both Mr Lundqvist and Mr Crawley are deemed not to be independent, the Company does not comply with the composition of the Committee recommended in provision B.2.1 of the Code. Mr Lundqvist's experience and detailed knowledge of the Group and Mr Crawley's current experience in the real estate sector greatly assists the Committee when making decisions within its remit. Full details of the Committee's work are given in the Remuneration Report on pages 30 to 33.

5 NOMINATIONS

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

6 INTERNAL CONTROL AND RISK MANAGEMENT

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of group accounts.

It is the Company's aim to manage risk and to control its business and financial affairs cost-effectively in a way that enables it to exploit profitable business opportunities in a disciplined way, avoid or mitigate risks that can cause loss, reputation damage or business failure and enhance resilience to external events. The Board acknowledges that the Directors are responsible for the Group's system of internal control and risk management 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 financial report.

The Audit Committee has reviewed the effectiveness of the system of internal control and risk management for the period and, as reported to the Board, has not identified any significant weaknesses during the financial year and therefore no remedial action has been necessary. The Directors recognise 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 and risk management is monitored are as follows:

Internal Control

The Company has an established framework for internal financial controls, which is regularly reviewed by the executive management and the Audit Committee, who update the Board on its effectiveness.

The Board is responsible for the Company's overall strategy, for approving budgets, property acquisitions and disposals, and for determining the financial structure of the Group.

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial reports and provides a direct link between the Board and the external auditors through regular meetings.

There is an established organisational structure which has clearly defined lines of reporting and responsibility. The Group has in place control processes in relation to all aspects of its financial dealings, such as the authorisation of banking transactions, capital expenditure and treasury investment decisions.

The Group has a comprehensive system for budgeting and planning whereby quarterly and annual budgets are prepared, monitored and reported to the Board at each meeting. Three-yearly rolling cash flows are updated and distributed to the Board on a weekly basis to ensure the Group has sufficient cash resources for the short and medium term.

Set out on pages 8 to 20 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks.

Risks

In line with the revised Turnbull Guidance, the risks which the Group faces are reviewed on an ongoing basis throughout the financial year and up to the publication of the annual financial report in Board and executive meetings.

Each business area maintains a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions and significant strategy implementations. Furthermore, a bi-weekly property portfolio update is circulated to the Board which identifies key business risks. Additional risk management processes, which include health and safety and environmental risk management, are employed within the businesses.

The Company's key risks and how they are mitigated are described on page 15 of the Business Review.

7 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 30.

Other than the 60.53% interest of the Mortstedt family referred to in note 8 of the Directors' Remuneration Report, as at 11 March 2010 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
F&C Asset Management plc	2,147,119	4.47

There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights.

8 SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its trading subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases and licence agreements, to take effect, alter or terminate. In the context of the Company as a whole, these agreements are not considered to be significant. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control or takeover bid.

9 SHAREHOLDER RELATIONS

The Group issues its annual financial report to each of its shareholders. Following changes in the UK company disclosure regulations the Group does not produce and distribute its half yearly report to shareholders but makes it available on its website.

All press releases are also included on the Group's website at www.clsholdings.com on the Press Centre, "Regulatory News" pages.

The Chairman, the Chief Executive Officer and the Chief Financial Officer have regular meetings with institutional shareholders. All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors are introduced and available for questions. 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.

10 PROXY VOTING

The proxy forms for the Annual General Meeting and General Meetings which were held in 2009 included a "vote withheld" box. Details of the proxies lodged for these meetings were announced to the London Stock Exchange and are on the Company's website at www.clsholdings.com on the Press Centre, "Regulatory News" pages.

11 JOINT VENTURE AND ASSOCIATES

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

12 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 those International Financial Reporting Standards (IFRSs) adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements prepared under IFRS present fairly for each financial year the Group'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 which provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance; and
- make an assessment of the ability of the Company and of the Group to continue as a going concern.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK 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 apply them consistently;
- make judgements and estimates which 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that to the best of their knowledge the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 2006. 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 also 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.

Statement of Directors' responsibilities

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
- the Business Review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This statement of responsibilities was approved by the Board on 11 March 2010.

By order of the Board

David Fuller BA FCIS
Company Secretary
11 March 2010

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2009

The report on remuneration of the Directors for the year ended 31 December 2009 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 Act 2006. Those sections are indicated in the section title. No other sections have been audited.

1 THE WORK OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Thomas Lundqvist (Chairman) and Joseph Crawley. As explained in the Corporate Governance Report, Thomas Lundqvist and Joseph Crawley are deemed not to be independent as defined by the Combined Code. Mr Lundqvist's experience and detailed knowledge of the Group and Mr Crawley's current experience in the real estate sector greatly assists the Committee when making decisions within its remit.

The remit of the Committee is to consider and recommend to the Board:

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

The Remuneration Committee has met formally once during the year but held other informal discussions. The Committee received advice from the Executive Chairman and the Group's HR Manager. The Committee is able to obtain independent professional advice 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 good Corporate Governance. No non-discretionary awards are made.

On a regular basis the Remuneration Committee considers the market positioning of the remuneration of the Directors against a peer group of listed real estate companies. CLS does not operate any long-term incentive plans.

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

- their own personal performance measured against specific targets;
- the financial performance of the Group as measured against budget; and
- Total Shareholder Return.

The Remuneration Committee believes in incentivising the Directors by reference to their total remuneration and having reviewed this to ensure that the Directors 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 2010 or subsequent years, subject to annual review by the Remuneration Committee.

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Executive Directors. It consists of fees for services to the Board and any additional services such as chairing Board Committees. Both Thomas Lundqvist and Thomas Thomson receive daily fees for specific projects undertaken, subject to the agreement of the Chief Executive Officer.

The Committee have reviewed the Non-Executive Directors' fees and have agreed that they are appropriate for the Company's size and complexity.

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 peer group companies.

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 peer group.

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

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

For the year ended 31 December 2009, the apportionment of remuneration and other benefits between discretionary performance-related and non-performance-related elements was as follows:

	Performance-related	Non-Performance-related
Sten Mortstedt	Nil	100%
Henry Klotz	44%	56%
John Whiteley[1]	26%	74%
Thomas Lundqvist	Nil	100%
Malcolm Cooper	Nil	100%
Joseph Crawley	Nil	100%
Christopher Jarvis	Nil	100%
Bengt Mörtstedt	Nil	100%
Thomas Thomson	Nil	100%

(1) Appointed to the Board on 24 November 2009

3 DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2009, the remuneration received by the Directors was as set out in the table below.

	Notes	2009 Fee as Director £000	2009 Salary £000	2009 Other Fees £000	2009 Benefits in kind £000	2009 Total Emoluments £000	2009 Pension Contributions £000	2009 Other Benefits/ Performance Related £000	2009 Total Remuneration £000	2008 Total Remuneration £000
Executive										
Sten Mortstedt (Executive Chairman)	1	–	181	275	–	456	–	–	456	375
Henry Klotz (Chief Executive Officer)	2	–	219	18	5	242	10	200	452	292
John Whiteley (Chief Financial Officer)	3	–	18	–	–	18	1	7	26	–
Non-Executive										
Thomas Lundqvist (Non-Executive Vice-Chairman)	4	21	–	67	–	88	–	–	88	168
Malcolm Cooper		23	–	–	–	23	–	–	23	35
Joseph Crawley	4	18	–	4	–	22	–	–	22	2
Christopher Jarvis		18	–	–	–	18	–	–	18	2
Bengt Mörtstedt		15	–	–	–	15	–	–	15	35
Thomas Thomson	5	15	–	18	–	33	–	–	33	103
2009		**110**	**418**	**382**	**5**	**915**	**11**	**207**	**1,133**	**1,012**
Total for 2008 as reported		200	471	425	5	1,101	126	568	1,795	

(1) Other fees comprise 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) Other fees comprise fees earned in respect of Mr Klotz's appointment as Non-Executive Chairman of Catena AB, which are paid to and retained by Mr Klotz. Fees earned as a Non-Executive Director of Bulgarian Land Development Plc are paid to the Company.

(3) Appointed to the Board on 24 November 2009.

(4) Other fees comprise charges by a consultancy company for services rendered in regard to specific projects.

(5) Other fees comprise charges for services rendered in regard to specific projects.

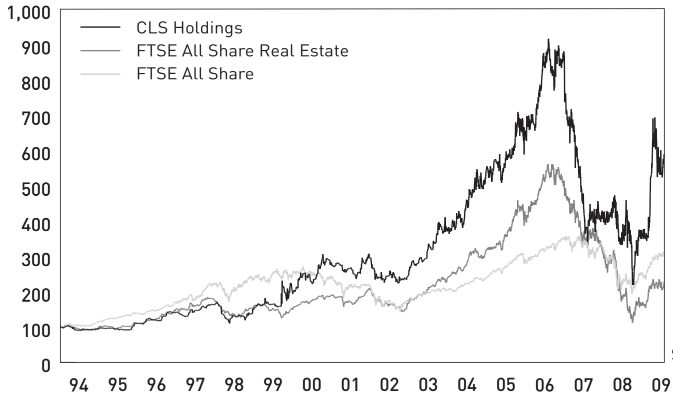
The benefits provided to Executive Directors are permanent health and private medical insurance, and pension contributions and life assurance under the Company's defined contribution pension scheme of which two Directors were members at the end of the period (2008: one). No car or car allowance is provided to any Director (2008: none).

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 (2008: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2008: 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 index and the FTSE All Share Real Estate index over the same period. The FTSE All Share Real Estate index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates. Historically the Company has consistently outperformed both the FTSE All Share and FTSE All Share 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 TSR graph below, independently sourced, includes the positive impact to CLS shareholders of substantial capital distributions through tender offer buy-backs.



Source: Datastream

6 SHARE OPTIONS (AUDITED)

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

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.

There were no options held by Directors during the year. 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 was varied during the year.

The highest, lowest and average mid-market share price in the year were 586.5 pence, 185 pence and 368.1 pence, respectively. The year end share price was 498.75 pence.

7 DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has a service contract in force, which, except for Mr Klotz whose contract expires on 31 December 2010, are of no fixed term. There is no provision in the contract of any Executive Director for contractual termination payments, save those payments normally due under employment law.

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 who 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
Henry Klotz	01.05.08	6 months
John Whiteley[(1)]	01.10.09	6 months
Thomas Lundqvist	01.10.95	6 months
Malcolm Cooper	15.06.07	3 months
Joseph Crawley	25.11.08	3 months
Christopher Jarvis	25.11.08	3 months
Bengt Mörtstedt	18.12.98	6 months
Thomas Thomson	25.01.08	3 months

(1) Appointed to the Board 24 November 2009

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 2009 Ordinary shares of 25p	31 December 2008† Ordinary shares of 25p
Sten Mortstedt	**25,441,418**	29,254,846
Henry Klotz	**21,995**	21,521
John Whiteley	**–**	–
Thomas Lundqvist	**62,991**	110,265
Malcolm Cooper	**–**	–
Joseph Crawley	**–**	–
Christopher Jarvis	**–**	–
Bengt Mörtstedt	**3,628,898**	4,664,726
Thomas Thomson	**114,728**	177,350

† Or at date of appointment

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 are held in trust. As at the date of this report, there have been no changes to the interests of the Directors since 31 December 2009.

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,

Thomas Lundqvist
Chairman
Remuneration Committee
11 March 2010

CORPORATE RESPONSIBILITY

for the year ended 31 December 2009

1 RESPONSIBILITY

The Executive Directors ensure that the Group's philosophy on Corporate Responsibility is known to all staff and actively encourages its support by employees across 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 both to minimise adverse effects and to enhance positive effects of the impact on the environment. The Company is committed to a responsible and forward-looking approach to environmental issues and encourages recycling, energy conservation and 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, with regular maintenance and any improvement projects we 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 we recognise that the principal issues requiring to be managed are minimising local environmental impact, particularly noise and dust, managing construction waste, and sourcing materials responsibly. Recycling opportunities are reviewed and implemented where possible.

Examples of this approach include the installation of 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. At Solna Business Park in Sweden we developed buildings with geothermal heating and cooling systems, which cut running costs significantly, and met high specifications for air quality, sound proofing and illumination. Our developments at Landshut and Bochum in Germany were designed to comply with the ENEV requirements on energy saving, and at Landshut ground water was used in the cooling system for the office space. The Company will become a member of the CRC Energy Efficiency Scheme in the UK from April 2010 and will be actively managing energy consumption in the portfolio to reduce carbon emissions and maintain its league table position.

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 nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. 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, 21 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 £3,557 (2008: £2,717).

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 2009 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities on pages 28 and 29, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' Report in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

OTHER MATTER

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Goodey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London
11 March 2010

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Continuing operations			
Group revenue	4	**76.3**	81.6
Costs	4	**(30.3)**	(37.4)
		46.0	44.2
Net movements on revaluation of investment properties	10	**(6.7)**	(103.3)
Profit on sale of investment properties		**0.3**	7.0
Profit on sale of corporate bonds		**1.9**	–
Impairment of intangible fixed assets and goodwill	12	**–**	(22.0)
Loss on disposal of subsidiaries	30	**–**	(16.2)
Operating profit/(loss)		**41.5**	(90.3)
Net finance costs	7	**(25.5)**	(43.0)
Other non-recurring costs	5	**–**	(1.3)
Share of profit/(loss) of associates after tax	14	**2.5**	(7.5)
Profit/(loss) before tax		**18.5**	(142.1)
Taxation	8	**(1.1)**	64.1
Profit/(loss) for the year	5	**17.4**	(78.0)
Other comprehensive income			
Foreign exchange differences		**(9.5)**	36.2
Fair value gains/(losses) on corporate bonds and other investments	15	**13.5**	(3.4)
Deferred tax on fair value gains on corporate bonds	20	**(3.2)**	–
Share of other comprehensive income of associates	14	**0.4**	4.3
Total comprehensive income/(loss) for the year		**18.6**	(40.9)
Profit/(loss) attributable to:			
Owners of the Company		**17.5**	(78.1)
Minority interests		**(0.1)**	0.1
Profit/(loss) for the year		**17.4**	(78.0)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**18.7**	(41.0)
Minority interests		**(0.1)**	0.1
Total comprehensive income/(loss) for the year		**18.6**	(40.9)
Earnings/(loss) per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)			
Basic	9	**36.4**	(120.6)
Diluted	9	**36.4**	(120.6)

The notes on pages 40 to 75 are an integral part of these group financial statements.

GROUP BALANCE SHEET

At 31 December 2009

	Notes	2009 £m	2008 £m	2007 £m
Non-current assets				
Investment properties	10	**813.0**	798.8	1,175.3
Property, plant and equipment	11	**2.5**	2.8	1.8
Intangible assets	12	**1.1**	1.1	19.5
Investments in associates	14	**40.9**	39.3	42.3
Other investments	15	**73.9**	14.3	8.4
Derivative financial instruments	16	**0.1**	0.4	1.3
Deferred tax	20	**12.7**	12.4	2.9
		944.2	869.1	1,251.5
Current assets				
Trade and other receivables	17	**10.4**	10.6	9.1
Derivative financial instruments	16	**–**	–	1.3
Cash and cash equivalents	18	**70.3**	195.3	122.0
		80.7	205.9	132.4
Total assets		**1,024.9**	1,075.0	1,383.9
Non-current liabilities				
Deferred tax	20	**(72.3)**	(73.4)	(117.4)
Borrowings, including finance leases	21	**(479.3)**	(529.1)	(695.7)
		(551.6)	(602.5)	(813.1)
Current liabilities				
Trade and other payables	19	**(30.1)**	(32.8)	(59.7)
Current tax		**(5.0)**	(5.9)	(2.7)
Derivative financial instruments	16	**(15.7)**	(22.6)	(2.3)
Borrowings, including finance leases	21	**(113.5)**	(72.6)	(103.0)
		(164.3)	(133.9)	(167.7)
Total liabilities		**(715.9)**	(736.4)	(980.8)
Net assets		**309.0**	338.6	403.1
EQUITY				
Capital and reserves attributable to the owners of the Company				
Share capital	23	**13.3**	16.7	18.7
Share premium account	25	**70.5**	70.5	69.8
Other reserves	26	**105.0**	100.4	61.3
Retained earnings		**121.5**	152.2	254.4
		310.3	339.8	404.2
Minority interest		**(1.3)**	(1.2)	(1.1)
Total equity		**309.0**	338.6	403.1

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 11 March 2010 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 40 to 75 are an integral part of these group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority Interest £m	Total £m
		Attributable to the owners of the Company						
At 1 January 2009		**16.7**	**70.5**	**100.4**	**152.2**	**339.8**	**(1.2)**	**338.6**
Arising in 2009:								
Total comprehensive income/(loss) for the year		**–**	**–**	**1.2**	**17.5**	**18.7**	**(0.1)**	**18.6**
Purchase of own shares	23	**(3.4)**	**–**	**3.4**	**(48.0)**	**(48.0)**	**–**	**(48.0)**
Expenses thereof		**–**	**–**	**–**	**(0.2)**	**(0.2)**	**–**	**(0.2)**
Total changes arising in 2009		**(3.4)**	**–**	**4.6**	**(30.7)**	**(29.5)**	**(0.1)**	**(29.6)**
At 31 December 2009		**13.3**	**70.5**	**105.0**	**121.5**	**310.3**	**(1.3)**	**309.0**

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Minority Interest £m	Total £m
		Attributable to the owners of the Company						
At 1 January 2008		18.7	69.8	61.3	254.4	404.2	(1.1)	403.1
Arising in 2008:								
Total comprehensive income/(loss) for the year		–	–	37.1	(78.1)	(41.0)	0.1	(40.9)
Purchase of own shares	23	(1.5)	–	1.5	(23.9)	(23.9)	–	(23.9)
Expenses thereof		–	–	–	(0.2)	(0.2)	–	(0.2)
Employee share option scheme	25	–	0.7	–	–	0.7	–	0.7
Cancellation of treasury shares		(0.5)	–	0.5	–	–	–	–
Change in minority interest		–	–	–	–	–	(0.2)	(0.2)
Total changes arising in 2008		(2.0)	0.7	39.1	(102.2)	(64.4)	(0.1)	(64.5)
At 31 December 2008		16.7	70.5	100.4	152.2	339.8	(1.2)	338.6

The notes on pages 40 to 75 are an integral part of these group financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	27	**45.7**	49.9
Interest received		**4.8**	8.7
Interest paid		**(30.1)**	(41.4)
Income tax paid		**(3.0)**	(0.4)
Net cash inflow from operating activities		**17.4**	16.8
Cash flows from investing activities			
Purchase of investment property		**(29.2)**	–
Capital expenditure on investment property		**(22.8)**	(18.9)
Proceeds from sale of investment property		**2.2**	127.5
Purchase of corporate bonds		**(70.8)**	(10.6)
Purchase of subsidiary undertakings		**–**	(2.7)
Proceeds from sale of corporate bonds		**24.9**	–
Proceeds from sale of equity investments		**0.7**	0.3
Purchase of interests in associate		**(1.8)**	(0.9)
Dividend received from associate undertaking		**1.5**	1.5
(Costs)/proceeds on foreign currency transactions		**(4.2)**	2.3
Amounts expended in relation to corporate disposals in prior periods		**(1.0)**	(3.0)
Purchases of property, plant and equipment		**(0.1)**	(0.2)
Proceeds on disposal of joint venture net of cash sold	30	**–**	28.1
Proceeds on disposal of subsidiary undertakings net of cash sold	30	**–**	49.2
Proceeds from sale of property, plant and equipment		**–**	0.4
Net cash (outflow)/inflow from investing activities		**(100.6)**	173.0
Cash flows from financing activities			
Purchase of own shares		**(48.2)**	(24.1)
New loans		**69.7**	21.3
Issue costs of new loans		**(0.3)**	(2.3)
Repayment of loans		**(57.4)**	(122.9)
Purchase of financial instruments		**(0.1)**	–
Issue of shares		**–**	0.7
Non-recurring restructuring costs		**–**	(1.3)
Net cash outflow from financing activities		**(36.3)**	(128.6)
Net (decrease)/increase in cash and cash equivalents		**(119.5)**	61.2
Foreign exchange (loss)/gain		**(5.5)**	12.1
Cash and cash equivalents at the beginning of the year		**195.3**	122.0
Cash and cash equivalents at the end of the year	18	**70.3**	195.3

The notes on pages 40 to 75 are an integral part of these group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2009

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, management and development of commercial properties, and in other investments. 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: 86 Bondway, London, SW8 1SF. The Company is listed on the London Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these group 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 financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 23 and have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

New standards and interpretations

In the current year, the Group has adopted standards and guidance for the first time, the following three of which have had a material effect on the results for the year, or their presentation:

- Amendments to IAS 1 – *Presentation of Financial Statements*
- Amendments to IFRS 7 – *Improving Disclosures about Financial Instruments*
- IFRS 8 – *Operating Segments*

In accordance with IFRS 8, the reporting of the Group's operating divisions has been restated to reflect the way in which senior management monitors the Group. Under IAS 1, a change of comparatives, such as that occasioned by IFRS 8, requires a second comparative balance sheet to be disclosed. In addition, a Group Statement of Comprehensive Income has been produced for the first time. IFRS 7 introduced additional disclosures on financial instruments.

Also in the current year, the Group has adopted the following standards and guidance for the first time, none of which has had a material effect on the results for the year:

- Amendments to IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance*
- Amendments to IAS 32 and IAS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendments to IAS 38 – *Intangible assets*
- Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets*
- Amendments to IAS 39 and IFRS 7 – *Reclassification of Financial Assets – Effective Date and Transition*
- Amendments to IAS 40 – *Investment Property*
- Amendments to IFRS 1 and IAS 27 – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to IFRS 2 – *Vesting Conditions and Cancellations*
- Amendments to IFRIC 9 and IAS 39 – *Embedded Derivatives*
- IFRIC 12 – *Service Concession Arrangements*
- IFRIC 13 – *Customer Loyalty Programmes*
- IFRIC 15 – *Agreements for the Construction of Real Estate*
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*

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. In some cases these standards and guidance have not been endorsed by the European Union:

- IAS 24 (revised) – *Related Party Disclosures*; effective for accounting periods starting on or after 1 January 2011
- Amendments to IAS 27 – *Consolidated and Separate Financial Statements*; effective for accounting periods starting on or after 1 July 2009
- Amendment to IAS 32 (October 2009) – *Classification of Rights Issues*; effective for accounting periods starting on or after 1 February 2010
- Amendments to IAS 39 – *Eligible Hedged Items*; effective for accounting periods starting on or after 1 July 2009
- FRS 1 (revised) – *First-time Adoption of International Financial Reporting Standards*; effective for accounting periods starting on or after 1 July 2009
- Amendments to IFRS 1 – *Additional Exemptions for First-time Adopters*; effective for accounting periods starting on or after 1 January 2010
- Amendment to IFRS 1 – *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*; effective for accounting periods starting on or after 1 July 2010
- Amendments to IFRS 2 – *Group Cash-settled Share-based Payment Transactions;* effective for accounting periods starting on or after 1 January 2010
- IFRS 9 – *Financial Instruments*; effective for accounting periods starting on or after 1 January 2013
- IFRS 3 (revised) – *Business Combinations*; effective for accounting periods starting on or after 1 July 2009
- Amendments to IFRIC 14 – *Prepayments of a Minimum Funding Requirement*; effective for accounting periods starting on or after 1 January 2011

- IFRIC 17 – *Distributions of Non-cash Assets to Owners*; effective for accounting periods starting on or after 1 July 2009
- IFRIC 18 – *Transfers of Assets from Customers*; effective for transfers on or after 1 July 2009
- IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments*; effective for accounting periods starting on or after 1 July 2010

These pronouncements, when applied, will either result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements.

2.2 Business Combinations

(i) Subsidiary undertakings

Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity or business to benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(ii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The group financial statements include the Group's proportionate share of income, expenses, assets, liabilities and cash flows of joint ventures.

(iii) Associates

Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the Balance Sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate 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.

(iv) 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, joint venture or associate at the date of acquisition. It 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.

2.3 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in profit before tax, unless they relate to qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities classified as available-for-sale and denominated in foreign currencies are recognised in profit before tax where the translation difference results from changes in the amortised cost of the security, and are recognised in equity where it results from other changes in the carrying amount of the security.

(ii) Consolidation of foreign entities

The results and financial position of all the Group entities that have a functional currency different from sterling are translated into sterling as follows:

(a) assets and liabilities are translated at the closing rate at the date of the balance sheet;

(b) 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

(c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

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 as part of the gain or loss on sale in profit before tax.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Land held under an operating lease is classified and accounted for as an 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 properties are measured initially at cost, including related transaction costs.

After initial recognition at cost, investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in profit before tax. 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. Subsequently the owner-occupied property is depreciated over its useful economic life and revalued at the balance sheet date.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment loss.

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

Plant and equipment	4 – 5 years
Freehold property	6 years

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 profit before tax. Freehold property is depreciated until December 2014 after which it is anticipated that it will be redeveloped.

2.6 Intangible assets

Intangible assets acquired separately are capitalised at cost, and in respect of business combinations are capitalised at fair value at the date of acquisition. Intangible assets are amortised over their estimated useful lives on a straight line basis as follows:

Trade names	11 years
Customer relationships	10 – 11 years
Technology	4 years
Capitalised development and other costs	not amortised

2.7 Financial instruments

(i) Derivative financial instruments

The Group uses derivative financial instruments, including swaps and interest rate caps, to help manage its interest rate and foreign exchange rate risk. Derivative financial instruments are recorded, and subsequently revalued, at fair value. Revaluation gains and losses are recognised in profit before tax, except for derivatives which qualify as effective cash flow hedges, the gains and losses relating to which are recognised directly in equity.

(ii) Available-for-sale investments

Available-for-sale investments are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets. On disposal, the cumulative gain or loss previously recognised in equity is recycled through profit before tax.

(iii) Cash and cash equivalents

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

(iv) Trade and other receivables and payables

Trade and other receivables are recognised initially at fair value. An impairment provision is created where there is objective evidence that the Group will not be able to collect the receivable in full. Trade and other payables are stated at cost, which equates to fair value.

(v) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit before tax over the period of the borrowings, using the effective interest rate method.

2.8 Revenue

(i) Rental income

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.

(ii) Service charge income

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.

(iii) Other property-related 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 of deductions for VAT and discounts.

2.9 Profit on sale of investment properties

Profits on sale of investment properties are recognised when the risks and rewards of ownership have been transferred to the buyer, typically on unconditional exchange of contracts or when legal title passes.

2.10 Income tax

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes 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 arriving at profit after tax, except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised in equity.

Deferred 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 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.

2.11 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.

(i) A Group company is the lessee

(a) Rentals payable under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the term 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 lease.

(b) 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.

(ii) A Group company is the lessor

(a) Rental income from operating leases is recognised on a straight-line basis over the term of the 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.

(b) 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Employee benefits

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. A contribution is recognised as an employee benefit expense when it is due. A prepaid contribution is recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 the most significant effect on the amounts recognised in the financial statements.

(i) 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:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) 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

(c) 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.

(ii) 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.

(iii) 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.

(iv) Deferred tax

The method of calculation of deferred tax in relation to UK properties assumes that indexation allowance will be available as it is assumed that the Group will recover the carrying amount of its investment properties through use followed by an eventual sale.

4 SEGMENT INFORMATION

The Group has two operating divisions – Investment Property and Other Investments. Other Investments comprise corporate bonds, shares in Catena AB, Bulgarian Land Development Plc and Wyatt Media Group AB, and other small corporate investments. The Group manages the Investment Property division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment Property – United Kingdom
France
Germany
Sweden

Other Investments

There are no transactions between the operating segments.

The Group's results for the year ended 31 December 2009 by operating segment were as follows:

	Investment property					
	United Kingdom £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £m
Rental income	25.0	15.9	14.8	4.9	–	60.6
Service charge income	4.7	4.2	1.7	0.3	–	10.9
Other property-related income	0.4	0.3	0.3	–	–	1.0
Income from non-property activities	–	–	–	–	3.8	3.8
Group revenue	**30.1**	**20.4**	**16.8**	**5.2**	**3.8**	**76.3**
Service charges and similar expenses	(6.3)	(4.5)	(2.8)	(1.2)	–	(14.8)
Administration expenses	(2.6)	(1.5)	(1.1)	(0.5)	(3.7)	(9.4)
Other expenses	(1.0)	(0.7)	(1.2)	(0.2)	(0.2)	(3.3)
Costs	**(9.9)**	**(6.7)**	**(5.1)**	**(1.9)**	**(3.9)**	**(27.5)**
Group revenue less costs	20.2	13.7	11.7	3.3	(0.1)	48.8
Net movements on revaluation of investment properties	24.1	(15.9)	(13.5)	(1.4)	–	(6.7)
Profit on sale of investment properties	0.3	–	–	–	–	0.3
Profit on sale of corporate bonds	–	–	–	–	1.9	1.9
Segment operating profit/(loss)	**44.6**	**(2.2)**	**(1.8)**	**1.9**	**1.8**	**44.3**
Net finance costs	(6.1)	(7.0)	(7.4)	(1.6)	(3.4)	(25.5)
Share of profit of associates after tax	–	–	–	–	2.5	2.5
Segment profit/(loss) before tax	**38.5**	**(9.2)**	**(9.2)**	**0.3**	**0.9**	**21.3**
Taxation	(4.0)	1.6	0.2	0.6	0.5	(1.1)
Segment profit/(loss) after tax	**34.5**	**(7.6)**	**(9.0)**	**0.9**	**1.4**	**20.2**
Central administration costs						(2.8)
Profit for the year						**17.4**

4 SEGMENT INFORMATION (CONTINUED)

On the adoption of IFRS 8 – *Operating Segments* in 2009, certain items in 2008 and 2007 have been reclassified. Previously, other investments were shown within their respective geographical segment, central administration costs and non-recurring costs were included within the UK segment and the deferred tax charge was not allocated by segment. In 2008, results from associates (loss of £7.5 million) were shown within the Sweden segment and are now shown within the Other Investments segment. Available-for-sale investments of £11.0 million were shown in the assets of the UK segment and investments in associates of £39.3 million were shown in the Sweden segment; both are now shown within other investments.

The Group's results for the year ended 31 December 2008 by operating segment, restated as explained above and in note 2, were as follows:

	Investment property					
	United Kingdom £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £m
Rental income	26.2	19.6	12.3	5.0	–	63.1
Service charge income	5.4	3.4	2.2	0.3	–	11.3
Other property-related income	0.9	1.1	–	1.3	–	3.3
Income from non-property activities	–	–	–	–	3.9	3.9
Group revenue	**32.5**	**24.1**	**14.5**	**6.6**	**3.9**	**81.6**
Service charges and similar expenses	(5.7)	(3.7)	(2.3)	(1.4)	–	(13.1)
Administration expenses	(1.6)	(2.0)	(1.8)	(1.3)	(6.5)	(13.2)
Other expenses	(1.6)	(0.8)	(1.2)	–	(4.6)	(8.2)
Costs	**(8.9)**	**(6.5)**	**(5.3)**	**(2.7)**	**(11.1)**	**(34.5)**
Group revenue less costs	23.6	17.6	9.2	3.9	(7.2)	47.1
Net movements on revaluation of investment properties	(59.4)	(17.8)	(19.9)	(6.2)	–	(103.3)
Profit/(loss) on sale of investment properties	6.6	(0.2)	0.6	–	–	7.0
Impairment of intangible fixed assets and goodwill	–	–	–	–	(22.0)	(22.0)
Loss on disposal of subsidiaries	–	(15.9)	–	(0.3)	–	(16.2)
Segment operating loss	**(29.2)**	**(16.3)**	**(10.1)**	**(2.6)**	**(29.2)**	**(87.4)**
Net finance costs	(25.7)	(9.0)	(8.8)	(1.4)	1.9	(43.0)
Share of loss of associates after tax	–	–	–	–	(7.5)	(7.5)
Segment loss before tax	**(54.9)**	**(25.3)**	**(18.9)**	**(4.0)**	**(34.8)**	**(137.9)**
Taxation	25.5	34.4	1.6	2.1	0.5	64.1
Segment (loss)/profit after tax	**(29.4)**	**9.1**	**(17.3)**	**(1.9)**	**(34.3)**	**(73.8)**
Central administration costs						(2.9)
Non-recurring costs						(1.3)
Loss for the year						**(78.0)**

Other segment information:

	Assets			Liabilities			Capital expenditure		
	2009 £m	2008 restated £m	2007 restated £m	**2009 £m**	2008 restated £m	2007 restated £m	**2009 £m**	2008 restated £m	2007 restated £m
Investment Property									
United Kingdom	**370.2**	428.9	625.5	**282.0**	311.5	482.3	**1.3**	2.7	20.8
France	**246.1**	307.5	376.5	**187.6**	193.5	295.2	**31.4**	1.2	5.5
Germany	**200.0**	210.1	177.5	**158.8**	152.4	123.0	**17.8**	11.1	26.2
Sweden	**58.6**	70.1	71.5	**30.7**	52.8	44.6	**2.2**	2.4	0.5
Other investments	**150.0**	58.4	132.9	**56.8**	26.2	35.7	**–**	–	–
	1,024.9	1,075.0	1,383.9	**715.9**	736.4	980.8	**52.7**	17.4	53.0

Included within the assets of other investments are investments in associates of £40.9 million (2008: £39.3 million; 2007: £42.3 million).

5 PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived at after charging:

	2009 £m	2008 £m
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the parent Company and group accounts	**0.2**	0.1
Fees payable to the Company's auditors for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Corporate finance services*	**–**	0.2
Depreciation and amortisation	**0.5**	1.4
Loss on disposal of property, plant and equipment	**–**	0.2
Permanent diminution in value of available-for-sale equity investments	**–**	3.0
Employee benefits expense (note 6)	**6.7**	7.9
Professional fees and other non-recurring costs of investigating a potential restructuring of the Group*	**–**	1.3

* In 2008 fees payable to the Company's auditors for corporate finance services of £0.2 million are also included within non-recurring costs of £1.3 million.

6 EMPLOYEE BENEFITS EXPENSE

	2009 £m	2008 £m
Wages and salaries	**5.3**	5.5
Social security costs	**0.8**	1.2
Pension costs – defined contribution plans	**0.2**	0.4
Other employee-related expenses	**0.4**	0.8
	6.7	7.9

The Directors are considered to be key management of the Group.

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 30 to 33.

No amounts were charged to the Statement of Comprehensive Income in relation to share-based payments (2008: £nil).

The monthly average number of employees of the Group in continuing operations, including Executive Directors, was as follows:

	2009			2008		
	Property number	Other operations number	Total number	Property number	Other operations number	Total number
Male	**20**	**20**	**40**	22	39	61
Female	**29**	**8**	**37**	30	15	45
	49	**28**	**77**	52	54	106

7 NET FINANCE COSTS

	2009 £m	2008 £m
Interest expense		
Bank loans	**22.7**	33.3
Debenture loans	**4.7**	4.7
Other interest	**0.3**	0.9
Amortisation of issue costs of loans	**0.8**	3.7
Foreign exchange variances	**9.7**	(11.9)
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	**(6.7)**	19.9
Interest rate caps, collars and floors: transactions not qualifying as hedges	**0.4**	1.1
Interest income	**(6.4)**	(8.7)
	25.5	43.0

8 TAXATION

	2009 £m	2008 £m
Current tax	**2.1**	3.6
Deferred tax (note 20)	**(1.0)**	(67.7)
	1.1	(64.1)

A deferred tax charge of £3.2 million (2008: £nil) was recognised directly in equity (note 20).

The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2009 £m	2008 £m
Profit/(loss) before tax	**18.5**	(142.1)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**4.9**	(40.8)
Expenses not deductible for tax purposes	**0.5**	10.3
Tax effect of unrecognised losses in associates and joint ventures	**(0.7)**	2.0
Previously unrecognised tax losses and other deferred tax adjustments	**(3.6)**	(3.0)
Different taxation treatment of disposals	**(0.1)**	(32.2)
Deferred tax assets not recognised	**2.9**	0.4
Adjustment in respect of prior periods	**(2.8)**	(0.8)
Tax expense/(credit) for the year	**1.1**	(64.1)

The weighted average applicable tax rate of 26.3 per cent (2008: 28.7 per cent) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

9 EARNINGS PER SHARE

Management has chosen to disclose adjusted earnings per share from continuing operations in order to provide an indication of the Group's underlying business performance. Adjusted earnings per share excludes the effect of revaluations of investment properties and deferred tax.

	2009 £m	2008 £m
Profit/(loss) for the year attributable to the owners of the Company	**17.5**	(78.1)
Deferred tax	**(1.0)**	(67.7)
Net movement on revaluation of investment properties	**6.7**	103.3
Adjusted profit/(loss) for the year attributable to the owners of the Company	**23.2**	(42.5)

	2009 number	2008 number
Weighted average number of ordinary shares	**48,249,810**	64,783,048

	2009 pence	2008 pence
Basic and diluted earnings/(loss) per share from continuing operations	**36.4**	(120.6)
Adjusted earnings/(loss) per share from continuing operations	**48.2**	(65.6)

In 2009 there were no instruments in issue which could have changed the weighted average number of shares. In 2008 there were share options in issue for part of the year, the effect of which had they been issued from the start of the year would have been accretive to earnings per share. Had these been issued from the start of 2008, the weighted average number of shares that year would have increased by 110,877 shares.

10 INVESTMENT PROPERTIES

	2009 £m	2008 £m	2007 £m
At 1 January	**798.8**	1,175.3	1,143.4
Acquisitions	**29.2**	–	29.0
Capital expenditure	**23.4**	17.2	23.2
Transfer to property, plant and equipment (note 11)	**–**	(2.3)	–
Disposals – property sales	**(1.9)**	(120.5)	–
Disposals – corporate sales (note 30)	**–**	(285.3)	–
Net movements on revaluation of investment properties	**(6.7)**	(103.3)	(68.1)
Rent-free period debtor adjustments	**1.5**	(1.0)	0.8
Exchange rate variances	**(31.3)**	118.7	47.0
At 31 December	**813.0**	798.8	1,175.3

The investment properties (and the owner-occupied property detailed in note 11) were revalued at 31 December 2009 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

UK 2009: Lambert Smith Hampton

UK 2007 and 2008: Allsop & Co.

France: DTZ Debenham Tie Leung

Germany: DTZ Debenham Tie Leung

Sweden: CB Richard Ellis

Investment properties included leasehold buildings of which the carrying amount was £18.1 million (2008: £20.8 million; 2007: £113.3 million).

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 the current or comparative years.

Substantially all investment properties (and the owner-occupied property detailed in note 11) are secured against debt.

In the latter half of 2008 the economic climate and lower transactional volumes in the real estate markets in which the Group was active meant that the valuers had to refer to greater use of professional judgement in arriving at the year end valuations at 31 December 2008. The Directors are satisfied that market conditions, while still remaining challenging, had returned to a more normal level of transactional activity by 31 December 2009. The Directors are satisfied that the external valuations supplied are appropriate to adopt for the 2009 financial statements without adjustment.

11 PROPERTY, PLANT AND EQUIPMENT

	2009 £m	2008 £m	2007 £m
Cost or valuation			
At 1 January	**6.6**	6.7	6.5
Transfer from investment property (note 10)	**–**	2.3	–
Additions	**0.1**	0.2	0.8
Disposals	**–**	(2.6)	(0.6)
Revaluation increase/(decrease)	**0.1**	(0.3)	–
Exchange rate variances	**–**	0.3	–
At 31 December	**6.8**	6.6	6.7
Accumulated depreciation and impairment			
At 1 January	**(3.8)**	(4.9)	(4.5)
Depreciation charge	**(0.5)**	(0.9)	(1.0)
Disposals	**–**	2.2	0.6
Exchange rate variances	**–**	(0.2)	–
At 31 December	**(4.3)**	(3.8)	(4.9)
Net book value			
At 31 December	**2.5**	2.8	1.8

Owner-occupied property was revalued at 31 December 2009 based on the external valuation performed by Lambert Smith Hampton (in prior years Allsop & Co.) as detailed in note 10.

12 INTANGIBLE ASSETS

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2009 and at 31 December 2009	**18.6**	**7.2**	**25.8**
Amortisation			
At 1 January 2009 and at 31 December 2009	**(17.5)**	**(7.2)**	**(24.7)**
Net book value			
At 31 December 2009	**1.1**	**–**	**1.1**

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2008	15.2	6.5	21.7
Additions	3.6	0.2	3.8
Disposals	(1.6)	–	(1.6)
Exchange rate variations	1.4	0.5	1.9
At 31 December 2008	18.6	7.2	25.8
Amortisation			
At 1 January 2008	–	(2.2)	(2.2)
Amortisation	–	(0.5)	(0.5)
Impairment	(17.5)	(4.5)	(22.0)
At 31 December 2008	(17.5)	(7.2)	(24.7)
Net book value			
At 31 December 2008	1.1	–	1.1

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2007	12.9	6.3	19.2
Additions	1.8	–	1.8
Exchange rate variations	0.5	0.2	0.7
At 31 December 2007	15.2	6.5	21.7
Amortisation			
At 1 January 2007	–	(0.4)	(0.4)
Amortisation	–	(1.8)	(1.8)
At 31 December 2007	–	(2.2)	(2.2)
Net book value			
At 31 December 2007	15.2	4.3	19.5

Goodwill

Goodwill comprised £0.8 million (2008: £0.8 million; 2007: £2.4 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2008: £0.3 million; 2007: £0.3 million) on a German property acquisition in 2005. All other goodwill and intangible assets related to Wyatt Media Group AB and were fully written down in 2008.

In October 2007, the Group purchased a call option for the remaining 60% shareholding in Bilddagboken AB for £1.2 million. The option was exercised on 22 January 2008 for £2.2 million. When exercised, goodwill of £3.3 million was recognised.

In February and April 2008, the Group acquired a further 25.1% of the share capital of Internetami AB (Tyda) taking the Group's total shareholding to 82.3%. On acquisition, goodwill of £0.2 million was recognised.

In October 2008, the Group acquired the remaining 47% of the share capital of Xtraworks AB. On acquisition, goodwill of £0.1 million was recognised.

Other intangibles

Other intangibles (relating to trade names, technology, customer relationships, capitalised development and other costs) relate to Wyatt Media Group AB and were fully written down during 2008 as described above.

2009 Impairment review

Goodwill was reviewed for impairment at 31 December 2009 using the key assumptions set out below. No impairment was required.

Key assumptions:

Unamortised goodwill at 31 December 2009 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the Balance Sheet.

2008 impairment review

The impairment losses recognised in the Statement of Comprehensive Income in 2008 in respect of goodwill and intangible assets related exclusively to Wyatt Media Group AB. During the year ended 31 December 2008, the goodwill and intangible assets in respect of the Group's online media operations were impaired by £17.5 million and £4.5 million, respectively. This was due to market competition, primarily in the social networking environment, and increased obsolescence of existing coding and software causing a significant pre-tax risk adjustment. At 31 December 2008 the net book value of goodwill and intangible assets relating to Wyatt Media Group AB was £nil.

Key assumptions:

The key assumptions used in reviewing for impairment at 31 December 2008 the goodwill and intangibles of Wyatt Media Group AB were as follows:

- Budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) – budgeted EBITDA was based on an "income per user" measure derived from existing income streams and new product launches. Projected user volumes using web services were derived from past experience of the business.
- Long-term growth rates – growth rates of between 2-3 per cent were used which approximated to the nominal GDP rates in the countries in which the business operated.
- Pre-tax adjusted discount rate – the discount rate was derived from a risk-free rate adjusted to reflect specific risk premiums in relation to the systemic risk of 33 per cent and a risk adjustment ('beta') applied to reflect the risk of the operating entity.

13 JOINT VENTURES

At 31 December 2009 the Group had a one-third interest (2008: one-third; 2007: one-third) in the issued ordinary share capital of Fielden House Investments Limited, a company incorporated in England and Wales.

The principal activity of Fielden House Investments Limited is investment in, and management and development of, commercial property.

The following amounts represent the Group's share of the assets and liabilities, and income and expenditure of Fielden House Investments Limited which are included in the Balance Sheet and Statement of Comprehensive Income of the Group:

	2009 £m	2008 £m	2007 £m
Assets			
Non-current assets	**1.8**	2.3	2.9
Current assets	**0.2**	–	0.1
	2.0	2.3	3.0
Liabilities			
Non-current liabilities	**(2.5)**	(2.5)	(2.5)
Current liabilities	**(0.2)**	–	(0.1)
	(2.7)	(2.5)	(2.6)
Net (liabilities)/assets	**(0.7)**	(0.2)	0.4
Income	**0.2**	0.2	0.2
Expenses	**(0.2)**	(0.8)	(0.2)
Loss after income tax	**–**	(0.6)	–

In 2007 the Group had interests in two other joint ventures, Teighmore Limited and New London Bridge House Limited, of which the Group also owned one-third of the issued ordinary share capital.

2007	Teighmore £m	New London Bridge House £m	Total £m
Assets			
Non-current assets	80.4	29.8	110.2
Current assets	2.2	0.3	2.5
	82.6	30.1	112.7
Liabilities			
Current liabilities	(69.1)	(13.6)	(82.7)
Net assets	13.5	16.5	30.0
Income	0.7	1.1	1.8
Expenses	(6.0)	(1.4)	(7.4)
Loss after income tax	(5.3)	(0.3)	(5.6)

The Group's interests in New London Bridge House Limited and Teighmore Limited were disposed of during 2008 as described in note 30. There were no contingent liabilities on sale.

14 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Total £m
At 1 January 2009	**34.6**	**4.7**	**39.3**
Additions	**1.7**	**0.1**	**1.8**
Share of profit of associates after tax†	**2.5**	**–**	**2.5**
Other equity movements*	**0.4**	**–**	**0.4**
Dividends received	**(1.5)**	**–**	**(1.5)**
Exchange rate differences	**(1.6)**	**–**	**(1.6)**
At 31 December 2009	**36.1**	**4.8**	**40.9**

	Net assets £m	Goodwill £m	Total £m
At 1 January 2008	31.9	10.4	42.3
Additions	0.8	0.1	0.9
Reclassification	1.3	(1.3)	–
Share of loss of associates after tax†	(2.2)	(5.3)	(7.5)
Other equity movements*	4.3	–	4.3
Dividends received	(1.5)	–	(1.5)
Exchange rate differences	–	0.8	0.8
At 31 December 2008	34.6	4.7	39.3

	Net assets £m	Goodwill £m	Total £m
At 1 January 2007	–	–	–
Transfer from other investments	4.2	–	4.2
Additions	24.8	10.4	35.2
Share of profit of associates after tax†	0.5	–	0.5
Other equity movements*	0.3	–	0.3
Exchange rate differences	2.1	–	2.1
At 31 December 2007	31.9	10.4	42.3

† Consists of share of associates' loss of £0.3 million (2008: loss of £4.3 million; 2007: profit of £0.5 million) and the realisation of £2.8 million (2008: £2.1 million; 2007: £nil) of negative goodwill on acquisition. The write down of goodwill of £5.3 million in 2008 is explained on page 55.
* Primarily foreign exchange movements of the associate undertakings.

£1.3 million was reclassified to net assets from goodwill in 2008 to reflect a revision to the original acquisition calculation in 2007, which had been based on preliminary results and was updated in 2008 to reflect published data.

During 2008 Bulgarian Land Development Plc restated its 2007 accounts. The share of loss in 2008 disclosed above includes £0.5 million relating to 2007, and other equity movements in 2008 include a further £0.5 million also relating to 2007.

14 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

At 31 December 2009	**Country of incorporation**	**Assets £m**	**Liabilities £m**	**Revenues £m**	**Profit / (loss) £m**	**Interest held in ordinary share capital %**
Catena AB	**Sweden**	**66.4**	**(43.8)**	**5.1**	**3.0**	**29.8**
Bulgarian Land Development Plc	**Isle of Man**	**27.4**	**(13.9)**	**2.1**	**(3.3)**	**47.7**
Flavour of the Month AB	**Sweden**	**–**	**–**	**–**	**–**	**40.0**
		93.8	**(57.7)**	**7.2**	**(0.3)**	

At 31 December 2008	Country of incorporation	Assets £m	Liabilities £m	Revenues £m	Profit / (loss) £m	Interest held in ordinary share capital %
Catena AB	Sweden	61.4	(40.9)	4.6	(3.2)	29.1
Bulgarian Land Development Plc	Isle of Man	23.8	(9.7)	2.3	(1.1)	35.8
Flavour of the Month AB	Sweden	–	–	–	–	40.0
		85.2	(50.6)	6.9	(4.3)	

At 31 December 2007	Country of incorporation	Assets £m	Liabilities £m	Revenues £m	Profit / (loss) £m	Interest held in ordinary share capital %
Catena AB	Sweden	57.8	(34.9)	0.7	0.6	29.1
Bulgarian Land Development Plc	Isle of Man	17.2	(8.2)	–	(0.1)	28.7
		75.0	(43.1)	0.7	0.5	

Catena AB

In May 2007 the Group acquired a 27.6 per cent stake in Catena AB, a listed Swedish property company, increasing this to 29.1 per cent on 3 July 2007, for an aggregate sum of £28.0 million. A further 0.7 per cent was acquired during 2009 at a cost of £0.6 million. Henry Klotz, Chief Executive Officer of the Company, was appointed Chairman of Catena in 2007.

The quoted market value of the Group's investment in the shares of Catena AB at year end was £26.1 million (2008: £17.6 million; 2007: £28.0 million).

Bulgarian Land Development Plc

During 2006, the Group acquired 4,250,000 shares (10.6 per cent) of Bulgarian Land Development Plc (BLD), a company listed on the Alternative Investment Market of the London Stock Exchange, at a cost of £4.2 million. BLD develops residential and commercial properties in Bulgaria.

In 2007 a further 7,211,787 shares were acquired by the Group at a cost of £7.2 million taking the total shareholding to 28.7 per cent.

In 2008 a further 2,859,500 shares were acquired by the Group at a cost of £0.8 million to take the total shareholding to 35.8 per cent. This created negative goodwill of £2.1 million which was included in the Group's profit before tax in 2008.

In 2009 the Group increased its holding by 4,763,491 shares at a cost of £1.2 million, taking the total shareholding to 47.7 per cent. This created negative goodwill of £2.8 million which was included in the Group's profit before tax in 2009.

The market value of the Group's investment in the shares of BLD at the year end was £3.8 million (2008: £4.6 million; 2007: £9.1 million).

Flavour of the Month AB

In 2008 the Group acquired a 40 per cent interest in a blog resourcing website provider, Flavour of the Month AB, for £0.1 million.

Impairment

2009

In assessing the carrying value of Catena AB, the Group considered that the balance sheet of Catena AB at 31 December 2009 was stated at fair value except for certain deferred tax liabilities. It was management's assessment that the realisation of Catena's property assets would occur through corporate disposals and therefore latent deferred tax liabilities were unlikely to crystallise. As the Group's share of the net assets of Catena AB, excluding deferred tax liabilities, exceeded the carrying value of the Group's interest there was no further impairment of the Group's interest in Catena AB at 31 December 2009.

BLD is carried in the Balance Sheet at a value equal to the Group's share of its net assets. BLD's net assets were reviewed and found not to be impaired at 31 December 2009. Accordingly there was no further provision against the carrying value of the Group's interest in BLD at 31 December 2009.

2008

Given the economic instability in late 2008 and the likelihood of a slowdown in global growth, the Group considered that this represented a potential indication of impairment in relation to its associate investments. Consequently, the Group tested the recoverability of its associate investments by comparing the carrying amount of the associate investment at the balance sheet date to its recoverable amount. This resulted in a write down of £5.3 million of goodwill.

In assessing the carrying value of Catena AB, the Group considered that the balance sheet of Catena AB at 31 December 2008 was stated at fair value except for certain deferred tax liabilities. It was management's assessment that the realisation of Catena's property assets would occur through corporate disposals and therefore latent deferred tax liabilities were unlikely to crystallise. Taking this into account the write down in relation to Catena was £3.9 million in 2008, representing the excess of carrying value over fair value.

In assessing the carrying value of BLD there was significant uncertainty over the timing and level of future cash flows which crystallised a write down of goodwill of £1.4 million in 2008. A review of BLD's underlying assets was undertaken and found not to be impaired at 31 December 2008. On this basis the Directors considered the Group's share of net assets approximated to recoverable value.

15 OTHER INVESTMENTS

		2009 £m	2008 £m	2007 £m
Available-for-sale financial investments carried at fair value				
Listed corporate bonds	UK	**17.1**	1.2	–
	Eurozone	**40.0**	8.3	–
	Other	**12.9**	1.2	–
Listed equity securities	UK	**0.6**	0.3	1.7
	Sweden	**2.5**	2.3	5.0
	Other	**0.1**	0.1	–
Unlisted investments	UK	**–**	0.1	–
	Sweden	**0.6**	0.6	–
Government securities	UK	**0.1**	0.2	0.1
		73.9	14.3	6.8
Investments designated as at fair value through the profit or loss				
Listed equity securities	UK	**–**	–	0.8
	Other	**–**	–	0.3
Unlisted investments	Sweden	**–**	–	0.5
		–	–	1.6
		73.9	14.3	8.4

When investments are managed and their performance is evaluated on a fair value basis they are designated upon initial recognition as "at fair value through the profit or loss". All other equity investments are designated as "available-for-sale".

The movement of other investments is analysed below:

	2009 £m	2008 £m	2007 £m
At 1 January	**14.3**	8.4	16.2
Additions	**70.7**	10.6	7.2
Disposals	**(23.4)**	(0.3)	(13.5)
Fair value movements recognised in reserves on available-for-sale assets	**13.5**	(3.4)	1.7
Fair value movements recognised in profit before tax on available-for-sale assets	**–**	(3.0)	(0.3)
Transfers to investments in associates	**–**	–	(4.2)
Exchange rate variations	**(1.2)**	2.0	1.3
At 31 December	**73.9**	14.3	8.4

The table below gives an analysis of the valuation methods used to measure the fair value of the other investments, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	2009 £m	2008 £m	2007 £m
Level 1 – quoted unadjusted market prices	**3.3**	2.9	7.9
Level 2 – valuation from observable market data†	**70.0**	10.7	–
Level 3 – other valuation methods*	**0.6**	0.7	0.5
	73.9	14.3	8.4

† Includes £5.1 million (2008: £4.9 million; 2007: £nil) of corporate bonds priced directly from market makers in those bonds.
* Unlisted equity shares valued using multiples from comparable listed organisations.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	2009 Assets £m	2009 Liabilities £m	2008 Assets £m	2008 Liabilities £m	2007 Assets £m	2007 Liabilities £m
Non-current						
Interest rate swaps	**–**	**–**	–	–	0.1	–
Interest rate caps and floors	**0.1**	**–**	0.4	–	1.2	–
	0.1	**–**	0.4	–	1.3	–
Current						
Interest rate swaps	**–**	**(15.7)**	–	(22.4)	–	(2.3)
Forward foreign exchange contracts	**–**	**–**	–	(0.2)	–	–
Call option on subsidiary undertaking	**–**	**–**	–	–	1.3	–
	–	**(15.7)**	–	(22.6)	1.3	(2.3)
	0.1	**(15.7)**	0.4	(22.6)	2.6	(2.3)

The valuation methods used to measure the fair value of all derivative financial instruments were grouped into Level 2, being derived from inputs which were either observable as prices or derived from prices.

There were no derivative financial instruments accounted for as hedging instruments.

Interest rate swaps

The aggregate notional principal of the outstanding interest rate swap contracts at 31 December 2009 was £136.7 million (2008: £296.8 million; 2007: £195.7 million). The average period to maturity of the interest rate swaps was 3.9 years (2008: 2.1 years; 2007: 3.8 years).

The main interest rate swap matures payable during 2026. During the period to maturity there is a single date in 2012 on which the swap can be cancelled by the counterparty and settled at fair value. The fair value of this swap at 31 December 2009 was a liability of £9.9 million (2008: £15.0 million; 2007: £0.8 million).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2009 the Group had £5.4 million of outstanding net foreign exchange contracts (2008: £23.4 million; 2007: £35.0 million).

17 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 £m	2007 £m
Current			
Trade receivables	**2.8**	3.7	2.9
Prepayments	**0.8**	0.7	1.3
Accrued income	**2.2**	0.3	0.4
Other debtors	**4.6**	5.9	4.5
	10.4	10.6	9.1

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of tenants spread across the countries in which it operates.

There were no material trade and other receivables classified as past due but not impaired. No trade and other receivables are interest-bearing.

18 CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m	2007 £m
Cash at bank and in hand	**47.0**	64.9	42.7
Short-term bank deposits	**23.3**	130.4	79.3
	70.3	195.3	122.0

At 31 December 2009, Group cash at bank and in hand included £13.8 million (2008: £11.0 million; 2007: £21.4 million) of cash deposits which were restricted by a third-party charge.

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.

The cash and cash equivalents currency profile is as follows:

At 31 December 2009	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	**18.5**	**22.0**	**40.5**
Euro	**24.5**	**1.3**	**25.8**
Swedish Krona	**4.0**	**–**	**4.0**
	47.0	**23.3**	**70.3**

At 31 December 2008	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	12.4	75.0	87.4
Euro	50.3	49.7	100.0
Swedish Krona	2.2	5.7	7.9
	64.9	130.4	195.3

At 31 December 2007	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	20.6	64.7	85.3
Euro	18.5	4.5	23.0
Swedish Krona	3.6	10.1	13.7
	42.7	79.3	122.0

19 TRADE AND OTHER PAYABLES

	2009 £m	2008 £m	2007 £m
Current			
Trade payables	**1.9**	2.5	5.8
Social security and other taxes	**1.8**	1.1	2.1
Other payables	**5.4**	4.7	6.1
Accruals	**12.1**	16.6	36.9
Deferred income	**8.9**	7.9	8.8
	30.1	32.8	59.7

20 DEFERRED TAX

	2009 £m	2008 £m	2007 £m
Deferred tax assets:			
– after more than 12 months	**(12.7)**	(12.4)	(2.9)
Deferred tax liabilities:			
– after more than 12 months	**72.3**	73.4	117.4
	59.6	61.0	114.5

The movement in deferred tax is as follows:

	2009 £m	2008 £m	2007 £m
At 1 January	**61.0**	114.5	150.3
Credited to the tax charge in the Statement of Comprehensive Income	**(1.0)**	(33.1)	(42.3)
Released on disposal of subsidiaries (note 30)	**–**	(34.6)	–
Charged to equity	**3.2**	–	0.3
Exchange rate variances	**(3.6)**	14.2	6.2
At 31 December	**59.6**	61.0	114.5

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

Deferred tax assets	**Tax losses £m**	**Other £m**	**Total £m**
At 1 January 2009	**(5.4)**	**(7.0)**	**(12.4)**
(Credited)/charged to the tax charge in the Statement of Comprehensive Income	**(1.7)**	**1.4**	**(0.3)**
At 31 December 2009	**(7.1)**	**(5.6)**	**(12.7)**

	Tax losses £m	Other £m	Total £m
At 1 January 2008	(1.8)	(1.1)	(2.9)
Credited to the tax charge in the Statement of Comprehensive Income	(3.6)	(5.9)	(9.5)
At 31 December 2008	(5.4)	(7.0)	(12.4)

	Tax losses £m	Other £m	Total £m
At 1 January 2007	(3.6)	(1.0)	(4.6)
Charged/(credited) to the tax charge in the Statement of Comprehensive Income	1.8	(0.4)	1.4
Charged to equity	–	0.3	0.3
At 31 December 2007	(1.8)	(1.1)	(2.9)

20 DEFERRED TAX (CONTINUED)

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2009	**12.2**	**60.5**	**0.7**	**73.4**
Credited to the tax charge in the Statement of Comprehensive Income	**(0.1)**	**(0.4)**	**(0.2)**	**(0.7)**
Charged to equity	**–**	**–**	**3.2**	**3.2**
Exchange rate variances	**–**	**(3.6)**	**–**	**(3.6)**
At 31 December 2009	**12.1**	**56.5**	**3.7**	**72.3**

	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2008	15.8	101.5	0.1	117.4
(Credited)/charged to the tax charge in the Statement of Comprehensive Income	(3.6)	(20.1)	0.1	(23.6)
Released on disposal of subsidiaries (note 30)	–	(34.6)	–	(34.6)
Exchange rate variances	–	13.7	0.5	14.2
At 31 December 2008	12.2	60.5	0.7	73.4

	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2007	15.9	138.8	0.2	154.9
Credited to the tax charge in the Statement of Comprehensive Income	(0.1)	(43.5)	(0.1)	(43.7)
Exchange rate variances	–	6.2	–	6.2
At 31 December 2007	15.8	101.5	0.1	117.4

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2009 the Group did not recognise deferred tax assets of £7.8 million (2008: £6.0 million; 2007: £7.4 million) in respect of losses amounting to £40.6 million (2008: £29.4 million; 2007: £21.2 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate to deferred tax on swaps with a negative book value. Losses recognised as deferred tax assets can be carried forward without restriction.

21 BORROWINGS, INCLUDING FINANCE LEASES

At 31 December 2009	**Current £m**	**Non-current £m**	**Total borrowings £m**
Bank loans	**112.5**	**434.1**	**546.6**
Debenture loans	**1.0**	**34.1**	**35.1**
Zero coupon note	**–**	**8.8**	**8.8**
Other loans	**–**	**2.3**	**2.3**
	113.5	**479.3**	**592.8**

At 31 December 2008	Current £m	Non-current £m	Total borrowings £m
Bank loans	71.7	483.8	555.5
Debenture loans	0.9	35.1	36.0
Zero coupon note	–	7.9	7.9
Other loans	–	2.3	2.3
	72.6	529.1	601.7

At 31 December 2007	Current £m	Non-current £m	Total borrowings £m
Bank loans	102.0	648.8	750.8
Debenture loans	0.8	36.0	36.8
Zero coupon note	–	7.1	7.1
Other loans	–	2.5	2.5
Finance lease liabilities	0.2	1.3	1.5
	103.0	695.7	798.7

Arrangement fees of £2.9 million (2008: £3.6 million; 2007: £5.0 million) have been offset in arriving at the balances in the above tables.

Bank loans

Interest on bank loans is charged at fixed rates ranging between 3.9 per cent and 11.2 per cent, including margin (2008: 3.9 per cent and 11.2 per cent; 2007: 4.5 per cent and 11.2 per cent) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Fixed rate margins range between 0.8 per cent and 1.8 per cent (2008: 0.8 per cent and 1.8 per cent; 2007: 0.7 per cent and 2.5 per cent) and floating rate margins range between 0.8 per cent and 3.0 per cent (2008: 0.8 per cent and 2.0 per cent; 2007: 0.8 per cent and 2.5 per cent). All bank loans are secured by legal charges over the respective properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Debenture loans

The debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million (2008: £1.2 million; 2007: £1.2 million) with final repayment due in January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at a fixed rate of 10.8 per cent, including margin. The debentures are secured by a legal charge over a property and securitisation of its rental income.

Zero coupon note

The zero coupon note accrues interest at 11.2 per cent, including margin. It is unsecured and is redeemable as a balloon repayment of principal and interest of £43.7 million in aggregate in February 2025.

Other loans

Interest on other loans is at a fixed rate of 6.5 per cent and a variable rate ranging between 2.0 per cent and 4.0 per cent (2008: 2.0 per cent and 4.0 per cent; 2007: 2.0 per cent and 4.0 per cent), comprising LIBOR plus a margin. The loans are secured by legal charges over the share capital of the borrowing subsidiaries.

Loan covenants

There were no covenant breaches at 31 December 2009. Loans totalling £26.8 million at 31 December 2008 had covenant breaches which were rectified in 2009.

21 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 2009	**Bank loans £m**	**Debenture loans £m**	**Zero coupon note £m**	**Other loans £m**	**Total £m**
Within one year or on demand	**113.1**	**1.0**	**–**	**–**	**114.1**
More than one but not more than two years	**27.3**	**1.1**	**–**	**2.3**	**30.7**
More than two but not more than five years	**200.7**	**4.0**	**–**	**–**	**204.7**
More than five years	**208.4**	**29.0**	**8.8**	**–**	**246.2**
	549.5	**35.1**	**8.8**	**2.3**	**595.7**
Unamortised issue costs	**(2.9)**	**–**	**–**	**–**	**(2.9)**
Borrowings, including finance leases	**546.6**	**35.1**	**8.8**	**2.3**	**592.8**
Less amount due for settlement within 12 months	**(112.5)**	**(1.0)**	**–**	**–**	**(113.5)**
Amounts due for settlement after 12 months	**434.1**	**34.1**	**8.8**	**2.3**	**479.3**

At 31 December 2008	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
Within one year or on demand	72.4	0.9	–	–	73.3
More than one but not more than two years	60.2	1.0	–	–	61.2
More than two but not more than five years	194.7	3.6	–	2.3	200.6
More than five years	231.8	30.5	7.9	–	270.2
	559.1	36.0	7.9	2.3	605.3
Unamortised issue costs	(3.6)	–	–	–	(3.6)
Borrowings, including finance leases	555.5	36.0	7.9	2.3	601.7
Less amount due for settlement within 12 months	(71.7)	(0.9)	–	–	(72.6)
Amounts due for settlement after 12 months	483.8	35.1	7.9	2.3	529.1

At 31 December 2007	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
Within one year or on demand	103.0	0.8	–	0.2	104.0
More than one but not more than two years	53.2	0.9	–	1.2	55.3
More than two but not more than five years	295.9	3.2	–	2.5	301.6
More than five years	303.7	31.9	7.1	0.1	342.8
	755.8	36.8	7.1	4.0	803.7
Unamortised issue costs	(5.0)	–	–	–	(5.0)
Borrowings, including finance leases	750.8	36.8	7.1	4.0	798.7
Less amount due for settlement within 12 months	(102.0)	(0.8)	–	(0.2)	(103.0)
Amounts due for settlement after 12 months	648.8	36.0	7.1	3.8	695.7

The interest rate risk profile of the Group's fixed rate borrowings was as follows:

	At 31 December 2009		At 31 December 2008		At 31 December 2007	
	Weighted average fixed rate of financial liabilities %	**Weighted average period for which rate is fixed Years**	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	**6.5**	**6.6**	6.8	5.7	6.7	6.4
Euro	**4.3**	**3.1**	5.1	3.4	4.9	0.8
Swedish Krona	**–**	**–**	–	–	5.4	3.3

The interest rate risk profile of the Group's floating rate borrowings was as follows:

	At 31 December 2009			At 31 December 2008			At 31 December 2007		
	% of net floating rate loans capped	**Average capped interest rate %**	**Average tenure Years**	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
Sterling	**100**	**3.9**	**0.7**	100	3.8	1.7	100	5.5	2.0
Euro	**100**	**4.7**	**1.6**	100	4.7	2.3	100	4.7	3.3
Swedish Krona	**–**	**n/a**	**n/a**	–	n/a	n/a	100	4.5	0.8

The carrying amounts of the Group's borrowings are denominated in the following currencies:

At 31 December 2009	**Fixed rate financial liabilities £m**	**Floating rate financial liabilities £m**	**Total £m**
Sterling	**154.2**	**115.4**	**269.6**
Euro	**123.8**	**165.1**	**288.9**
Swedish Krona	**–**	**34.3**	**34.3**
	278.0	**314.8**	**592.8**

At 31 December 2008	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	230.5	37.0	267.5
Euro	115.8	161.8	277.6
Swedish Krona	–	56.6	56.6
	346.3	255.4	601.7

At 31 December 2007	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	328.5	79.9	408.4
Euro	152.0	177.7	329.7
Swedish Krona	20.7	39.9	60.6
	501.2	297.5	798.7

21 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

	Carrying amounts			Fair values		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Current borrowings, including finance leases	**113.5**	72.6	103.0	**113.5**	72.6	103.0
Non-current borrowings, including finance leases	**479.3**	529.1	695.7	**503.4**	563.2	716.5
	592.8	601.7	798.7	**616.9**	635.8	819.5

Arrangement fees of £2.9 million (2008: £3.6 million; 2007: £5.0 million) have been offset in arriving at 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, discounted at the prevailing market rate, and excludes accrued interest.

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

	2009 £m	2008 £m	2007 £m
Floating rate:			
– expiring within one year	**0.6**	–	–
– expiring after one year	**0.9**	23.5	–
	1.5	23.5	–

22 FINANCIAL INSTRUMENTS

22.1 Categories of financial instruments

Financial assets of the Group comprise:

- Interest rate swaps and caps
- Foreign currency swaps and forward contracts
- Available-for-sale investments
- Investments in associates
- Trade and other receivables
- Cash and cash equivalents

Financial liabilities of the Group comprise:

- Interest rate swaps and caps
- Foreign currency swaps and forward contracts
- Bank loans
- Debenture loans
- Other loans
- Finance lease liabilities
- Trade and other payables
- Provisions
- Current tax liabilities

The fair values of financial assets and liabilities are determined as follows:

(a) Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates.

(b) 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.

(c) 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 available-for-sale instruments such as listed corporate bonds and equity investments.

(d) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade.

(e) 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 investments in associates, bank loans, debenture loans, other loans and finance lease liabilities, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value.

22.2 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 balances. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year.

The Directors review the capital structure on a quarterly basis to ensure that key strategic goals are being achieved. 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 was as follows:

	2009 £m	2008 £m	2007 £m
Debt	**595.7**	605.3	803.7
Cash and cash equivalents	**(70.3)**	(195.3)	(122.0)
Net debt	**525.4**	410.0	681.7
Equity	**309.5**	338.6	403.1
Net debt to equity ratio	**170%**	121%	169%

Debt is defined as long and short-term borrowings excluding unamortised issue costs as detailed in note 21. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

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) below certain levels.

22.3 Risk management objectives

The Group's activities expose it to a variety of financial risks, which can be grouped as:

- market 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 Group Treasury department 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.

22 FINANCIAL INSTRUMENTS (CONTINUED)

22.3 Risk management objectives (continued)

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange 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 the duration, interest payments and currency of assets and liabilities.

(i) 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 the Group Treasury department and by the Board on both a country and 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 interest rate swaps, interest rate caps and natural hedging from cash held on deposit.

In assessing risk, a range of scenarios is taken into consideration such as refinancing, renewal of existing positions and alternative financing and hedging. Under these scenarios, the Group calculates the impact on the Statement of Comprehensive Income for a defined movement in the underlying interest rate. The impact of a reasonably likely movement in interest rates is set out below:

Scenario	**2009 Statement of Comprehensive Income £m**	2008 Statement of Comprehensive Income £m
Cash +100 basis points (2008: +50 basis points)	**0.9**	1.4
Variable borrowings (including caps) +100 basis points (2008: +50 basis points)	**(2.7)**	(0.5)
Cash -100 basis points (2008: -50 basis points)	**(0.9)**	(1.4)
Variable borrowings (including caps) -50 basis points (2008: -50 basis points)	**1.3**	1.2

(ii) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in euros and, to a lesser extent, in Swedish kronor. Consequently, there is currency exposure caused by translating the local trading performance and net assets into sterling for each financial period and balance sheet, respectively.

The Group's principal foreign currency exposures are in respect of the euro and the Swedish krona. If the value of sterling were to increase in strength by 1% against the value of the euro, the Group's net assets would decrease by £1.4 million and the Group's profit by £0.1 million. If the value of sterling were to decrease in strength by 1% against the value of the euro, the Group's net assets would increase by £1.4 million and the Group's profit by £0.1 million. If the value of sterling were to increase in strength by 1% against the value of the Swedish krona the Group's net assets would decrease by £0.4 million and the Group's profit by £0.1 million. If the value of sterling were to decrease in strength by 1% against the value of the Swedish krona the Group's net assets would increase by £0.3 million and the Group's profit by £0.1 million.

The policy of the Group is to match the currency of investments 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 not hedged. Where foreign exchange risk arises from future commercial transactions, the Group will hedge the future committed commercial transaction using foreign exchange swaps or forward foreign exchange contracts.

(iii) Other price risk

The Group is exposed to corporate bond price risk and, to a lesser extent, to equity securities price risk, because of investments held by the Group and classified in the Balance Sheet as available-for-sale.

In order to manage the risk in relation to the holdings of corporate bonds and equity securities the Group holds a diversified portfolio. Diversification of the portfolio is managed in accordance with the limits set up by the Group.

The table below shows the effect on profit before tax and on equity which would result from an increase or decrease of 10% in the market value of corporate bonds and equity securities, which is an amount management believes to be reasonable in the current market:

Scenario: Shift of 10% in valuations	2009 Profit before tax £m	2009 Directly in equity £m	2008 Profit before tax £m	2008 Directly in equity £m
10% fall in value	**0.1**	**(7.4)**	–	(1.4)
10% increase in value	**(0.1)**	**7.4**	–	1.4

(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 the ability of tenants to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents, and enters into derivative financial instruments. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the Balance Sheet, including derivatives with positive fair values.

For credit exposure other than to tenants, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with tenants with an appropriate credit history. Credit risk to tenants is assessed by a process of internal and external credit scoring, and is reduced by obtaining bank guarantees from the tenant or its parent, and receipted rental deposits. The overall credit risk in relation to tenants is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government tenants which can be considered financially secure.

At 31 December 2009 the Group held £73.9 million (2008: £14.3 million; 2007: £8.4 million) of available-for-sale and other financial assets. Management of the Group considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies (Standard & Poor's) and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

The table below shows the external Standard & Poor's credit banding on the available-for-sale and other investments held by the Group:

S&P Credit rating at balance sheet date	2009 £m	2008 £m	2007 £m
Investment grade	**42.0**	7.2	0.1
Non-investment grade	**23.8**	–	–
Not rated	**8.1**	7.1	8.3
Total	**73.9**	14.3	8.4

22 FINANCIAL INSTRUMENTS (CONTINUED)

22.3 Risk management objectives (continued)

(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 react quickly to potential opportunities.

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

The majority of the Group's debt is arranged on an asset-specific, non-recourse basis. This allows the Group a higher degree of flexibility in dealing with potential covenant defaults than if the debt was arranged under a Group-wide borrowing facility.

Loan covenant compliance is closely monitored by the Group Treasury department. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment before an event of default takes place. Potential loan-to-value covenant breaches at 31 December 2009 could be remedied by partial repayments of the loans of £1.9 million in aggregate.

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

At 31 December 2009	**Less than 1 year £m**	**1 to 2 years £m**	**2 to 5 years £m**	**Over 5 years £m**
Non-derivative financial liabilities:				
Borrowings, including finance leases	**114.1**	**30.7**	**204.7**	**246.2**
Interest payments on borrowings(i)	**23.5**	**24.2**	**56.2**	**72.6**
Trade and other payables	**30.1**	**–**	**–**	**–**
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	**5.4**	**–**	**–**	**–**
– Inflow	**(5.4)**	**–**	**–**	**–**

At 31 December 2008	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings, including finance leases	73.3	61.2	200.6	270.2
Interest payments on borrowings(i)	20.1	14.8	36.7	60.8
Trade and other payables	32.8	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	(130.1)	–	–	–
– Inflow	129.9	–	–	–

At 31 December 2007	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings, including finance leases	104.0	55.3	301.6	342.8
Interest payments on borrowings(i)	42.2	40.2	92.7	117.2
Trade and other payables	59.7	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	(35.0)	–	–	–
– Inflow	35.1	–	–	–

(i) Interest payments on borrowings are calculated without taking into account future events. Floating rate interest is estimated using a future interest rate curve as at 31 December.

23 SHARE CAPITAL

	Number					
	Ordinary shares in circulation thousands	Treasury shares thousands	Total ordinary shares thousands	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2009	**61,745,471**	**5,000,000**	**66,745,471**	**15.4**	**1.3**	**16.7**
Cancelled following tender offer	**(13,721,215)**	**–**	**(13,721,215)**	**(3.4)**	**–**	**(3.4)**
At 31 December 2009	**48,024,256**	**5,000,000**	**53,024,256**	**12.0**	**1.3**	**13.3**

	Number					
	Ordinary shares in circulation thousands	Treasury shares thousands	Total ordinary shares thousands	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2008	67,740,457	7,109,279	74,849,736	16.9	1.8	18.7
Employee share option scheme:						
– shares issued	325,000	(325,000)	–	0.1	(0.1)	–
Cancellation of Treasury Shares	–	(2,114,209)	(2,114,209)	–	(0.5)	(0.5)
Purchase of own shares:						
– pursuant to market purchase	(329,930)	329,930	–	(0.1)	0.1	–
Cancelled following market purchases	(3,414,412)	–	(3,414,412)	(0.9)	–	(0.9)
Cancelled following tender offer	(2,575,644)	–	(2,575,644)	(0.6)	–	(0.6)
At 31 December 2008	61,745,471	5,000,000	66,745,471	15.4	1.3	16.7

	Number					
	Ordinary shares in circulation thousands	Treasury shares thousands	Total ordinary shares thousands	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2007	72,604,668	7,477,168	80,081,836	18.1	1.9	20.0
Cancellation of Treasury Shares	–	(750,000)	(750,000)	–	(0.2)	(0.2)
Purchase of own shares:						
– pursuant to market purchase	(382,111)	382,111	–	(0.1)	0.1	–
Cancelled following market purchases	(1,163,140)	–	(1,163,140)	(0.3)	–	(0.3)
Cancelled following tender offer	(3,318,960)	–	(3,318,960)	(0.8)	–	(0.8)
At 31 December 2007	67,740,457	7,109,279	74,849,736	16.9	1.8	18.7

24 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 1 December 2008 for the purchase of 2 in 9 shares at 350 pence per share was completed in January 2009. It returned £48,024,253 to shareholders, equivalent to 77.8 pence per share.

A further tender offer will be put to shareholders in April 2010 for the purchase of 1 in 42 shares at a price of 525 pence per share which, if approved, will return £6.0 million to shareholders, equivalent to 12.5 pence per share.

25 SHARE PREMIUM ACCOUNT

	2009 £m	2008 £m	2007 £m
At 1 January	**70.5**	69.8	69.7
Employee share option scheme			
– shares issued	**–**	0.7	0.1
At 31 December	**70.5**	70.5	69.8

26 OTHER RESERVES

	Capital redemption reserve £m	**Cumulative translation reserve £m**	**Fair value reserve £m**	**Other reserves £m**	**Total £m**
At 1 January 2009	**17.0**	**59.8**	**(4.5)**	**28.1**	**100.4**
Purchase of own shares:					
– cancellation pursuant to tender offer	**3.4**	**–**	**–**	**–**	**3.4**
Exchange rate variances	**–**	**(9.5)**	**–**	**–**	**(9.5)**
Share of exchange rate variances of associates	**–**	**0.4**	**–**	**–**	**0.4**
Available-for-sale financial assets:					
– net fair value gains in the year	**–**	**–**	**13.5**	**–**	**13.5**
– deferred tax thereon	**–**	**–**	**(3.2)**	**–**	**(3.2)**
At 31 December 2009	**20.4**	**50.7**	**5.8**	**28.1**	**105.0**

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2008	15.0	19.3	(1.1)	28.1	61.3
Purchase of own shares:					
– cancellation pursuant to tender offer	0.6	–	–	–	0.6
– cancellation pursuant to market purchase	0.9	–	–	–	0.9
– cancellation of treasury shares	0.5	–	–	–	0.5
Exchange rate variances	–	36.2	–	–	36.2
Share of exchange rate variances of associates	–	4.3	–	–	4.3
Available-for-sale financial assets:					
– net fair value losses in the year	–	–	(3.4)	–	(3.4)
At 31 December 2008	17.0	59.8	(4.5)	28.1	100.4

	Capital redemption reserve £m	Cumulative translation reserve £m	Cash flow hedge reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2007	13.7	2.4	1.2	(2.8)	28.1	42.6
Purchase of own shares:						
– cancellation pursuant to tender offer	0.8	–	–	–	–	0.8
– cancellation pursuant to market purchase	0.3	–	–	–	–	0.3
– cancellation of treasury shares	0.2	–	–	–	–	0.2
Exchange rate variances	–	16.9	–	–	–	16.9
Available-for-sale financial assets:						
– net fair value gains in the year	–	–	–	1.7	–	1.7
Cash flow hedges:						
– fair value losses in the year	–	–	(0.1)	–	–	(0.1)
– transfers	–	–	(0.8)	–	–	(0.8)
– deferred tax	–	–	(0.3)	–	–	(0.3)
At 31 December 2007	15.0	19.3	–	(1.1)	28.1	61.3

The amount classified as other reserves was created prior to listing in 1995 on a Group reconstruction and is considered to be non-distributable.

27 CASH GENERATED FROM OPERATIONS

	2009 £m	2008 £m
Operating profit/(loss)	**41.5**	(90.3)
Adjustments for:		
Net movements on revaluation of investment properties	**6.7**	103.3
Depreciation and amortisation	**0.5**	1.4
Profit on disposal of investment properties	**(0.3)**	(7.0)
Loss on disposal of subsidiaries	**–**	16.2
(Profit)/loss on equity investments	**(2.1)**	3.0
Impairment of goodwill	**–**	22.0
Changes in working capital:		
Increase in debtors	**(0.7)**	(11.3)
Increase in creditors	**0.1**	12.6
Cash generated from operations	**45.7**	49.9

28 CONTINGENCIES

At 31 December 2009 CLS Holdings plc had guaranteed certain liabilities of group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. No cross guarantees had been given by the Group in relation to the principal amounts of these borrowings. Certain warranties given in the course of corporate sales during 2008 either had been provided for or were too remote to be considered contingent.

29 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 the Group is the lessee	**2009 £m**	2008 £m	2007 £m
Within one year	**0.1**	–	0.6
More than one but not more than five years	**0.1**	0.3	1.1
More than five years	**0.3**	0.3	–
	0.5	0.6	1.7

At the balance sheet date the Group had contracted with tenants for the following minimum lease payments:

Operating lease commitments – where the Group is lessor	**2009 £m**	2008 £m	2007 £m
Within one year	**57.9**	55.3	63.0
More than one but not more than five years	**196.1**	174.1	196.0
More than five years	**182.1**	203.2	226.8
	436.1	432.6	485.8

Operating leases where the Group is the lessor are typically negotiated on a tenant-by-tenant basis and include break clauses and indexation provisions.

Other commitments

At 31 December 2009 the Group had no other commitments (2008: £30 million of contracted capital expenditure in relation to developments in Germany; 2007: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2008: none; 2007: none).

30 BUSINESS ACQUISITIONS AND DISPOSALS

Business disposals – prior years

French property portfolio disposals

On 15 May 2008, the Group disposed of its interests in 29 subsidiaries, 9 in the Netherlands and 20 in France, owning 14 properties in France. Collectively these were referred to as the LFPI Portfolio. On 30 July 2008, the Group completed on the disposal of two subsidiary undertakings owning two properties in France, known as the Belin sale. Results of the entities disposed of were previously reported in the French operating segment.

	LFPI Portfolio		Belin	
	May-08 £m	Dec-07 £m	**Jul-08 £m**	Dec-07 £m
Net assets disposed of:				
Investment properties	105.4	97.7	69.7	66.6
Property, plant & equipment	–	–	–	26.1
Trade and other receivables	18.3	15.6	25.4	–
Cash and cash equivalents	2.6	0.5	4.4	–
Deferred tax	(17.4)	–	(17.2)	–
Trade and other payables	(4.2)	(3.1)	(2.1)	(1.0)
Borrowings, including finance leases	(64.0)	(59.7)	(45.3)	(42.2)
	40.7	51.0	34.9	49.5
Gain on disposal	11.2		7.5	
Costs of disposal	6.2		0.3	
Total consideration	58.1		42.7	
Satisfied by:				
Cash	38.4		17.8	
Subordination of intercompany debt	17.3		24.9	
Deferred consideration	2.4		–	
	58.1		42.7	
The gain on disposal is disclosed in the Statement of Comprehensive Income as follows:				
Loss on disposal of subsidiaries	(6.2)		(9.7)	
Release of deferred tax	17.4		17.2	
	11.2		7.5	
Net cash inflow arising on disposal:				
Cash consideration	38.4		17.8	
Cash and cash equivalents disposed of	(2.6)		(4.4)	
	35.8		13.4	

Included in costs for the LFPI Portfolio disposal are rent guarantee provisions of £1.5 million, the write-off of £1.7 million of goodwill on the original acquisition of the LFPI Portfolio, £1.8 million for a contribution to the capital of the disposed subsidiaries and £1.3 million of professional and advisory costs incurred. Deferred consideration of £2.7 million (classified within other debtors) remains on escrow to cover the rent guarantee provisions as mentioned above and other contingencies (the likelihood of crystallisation of these other contingencies is considered remote and therefore they have not been provided for).

The costs in relation to the Belin sale related to professional fees.

30 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

London Bridge Quarter

On 9 January 2008 the Group disposed of its one-third interest in the London Bridge Quarter joint venture (Teighmore Limited and New London Bridge House Limited). The joint venture was previously reported within the UK operating segment.

	London Bridge Quarter	
	Jan-08 £m	Dec-07 £m
Net assets disposed of:		
Investment properties	110.2	110.2
Trade and other receivables	0.6	0.6
Cash and cash equivalents	1.9	1.9
Trade and other payables	(16.5)	(16.5)
Borrowings, including finance leases	(66.2)	(66.2)
	30.0	30.0
Gain on disposal	–	
Costs of disposal (see below)	–	
Total consideration	30.0	
Satisfied by:		
Cash	30.0	
Net cash inflow arising on disposal:		
Cash consideration	30.0	
Cash and cash equivalents disposed of	(1.9)	
	28.1	

All of the costs in relation to the disposal of LBQ, comprising £4.9 million in aggregate, were incurred and expensed in 2007. At 31 December 2007 the investment in LBQ was written down to its recoverable amount, so there was no gain or loss on disposal recognised in 2008.

At 31 December 2007 the joint venture borrowing facility was in breach of its loan to value covenant. All obligations potentially arising from the breach were discharged on sale.

Solna and Lövgärdet

On 31 January 2006, the Group disposed of 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 £1.8 million and in 2007 was £2.0 million which was recognised in profit before tax in the relevant years. During the year ended 31 December 2009 there were no further costs incurred relating to commitments made on the disposal of Solna Business Park (2008: £0.3 million). In 2009, cash payments of £0.9 million (2008: £3.0 million) were made in relation to deferred consideration agreed on sale.

Summary of business disposals

	2009 £m	2008 £m
Loss on disposal of subsidiaries		
LFPI Portfolio	–	6.2
Belin	–	9.7
Solna and Lövgärdet (sold in 2006)	–	0.3
	–	16.2

31 RELATED PARTY TRANSACTIONS

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt, Executive Chairman of CLS Holdings plc. The total payable in the year was £34,000 (2008: £33,000; 2007: £29,000). A company owned by Sten Mortstedt purchased accountancy services from Förvaltnings AB Klio during the year amounting to £8,000 (2008: £8,000; 2007: £7,000). In relation to these transactions £3,000 was payable at the balance sheet date (2008: £53,000; 2007: £37,000).

32 PRINCIPAL SUBSIDIARIES

The group 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 those of the Group.

Adlershofer Sàrl*
Coventry House Limited
Frères Peugeot SCI†
Great West House Limited
Grossglockner Sàrl*
Ingrove Limited
Kapellen Sàrl*
Naropere Sàrl*
New Printing House Square Limited
Spring Gardens Limited
Vänerparken Property Investment KB**
Vauxhall Cross Limited

* Incorporated in Luxembourg
† Incorporated in France
** Incorporated in Sweden

The principal activity of each of these subsidiaries is property investment, apart from Coventry House Limited whose principal activity is to act as an investment company. All of the above subsidiary undertakings are incorporated in the United Kingdom unless stated above. To comply with the Companies Act 2006, a full list of subsidiaries will be filed with the Company's next annual return.

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 2009 which comprise the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities on pages 28 and 29, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2009.

Mark Goodey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London

11 March 2010

COMPANY BALANCE SHEET – UK GAAP

At 31 December 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investment in subsidiary undertakings	5	**90.5**	96.9
Current assets			
Trade and other receivables	6	**49.5**	96.4
Cash at bank and in hand	7	**–**	0.3
		49.5	96.7
Total assets		**140.0**	193.6
Current liabilities			
Trade and other payables	8	**(4.4)**	(15.8)
Net assets		**135.6**	177.8
EQUITY			
Capital and reserves			
Called up share capital	9	**13.3**	16.7
Share premium account	10	**70.5**	70.5
Other reserves	11	**25.0**	21.6
Profit and loss account	11	**26.8**	69.0
Shareholders' funds		**135.6**	177.8

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 11 March 2010 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

at 31 December 2009

1 GENERAL INFORMATION

These separate financial statements have been prepared under UK GAAP in accordance with applicable accounting standards under the historical cost convention and are presented as required by the Companies Act 2006. 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. Its primary activity (which occurs exclusively in the United Kingdom) is to hold shares in subsidiary companies.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Directors' Report on pages 21 to 23.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

2.1 Investment in Group Companies

Investments are valued at cost, less provisions for impairment. If the equity value of the investment is lower than cost, the valuation is adjusted accordingly, provided that management considers this to be a permanent diminution in value. Dividend income is recognised when received.

2.2 Pension costs

The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged 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 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 proceeds.

Where a 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 owners of the Company 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 owners of the Company.

2.4 Related party transactions

Advantage has been taken of the exemption allowed in FRS 8 not to disclose transactions with entities which are wholly owned within the group where consolidated accounts are publicly available.

There were no other related party transactions during the year

2.5 Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the dates of the transactions. Tangible assets denominated in foreign currencies are shown at historical cost. Current assets and all liabilities denominated in foreign currencies are translated at the rate ruling at the end of the financial year. All differences are recognised in profit before tax.

3 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006, 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 £6.0 million (2008: profit of £80.1 million).

Audit fees for the Company were £0.1 million (2008: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 30 to 33.

4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 1 December 2008 for the purchase of 2 in 9 shares at 350 pence per share was completed in January 2009. It returned £48,024,253 to shareholders, equivalent to 77.8 pence per share.

A further tender offer will be put to shareholders in April 2010 for the purchase of 1 in 42 shares at a price of 525 pence per share which, if approved, will return £6.0 million to shareholders, equivalent to 12.5 pence per share.

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2009 £m	2008 £m
At 1 January	**96.9**	99.4
Additions	**9.3**	–
Provision for impairment	**(14.5)**	(1.0)
Disposals	**(1.2)**	(1.5)
At 31 December	**90.5**	96.9

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 2006, a full list of subsidiaries will be filed with the Company's next annual return.

6 TRADE AND OTHER RECEIVABLES

	2009 £m	2008 £m
Current		
Amounts owed by subsidiary undertakings	**47.3**	94.8
Prepayments and accrued income	**2.2**	1.5
Other debtors	**–**	0.1
	49.5	96.4

7 CASH AT BANK AND IN HAND

	2009 £m	2008 £m
Cash at bank and in hand	**–**	0.3

None of the cash and cash equivalents was subject to legal charge or assignment to a third party in either the current or preceding year.

8 TRADE AND OTHER PAYABLES

	2009 £m	2008 £m
Current		
Amounts owed to subsidiary undertakings	**3.5**	15.1
Trade payables	**0.8**	–
Accruals and deferred income	**0.1**	0.7
	4.4	15.8

9 CALLED UP SHARE CAPITAL

	Number					
	Ordinary shares in circulation thousands	**Treasury shares thousands**	**Total ordinary shares thousands**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2009	**61,745,471**	**5,000,000**	**66,745,471**	**15.4**	**1.3**	**16.7**
Cancelled following tender offer	**(13,721,215)**	**–**	**(13,721,215)**	**(3.4)**	**–**	**(3.4)**
At 31 December 2009	**48,024,256**	**5,000,000**	**53,024,256**	**12.0**	**1.3**	**13.3**

	Number					
	Ordinary shares in circulation thousands	Treasury shares thousands	Total ordinary shares thousands	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2008	67,740,457	7,109,279	74,849,736	16.9	1.8	18.7
Employee share option scheme:						
– shares issued	325,000	(325,000)	–	0.1	(0.1)	–
Cancellation of Treasury Shares	–	(2,114,209)	(2,114,209)	–	(0.5)	(0.5)
Purchase of own shares:						
– pursuant to market purchase	(329,930)	329,930	–	(0.1)	0.1	–
Cancelled following market purchases	(3,414,412)	–	(3,414,412)	(0.9)	–	(0.9)
Cancelled following tender offer	(2,575,644)	–	(2,575,644)	(0.6)	–	(0.6)
At 31 December 2008	61,745,471	5,000,000	66,745,471	15.4	1.3	16.7

10 SHARE PREMIUM ACCOUNT

	2009 £m	2008 £m
At 1 January	**70.5**	69.8
Employee share option scheme		
– shares issued	**–**	0.7
At 31 December	**70.5**	70.5

11 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			
	Capital redemption reserve £m	**Other £m**	**Total £m**	**Profit and loss account £m**
At 1 January 2009	**17.0**	**4.6**	**21.6**	**69.0**
Purchase of own shares	**3.4**	**–**	**3.4**	**(48.0)**
Expenses thereof	**–**	**–**	**–**	**(0.2)**
Retained profit for the year	**–**	**–**	**–**	**6.0**
At 31 December 2009	**20.4**	**4.6**	**25.0**	**26.8**

	Other reserves			
	Capital redemption reserve £m	Other £m	Total £m	Profit and loss account £m
At 1 January 2008	15.0	4.6	19.6	13.0
Purchase of own shares	2.0	–	2.0	(23.9)
Expenses thereof	–	–	–	(0.2)
Retained profit for the year	–	–	–	80.1
At 31 December 2008	17.0	4.6	21.6	69.0

12 DEFERRED INCOME TAX

No deferred tax liability arises relating to the Company (2008: £nil).

13 CONTINGENCIES

At 31 December 2009 CLS Holdings plc had guaranteed certain liabilities of group companies, primarily in relation to Group borrowings and covering interest and amortisation payments. No cross guarantees had been given in relation to the principal amounts of these borrowings. Certain warranties were given in the course of corporate sales during 2008. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's Financial Statements and no reportable contingent liability exists.

14 COMMITMENTS

At 31 December 2009, the Company had no contracted capital expenditure (2008: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2008: £nil).

FIVE YEAR FINANCIAL SUMMARY

31 December 2009

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Group revenue	**76.3**	81.6	89.5	83.2	87.3
Costs	**(30.3)**	(37.4)	(49.9)	(32.1)	(34.2)
	46.0	44.2	39.6	51.1	53.1
Net movements on revaluation of investment properties	**(6.7)**	(103.3)	(68.1)	162.1	67.2
Profit/(loss) on disposal of subsidiaries/joint venture/associates	**–**	(16.2)	(1.9)	1.9	(1.1)
Profit/(loss) on sale of investment properties	**0.3**	7.0	–	(1.0)	1.9
Profit on sale of corporate bonds and other investments	**1.9**	–	–	0.6	1.1
Impairment of intangible fixed assets and goodwill	**–**	(22.0)	–	–	–
Operating profit/(loss)	**41.5**	(90.3)	(30.4)	214.7	122.2
Net finance costs	**(25.5)**	(43.0)	(42.7)	(36.9)	(36.3)
Share of profit/(loss) of associates after tax	**2.5**	(7.5)	0.5	(1.2)	(1.2)
Other non-recurring costs	**–**	(1.3)	–	–	–
Profit/(loss) before tax	**18.5**	(142.1)	(72.6)	176.6	84.7
Taxation	**(1.1)**	64.1	39.7	(20.3)	(23.2)
Profit/(loss) from continuing operations	**17.4**	(78.0)	(32.9)	156.3	61.5
Loss from discontinued operations	**–**	–	–	(2.5)	(6.2)
Profit/(loss) for the year	**17.4**	(78.0)	(32.9)	153.8	55.3
Share buy-backs paid and proposed	**6.0**	59.0	9.3	53.6	18.4
Net Assets Employed					
Non-current assets	**944.2**	869.1	1,251.5	1,186.9	1,141.3
Current assets	**80.7**	205.9	132.4	167.7	127.0
	1,024.9	1,075.0	1,383.9	1,354.6	1,268.3
Non-current liabilities	**(551.6)**	(602.5)	(813.1)	(812.4)	(841.7)
Current liabilities	**(164.3)**	(133.9)	(167.7)	(94.1)	(72.8)
Net assets	**309.0**	338.6	403.1	448.1	353.8

Ratios	2009	2008	2007	2006	2005
Adjusted net assets per share (pence)	**767.5**	647.2	764.1	824.3	607.0
Net assets per share (pence)	**643.3**	548.4	595.1	617.2	441.9
Earnings/(loss) per share (pence)	**36.4**	(120.6)	(45.7)	196.7	66.9
Net gearing (%)	**169.1**	120.0	167.9	117.5	170.1
Recurring interest cover (times)	**2.08**	1.09	1.26	1.87	1.47

GLOSSARY OF TERMS

ADJUSTED NET ASSETS

Net assets excluding deferred tax assets and deferred tax liabilities

ADJUSTED TOTAL ASSETS

Total assets excluding deferred tax assets

CONTRACTED RENT

Annual contracted rental income

CORE PROFIT

Profit before tax and before net movements on revaluation of investment properties, profit on sale of investment properties, subsidiaries and corporate bonds, impairment of intangible assets and goodwill, non-recurring costs and foreign exchange variances.

EARNINGS PER SHARE

Profit after tax divided by the weighted average number of ordinary shares in issue in the period

ADJUSTED EARNINGS PER SHARE

Profit after tax, but excluding deferred tax and net gains or losses from fair value adjustments on investment properties, divided by the weighted average number of ordinary shares in issue in the period

ESTIMATED RENTAL VALUE (ERV)

The market rental value of lettable space as estimated by the Group's valuers

LOAN TO VALUE (LTV)

Borrowings expressed as a percentage of the market value of the property portfolio

NET ASSETS PER SHARE OR NET ASSET VALUE (NAV)

Equity shareholders' funds divided by the number of ordinary shares in circulation at the balance sheet date

ADJUSTED NET ASSETS PER SHARE OR ADJUSTED NET ASSET VALUE

Adjusted net assets divided by the number of ordinary shares in circulation at the balance sheet date

NET DEBT

Total borrowings less cash and short-term deposits

NET GEARING

Net debt expressed as a percentage of net assets

ADJUSTED NET GEARING

Net debt expressed as a percentage of adjusted net assets

NET INITIAL YIELD

Annual net rents on investment properties expressed as a percentage of the investment property valuation

NET RENT

Contracted rent less net service charge costs

OCCUPANCY RATE

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space

OVER-RENTED

The amount by which ERV falls short of the aggregate of passing rent and the ERV of vacant space

PASSING RENT

Contracted rent after any rent-free periods have expired

RECURRING INTEREST COVER

The aggregate of group revenue less costs plus share of results of associates, divided by net finance costs

RENT ROLL

Contracted rent

RETURN ON SHAREHOLDERS' EQUITY

The movement in the adjusted net assets in the period plus distributions as a percentage of the adjusted net assets at the beginning of the period

SOLIDITY

Equity shareholders' funds expressed as a percentage of total assets

ADJUSTED SOLIDITY

Adjusted net assets expressed as a percentage of adjusted total assets

TOTAL SHAREHOLDER RETURN

For a given number of shares, the aggregate of the proceeds from tender offer buy-backs and the change in market value of the shares during the year adjusted for cancellations occasioned by such buy-backs, as a percentage of the market value of the shares at the beginning of the year

DIRECTORS, OFFICERS AND ADVISERS

Directors
Sten Mortstedt (Executive Chairman)
Henry Klotz (Chief Executive Officer)
John Whiteley (Chief Financial Officer)
Thomas Lundqvist*† (Non-Executive Vice Chairman)
Malcolm Cooper†‡ (Non-Executive Director)
Joseph Crawley* (Non-Executive Director)
Christopher Jarvis† (Non-Executive Director)
Bengt Mörtstedt (Non-Executive Director)
Thomas Thomson (Non-Executive Director)

* member of Remuneration Committee
† member of Audit Committee
‡ senior independent Director

Company Secretary
David Fuller BA, FCIS

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Chartered Accountants
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