

CLS Holdings plc  
Annual Report & Accounts

**2006**

CLS Logo

→ BUILDING FUTURE VALUE ..

WEDNESDAY



\*A9P9CQYH\*

A16

04/07/2007

338

COMPANIES HOUSE

Company Number 2714781

## INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

CLS IS A COMMERCIAL PROPERTY INVESTMENT COMPANY THAT HAS BEEN LISTED ON THE LONDON STOCK EXCHANGE SINCE 1994

WE OWN AND MANAGE A DIVERSE PORTFOLIO IN EXCESS OF £1.1 BILLION OF MODERN, WELL-LET OFFICE AND COMMERCIAL PROPERTIES IN THE UK, FRANCE, GERMANY AND SWEDEN

OUR PROPERTIES HAVE BEEN SELECTED FOR THEIR POTENTIAL TO ADD VALUE AND GENERATE HIGH RETURNS ON CAPITAL INVESTMENT

Our goal is to create long term shareholder value

We aim to achieve this by continuing to

- purchase modern, high quality, well-let office properties in good locations in selected European Cities
- use our in-house development teams to refurbish or redevelop appropriate properties
- focus on minimising vacant space within the portfolio
- provide our tenants with high quality accommodation at competitive rates
- develop long-term relationships with our tenants
- maintain strong links with a wide variety of banks and other sources of finance
- respond quickly to new opportunities
- carefully assess and manage our business risks

02	Financial Highlights
04	Results at a glance
06	Business Highlights
08	Chairman's Statement
14	Financial Review
24	Property Review
28	UK
30	France
32	Germany
34	Sweden
37	Detailed Accounts Contents
96	Glossary of Terms



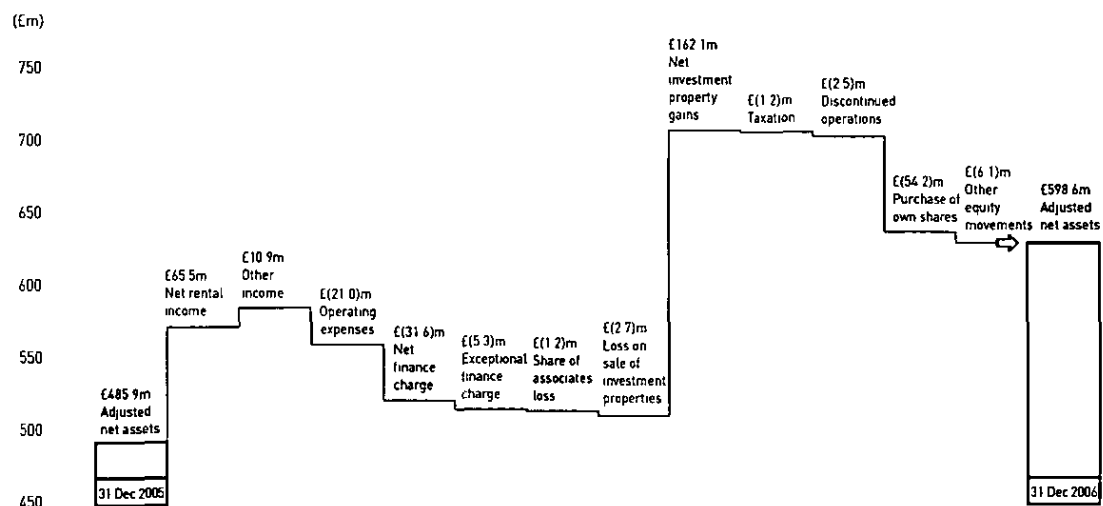
## FINANCIAL HIGHLIGHTS

---

- **Profit before tax** £176.6 million, up 108.5 per cent, including £162.1 million of fair value gains on property
- **Profit after tax** £153.8 million, up 178.1 per cent
- **Added value to shareholders** 41.2 per cent based on increase in adjusted NAV per share\* and distributions in the year (47.1 per cent based on statutory NAV)
- **Adjusted Net Asset Value per share** 824.4 pence, up 35.8 per cent  
(Statutory NAV per share 617.3 pence, up 39.7 per cent)
- **Adjusted Net Asset Value** £598.6 million compared to market capitalisation of £516.9 million as at 07 March 2007, a discount of 13.6 per cent  
(Statutory NAV including deferred tax provision £448.1 million)
- **Intended distribution** by way of a tender offer buy-back of 1 in 41 shares at 750 pence, being 18.3 pence per share making a total distribution to shareholders of 69.9 pence per share for the year, up 194.9 per cent
- **Property portfolio** valued at £1.14 billion, up 4.3 per cent  
(After disposals in the year of £300 million, and acquisitions of £130 million)
- **Net rental income** £65.5 million, down 5.5 per cent
- **Year end cash** £157.6 million up 33.3 per cent (December 2005 £118.2 million)

\* see glossary of terms on page 96

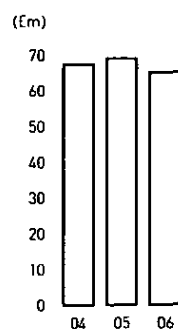
# PRIMARY MOVEMENTS IN ADJUSTED NET ASSETS 2006



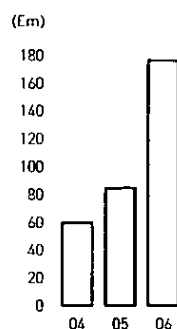
## RESULTS AT A GLANCE

	2006 £m	2005 £m	Up/ (Down)
<b>INCOME STATEMENT</b>			
Net Rental Income	65.5	69.3	(5.5)%
Other operating income and associate company results	9.7	2.2	340.9%
(Losses)/gains on sale of investment properties	(1.0)	0.7	(142.9)%
Overhead and Property Expenses	(21.0)	(18.4)	14.1%
Operating profit (excluding gains/losses on investment properties)	53.2	53.8	(0.1)%
Net Finance cost	(31.6)	(36.3)	(12.9)%
Underlying profit (excluding gains/losses on investment properties)	21.6	17.5	23.4%
Fair value gains on ongoing investment properties	151.1	55.7	171.3%
Sale of Solna including uplift in property value less costs of corporate sale	6.7	11.5	(41.7)%
Exceptional finance costs	(2.8)	-	-
Profit before tax	176.6	84.7	108.5%
Tax – current	(1.2)	(1.3)	(7.7)%
Tax – deferred	(19.1)	(21.9)	(12.8)%
Discontinued operations	(2.5)	(6.2)	(59.7)%
<b>Profit for the year</b>	<b>153.8</b>	<b>55.3</b>	<b>178.1%</b>
Adjusted earnings per share* (on continuing operations)	23.8p	19.7p	20.8%
Earnings per share	196.7p	67.5p	191.5%
Interest Cover	1.7 times	1.5 times	

**NET RENTAL  
INCOME**



**PROFIT  
BEFORE TAX**



**EARNINGS  
PER SHARE**

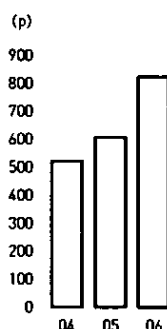


CLS Holdings plc  
Annual Report & Accounts

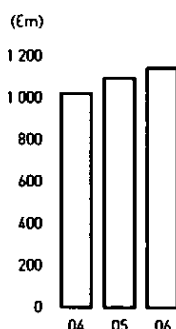
	31 Dec 2006 £m	31 Dec 2005 £m	Up/ (Down)
<b>BALANCE SHEET</b>			
Property portfolio	1,143.5	1,096.4	4.3%
Borrowings	(683.8)	(719.9)	(5.0)%
Cash	157.6	118.2	33.3%
Other	(169.2)	(140.9)	20.1%
Net asset value	448.1	353.8	26.6%
Share Capital	20.0	21.4	(6.5)%
Reserves	428.1	332.4	28.8%
Shareholders funds	448.1	353.8	26.6%
Adjusted NAV per share*	824.4p	606.9p	35.8%
Statutory NAV per share*	617.3p	441.9p	39.7%
Distribution per share from tender offer buy-backs	69.9p	23.7p	194.9%
Adjusted gearing*	88.9%	125.2%	(36.3)%
Statutory gearing*	118.7%	171.9%	(53.2)%
Adjusted solidity*	44.3%	38.7%	5.6%
Statutory solidity*	33.1%	27.9%	5.2%
Shares in issue (000s) – excluding treasury shares	72,605	80,058	(9.2)%
IAS 32 fair value adjustment after tax	(21.6)p	(34.6)p	(37.6)%
Adjusted Net Assets*	£598.6m	£485.9m	23.2%
Statutory Net Assets	£448.1m	£353.8m	26.7%

\* see glossary of terms on page 96

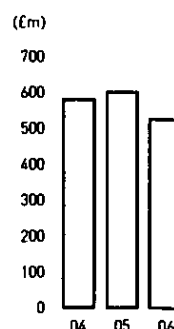
ADJUSTED NET ASSET  
VALUE PER SHARE



PORTFOLIO  
VALUATION



NET DEBT



# BUSINESS HIGHLIGHTS

---

## PROPERTY DISPOSALS

- **Sale of Solna Business Park, Stockholm for £267.0 million (SEK3,575 million)** generating an uplift in net asset value of £7.5 million (9.5 pence per share) and a cash surplus of £113.5 million
- **Sale of a mixed residential and commercial complex at Lovgardet near Gothenburg** for a total price of £40.5 million (SEK547 million) having been purchased in 2002 for £29.4 million (SEK440 million)
- **Sale of Le 41 in La Defense, Paris for £15.3 million (€22.3 million)** CLS had purchased the building in 1998 for £7.4 million (€11.7 million)

## PROPERTY ACQUISITIONS

- **During 2006 CLS purchased 11 German commercial properties at a cost of £116.6 million** – these properties are located in Berlin, Hamburg, Munich, and Stuttgart. The properties have a combined lettable space of 88,780 sq m (955,645 sq ft) and currently generate £8.0 million net rental income. The properties were purchased at an average initial yield of 6.9 per cent.
- **Two further acquisitions have been made in France at a cost of £9.0 million** – these office properties are located in Paris with a combined lettable space of 4,066 sq m (43,767 sq ft) and generate £0.6 million net rental income. The properties were purchased on an average initial yield of 6.7 per cent.

## PROPERTY DEVELOPMENT

- **Planning permission was secured to redevelop New London Bridge House** – owned by the same consortium as The Shard. The new scheme replaces a 1960s office tower with a spectacular office and retail building designed by Renzo Piano offering net internal space of 39,950 sq m (430,000 sq ft).
- **Completion of an interim financing facility of £196 million for the London Bridge Quarter incorporating The Shard** – this facility has been provided to obtain vacant possession of the existing building on the site to repay existing finance, and to provide working capital for the current stage of the project.
- **Further pre-let at The Shard** – 17,651 sq m (190,000 sq ft) of office space on the lower floors to TfL (Transport for London), on a 30-year lease with rent rising with RPI.

---

## EQUITY INVESTMENTS

- **Acquired 17 per cent of the share capital of Bulgarian Land Development plc (BLD)** – an AIM listed residential and commercial property developer at a cost of £4.3 million. This investment establishes a foothold for CLS in the fast growing Bulgarian property sector. In February 2007 we agreed to increase our stake to 29 percent as part of a recent fundraising on condition that Per Sjöberg takes the role of non-executive chairman of BLD.
  - **Acquired the remaining shares not already under its ownership in the youth community website, Lunarworks** – at a cost of £14.5 million valuing the business at approximately SEK 372 million (£28 million). The cost of the entire investment for CLS is £17.0 million. We see significant value creation opportunities as the business expands internationally.
  - **Disposed of the majority of our investment in Keronite** – representing a profit in the year of £3.7 million. CLS retains a 6.5 per cent holding of the shares in the company, on a fully diluted basis.
-



"I CAN REPORT THAT THE COMPANY HAS  
PERFORMED WELL DURING THE YEAR,  
PRODUCING STRONG GROWTH IN  
SHAREHOLDER VALUE "

## CHAIRMAN'S STATEMENT

---

## → THIS IS THE ELEVENTH CONSECUTIVE YEAR THAT OUR NAV PER SHARE HAS INCREASED

### INTRODUCTION

Once again I can report that the Company has performed well during the year producing strong growth in shareholder value.

The main driver for this has been the increase in net asset values. Our adjusted net asset value per share has increased from 606.9 pence by 35.8 per cent to 824.4 pence.

The generally buoyant European property market has contributed to the growth in real estate values in each of our operating regions during 2006 and it is worth noting that this is the eleventh consecutive year that our NAV per share has increased. During that period it has shown an average growth rate of 18.2 per cent compound per annum.

Statutory NAV per share including full provision for deferred tax of £150.4 million increased from 441.9 pence by 39.7 per cent to 617.3 pence.

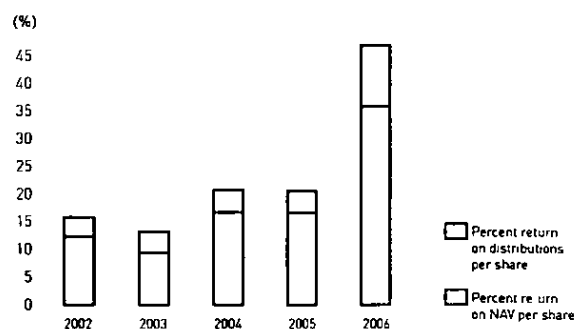
Profit before taxation increased from £84.7 million by 108.5 per cent to £176.6 million including a fair value increase in property assets of £162.1 million, approximately one third of which related to our joint venture interests in the London Bridge Quarter.

### PERFORMANCE FOR INVESTORS 2006

#### Total return to shareholders

One of the primary indicators we use to measure performance is the total return to shareholders, which measures the growth in NAV per share and distributions made per share.

#### TOTAL SHAREHOLDERS' RETURN AS A PERCENTAGE OF NAV

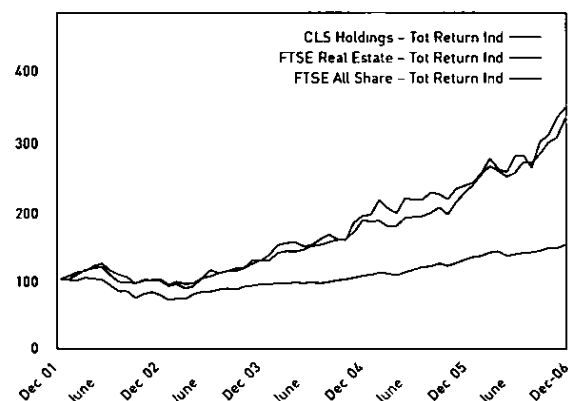


The total return to CLS investors in 2006 was 46.9 per cent and the average over the last five years was 23.3 per cent.

Since flotation the group has comfortably outperformed both the FTSE all share and FTSE real estate indices. The graph below, independently sourced by Datastream, includes conventional dividend payments but excludes the positive impact of capital distributions by CLS through tender offer buy-backs.

#### TOTAL SHAREHOLDER RETURN

(since flotation – based on share price)



Source: Datastream

#### Distributions

During 2006 we distributed £52.5 million to shareholders by way of tender offer buy-backs, equating to 66.9 pence per share. Included within this amount was a special distribution following the sale of our interest in Solna Business Park.

### BUSINESS REVIEW 2006

**UK** – The last year has seen a continuing compression of yields with prime London yields falling to around 4 per cent driven by continued investor demand for property as an asset class, relatively low interest rates and growing occupier demand for good quality space. Increased interest rates towards the end of 2006 may alleviate further significant compression and we therefore anticipate yields remaining relatively stable over the coming year.

Given the current investing environment we have concentrated on adding value to the assets we own rather than acquiring new highly priced stock. During the year we completed the major refurbishment of Great West House, Brentford and are in the process of letting vacant floors in that building. We are also on programme and budget to complete the £10 million refurbishment programme at Spring Gardens in the second quarter of 2007. When it is complete the property will have been extended by a further 2 503 sq m (27 000 sq ft) to just under 18 580 sq m (200 000 sq ft) and let for 20 years to the Home Office at an average rent of £31.50 per sq ft.

We have made significant further progress at the Shard London Bridge in which we have a one third interest. Having signed a pre-letting of 17 651 sq m (190 000 sq ft) with TfL (Transport for London) nearly 50 per cent of the proposed new building is now pre-let. The arrangement of interim development funding and agreement with PricewaterhouseCoopers for vacant possession of Southwark Towers which currently occupies the site will enable demolition works to commence towards the end of 2007.

The resolution to grant planning permission for a fine new Renzo Piano designed 39 950 sq m (430 000 sq ft) office building adjacent to the Shard was passed earlier in the year which paves the way for further redevelopment of the London Bridge Quarter.

**FRANCE** – The French property investment market has also seen major yield compression in 2006 with prime yields in central Paris falling to approximately 4.25 per cent with the same basic fundamentals driving the market as in the UK. The record demand for property investment is fuelled by significant money flows from domestic, US and German investors. The letting market saw significant activity with approximately 2.9 million sq m (31.2 million sq ft) of space taken-up in the Paris region, an increase of 30 per cent over the previous year.

Set against this backdrop we have found it difficult to purchase new properties without compromising our investment criteria. We did however take advantage of the active investment market to sell the vacant building, Le 41 in La Defense, Paris for £15.3 million having purchased it in 1998 for £7.4 million.

Our French portfolio has performed extremely well over the years and in 2006 generated £12.1 million profit from operations and £35.3 million from increased valuations. Active asset management and close relationships with tenants have resulted in a year end vacancy rate of just 2.1 per cent by area compared to 6.2 per cent the previous year.

**GERMANY** – At the beginning of the year we set ourselves a target of building a portfolio of £200 million of high-yielding good quality office buildings. We are well on the way to achieving that goal and by 31 December 2006 owned 14 properties valued at £135.2 million. Since the year end we have acquired two further properties at a cost of £34.2 million. As we have seen elsewhere the investing market has become very competitive and yields have been driven down. We have not compromised our purchasing strategy and have not bought properties where we regard prices to be unviable. The rate of acquisition has therefore slowed, however we are still very active in this area and will continue to build the portfolio where we determine value can be accrued.

We have also established an office in Hamburg from which our local professional team operates to manage our assets and build the portfolio.

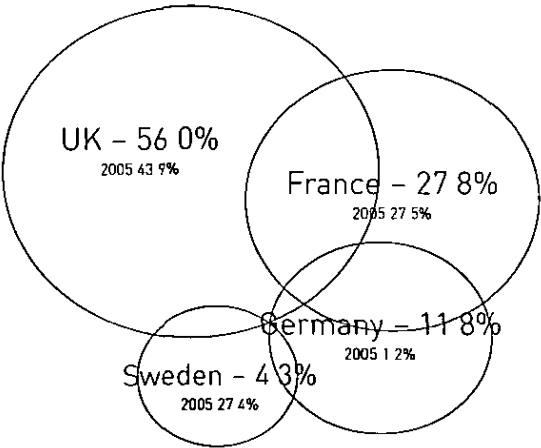
**SWEDEN** – We sold two major Swedish property portfolios during the year, taking advantage of the high demand for property.

The first sale took place in February 2006 comprising a portfolio of 1 280 apartments and 42 608 sq m (458 644 sq ft) of commercial and retail space located at Lovgardet near Gothenburg. We sold the portfolio to a major local landlord specialising in local residential estates. During our four year period of ownership their value had increased by £10.5 million against a cost of £29.4 million, of which the initial equity investment was £3.0 million.

In August 2006 we completed the corporate sale of our six properties at Solna Business Park, Stockholm which valued the properties at £267 million. This was the successful culmination of a seven year project to create a vibrant office hotel and retail business park from a tired and run-down industrial estate. The development, which won both environmental and design awards, has generated added value in excess of £65 million after taking account of original purchase and refurbishment costs.

CHAIRMAN'S STATEMENT (continued)

Le Sirius Paris



Portfolio value by location

→ WE LOOK TO PROFITABLY EXPAND OUR OPERATIONS IN OUR  
CURRENT MARKETS AND EXPLORE NEW OPPORTUNITIES WHERE  
WE SEE THE POTENTIAL FOR ADDED VALUE

---

**EQUITY INVESTMENTS** – We completed two sales during the year. In January 2006 we sold the assets and business of the second of our two cable investments, WightCable North Limited at a loss of £2.1 million and in August 2006 we sold the majority of our stake in Keronite PLC, which booked a profit of £3.7 million.

In April 2006 we purchased the balance of shares in Lunarworks AB, a very successful Swedish youth community website. Our entire investment cost £17.0 million and I am pleased to note that in the seven months we have owned the company it has contributed a profit to the Group of £0.6 million.

We also purchased a 17 per cent stake in the AIM listed Bulgarian Land Development PLC for £4.3 million in March 2006 and we are pleased to note that it has made good progress during its first nine months. The company develops residential and commercial property opportunities in Bulgaria which joined the EU in January 2007. Construction of its first residential project of 199 villas and apartments on the Black Sea coast commenced in February 2007 and is already over 35 per cent pre-sold. We have conditionally agreed to increase our stake to 29 per cent on a new fundraising by the company.

**PROSPECTS** – We are well placed to continue building our European portfolio through the acquisition of new assets and enhancement of the existing portfolio.

In the UK we are actively assessing the potential added value in redeveloping a number of sites that we currently own and will be focusing hard on ensuring that the development of the London Bridge Quarter proceeds in line with the programme and the budget.

Our German investment programme will continue with a view to investing a further £80 million to £100 million as long as we can find appropriately priced good quality assets.

We will continue to buy further office properties in France and throughout the Group we will work closely with current and potential tenants to maintain low levels of vacant space in each of our operating areas.

We will continue to look at East European markets for opportunities for potential value. Such investments are currently likely to be on the basis of holding indirect interests in commercial property through participation in property funds or listed companies with high calibre management.

**ENVIRONMENTAL INITIATIVES** – We see the development of environmentally safe and energy efficient buildings as not only socially responsible but also commercially beneficial.

We have continued to incorporate environmentally effective features in our buildings. Our development at Solna Business Park incorporated a geothermal heating and cooling system for one of the buildings, cutting its heating and cooling costs by 30 per cent. We were also accredited the P-Mark building specification (equivalent to BREEM in the UK), which focuses on the working environment, fresh air circulation and quality, sound proofing and illumination. We are also incorporating a raft of energy saving designs into The Shard and New London Bridge House.

These features give us an advantage in letting, as tenants will benefit from higher quality properties, lower occupational running costs, and their employees will have a healthier, improved workplace.

We have raised awareness within the company and have applied to Westminster Council to utilise our low energy screen at One Leicester Square to make the public more aware of environmental issues.

These initiatives are a small beginning, however we are committed to contributing time and resources to reduce the carbon footprint of our business.

**TENDER OFFER** – We have substantial cash reserves and have demonstrated consistently strong performance over the years. As there is still a 13.6 per cent discount between NAV per share and share price, we therefore propose to recommend a tender offer buy-back of 1 in 41 shares at 750 pence per share. This, together with the interim tender offer special distribution, will result in a total distribution for the year of 69.9 pence per share, an increase of 194.9 per cent over the previous year.

## CHAIRMAN'S STATEMENT (continued)

---

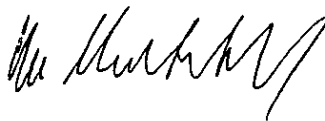
BrainLAB Munich

**CONCLUSION** – After an exceptionally good year we are well aware of the challenges ahead of us. In particular, seeing such large developments as the Shard and New London Bridge House through to a successful commercial conclusion will be a high priority.

We look to profitably expand our operations in our current markets and explore new opportunities where we see the potential for added value.

The ongoing enthusiasm, dedication and commitment of our staff have been key components in our success and on behalf of the Board I would like to thank them for their commitment.

Finally I would also like to thank our shareholders, our bankers and our tenants for their continued involvement and support.



**Sten Mortstedt**  
Executive Chairman  
28 March 2007

**INTRODUCTION**

The Group has returned strong results for the year generating a profit before tax of £176.6 million and increasing its adjusted net assets from £485.9 million to £598.6 million – an uplift of 23.2 per cent (Statutory net assets from £353.8 million to £448.1 million). This increase in net assets was after having also distributed £52.5 million to shareholders during the year.

**PROFIT BEFORE TAX** – Profit before tax increased to £176.6 million from £84.7 million – an increase of 108.5 per cent. The main contribution to profit was made by fair value gains on investment properties amounting to £162.1 million (2005: £67.2 million) which included proportionate revaluation gains in respect of our joint venture interests in the London Bridge Quarter which is valued on a residual value basis rather than a current use investment basis reflecting the development progress which has been made during the past year.

**TAX** – The charge for current tax was £1.2 million being mainly incurred within the French division. The charge to deferred tax of £19.1 million has been mitigated during the year by the release of a deferred tax provision of £27.9 million which resulted principally from the sale of the corporate structure owning Solna Business Park. Accordingly profit after tax increased to £153.8 million from £55.3 million – an increase of 178.1 per cent.

**NET ASSETS** – Adjusted NAV of 824.4 pence per share (December 2005: 606.9 pence) grew by 35.8 per cent during 2006 (Statutory NAV of 617.3 pence per share grew by 39.7 per cent over the same period).

In the last five years the adjusted net asset value per share grew by 125.9 per cent or 17.7 per cent compound per annum (Statutory NAV has shown a similar growth throughout that period). The organic growth in adjusted net asset value per share over the period (taking into account the effect of tender offer buy-backs but excluding growth attributable to the market purchase of shares) has been 102.9 per cent or 15.3 per cent compound per annum (the statutory comparative has shown similar growth throughout that period).

The dilutive effect if all share options were to be exercised would be 3.5 pence.

At the year end the post-tax IAS 32 disclosure showing the effect of restating fixed interest loans to fair value amounted to a reduction of 21.6 pence per share (December 2005: 34.6 pence).

Adjusted net assets grew by £112.7 million to £598.6 million in the year after distributions to shareholders of £52.5 million.

**GEARING AND INTEREST COVER** – Adjusted gearing at the year end decreased to 88.9 per cent (December 2005: 125.2 per cent. Statutory gearing was 118.7 per cent – December 2005: 171.9 per cent) following the sale of Solna Business Park.

Net interest payments and financial charges were covered by operating profit (excluding fair value adjustments) by 1.7 times (2005: 1.5 times).

**DISTRIBUTIONS** – During the year the Company distributed £52.5 million (66.9 pence per share December 2005: 20.3 pence per share distributed) to shareholders by way of tender offer buy-backs including a special distribution following the sale of Solna at an average price per share of 714 pence. The number of shares purchased through the two tender offer buy-backs amounted to 7.4 million shares representing 9.2 per cent of shares in issue on 1 January 2006.

CLS Holdings plc  
Annual Report & Accounts

**CASH** – The Group held £157.6 million cash as at 31 December 2006 (December 2005 £118.2 million) the movement in the year being

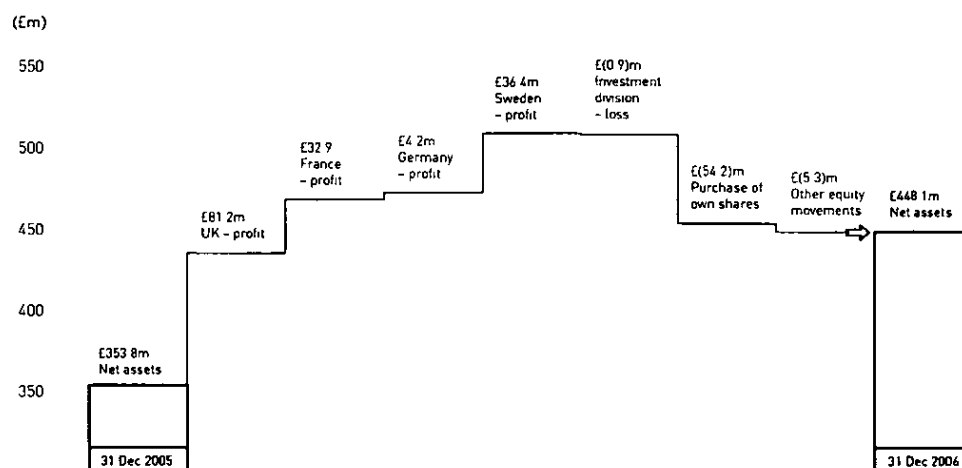
	2006 £m	2005 £m
Cash inflow from property rental activities	61.6	51.8
Increase in equity investments held in current assets	(6.7)	(3.5)
Cash inflow from operations	54.9	48.3
Net interest and other finance costs	(36.6)	(33.4)
Taxation	(2.2)	(0.3)
Properties purchased and enhanced	(172.7)	(67.3)
Properties sold	3.6	45.1
Net proceeds on corporate sales (mainly Solna and Lovgardet)	121.2	-
New loans	218.5	148.6
Loans repaid	(81.1)	(57.8)
Tender offer payment to shareholders	(52.5)	(16.8)
Market purchase of shares for cancellation	(1.7)	(2.0)
Purchase of Lunarworks	(12.1)	-
Other	0.1	(3.6)
<b>Net cash inflow</b>	<b>39.4</b>	<b>60.8</b>

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

	Group £m	UK £m	France £m	Germany £m	Sweden £m	Equity Investments £m
<b>Opening net assets</b>	<b>353.8</b>	160.0	100.3	-	75.7	17.8
<b>Movement in 2006</b>						
Underlying profit before tax	21.6	6.8	12.1	(0.3)	2.0	1.0
Fair value gains on investment property	151.1	106.0	35.8	7.0	2.3	-
Sale of Solna	6.7	-	-	-	6.7	-
Exceptional finance costs – JV investments	(2.7)	(2.7)	-	-	-	-
Taxation – current	(1.2)	0.2	(1.2)	-	-	(0.2)
Taxation – deferred	(19.1)	(28.4)	(13.8)	(2.5)	25.6	-
Discontinued operations	(2.5)	-	-	-	-	(2.5)
<b>Increase in equity due to direct investment</b>	<b>153.8</b>	81.9	32.9	4.2	36.6	(1.7)
<b>Other Equity movements</b>						
Shares issued	0.3	0.3	-	-	-	-
Shares purchased and associated costs	(54.2)	(54.2)	-	-	-	-
Foreign exchange and other movements	(2.5)	-	(2.5)	(0.7)	0.7	-
Change in fair value of listed investments net of tax	(4.9)	-	-	-	-	(4.9)
Change in fair value of derivative instruments	1.8	1.8	-	-	-	-
Transfer of equity	-	96.0	(61.1)	34.4	(93.1)	23.8
<b>Net assets at 31 December 2006</b>	<b>448.1</b>	285.8	69.6	37.9	19.9	35.0



# PRIMARY MOVEMENTS IN NET ASSETS 2006



## REVIEW OF THE INCOME STATEMENT

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

	2006 Total £m	UK £m	France £m	Germany £m	Sweden £m	Equity investments £m	2005 Total £m
Net rental income	65.5	29.6	20.3	4.6	11.0	-	69.3
Other operating gains	7.2	1.5	0.7	-	0.3	4.7	3.3
Operating expenses	(21.0)	(9.1)	(2.6)	(2.1)	(2.6)	(4.6)	(18.4)
<b>Operating profit before gains on investment properties</b>	<b>51.7</b>	<b>22.0</b>	<b>18.4</b>	<b>2.5</b>	<b>8.7</b>	<b>0.1</b>	<b>54.2</b>
Net finance expense	(31.6)	(15.8)	(5.4)	(2.8)	(6.8)	(0.8)	(36.3)
Profit/(loss) on disposal of associate/part share JV	3.7	-	-	-	-	3.7	(1.1)
(Loss)/gain from sale of investment properties	(1.0)	-	(1.0)	-	-	-	1.9
Associates operating loss	(1.2)	-	-	-	-	(1.2)	(1.2)
<b>Underlying profit before tax</b>	<b>21.6</b>	<b>6.2</b>	<b>12.0</b>	<b>(0.3)</b>	<b>1.9</b>	<b>1.8</b>	<b>17.5</b>
Fair value gains on investment properties	162.1	106.0	35.8	7.0	13.3	-	67.2
Loss on sale of subsidiaries	(1.8)	-	-	-	(1.8)	-	-
Exceptional finance expense	(5.3)	(2.7)	-	-	(2.6)	-	-
<b>Profit on continuing activities before tax</b>	<b>176.6</b>	<b>109.6</b>	<b>47.8</b>	<b>6.7</b>	<b>10.8</b>	<b>1.8</b>	<b>84.7</b>
Tax - ordinary	(1.2)	0.2	(1.2)	-	-	(0.2)	(1.3)
Tax - deferred	(19.1)	(28.4)	(13.8)	(2.5)	25.6	-	(21.9)
Loss on discontinued operations	(2.5)	-	-	-	-	(2.5)	(6.2)
<b>Profit for the year</b>	<b>153.8</b>	<b>81.4</b>	<b>32.7</b>	<b>4.2</b>	<b>36.4</b>	<b>(0.9)</b>	<b>55.3</b>

## FINANCIAL REVIEW (continued)

**NET RENTAL INCOME** – of £65.5 million has decreased by 5.5 per cent (December 2005 £69.3 million) primarily due to the sale of Solna Business Park, Sweden in August. The reduced income of £6.2 million in the year due to that transaction was largely offset by income from acquisitions in Germany that contributed an additional £4.5 million. UK net rental income was down by £2.3 million mainly due to the sale of the Carlow House and Drury Lane properties at the end of 2005. The income lost from French property sales was offset by rental increases due to indexation.

**OTHER OPERATING GAINS** – amounted to £7.2 million (December 2005 £3.3 million) and included a £4.5 million contribution to profit from our subsidiary Lunarworks, the Swedish youth community website that was fully consolidated from 1 May 2006. Dilapidations and lease surrender income amounted to £0.8 million for the year and the remainder was generated from insurance commissions, management fees on development projects and profits on share transactions.

**OPERATING EXPENSES** – Operating expenses as set out in the summary table above comprised administrative expenditure of £17.5 million (December 2005 £14.9 million) and net property expenses of £3.5 million (December 2005 £3.5 million).

**ADMINISTRATIVE EXPENDITURE** – of £17.5 million increased by £2.6 million over the £14.9 million incurred in the year to December 2005. The major contributor to this increase was the inclusion for the first time of the operating expenditure of our Lunarworks subsidiary of £4.3 million.

Overhead expenditure relating to the core ongoing property business amounting to £12.2 million decreased by £1.4 million from the comparative figure for the previous year, reflecting lower legal and professional fees of £4.6 million compared to £5.4 million expensed in 2005. The sale of our Solna and Lovgardet subsidiaries during the year further reduced overhead by £0.6 million.

**NET PROPERTY EXPENSES** – of £3.5 million (December 2005 £3.5 million) included advertising and marketing costs of £0.9 million, letting fees of £0.4 million incurred to reduce vacant space within the UK and French portfolios and void costs of £0.8 million (mainly at Great West House, Brentford and Vista Centre, Hounslow). Repair and maintenance costs were £0.4 million for minor works in Paris and the UK. Depreciation amounted to £0.2 million and bad debts were £0.1 million. The remainder comprised mainly staff costs of £0.7 million.

**NET FINANCE EXPENSES** – amounted to £31.6 million (December 2005 £36.3 million) and showed a decrease of £4.7 million from net expenditure in 2005.

**Interest payable** of £39.9 million increased by £2.2 million over the previous year of £37.7 million. The main factors influencing the increase were:

### UK

- The refinancing of Spring Gardens which accounted for an increase of £0.6 million.
- Our share of interest relating to draw-downs of development loans in respect of joint ventures at The Shard and New London Bridge House amounting to additional interest of £0.4 million.

### France

- Interest payable increased in France by £1.6 million due to the refinancing of the French portfolio in December 2005 and January 2006.

### Germany

- Increased loans due to financing the expanded portfolio contributed an additional £2.2 million to interest payable.

### Sweden

- The sale of Solna Business Park and Lovgardet contributed to decrease interest charges by £2.6 million.

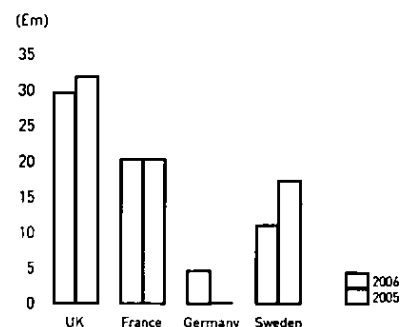
Included within interest payable are positive fair value movements on interest rate caps amounting to £0.2 million (December 2005 cost of £0.1 million) and amortisation of issue costs of loans amounting to £1.1 million (December 2005 £1.4 million).

The Group's policy is to expense all interest payable to the Income Statement, including interest incurred in the funding of refurbishment and development projects, which amounted to £1.6 million in 2006 for Great West House, Brentford.

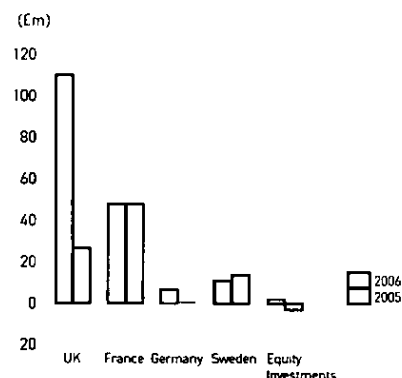
**Interest receivable** of £8.3 million benefited from the significant increase in our cash reserves due to the sales of the two Swedish portfolios mentioned above and the re-financings that took place in France in the first quarter of the year. The positive foreign exchange gains of £3.2 million resulted mainly from foreign exchange contracts following the sale of the Solna portfolio.

**PROFIT/(LOSS) ON DISPOSAL OF ASSOCIATE** – of £3.7 million was the profit on disposal of the majority of our investment in Keronite plc, completed in August 2006.

## NET RENTAL INCOME



## PROFIT BEFORE TAX



**Analysis of net finance expense**

	2006 £m	2005 £m	Difference £m
Interest receivable	5.1	1.4	3.7
Foreign exchange	3.2	–	3.2
Interest receivable and similar income	8.3	1.4	6.9
Interest payable and similar charges	(39.9)	(37.7)	(2.2)
<b>Net finance expense</b>	<b>(31.6)</b>	<b>(36.3)</b>	<b>4.7</b>

**EXCEPTIONAL FINANCE EXPENSE** – amounted to £5.3 million (December 2005: nil). In September 2006 the Southwark Towers and New London Bridge House companies were re-financed to provide working capital for the next development stage of both projects. This resulted in break costs of the existing financing of £8.0 million, the CLS share of which was £2.7 million. Additionally break costs associated with redemption of loans on the sale of Solna Business Park amounted to £2.6 million.

The average cost of borrowing for the Group at 31 December 2006, which includes an estimate of the fair value adjustment in respect of interest rate caps, is set out below:

	UK	France	Germany	Sweden	Total
<b>December 2006</b>					
Average interest rate on fixed rate debt	7.3%	4.6%	5.0%	5.5%	6.4%
Average interest rate on variable rate debt	6.4%	4.3%	4.5%	3.9%	5.1%
<b>Overall weighted average interest rate</b>	<b>7.0%</b>	<b>4.4%</b>	<b>4.8%</b>	<b>5.4%</b>	<b>5.9%</b>
<b>December 2005</b>					
Average interest rate on fixed rate debt	7.2%	4.6%	–	5.6%	6.1%
Average interest rate on variable rate debt	6.1%	3.5%	–	3.2%	4.2%
<b>Overall weighted average interest rate</b>	<b>6.9%</b>	<b>4.2%</b>	<b>–</b>	<b>4.5%</b>	<b>5.4%</b>

**TAXATION** – In 2006 the Group's taxation charges have benefited from the tax treatment of selling property investment companies. For current tax, disposals of corporates have not resulted in a tax charge on the gains realised. For deferred tax, previous provisions have been released so that the additional provision required in 2006 has been reduced. The overall benefit of these factors is £28 million, which particularly relates to the disposal of the companies which own the Solna properties.

**Current tax** – In addition to the effect of corporate sales mentioned above, the use of brought forward tax losses, UK capital allowances and amortisation deductions in other operating countries have significantly reduced the tax charge. These factors are expected to have less impact in future years as losses are used up and the benefit of deductions decrease in existing subsidiaries.

**Deferred tax** – The Group's deferred tax calculation has been prepared on a full provision basis as required by IAS 12. We consider it is unlikely that this theoretical liability will crystallise in full because it takes no account of the way in which the Group

realises gains. In particular, as for disposals in 2006, when companies rather than individual properties are sold, previously provided deferred tax provisions do not result in actual liabilities. For UK property disposals, indexation allowance is available when calculating taxable capital gains and elections are available to ensure that deductions claimed previously for capital allowances are not reversed.

At 31 December 2006, the IAS 12 deferred tax charge included in the Income Statement was £19.1 million and the cumulative reduction to net assets was £150.4 million (31 December 2005: charge to tax of £21.9 million and reduction in net assets of £132.1 million respectively).

**LOSS FROM DISCONTINUED OPERATIONS** – The Group completed the disposal of the business and the assets of WightCable in December 2005 and of WightCable North in January 2006. The operating results of these two businesses have been classified under IFRS 5 as discontinued operations. In early January 2006, costs relating to the disposal of WightCable North were incurred amounting to £2.1 million.

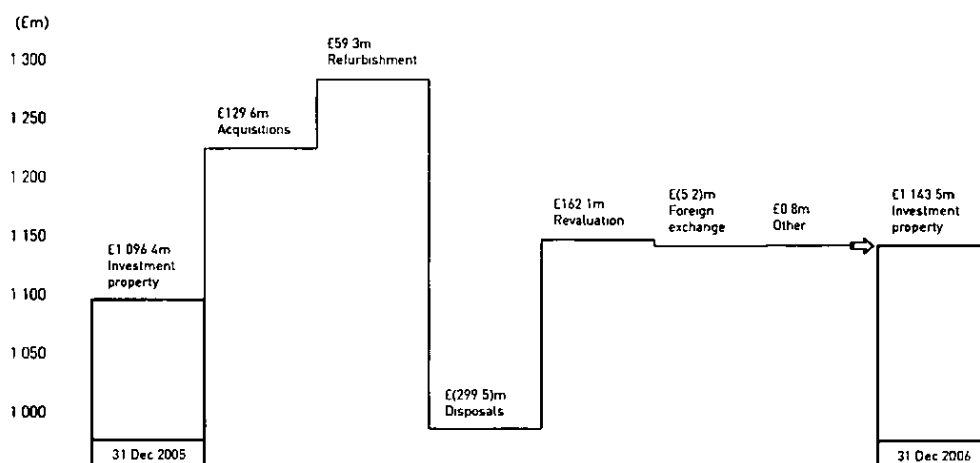
## FINANCIAL REVIEW (continued)

### REVIEW OF THE BALANCE SHEET

**INVESTMENT PROPERTIES** – The Group's property portfolio amounted to £1 143.5 million showing a net increase of £47.1 million over its value at 31 December 2005 of £1 096.4 million. The movement in the portfolio is set out below.

	Total £m	UK £m	France £m	Germany £m	Sweden £m
Opening assets	1,096.4	481.3	301.4	12.8	300.9
Purchases	129.6	4.0	9.0	116.6	–
Refurbishment	59.3	50.1	2.1	–	7.1
Disposals	(299.5)	–	(23.8)	–	(275.7)
Revaluation	162.1	106.0	35.8	7.0	13.3
Foreign exchange	(5.2)	–	(6.8)	(1.9)	3.5
Other	0.8	(1.0)	0.6	0.6	0.6
Closing assets	1,143.5	640.4	318.3	135.1	49.7

### MOVEMENTS IN INVESTMENT PROPERTY PORTFOLIO



**PURCHASES** – The main focus of our acquisition programme has been in Germany where we purchased eleven properties for a total consideration of £116.6 million. Six of these properties were located in Munich, two in Berlin, two in Hamburg and one in Stuttgart.

Two French properties were purchased in Paris for £9.0 million.

In the UK, we acquired a one-third share of a further small property in the London Bridge Quarter and made two small strategic acquisitions in the Vauxhall area, the total of which amounted to expenditure of £4.0 million.

**REFURBISHMENT** – Expenditure on refurbishments of £59.3 million included £25.5 million expended at Southwark Towers, being our share of the ongoing development costs as the site progresses. As our investments in the London Bridge Quarter are now valued on a residual value basis rather than an existing use investment basis, we have shown our share of the work in progress of £14.0 million as property additions, rather than as work in progress, within which £6.6 million of expenditure was classified in the December 2005 balance sheet.

Other capital expenditure in the year of £4.5 million related to Great West House, for completion of the extensive refurbishment commenced in 2005, £4.3 million at Spring Gardens, for completion of the in-fills for the Home Office and £6.9 million at Solna Business Park for fit-out costs which were mainly in connection with Frasaren 12 for the tenant ICA.

**DISPOSALS** – The sale of Solna Business Park was completed on 21 August 2006 at a gross valuation of £267.0 million compared to its carrying value in the Group accounts of £235.5 million. Our investment at Lovgardet was sold in January 2006 for £40.5 million, the carrying value of which was £40.2 million.

Disposals in France related to our property Le 41, located in Paris, the book value of which was £14.7 million. Paul Doumer also in Paris, the book value of which was £5.8 million, and the converted residential flats at Avenue Foch, Paris, that were carried at a cost of £3.3 million. These properties were sold at £1.3 million above book value.

**FOREIGN EXCHANGE** – Foreign exchange translation losses on our French and German property holdings amounted to £8.7 million in the year. The Swedish Kronor strengthened against Sterling during the year, resulting in an increase in the Sterling equivalent of those assets of £3.5 million. After taking into account the effect of foreign exchange translation on loans to finance these assets, the net effect was a loss of £2.5 million.

Based on the valuations at 31 December 2006 and annualised contracted rent receivable at that date of £65.7 million (December 2005: £76.4 million), the portfolio shows a yield of 6.2 per cent (December 2005: 6.3 per cent).

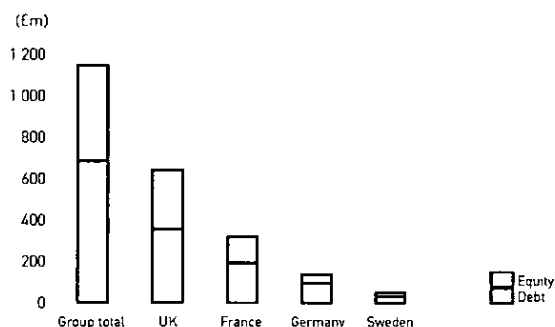
An analysis of the location of investment property assets and related loans is set out below.

	Total £m	%	UK* £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity investments £m	%
Investment Properties	1,143.5	100.0	640.4	56.0	318.3	27.8	135.1	11.8	49.7	4.3	-	-
Loans	(683.8)	100.0	(355.1)	51.9	(192.6)	28.2	(95.9)	14.0	(30.7)	4.5	(9.5)	1.4
Equity in Property Assets	459.7	100.0	285.3	62.1	125.7	27.3	39.2	8.5	19.0	4.1	(9.5)	(2.1)
Other net assets	138.9	100.0	81.8	58.9	4.5	3.2	1.5	1.1	6.7	4.8	44.5	32.2
<b>Net Adjusted Equity</b>	<b>598.6</b>	<b>100.0</b>	<b>367.1</b>	<b>61.3</b>	<b>130.2</b>	<b>21.8</b>	<b>40.7</b>	<b>6.8</b>	<b>25.7</b>	<b>4.3</b>	<b>35.0</b>	<b>5.9</b>
<b>Equity in Property as a Percentage of Investment</b>												
	<b>40.2%</b>		<b>44.6%</b>		<b>39.5%</b>		<b>29.1%</b>		<b>38.2%</b>		-	
Opening Equity	485.9		213.2		148.5		-		106.8		17.4	
Increase/(decrease)	112.7		153.9		(18.3)		40.7		(81.1)		17.6	
<b>Closing Equity</b>	<b>598.6</b>		<b>367.1</b>		<b>130.2</b>		<b>40.7</b>		<b>25.7</b>		<b>35.0</b>	

The following exchange rates were used to translate assets and liabilities at the year end: Euro/GBP 1.485; SEK/GBP 13.393.

\* Net assets were reduced by payments for tender offer distributions totalling £52.5 million and market purchases totalling £1.4 million which are included within the results of the UK.

#### DEBT/EQUITY SPLIT OF PROPERTY ASSETS BY REGION



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

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

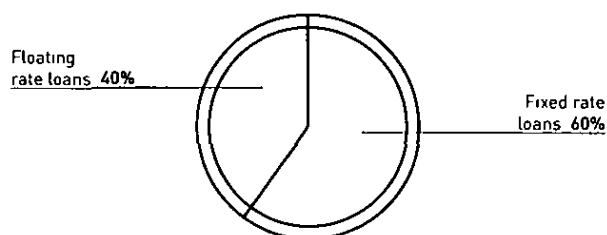
## FINANCIAL REVIEW (continued)

### Net Interest Bearing Debt

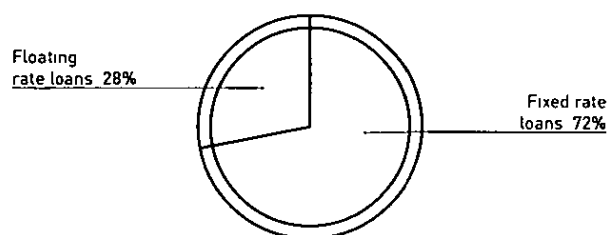
	Total £m	%	UK* £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity investments £m	%
<b>2006</b>												
Fixed Rate Loans	(409 8)	59.9	(254 8)	71.7	(62 6)	32.5	(63 5)	66.2	(28 9)	94.1	-	-
Floating Rate Loans	(274 0)	40.1	(100 3)	28.3	(130 0)	67.5	(32 4)	33.8	(1 8)	5.9	(9 5)	100.0
	(683 8)	100.0	(355 1)	100.0	(192 6)	100.0	(95 9)	100.0	(30 7)	100.0	(9 5)	100.0
Bank and cash	157 6		107 4		11 9		3 9		22 8		11 6	
<b>Net Interest Bearing Debt</b>	<b>(526 2)</b>	<b>100.0</b>	<b>(247 7)</b>	<b>47.1</b>	<b>(180 7)</b>	<b>34.3</b>	<b>(92 0)</b>	<b>17.5</b>	<b>(7 9)</b>	<b>1.5</b>	<b>2.1</b>	<b>(0.4)</b>
<b>2005</b>	<b>(601 7)</b>	<b>100.0</b>	<b>(262 5)</b>	<b>43.7</b>	<b>(176 5)</b>	<b>29.3</b>	-	-	(162 1)	26.9	(0 6)	0.1

Non interest bearing debt represented by short-term creditors amounted to £66.9 million (December 2005 £45.4 million)

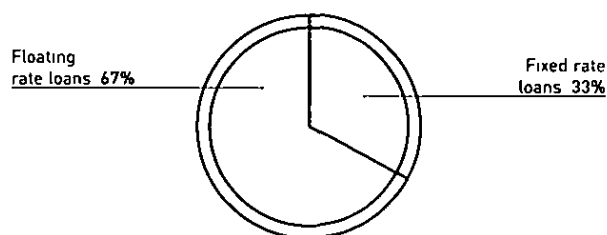
GROUP TOTAL



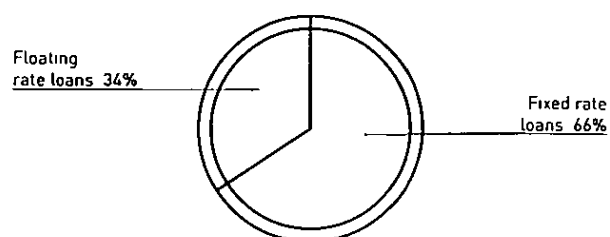
UNITED KINGDOM



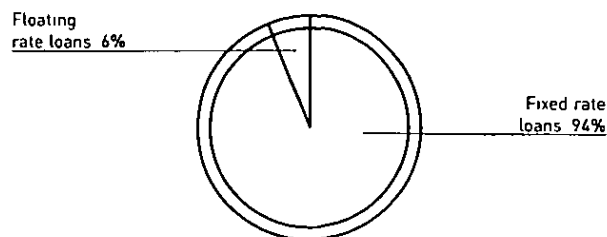
FRANCE



GERMANY



SWEDEN



#### Interest rate caps

	Total %	UK %	France %	Germany %	Sweden %
<b>2006</b>					
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	4.9	5.6	4.6	4.6	4.5
Average tenure	3.8 years	3.0 years	4.1 years	4.4 years	1.8 years
<b>2005</b>					
Percentage of net floating rate loans capped	100.0	100.0	100.0	-	100.0
Average base interest rate at which loans are capped	5.2	5.8	5.0	-	4.9
Average tenure	2.8 years	2.4 years	3.1 years	-	2.7 years

At the end of 2006 59.9 per cent of the Group Gross Debt bears interest at fixed rate (December 2005 54.1 per cent). This increase in fixed rate funding is due to

- the re-financing of the joint venture properties at London Bridge Quarter, the majority of it being agreed at fixed rate
- the funding of the investment programme in Germany that added £63.5 million of fixed rate debt offset by
- the sale of Solna and Lovgardet that resulted in the redemption of £59.5 million of fixed rate loans

Other re-financings, most of which were completed in early 2006, were mainly for the French portfolio at floating rate hedged by interest rate caps.

New Printing House Square was financed in 1992 through a securitisation of its rental income by way of a fully amortising bond. This bond has a current outstanding balance of £37.4 million (December 2005 £38.0 million) at an interest rate of 10.7 per cent with a maturity date of 2025, and a zero coupon bond with a current outstanding balance of £6.2 million (December 2005 £5.5 million) with matching interest rate and maturity date. This debt instrument has a significant adverse effect on the average interest rate and the IAS 32 adjustment.

The net borrowings of the Group at 31 December 2006 of £526.2 million showed a decrease of £75.5 million over 2005, reflecting both our increasing investment programme in Germany, which added loans of £88.5 million, and our sales of Solna and Lovgardet which resulted in the redemption of loans of £160.6 million. The joint venture properties at London Bridge Quarter were re-financed during the year, in order to release capital to progress both developments, which added a net £34.5 million to our share of the loan balances, after repayment of the existing facilities. We refinanced some of our assets in the French portfolio in early 2006, releasing £20.3 million of available cash. In addition in France, the sale of two properties and the acquisition of one building during the year contributed £11.0 million to debt redemption. For the UK portfolio, outside of our joint venture properties, re-financings raised £7.9 million during the year. Net foreign exchange translation gains on French, German and Swedish loans reduced the liability by £3.9 million during the year.

Under the requirements of IAS 32, which addresses disclosure in relation to derivatives and other financial instruments, if our loans were held at fair value, the Group's fixed rate debt at the year end would be in excess of book value by £22.4 million (December 2005 £39.5 million) which net of tax at 30 per cent equates to £15.7 million (December 2005 £27.8 million). The fall is due to the repayment of the Swedish fixed rate loans for Solna and Lovgardet, coupled with the increase in UK base rates during the year.

The contracted future cash flows from the properties securing the loans are currently well in excess of all interest and ongoing loan repayment obligations. Only £26.3 million (3.8 per cent) of the Group's total bank debt of £683.8 million is repayable within the next 12 months, with £307.0 million (44.9 per cent) maturing after more than five years.

**EQUITY INVESTMENTS** – Existing equity investments held amounted to £16.2 million (December 2005 £13.7 million). The majority by value are listed investments, which are carried at market value, and represent only 1.2 per cent of the gross assets of the Group.

Additionally, the assets and liabilities of Lunarworks are consolidated within the Group results. The carrying value of the consolidated net assets of the company including goodwill and intangible assets is £19.0 million.

**SHARE CAPITAL** – The issued share capital of the Company amounted to £20.0 million at 31 December 2006, represented by 80,081,836 ordinary shares of 25 pence each, of which 7,477,168 shares are held as Treasury shares following the tender offer buy-backs and market purchases made during the year. At 31 December 2006 there were therefore 72,604,668 shares with voting rights quoted on the main market of the London Stock Exchange.

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

## FINANCIAL REVIEW (continued)

A capital distribution payment by way of tender offer buy-back was made both in May and November of 2006 resulting in the purchase of 7 350 815 shares of which 1 905 474 were held as Treasury shares and the balance of 5 445 341 shares were cancelled. The two tender offer buy-backs distributed £52.5 million to shareholders.

Market purchases during 2006 totalled 262 204 shares at an average price of 538 pence per share.

The weighted average number of shares in issue during the year was 78 192 301 (December 2005: 82 316 545).

The average mid-market price of the shares traded in the market during the year ended 31 December 2006 was 591 pence with a high of 750 pence in December 2006 and a low of 487 pence in January 2006.

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

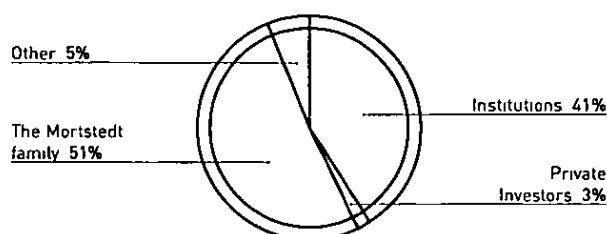
	Number of shares million 2006	Number of shares million 2005
Opening shares for NAV purposes	80.1	83.9
Tender offer buy-back	(7.4)	(3.4)
Buy-backs in the market	(0.3)	(0.4)
Shares issued for the exercise of options	0.2	-
Closing shares for NAV purposes	72.6	80.1
Shares held in Treasury by the Company	7.5	5.4
Closing shares in issue	80.1	85.5

A total volume of 34 million shares were traded in the market during 2006.

An analysis of the ownership structure is set out below.

	Number of shares millions	Percentage of shares
The Mortstedt family	37.3	51.3
Institutions	29.8	41.1
Other	3.5	4.8
Private investors	2.0	2.8
	72.6	100.0
Shares held in Treasury by the Company	7.5	
<b>Total</b>	<b>80.1</b>	

### ANALYSIS OF SHARE OWNERSHIP



Should the proposed tender offer buy-back be fully taken up, the number of shares in issue would be reduced by 1 770 846 to 70 833 822 (excluding shares held in treasury).

At 31 December 2006 there were 435 000 options in existence with an average exercise price of 253 pence.

**DISTRIBUTION** – As the current share price remains at a considerable discount to net asset value, your Board is intending to propose a further tender offer buy-back of shares in lieu of paying a cash dividend on the basis of 1 in 41 shares at a price of 750 pence per share. This will enhance net asset value per share and is equivalent in cash terms to a final dividend per share of 18.3 pence, yielding a total distribution in cash terms of 69.9 pence per share for the year (December 2005: 23.7 pence).



“OUR FOCUS IS ON BUILDING A  
LOW RISK, HIGH RETURN PORTFOLIO”

---

## INTRODUCTION

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

The Group owns 102 properties with a total lettable area of 447,812 sq m (4,820,209 sq ft) of which 44 properties are in the UK, 39 in France, 14 in Germany, 4 in Sweden and 1 in Luxembourg. We have 486 commercial tenants and 10 residential tenants.

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

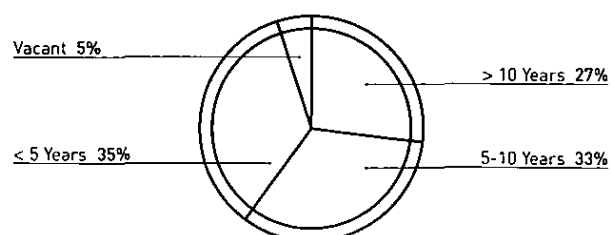
	Contracted Rent £m	%	Net rent £m	%	Book Value £m	%	Yield on net rent %	Yield when fully let %
London South Bank	10.6	16.2	10.6	16.5	178.6	15.6	5.9	
London Mid town	7.0	10.6	7.0	10.9	111.3	9.7	6.3	
London West	4.6	7.0	3.9	6.1	84.2	7.4	4.7	
London West End	3.0	4.5	2.9	4.6	67.9	5.9	4.3	
London South Bank - JVs	2.2	3.3	2.2	3.4	139.4	12.2	–	
London North West	2.1	3.1	2.0	3.2	31.0	2.7	6.6	
London South West	1.6	2.4	1.5	2.4	23.0	2.0	6.6	
London City Fringes	0.2	0.3	0.2	0.3	3.1	0.3	7.0	
Outside London	0.2	0.4	0.2	0.4	1.9	0.2	12.7	
<b>Total UK</b>	<b>31.5</b>	<b>47.8</b>	<b>30.5</b>	<b>47.8</b>	<b>640.4</b>	<b>56.0</b>	<b>5.7</b>	<b>6.6</b>
France Paris	16.4	24.9	16.4	25.7	258.8	22.6	6.3	
France Lyon	2.7	4.1	2.7	4.2	37.4	3.3	7.2	
France Lille	0.6	0.9	0.6	0.9	7.3	0.6	7.7	
France Antibes	0.4	0.7	0.4	0.7	5.3	0.5	8.4	
<b>Total France</b>	<b>20.0</b>	<b>30.5</b>	<b>20.0</b>	<b>31.3</b>	<b>308.7</b>	<b>27.0</b>	<b>6.5</b>	<b>6.7</b>
Luxembourg	0.8	1.2	0.8	1.3	9.6	0.8	8.5	
<b>Total Luxembourg</b>	<b>0.8</b>	<b>1.2</b>	<b>0.8</b>	<b>1.3</b>	<b>9.6</b>	<b>0.8</b>	<b>8.5</b>	<b>8.5</b>
Germany Munich	4.2	6.4	4.1	6.4	65.4	5.7	6.3	
Germany Berlin	2.3	3.4	2.2	3.4	36.7	3.2	6.0	
Germany Hamburg	1.5	2.2	1.4	2.2	22.5	2.0	6.4	
Germany Stuttgart	0.5	0.8	0.5	0.8	8.5	0.7	6.1	
Germany Dusseldorf	0.2	0.2	0.2	0.3	2.0	0.2	10.5	
<b>Total Germany</b>	<b>8.7</b>	<b>13.2</b>	<b>8.4</b>	<b>13.2</b>	<b>135.1</b>	<b>11.8</b>	<b>6.3</b>	<b>6.4</b>
Sweden Vanersborg	4.7	7.2	4.1	6.4	49.7	4.3	8.2	
<b>Total Sweden</b>	<b>4.7</b>	<b>7.2</b>	<b>4.1</b>	<b>6.4</b>	<b>49.7</b>	<b>4.3</b>	<b>8.2</b>	<b>8.3</b>
<b>Group Total</b>	<b>65.7</b>	<b>100.0</b>	<b>64.0</b>	<b>100.0</b>	<b>1,143.5</b>	<b>100.0</b>	<b>6.2</b>	<b>6.7</b>

Conversion rates: Euro/GBP 1.485 SEK/GBP 13.393

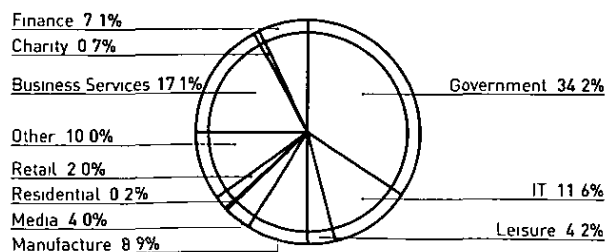
**RENT ANALYSED BY LENGTH OF LEASE AND LOCATION** – The table below shows rental income by category and the future potential income available from new lettings and refurbishments

	Sq m (000)	Sq ft (000)	Contracted Aggregate Rental £m	Contracted but not income producing £m	Unlet Space at ERV £m	Space under Refurb or with planning consent £m	Total £m	Total %
UK >10 yrs	64.7	696.5	14.4	0.8	-	-	15.2	44.7%
UK 5-10 yrs	23.9	257.6	5.0	-	-	-	5.0	14.7%
UK < 5 yrs	54.7	589.3	11.2	-	-	-	11.2	33.0%
Development Stock	1.2	12.7	-	-	-	-	-	-%
Vacant	13.5	145.0	-	-	2.6	-	2.6	7.6%
<b>Total UK</b>	<b>158.0</b>	<b>1,701.0</b>	<b>30.6</b>	<b>0.8</b>	<b>2.6</b>	<b>-</b>	<b>34.0</b>	<b>100.0%</b>
France >10 yrs	2.8	30.1	0.4	-	-	-	0.4	2.0%
France 5-10 yrs	75.9	816.8	11.4	-	-	-	11.4	55.4%
France < 5 yrs	59.7	642.1	8.2	-	-	-	8.2	40.0%
Vacant	3.0	32.6	-	-	0.5	-	0.5	2.5%
<b>Total France</b>	<b>141.4</b>	<b>1,521.7</b>	<b>20.0</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>20.5</b>	<b>100.0%</b>
Luxembourg < 5 yrs	3.7	39.8	0.8	-	-	-	0.8	100.0%
<b>Total Luxembourg</b>	<b>3.7</b>	<b>39.8</b>	<b>0.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.8</b>	<b>100.0%</b>
Germany > 10 yrs	35.4	380.5	2.8	-	-	-	2.8	31.9%
Germany 5-10 yrs	32.1	345.2	3.0	-	-	-	3.0	33.8%
Germany < 5 yrs	30.3	325.7	2.9	-	-	-	2.9	32.3%
Vacant	1.8	19.8	-	-	0.2	-	0.2	2.0%
<b>Total Germany</b>	<b>99.5</b>	<b>1,071.3</b>	<b>8.7</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>8.9</b>	<b>100.0%</b>
Sweden > 10 yrs	-	-	-	-	-	-	-	-%
Sweden 5-10 yrs	29.4	316.2	3.5	-	-	-	3.5	74.0%
Sweden < 5 yrs	14.8	159.6	1.2	-	-	-	1.2	24.9%
Vacant	1.0	10.6	-	-	0.1	-	0.1	1.1%
<b>Total Sweden</b>	<b>45.2</b>	<b>486.5</b>	<b>4.7</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>4.8</b>	<b>100.0%</b>
Group > 10 yrs	102.9	1,107.1	17.6	0.8	-	-	18.4	26.7%
Group 5-10 yrs	161.3	1,735.8	22.9	-	-	-	22.9	33.2%
Group < 5 yrs	163.2	1,756.6	24.3	-	-	-	24.3	35.2%
Development Stock	1.2	12.7	-	-	-	-	-	-%
Vacant	19.3	208.0	-	-	3.4	-	3.4	4.8%
<b>Group Total</b>	<b>447.8</b>	<b>4,820.2</b>	<b>64.8</b>	<b>0.8</b>	<b>3.4</b>	<b>-</b>	<b>69.0</b>	<b>100.0%</b>

**GROUP CONTRACTED RENT ANALYSED BY LEASE LENGTH**



**RENT BY SECTOR**



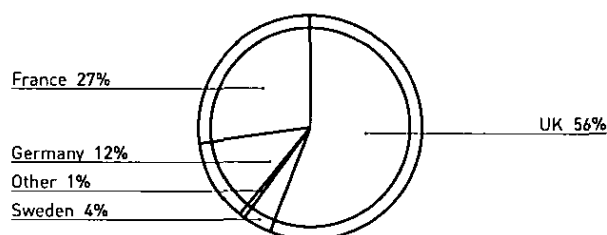
## PROPERTY REVIEW (continued)

We estimate that open market rents are approximately 2.0 per cent higher than current contracted rents receivable which represents a potential increase of £2.0 million. An analysis of the net increase is set out below.

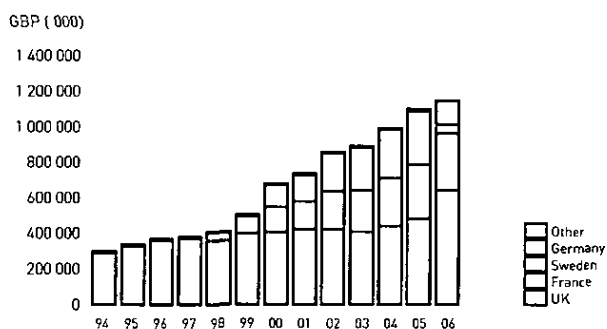
	Contracted Rent £ million	Estimated Rental Value £ million	Reversionary Element %
UK	31.5	33.9	7.6
France and Luxembourg	20.8	21.1	1.0
Germany	8.7	8.8	1.1
Sweden	4.7	3.9	(17.0)
<b>Total</b>	<b>65.7</b>	<b>67.7</b>	<b>2.0</b>

The total potential gross rental income (comprising contracted rentals and estimated rental value of un-let space) of the portfolio is £69.1 million p.a.

### PROPERTY PORTFOLIO BOOK VALUE



### GROWTH OF THE PORTFOLIO BY REGION



The Shard London

“THE STRONG INCREASE IN VALUATION  
IS ACROSS BOTH THE CORE PORTFOLIO  
AND THE JOINT VENTURES ”

---

UK

---

#### HIGHLIGHTS of 2006

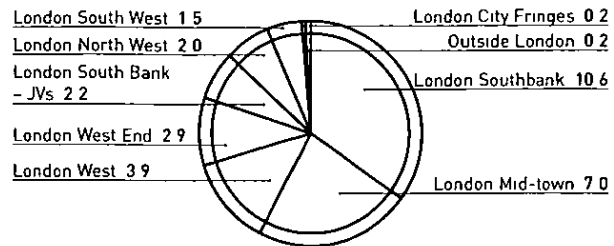


##### UK

- New London Bridge House – Planning permission secured
- New London Bridge House – 190,000 sq ft let to TfL on 30 year lease
- Interim funding secured for London Bridge Quarter
- Spring Gardens – Infills complete Spring 2007 and let to SOCA on 20 year lease
- Great West House – £13 million refurbishment completed

Spring Gardens London

## NET RENT BY LOCATION (£m)



During the year the value of the UK portfolio increased from £481.3 million to £640.4 million at 31 December 2006 representing an increase of £159.1 million or 33.1 per cent. Of this increase £53.5 million (11.1 per cent) is attributable to the increase in the value of the core UK portfolio £102.3 million (21.3 per cent) to the increase in value of the joint venture properties and £3.4 million (0.6 per cent) to new acquisitions. There were no sales during the year.

Following the resolution to grant planning consent at New London Bridge House and the serving of the notice on the existing tenant PricewaterhouseCoopers (PwC) to vacate Southwark Towers (the site of The Shard) in September both these properties have now been valued on a residual value basis.

The valuation at 31 December represents a strong increase in both the core portfolio and the joint ventures.

Yield compression in the office sector in central London has continued during 2006 with the UK core portfolio now showing an average yield of 5.7 per cent.

During the year we have continued to make good progress with the extension and upgrading of Spring Gardens Vauxhall for our tenant the Home Office. In the Spring work started on the two last infill blocks which will provide 2,503 sq m (27,000 sq ft) of new offices and will take the total square footage of the estate to approximately 18,580 sq m (200,000 sq ft). When complete in the first quarter of 2007 the entire estate will be let to the Home Office for 20 years at an average rent of £31.50 psf.

In June we completed the refurbishment of Great West House which sits at the junction of the M4 and A4 in West London. This 13,935 sq m (150,000 sq ft) building has been completely transformed with new over cladding, roof detailing, external landscaping, reception areas and refurbished offices. In addition we have provided new gymnasium facilities, a business centre and an improved staff restaurant.

Since the launch 1,386 sq m (14,600 sq ft) of the office space has been let to Instant Office Limited and Global Refund Limited. With comprehensive on-site facilities, a quality working environment and flexible leasing options we are confident of being able to attract more new tenants to the remaining 6,782 sq m (73,000 sq ft) in 2007.

The refurbishment of the vacant space and common parts at Chancel House in Neasden Lane, NW10 was completed in August and the vacant space in the upper half of the building let to the Brent Housing Partnership (BHP). Extending to 2,646 sq m (28,483 sq ft) the BHP took a 10 year lease at a best rent of £12.10 psf. All the office space at Chancel House is now let to Brent Housing Partnership and Trillium.

Another important letting achieved during the year was at One Leicester Square, WC1 where the 3rd, 4th and 5th floors

measuring 1,090 sq m (11,733 sq ft) were let to Sound Too Limited on a 25 year lease. This building is also now fully let.

Reducing levels of supply and increasing rents in the core areas has driven demand to the more fringe locations meaning we have been able to conclude a number of other important lettings at CI Tower, New Malden, Cambridge House, Hammersmith and Quayside, Fulham.

There has been much activity with our joint venture properties during the year where CLS owns a one third share.

In August we announced a further pre-letting at The Shard (London Bridge Tower) to Transport for London (TfL) who has taken 17,651 sq m (190,000 sq ft) of offices in the lower half of the building between levels 4 and 10. TfL has committed to a lease of 30 years without break.

This follows the earlier pre-letting of the hotel element of the scheme measuring some 18,580 sq m (200,000 sq ft) to the five star hotel group Shangri-La, also for a 30 year term.

In September notice was served on PwC, the tenant of the existing building Southwark Towers, to vacate. This will allow demolition to start towards the end of 2007 on schedule for delivery of the Shard in 2011.

Directly opposite the Shard is New London Bridge House where Southwark Council has resolved to grant planning permission for the Renzo Piano designed new office and retail development of 39,950 sq m (430,000 sq ft) net internal space. This scheme delivers the much needed improvements to the bus and underground services at London Bridge which when combined with the new rail concourse with the Shard will completely transform this important transport hub. Completion of New London Bridge House is scheduled for 2011/2012.

During 2006 we acquired two properties close to Spring Gardens Vauxhall, SE11 for just under £1 million. With our joint venture partners we also acquired Fielden House, 28-42 London Bridge Street, SE1, a 2,250 sq m (24,227 sq ft) office building immediately adjacent to Southwark Towers / Shard and New London Bridge House. Ownership of this property will allow us to make a positive contribution to the overall setting of The Shard and New London Bridge House.

We are continuing to work up the development potential of our sites at Tinworth Street (opposite Spring Gardens) and Vauxhall Cross site adjacent to Vauxhall Mainline and Underground station. These are important projects that have the ability to offer strong growth prospects for the future.

Looking ahead to 2007 we aim to capitalise on the strengthening tenant market, particularly at Great West House and at Vista, which together represent 82.35 per cent of our total vacant space. Reducing the vacancy rate, which at the end of 2006 stood at 8.2 per cent, remains a high priority.

“OUR YEAR END VACANCY RATE  
WAS JUST 2.1 PER CENT BY AREA”

---

# FRANCE

---

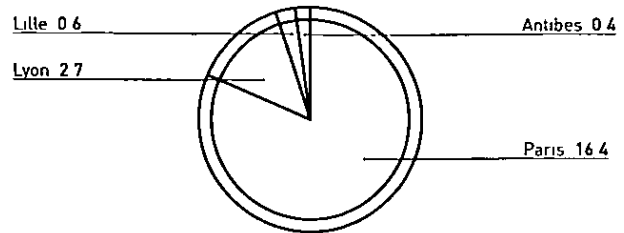
## HIGHLIGHTS of 2006



### FRANCE

- Sale of Le 41 for £15.3 million
- Two Acquisitions in Paris for £9.0 million at 6.7 per cent yield
- Re-financing raises a further £21.0 million

#### NET RENT BY LOCATION (€m)



During 2006 the French property market broke records both in terms of investments and lettings

Over €23.1 billion were invested in French commercial property. This represented an increase of approximately 47 per cent over the preceding year, compressing yields still further.

Almost 2.9 million sq m (31.2 million sq ft) of office space was let during 2006 in the Paris region, exceeding activity in the previous year by more than 30 per cent. Supply remains stable at approximately 3.6 million sq m (38.8 million sq ft) and with expected take-up of 2.3 million sq m (24.8 million sq ft).

During the year we acquired two properties, the first of which was part of a co-ownership building in rue Goubet, Paris, comprising 1,268 sq m (13,649 sq ft) and was purchased for €3.2 million. The second was a €9.5 million development scheme in Mantes-La-Jolie, Yvelines, which is fifty kilometres west of Paris.

Two properties were sold in the year, these being a 6,025 sq m (64,852 sq ft) property, Le 41 in la Defense and Le Paul Doumer building in Rueil-Malmaison, which comprised 3,700 sq m (39,364 sq ft) that was purchased in 1999 for €4.4 million and was sold for €8.5 million. We also completed the conversion of the office building Le Foch into 16 residential apartments, all of which have been profitably sold.

During 2006 new leases were completed over 8,240 sq m (88,694 sq ft) of space representing approximately 7 per cent of the portfolio. Additionally we negotiated lease extensions and renewals over 22,374 sq m (240,831 sq ft) producing a revenue of €6.5 million, including a new firm 9 year lease with the Banque de France over 1,800 sq m (19,375 sq ft) in Paris and a new 6/9 year lease with BNP-Paribas over 10,000 sq m (107,639 sq ft) in Rueil-Malmaison, Paris.

The year end vacancy rate was 2.1 per cent by area, compared to a national rate of 5.2 per cent.



“WE HAVE BUILT A GERMAN PORTFOLIO  
OF 13 PROPERTIES VALUED AT £135 MILLION ”

---

# GERMANY

---

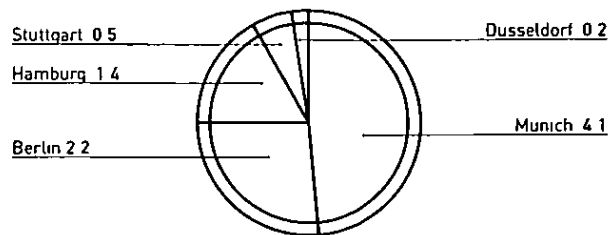
## HIGHLIGHTS of 2006



### GERMANY

- Established a professional, local team
- Exchanged or completed on £135.2 million of property
- Investments in Hamburg, Munich, Stuttgart, Berlin and Düsseldorf

#### NET RENT BY LOCATION (£m)



The German economy grew by 2.0 per cent in 2006 and GDP is expected to increase by 2.3 per cent in 2007. Unemployment is still relatively high at 11.7 per cent for 2006 but is expected to decrease to about 10 per cent by the end of 2007.

The commercial investment market activity grew by 109 per cent in 2006 with €68.5 billion changing hands. Activity was boosted not only by an influx of foreign money but a rediscovered confidence from domestic investors. Take-up in the letting market has increased by 17 per cent over 2005 and average rents have edged up.

The renewed interest in the German property investment market has pushed down yields particularly in the principal German cities. Consequently our rate of acquisition of new properties has slowed. However we acquired 11 new properties at a cost of £116.6 million in 2006 of which 7 were purchased in the second half at a cost of £76.2 million bringing our total investment to 13 properties valued at £135.1 million. Furthermore we are very close to completing two further properties at a cost of £20 million in the next few weeks.

We are actively reviewing substantial further property acquisitions and working closely with our existing assets to ensure that the current vacancy rate of 2.0 per cent is maintained or reduced.

“WE CONTINUE TO ASSESS INVESTMENT  
OPPORTUNITIES WHERE WE SEE POTENTIAL FOR  
ADDED VALUE ”

---

Vanerparken Vanersborg

SWEDEN

---

HIGHLIGHTS of 2006



SWEDEN

- Sale of Lovgardet for £40.5 million
- Sale of Solna for £267.0 million

---

The strong demand in the investment market from both local and foreign investors has stimulated record investment activity of £12.9 billion (SEK 175 billion) in 2006 against £10.5 billion (SEK 142 billion) in 2005 putting yields under further downward pressure.

The Swedish economy has performed well with growth in GDP of 4.6 per cent in 2006 and 3.8 per cent expected for 2007. The unemployment rate in 2006 was 5.4 per cent and is set to fall slightly. Despite the strengthening economic situation, letting market rents have remained stable, influenced by an average vacancy rate in the Greater Stockholm area of over 15 per cent. While central Stockholm remains a stronger market with a vacancy rate of around 5 per cent, it is expected that the letting environment in secondary areas will improve only very slowly.

We therefore took advantage of the very strong investment market to sell our six buildings at Solna Business Park comprising 138 000 sq m (1 485 000 sq ft) of commercial space to Faberge AB, a well known real estate group listed on the Stockholm Stock Exchange.

The properties were originally acquired for £43.2 million and having totally refurbished the properties at a cost of £118.0 million we sold them via a corporate sale at a value of £267.0 million. After provisions for discounts and rent guarantees on vacant space we have generated a surplus in excess of £65 million since acquisition in June 1999. Since completing on the sale in August 2006 we have substantially reduced our rental guarantee liabilities by reducing vacant areas from 11 000 sq m (118 000 sq ft) to 5 600 sq m (60 000 sq ft) and have now completed the majority of the tenant fit-out works.

Our remaining Swedish property at Vanerparken near Gothenburg currently has a vacancy rate of 1 per cent. We are currently working on plans with the local authority to fulfil their requirements after the university occupying 11 783 sq m (126 831 sq ft) vacates in July 2008.

We will continue to assess investment opportunities in Sweden where we see potential for added value.

# ACCOUNTS CONTENTS

	Page		Page
Directors' officers and advisers	38	4 Critical accounting estimates and judgements	64
Directors' report	39	5 Segment information	65
Corporate governance	42	6 Other operating income	67
Directors' remuneration report	46	7 Expenses by nature	68
Corporate responsibility	50	8 Employee benefits expense	68
Independent auditors' report – Group	51	9 Finance income	68
Consolidated income statement	52	10 Finance costs	69
Consolidated balance sheet	53	11 Income tax expense	69
Consolidated statement of changes in equity	54	12 Earnings per share	70
Consolidated statement of cash flows	55	13 Investment properties	71
<b>Notes to the consolidated financial statements</b>		14 Property, plant and equipment	71
1 General information	56	15 Intangible assets	72
2 Summary of significant accounting policies	56	16 Investments in associates	72
2.1 Basis of preparation	56	17 Available-for-sale financial assets	73
2.2 Consolidation	57	18 Derivative financial instruments	74
2.3 Segment reporting	57	19 Trade and other receivables	75
2.4 Foreign currency translation	57	20 Cash and cash equivalents	75
2.5 Investment property	58	21 Joint ventures	76
2.6 Property, plant and equipment	59	22 Share capital	77
2.7 Financial assets	59	23 Other reserves	78
2.8 Goodwill and intangible assets	60	24 Trade and other payables	78
2.9 Cash and cash equivalents	60	25 Deferred income tax	79
2.10 Trade receivables	60	26 Borrowings, including finance leases	80
2.11 Inventories	60	27 Tender offer buy-backs	84
2.12 Non-current assets held for sale and discontinued operations	60	28 Cash generated from operations	84
2.13 Impairment of assets	60	29 Contingencies	85
2.14 Borrowings	60	30 Commitments	85
2.15 Income tax	61	31 Business acquisitions and disposals	85
2.16 Provisions	61	32 Non-current assets held for sale and discontinued operations	87
2.17 Revenue recognition	61	33 Related party transactions	87
2.18 Leases	61	34 Principal subsidiaries	88
2.19 Employee benefits	62	35 Events after the balance sheet date	88
2.20 Share capital	62	Independent auditors' report – Company	89
2.21 Tender offer buy-backs	62	Company Balance sheet	90
2.22 Exceptional items	62	Notes to the Company financial statements	91
2.23 Derivative financial instruments and hedging activities	62	Five year financial summary	95
3 Financial risk management		Glossary of terms	96
3.1 Risk management factors	63		
3.2 Fair value estimation	64		



## DIRECTORS, OFFICERS AND ADVISERS

### Directors

Sten A Mortstedt (Executive Chairman)  
Per H Sjöberg (Chief Executive Officer)  
Dan M Baverstam (Chief Financial Officer)  
Steven F Board FCCA (Chief Operating Officer)  
Thomas J Thomson BA (Non-executive Vice Chairman)  
James F Dean FRICS \* † (Non-executive Director)  
Keith R Harris PhD \* † ‡ (Non-executive Director)  
H O Thomas Lundqvist † (Non-executive Director)  
*Bengt F Mortstedt Juris Cand (Non-executive Director)*

\* = member of Remuneration Committee  
† = member of Audit Committee  
‡ = senior independent director

### Company Secretary

Steven F Board FCCA

**Registered Office**  
26th Floor Portland House  
Bressenden Place  
London  
SW1E 5BG

**Registered Number**  
2714781

**Registered Auditors**  
PricewaterhouseCoopers LLP  
Chartered Accountants  
1 Embankment Place  
London WC2N 6RH

**Registrars and Transfer Office**  
Computershare Investor Services Plc  
P O Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

Shareholder helpline 0870 889 3286

### Clearing Bank

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

### Financial Advisers

NCB Corporate Finance  
51 Moorgate  
London EC2R 6BH

### Joint Stockbrokers

NCB Corporate Finance  
51 Moorgate  
London EC2R 6BH

KBC Peel Hunt  
111 Old Broad Street  
London EC2N 1PH

**CLS Holdings plc on line**  
[www.clsholdings.com](http://www.clsholdings.com)

**e-mail**  
[enquiries@clsholdings.com](mailto:enquiries@clsholdings.com)

# DIRECTORS' REPORT

for the year ended 31 December 2006

The Directors present their report and the audited financial statements for the year ended 31 December 2006. The Chairman's Statement and Financial Review should be read in conjunction with this report.

## 1 PRINCIPAL ACTIVITIES

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

## 2 REVIEW OF BUSINESS

The Consolidated Income Statement for the year is set out on page 52.

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

Details of use by the Group of financial instruments are set out in the Financial Review on pages 20 to 22 and in Notes 2, 23 and 3 to the consolidated financial statements on pages 62 and 63.

## 3 DIVIDENDS

In lieu of paying an interim cash dividend in 2006 the Company distributed £40,295,523 to shareholders (equivalent to 51.6 pence per share) by way of tender offer buy-back completed in November 2006 (2005 distribution of £6,920,236 or 8.5 pence per share).

The Directors have decided to recommend a further tender offer instead of paying a final cash dividend for 2006. It is proposed, therefore, that the Company offers to buy 1 in 41 of the shares registered in the name of each eligible shareholder at a price of 750 pence per share. This compares with a mid-market price of 715 pence per share on 28 March 2006 (2005: 1 in 42 shares at 640 pence per share).

The resulting distribution to shareholders will be £13,281,345 or 18.3 pence per share, which will be made in May 2007 subject to approval by shareholders at the Annual General Meeting. When added to the distribution made under the November tender offer, shareholders who take advantage of both tender offers in respect of the financial year 2006 will have received a total return of 69.9 pence per share (2005: 23.8 pence per share).

## 4 PURCHASE OF THE COMPANY'S SHARES

During the year the Company has made market and tender-offer purchases totalling 262,204 of its own shares at a cost of £1,406,509, a weighted average of 536 pence per share. This represents £65,551 in nominal value, or 0.33 per cent of the issued share capital. Shares purchased during the May tender offer and through the market have been retained as Treasury shares. Shares purchased during the November tender offer have been cancelled.

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

At the 2006 Annual General Meeting the Company was authorised to make market purchases of up to 7,812,446 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 234,458 shares and therefore still has authority to purchase 7,577,988. A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 7,083,382 shares.

## 5 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2006 was carried out by Allsop & Co for the UK and Sweden, and DTZ Debenham Tie Leung for France and Germany, which produced an open market value of £1,143.5 million (2005: £1,096.4 million). On the basis of these valuations, adjusted net assets per share amounted to 824.4 pence (2005: 606.9 pence). In view of the policy of re-valuing properties bi-annually, in the opinion of the Directors there was no significant permanent difference between market and book values of the properties at 31 December 2006.

## 6 POST BALANCE SHEET EVENTS

See Note 35 to the consolidated financial statements on page 88 for a description of events after the balance sheet date.

## 7 DIRECTORS

The current Directors of the Company are shown on page 38. On 1 January 2006, Per Sjöberg succeeded Torn Thomson as Chief Executive Officer and Torn Thomson became Non-Executive Vice Chairman.

A statement of Directors' remuneration and their interests in shares and share options of the Company is set out in the Directors' Remuneration Report on pages 46 to 49.

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

### Executive Directors

**Sten A Mortstedt**, aged 67, has a consistent track record during a period of over 40 years of building profitable and sustainable businesses both within the field of property and in a wide variety of other commercial sectors. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years he had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadelle AB, which he successfully floated on the Stock Exchange in Stockholm in 1981.

# DIRECTORS' REPORT

for the year ended 31 December 2006

## 7 DIRECTORS (CONTINUED)

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

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

He runs his global interests from his residence in Switzerland.

**Per H Sjöberg**, aged 45, graduated from Stockholm University with a Bachelor degree in Business Administration. He is also an engineer and has experience of a number of large development projects globally. Before joining CLS, Per was managing owner of a project and construction management company that he established in 1996. He has been responsible for property development activities at the Group since 1 November 2001 and was appointed to the main board as Group Development Director on 6 February 2004. On 1 January 2006, he took office as the Chief Executive Officer of the Group. On 14 March 2007, he was appointed as Non-Executive Chairman of Bulgarian Land Development plc, an AIM listed company in which CLS holds 28.65 per cent of its shares.

**Dan M Baverstam**, aged 51, graduated from Stockholm School of Economics in 1979 and subsequently completed a Business Studies course at CERAM Sophia Antipolis in France. He began his career with Wermlandsbank and PK Bank, now Nordea, in Sweden. He then became Assistant Treasurer of AB Astra, now Astra Zeneca, responsible for foreign exchange and interest rate management. In 1987, he moved to the UK and became General Manager of the Treasury Operations of Svenska Finans International, part of the Svenska Handelsbanken. He joined CLS in October 1991 and is responsible within CLS for corporate financing and treasury operations and has overall responsibility for property acquisitions. He became Chief Financial Officer on 5 October 2001.

**Steven F Board**, aged 52, joined the Company in December 1998 and was appointed to the Board on 25 February 2003. He is Chief Operating Officer with overall responsibility for the Group's Europe-wide financial and IT systems, financial and management reporting and personnel and administration matters. Prior to joining the Company, he was Finance Director for St. George Developments, part of the Berkeley Group plc. He previously held directorships within Alfred McAlpine PLC and senior management positions within British Telecommunications plc. He qualified as an accountant in 1980.

### Non-Executive Directors

**Thomas J Thomson**, aged 56, has a BA (Hons) in law from Kent University and qualified as a solicitor with Reynolds Porter Chamberlain in 1976. From 1979 to March 1994, he was a partner with Taylor Walton Solicitors. He was Company Secretary and solicitor to CLS from its inception until 2001, initially as a partner in Taylor Walton and since 1994 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004. On 1 January 2006, he retired as Chief Executive and became Non-Executive Vice Chairman.

**James F Dean**, aged 52, has worked for Savills plc since 1973, becoming a partner in 1983, and a director of Savills plc between 1987 and 1999. He remains a director of Savills Financial Holdings PLC and Savills Commercial and is also a director of Daniel Thwaites Plc and a number of private companies. He joined the Board on 9 April 1999.

**Dr Keith R Harris**, aged 53, obtained his doctorate in 1977 and embarked on a career in investment banking. Following eight years at Morgan Grenfell in London and New York, where he was President of Morgan Grenfell Inc, he went on to become Managing Director and Head of International Corporate Finance at Drexel Burnham Lambert, CEO of Apax Partners Ltd, and in 1994, was appointed Chief Executive of HSBC Investment Bank plc. In 1999, Keith left HSBC to pursue a number of interests as chairman or non-executive director of a range of public and private companies. These now include his chairmanship of Seymour Pierce Group Plc. In August 2000, Keith became Chairman of the Football League and in January 2001, joined the Board of Wembley National Stadium Limited. He resigned his chairmanship of the Football League Ltd in August 2002. He joined the Board on 28 April 1994.

**H O Thomas Lundqvist**, aged 62, joined the Board in November 1990 and had been Finance Director of the Group until retiring from the position and becoming a Non-Executive Director on 1 October 1995. Prior to joining CLS, Mr Lundqvist worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group, where he was a board member.

**Bengt F Mortstedt**, aged 58, holds a Bachelor of Law degree from Stockholm University. He began his career as a Junior Judge of the Vaxjö District Court and in 1974, he joined Citadell AB, the Mortstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the Board of the Company as an Executive Director. He became a Non-Executive Director in September 1998.

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

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

In accordance with the Articles of Association, Sten Mortstedt will retire by rotation at the Annual General Meeting and, being eligible, will seek re-election to the Board. The Board recommends to the shareholders the re-election of the retiring Directors who have all contributed to the continuing financial success of the Company.



# DIRECTORS' REPORT

for the year ended 31 December 2006

## 8 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 49.

Other than the interest of the Mortstedt family referred to in note 8 of the Directors' Remuneration Report, as at 28 March 2007 the Company has not been notified of any major interests in the Company's issued share capital.

## 9 EMPLOYEES

The Group's policies on employment are summarised in the report on Corporate Responsibility on page 50.

## 10 SHARE CAPITAL

Changes in share capital are shown in note 22 of the Notes to the Financial Statements on page 77. At 31 December 2006 there were share options for 435,000 shares outstanding (2005: 595,000). Details of the Directors' share options are shown in the Directors' Remuneration Report on page 48.

## 11 INSURANCE OF DIRECTORS

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

## 12 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 16 days' total invoices received for the year as a whole (2005: 25 days). The Company has no trade creditors (2005: nil).

## 13 AUDITORS

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

## 14 2007 ANNUAL GENERAL MEETING

It is proposed that the 2007 Annual General Meeting will be held on Tuesday 22 May 2007. Confirmation of this and a circular and notice of meeting including any explanatory notes for the resolutions to be proposed will be posted to shareholders.

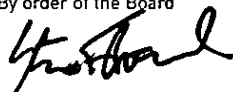
## 15 DISCLOSURE OF INFORMATION TO AUDITORS

Each Director has confirmed that:

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

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

By order of the Board



Steven F Board  
Company Secretary  
28 March 2007

# CORPORATE GOVERNANCE

for the year ended 31 December 2006

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

## 1 COMBINED CODE

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

## 2 THE BOARD

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

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

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

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

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

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

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

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

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

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

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

# CORPORATE GOVERNANCE

for the year ended 31 December 2006

## 2 THE BOARD (CONTINUED)

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	5	2	5
Sten Mortstedt	5	-	-
Per Sjöberg	5	-	-
Dan Baverstam	5	-	-
Steven Board	5	-	-
Tom Thomson	5	-	-
Keith Harris	5	2	5
James Dean	4	2	5
Thomas Lundqvist	5	2	-
Bengt Mortstedt	5	-	-

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

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

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

The Board is assisted by the following Committees

## 3 AUDIT COMMITTEE

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

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

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

## 4 THE REMUNERATION COMMITTEE

The Remuneration Committee comprises two Non-Executive Directors, James Dean and Keith Harris. The Board has considered the Combined Code's recommendation that the Remuneration Committee should be formed of three Non-Executive Directors, however it believes that the purposes of the Committee are best achieved by the current two Non-Executive Directors. The Remuneration Committee has met five times during the year. The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme and Company Share Option Plan. Full details of the Committee's work is given in the Remuneration Report on pages 46 to 49.

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

# CORPORATE GOVERNANCE

for the year ended 31 December 2006

## 5 INTERNAL CONTROL

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

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

Set out on pages 8 to 35 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks. Quarterly and annual budgets are prepared for each area and monitored. Parameters have been established for investment decisions to be referred to the Board for approval. Three-yearly rolling cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

In addition to the review by the Directors mentioned above, during the year an external review of internal controls was conducted. No significant failings or weaknesses were identified.

## 6 DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union (IFRSs) and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice – UK GAAP).

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view in accordance with IFRSs of the state of the affairs of the Group and of the profit or loss of the Group and a true and fair view in accordance with UK GAAP of the state of affairs and of the profit or loss of the company for that period. In preparing those financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether the Group financial statements comply with IFRSs and, with regard to the parent company financial statements, whether applicable 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 and the Group will continue in business.

The Directors confirm that the Financial Statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. The Directors also have a general responsibility for taking reasonable steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

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

## 7 SHAREHOLDER RELATIONS

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

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

# CORPORATE GOVERNANCE

for the year ended 31 December 2006

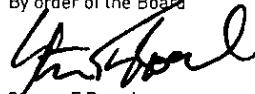
## 8 PROXY VOTING

The proxy forms for the Annual General Meeting and also the Extraordinary General Meeting which were held in 2006 included a "vote withheld" box. Details of the proxies lodged for the AGM were made available on request and following the EGM which was held in November 2006 these details were announced and are on the Company's website at [www.clsholdings.com](http://www.clsholdings.com) on the Press Centre RNS Announcements page.

## 9 NON-COMPLIANCE WITH THE COMBINED CODE

With the exception of the absence of a Nominations Committee that the Remuneration Committee consists of two independent Non-Executive Directors as commented on in further detail above that the Chairman is not independent and in respect of the independence of some of the Non-Executive Directors as referred to in Note 2 above on page 42 the Company has complied throughout the financial year with the provisions of the Combined Code.

By order of the Board



Steven F Board  
Company Secretary  
28 March 2007

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2006

The report on remuneration of the Directors for the year ended 31 December 2006 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 1985. Those sections are indicated in the section title. All other sections have not been audited.

## 1 THE WORK OF THE REMUNERATION COMMITTEE

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

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

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

## 2 REMUNERATION POLICY

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

### Executive Directors

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

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

The criteria used for judging the Executive Directors' fees are

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

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

The Board does not anticipate any significant change to its remuneration policy in the year ending 31 December 2007.

### Non-Executive Directors

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

### Basic salaries

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

### Performance-Related Remuneration

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

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

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

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2006

## 2 REMUNERATION POLICY (CONTINUED)

For the year ended 31 December 2006 the apportionment of remuneration and other benefits between discretionary performance-related and non-performance related elements was as follows

Director	Performance-related	Non Performance-Related
Sten Mortstedt	Nil	100%
Per Sjöberg	62%	38%
Dan Baverstam	57%	43%
Steven Board	58%	42%
Tom Thomson	Nil	100%
James Dean	Nil	100%
Keith Harris	Nil	100%
Thomas Lundqvist	Nil	100%
Bengt Mortstedt	Nil	100%

## 3 DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2006 the remuneration received by the Directors was as set out in the table below

	2006 Fee as Director £000	2006 Salary £000	2006 Other fees £000	2006 Benefits in kind £000	2006 Total emoluments £000	2006 Pension contributions £000	2006 Other benefits/ performance related £000	2006 Total remuneration £000	2005 Total remuneration £000
<b>Executive</b>									
Sten Mortstedt <sup>(1)</sup> (Executive Chairman)	-	175	400	-	575	-	-	575	548
Per Sjöberg <sup>(2)</sup> (Chief Executive Officer)	-	156	-	2	158	8	275	441	433
Dan Baverstam (Chief Financial Officer)	-	178	-	2	180	199	60	439	418
Steven Board (Chief Operating Officer)	-	168	-	2	170	204	54	428	368
<b>Non-Executive</b>									
Tom Thomson <sup>(3)</sup> (Non-Executive Vice-Chairman)	-	168	-	3	171	7	-	178	476
James Dean	37	-	-	-	37	-	-	37	35
Keith Harris	37	-	-	-	37	-	-	37	35
Thomas Lundqvist <sup>(4)</sup>	32	-	13	-	45	-	-	45	30
Bengt Mortstedt	32	-	-	-	32	-	-	32	30
<b>2006</b>	<b>138</b>	<b>845</b>	<b>413</b>	<b>9</b>	<b>1,405</b>	<b>418</b>	<b>389</b>	<b>2,212</b>	
<b>2005</b>	<b>130</b>	<b>775</b>	<b>511</b>	<b>63</b>	<b>1,479</b>	<b>28</b>	<b>866</b>		<b>2,373</b>

<sup>(1)</sup> Sten Mortstedt other fees are 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

<sup>(2)</sup> and <sup>(3)</sup> With effect from 1 January 2006 Per Sjöberg succeeded Tom Thomson as Chief Executive Officer and Tom Thomson became Non-Executive Vice Chairman

<sup>(4)</sup> Thomas Lundqvist received fees in respect of his role as a non-executive director of CLS Capital Partners Ltd. the investment division which included arrears of £3k in respect of the year to 31 December 2005

The benefits provided to Executive Directors are permanent health and private medical insurance and pension contributions and life assurance under the Company's defined contribution pension scheme of which four Directors were members (2005: four). No car or car allowance is provided to any Director (2005: Nil)

## 4 DIRECTORS' PENSION ENTITLEMENT (AUDITED)

The Executive Directors are entitled to participate in a defined contribution pension scheme. Participants are required to contribute 5 per cent of basic UK salary (2005: 5 per cent) which is matched by a contribution from the Company of 5 per cent (2005: 5 per cent)

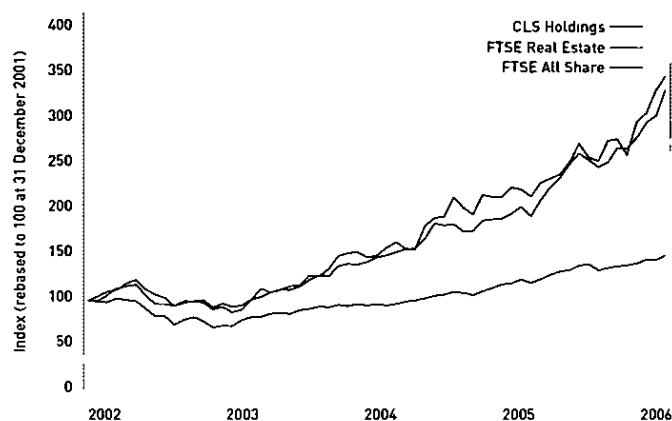
An additional contribution was made by the Company further to the performance of the Company and is included in the Pension Contributions in the above table

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2006

## 5 SHARE PERFORMANCE GRAPH

For the period 1 January 2002 to 31 December 2006 the total shareholder return in respect of CLS Holdings plc has shown a return of 348.3 per cent compared to 333.2 per cent in the FTSE Real Estate Index and 150.2 per cent in the FTSE All Share Index. The FTSE Real Estate Index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates.



## 6 SHARE OPTIONS (AUDITED)

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

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

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

Details of options held by Directors are set out below.

Director	Date of grant	Earliest exercise date	Expiry date	Exercise price (pence)	No at 1 Jan 2006	Granted in year	Exercised in year	Market price at exercise (pence)	Lapsed in year	No at 31 Dec 2006
Per Sjöberg										
unapproved	27 09 05	27 09 08	26 09 12	458.25	73 500	-	-	-	-	73 500
CSOP	21 12 05	21 12 08	20 12 12	492.75	6 088	-	-	-	-	6 088
unapproved	21 12 05	21 12 08	20 12 12	492.75	412	-	-	-	-	412
					<b>80,000</b>	-	-	-	-	<b>80,000</b>
Tom Thomson										
approved	20 12 01	20 12 04	19 12 11	212.50	14 000	-	-	-	-	14 000
unapproved	20 12 01	20 12 04	19 12 08	212.50	436 000	-	(125 000)	600.00	-	311 000
					<b>450,000</b>	-	<b>(125,000)</b>		-	<b>325,000</b>

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

The notional gain on the exercise of options during 2006 by Tom Thomson was £481,374 (this calculated on the difference between the option price and the mid-market price on the date of the option exercise, having deducted broker fees).

The highest, lowest and average mid-market share price in the year are detailed under 'Share Capital' on page 23. The year-end share price was 740 pence.



# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2006

## 7 DIRECTORS' SERVICE CONTRACTS

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

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

As stated in last year's Annual Report on 31 December 2005 Tom Thomson ceased to be an Executive Director and his Executive service contract terminated. On 1 January 2006 he became Non-Executive Vice Chairman. Under terms agreed upon his change of role the notice period to be given by the Company is three months; however in the event that this is given the Company shall pay an amount equal to salary and benefits due to him up to 31 December 2007. As at 31 March 2007 the outstanding amount to this date in respect of salary is £70,200 and benefits receivable by him are continued membership of the Company's defined contribution pension scheme including life assurance under which his contribution of up to 5 per cent of salary will be matched by the Company and permanent health and private medical insurance. The notice period he is now required to give to the Company to terminate his contract is three months. After December 2007 Tom Thomson will retire annually and be able to seek re-election at the annual general meetings of the Company. Before that date he will retire by rotation as do the Executive Directors.

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

Name	Contract date	Notice period
Sten Mortstedt	28 04 94	12 months
Per Sjöberg	27 09 05	12 months
Dan Baverstam	05 10 01	12 months
Steven Board	01 12 98	12 months
Tom Thomson <sup>(1)</sup>	01 01 06	3 months
James Dean	09 04 99	6 months
Keith Harris	28 04 94	6 months
Thomas Lundqvist	20 12 95	6 months
Bengt Mortstedt	18 12 98	6 months

<sup>(1)</sup> Detail of Tom Thomson's arrangements which have been effective from 1 January 2006 are given above.

## 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 2006 Ordinary shares of 25p	31 December 2005 Ordinary shares of 25p
Sten Mortstedt	32,153,682	35,408,224
Per Sjöberg	36,324	39,667
Dan Baverstam	200,519	196,723
Steven Board	76,769	79,775
Tom Thomson	108,790	111,715
James Dean	21,507	23,682
Keith Harris	6,975	7,680
Thomas Lundqvist	106,440	120,735
Bengt Mortstedt	5,093,577	5,609,144

All of the above interests in shares were held beneficially for the Directors concerned. There have been no changes to the holdings shown above between 31 December 2006 and the date of this Report.

## 9 LONG-TERM INCENTIVE SCHEME

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

## 10 WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board



James Dean  
Chairman  
Remuneration Committee

28 March 2007

# CORPORATE RESPONSIBILITY

for the year ended 31 December 2006

## 1 RESPONSIBILITY

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

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

## 2 ENVIRONMENT

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

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

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

The Chairman's Statement sets out further information on some of the Group's environmental initiatives on page 12

## 3 EMPLOYEES

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

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

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

## 4 CHARITABLE CONTRIBUTIONS

During the year 25 of the Company's London employees took part in a fun run for Land Aid Charitable Trust the real-estate sector charity which assists the homeless. The contributions made by the Group during the year for charitable purposes were £5 734 (2005 £4 372)

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 2006 which comprise the Consolidated Income Statement the Consolidated Balance Sheet the Consolidated Statement of Changes in Equity the Consolidated Statement of Cash Flows and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

## BASIS OF AUDIT OPINION

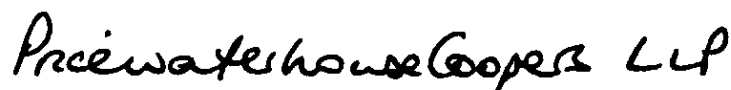
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment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

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

## OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the group financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London

28 March 2007

# CONSOLIDATED INCOME STATEMENT

31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
<b>Continuing operations</b>			
<b>Revenue</b>	5	<b>81,048</b>	<b>85 039</b>
Rental and similar revenue		69,804	77 678
Service charge and similar revenue		6,779	7 361
Service charge expense and similar charges		(11,080)	(15 777)
<b>Net rental income</b>		<b>65,503</b>	<b>69 262</b>
<b>Net income from non-property activities</b>		<b>4,465</b>	<b>-</b>
Other operating income	6	2,718	3 360
Administrative expenses	7	(17,539)	(14 910)
Net property expenses	7	(3,495)	(3 532)
<b>Operating profit before gains/(losses) on investment properties</b>		<b>51,652</b>	<b>54 180</b>
Net gains from fair value adjustment on investment properties	13	162,060	67 173
Profit/(loss) on disposal of associate/part share of joint venture	16/21	3,721	(1 106)
Loss on disposal of subsidiaries	31	(1,797)	-
(Loss)/profit from sale of investment properties		(952)	1 855
<b>Operating profit</b>		<b>214,684</b>	<b>122 102</b>
Finance income	9	8,335	1 425
Finance costs	10	(39,948)	(37 654)
Exceptional finance costs	10	(5,251)	-
Total finance costs		(45,199)	(37 654)
Share of loss of associates after tax	16	(1,206)	(1 216)
<b>Profit before tax</b>		<b>176,614</b>	<b>84 657</b>
Taxation - current		(1,225)	(1 304)
Taxation - deferred		(19,058)	(21 856)
<b>Tax charge on profit</b>	11	<b>(20,283)</b>	<b>(23 160)</b>
<b>Profit for the period from continuing operations</b>		<b>156,331</b>	<b>61 497</b>
<b>Discontinued operations</b>			
<b>Loss for the period from discontinued operations after tax</b>	32	<b>(2,538)</b>	<b>(6 192)</b>
<b>Profit for the period</b>		<b>153,793</b>	<b>55 305</b>
<b>Attributable to equity holders of the parent</b>		<b>153,793</b>	<b>55 537</b>
<b>Attributable to minority interests</b>		<b>-</b>	<b>(232)</b>
		<b>153,793</b>	<b>55 305</b>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in pence per share)</b>			
Basic	12	196 7	67 5
Diluted	12	195 6	67 0
<b>Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year (expressed in pence per share)</b>			
Basic	12	199 9	75 0
Diluted	12	198 8	74 5

The notes on pages 56 to 88 are an integral part of these consolidated financial statements

# CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	As at 31 December 2006 £000	As at 31 December 2005 £000
<b>Non-current assets</b>			
Investment properties	13	1,143,451	1 096 361
Property plant and equipment	14	1,995	8 119
Intangible assets	15	18,846	3 698
Investments in associates	16	-	3 526
Available-for-sale financial assets	17	16,193	13 918
Derivative financial instruments	18	1,072	353
Deferred income tax	25	4,536	14 025
Trade and other receivables	19	787	1 265
		<b>1,186,880</b>	<b>1 141 265</b>
<b>Current assets</b>			
Trade and other receivables	19	9,204	8 395
Derivative financial instruments	18	943	457
Cash and cash equivalents	20	157,571	118 162
		<b>167,718</b>	<b>127 014</b>
<b>Total assets</b>		<b>1,354,598</b>	<b>1 268 279</b>
<b>Non-current liabilities</b>			
Deferred income tax	25	154,922	146 109
Borrowings including finance leases	26	657,485	694 591
Derivative financial instruments	18	-	982
		<b>812,407</b>	<b>841 682</b>
<b>Current liabilities</b>			
Trade and other payables	24	66,892	45 394
Current income tax		818	1 799
Derivative financial instruments	18	-	285
Borrowings including finance leases	26	26,342	25 339
		<b>94,052</b>	<b>72 817</b>
<b>Total liabilities</b>		<b>906,459</b>	<b>914 499</b>
<b>Net assets</b>		<b>448,139</b>	<b>353 780</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	22	20,021	21 382
Other reserves	23	112,174	116 042
Retained earnings		316,840	217 252
		<b>449,035</b>	<b>354 676</b>
<b>Minority interest</b>		<b>(896)</b>	<b>(896)</b>
<b>Total equity</b>		<b>448,139</b>	<b>353 780</b>

These financial statements were approved by the Board of Directors and authorised for issue on 28 March 2007 and were signed on its behalf by

Mr S A Mortstedt  
Director

Mr P Sjöberg  
Director

The notes on pages 56 to 88 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2006

	Notes	Attributable to equity holders of the Company			Minority interest £000	Total £000
		Share capital £000	Other reserves £000	Retained earnings £000		
<b>Balance at 1 January 2005</b>		<b>21,374</b>	<b>131,844</b>	<b>180,688</b>	<b>(1,978)</b>	<b>331,928</b>
Arising in the year						
Fair value losses						
– available-for-sale financial assets	23	–	(7 481)	–	–	<b>(7,481)</b>
– cash flow hedges	23	–	(799)	–	–	<b>(799)</b>
Currency translation differences on foreign currency net investments	23	–	(7 663)	–	–	<b>(7,663)</b>
Purchase of own shares expense		–	–	(115)	–	<b>(115)</b>
Purchase of own shares	22	–	–	(18 858)	–	<b>(18,858)</b>
Issue of shares	22/23	–	79	–	–	<b>79</b>
Employee share option scheme	22/23	8	62	–	–	<b>70</b>
Reduction in minority interest		–	–	–	1 314	<b>1,314</b>
Net income/(expense) recognised directly in equity		8	(15 802)	(18 973)	1 314	<b>(33,453)</b>
Profit/(loss) for the year		–	–	55 537	(232)	<b>55,305</b>
<b>Total increase/(decrease) in equity for the year</b>		<b>8</b>	<b>(15 802)</b>	<b>36 564</b>	<b>1 082</b>	<b>21,852</b>
<b>Balance at 31 December 2005</b>		<b>21,382</b>	<b>116,042</b>	<b>217,252</b>	<b>(896)</b>	<b>353,780</b>
Arising in the year						
Fair value (losses)/gains						
– available-for-sale financial assets	23	–	(4 871)	–	–	<b>(4,871)</b>
– cash flow hedges	23	–	1 808	–	–	<b>1,808</b>
Currency translation differences on foreign currency net investments	23	–	(2 459)	–	–	<b>(2,459)</b>
Purchase of own shares expense		–	–	(307)	–	<b>(307)</b>
Purchase of own shares	22	(1 361)	1 361	(53 902)	–	<b>(53,902)</b>
Employee share option scheme	22/23	–	293	4	–	<b>297</b>
Net expense recognised directly in equity		(1 361)	(3 868)	(54 205)	–	<b>(59,434)</b>
Profit for the year		–	–	153 793	–	<b>153,793</b>
<b>Total (decrease)/increase in equity for the year</b>		<b>(1 361)</b>	<b>(3 868)</b>	<b>99 588</b>	<b>–</b>	<b>94,359</b>
<b>Balance at 31 December 2006</b>		<b>20,021</b>	<b>112,174</b>	<b>316,840</b>	<b>(896)</b>	<b>448,139</b>

The notes on pages 56 to 88 are an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2006

	Notes	Year ended 31 December 2006 €000	Year ended 31 December 2005 €000
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	61,572	52 226
Interest paid		(41,641)	(34 857)
Income tax paid		(2,206)	(407)
<b>Net cash inflow from operating activities</b>		<b>17,725</b>	<b>16 962</b>
<b>Cash flows from investing activities</b>			
Purchase of investment property		(123,533)	(22 386)
Capital expenditure on investment property		(49,128)	(44 934)
Proceeds from sale of investment property		3,608	45 056
Purchases of property plant and equipment		(1,029)	(1 853)
Proceeds from sale of property plant and equipment		433	2 401
Purchase of available-for-sale financial assets		(6,746)	(3 532)
Disposal/(purchase) of interests in associate/joint venture		2,141	(798)
Purchase of subsidiary undertaking net of cash acquired		(12,082)	(1 427)
Disposal of subsidiary undertakings net of cash sold		121,218	-
Interest received		5,084	1 472
<b>Net cash outflow from investing activities</b>		<b>(60,034)</b>	<b>(26 001)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		293	144
Purchase of own shares		(54,209)	(18 974)
New loans		218,503	148 571
Issue costs of new bank loans		(858)	(2 234)
Financial instruments (purchased)/sold		(923)	100
Repayment of loans		(81,088)	(57 777)
<b>Net cash inflow from financing activities</b>		<b>81,718</b>	<b>69 830</b>
<b>Net increase in cash and cash equivalents</b>		<b>39,409</b>	<b>60 791</b>
Cash and cash equivalents at the beginning of the year		118,162	57 371
<b>Cash and cash equivalents at the end of the year</b>	20	<b>157,571</b>	<b>118 162</b>

The notes on pages 56 to 88 are an integral part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 1 GENERAL INFORMATION

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

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

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

#### New standards and interpretations

There are a number of new standards, amendments to standards and interpretations which are mandatory for the year ended 31 December 2006. Management have considered the new requirements and consider that they are not relevant or do not have a material impact for the Group. This is the case for the following:

- IAS 21 (amendment) Net investment in a foreign operation
- IAS 39 (amendment) Cash flow hedge accounting of forecast intragroup transactions
- IAS 39 (amendment) Fair value option
- IAS 39 and IFRS 4 (amendment) Financial guarantee contracts
- IFRS 6 (including amendments) Exploration for and evaluation of mineral resources
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds, and
- IFRIC 6 Liabilities arising from participating in a specific market – Waste electrical and electronic equipment

In accordance with the requirements of IFRIC 4 – "Determining whether an arrangement contains a lease", the Group has reviewed its sales and purchases arrangements to ascertain whether any of them effectively contain a lease with the Group acting as either lessor or lessee and no changes in accounting treatments are considered necessary.

The following new standards and interpretations have been issued but are not yet effective and have not been adopted early by the Group:

- IFRIC 7 Applying the restatement approach under IAS 29
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of embedded derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 Group and Treasury Share Transactions
- IFRS 7 Financial Instruments: Disclosures, and the complementary amendment to IAS 1 Presentation of financial statements – Capital disclosures, and
- IFRS 8 Operating Segments

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Consolidation

#### a) Subsidiaries

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

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

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

#### b) Joint ventures

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

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

#### c) Associates

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

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

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

### 2.3 Segment reporting

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

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

### 2.4 Foreign currency translation

#### a) Functional and presentation currency

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

#### b) Transactions and balances

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Foreign currency translation (continued)

#### b) Transactions and balances (continued)

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

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

#### c) Group companies

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

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

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

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

### 2.5 Investment property

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

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

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

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

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

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

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

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

Changes in fair values are recorded in the income statement.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Property, plant and equipment

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

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

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

Property, plant and equipment                      4–5 years

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

### 2.7 Financial assets

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

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

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

#### b) Loans and receivables

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

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Goodwill and intangible assets

#### Goodwill

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

#### Intangible assets

Intangible assets comprise acquired separable trade names, customer relationships, technology and internally generated capitalised development and other costs. Intangible assets acquired separately are capitalised at cost and in respect of business combinations are capitalised at fair value at the date of acquisition. Following initial recognition, the cost model is applied to intangible assets. The useful lives of intangible assets are assessed as being either finite or infinite, where this is determined to be finite, the intangible assets are amortised over their useful lives. A summary of the policies applied to the Group's intangible assets is as follows:

	Useful lives	Amortisation method
Trade names	finite	11 years straight line
Customer relationships	finite	10-11 years straight line
Technology	finite	4 years straight line
Capitalised development and other costs	infinite	n/a

Intangible assets are reviewed for impairment in any periods in which events or changes in circumstances indicate the carrying value may not be recoverable.

### 2.9 Cash and cash equivalents

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

### 2.10 Trade receivables

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

### 2.11 Inventories

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

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

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

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

### 2.13 Impairment of assets

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

### 2.14 Borrowings

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Income tax

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

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities and is calculated using rates enacted or substantively enacted at the balance sheet date in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

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

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

### 2.16 Provisions

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

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

### 2.17 Revenue recognition

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

Revenue from investment property

#### a) Rental and similar revenue

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

#### b) Service charge and similar revenue

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

Revenue from other investments

#### c) Revenue from web based operations

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

### 2.18 Leases

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

i) Operating lease – leases in which substantially all risks and rewards of ownership are retained by another party, the lessor are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

ii) Finance lease – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease commencement date at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Leases (continued)

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

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

### 2.19 Employee benefits

#### a) Pension obligations

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

#### b) Share-based compensation

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

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

### 2.20 Share capital

Ordinary shares are classified as equity.

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

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

### 2.21 Tender offer buy-backs

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

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

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

### 2.22 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Transactions which may give rise to exceptional items are principally gains or losses on disposals of investments, subsidiaries and early termination of debt instruments.

### 2.23 Derivative financial instruments and hedging activities

#### Derivatives

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

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

- (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge)
- (ii) hedges of highly probable forecast transactions (cash flow hedges) or
- (iii) hedges of net investments in foreign operations

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.23 Derivative financial instruments and hedging activities (continued)

#### Hedge accounting

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

#### a) Fair value hedge accounting

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

#### b) Cash flow hedge accounting

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

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

#### c) Hedges of net investments

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

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

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

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

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Risk management factors

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

Risk management is carried out by the central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### a) Market risk

##### i) Foreign exchange risk

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

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk.

The primary management of currency exposure arising from the translation of net assets of the Group's foreign operations in France, Germany and Sweden is through denominating borrowings in the relevant foreign currencies.

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

##### ii) Price risk

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### a) Market risk (continued)

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

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

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

### b) Credit risk

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

### c) Liquidity risk

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

## 3.2 Fair value estimation

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

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

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

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### 4.1 Critical accounting estimates and assumptions

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

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

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

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

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

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

#### c) Income Taxes

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

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

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

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

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

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

## 5 SEGMENT INFORMATION

### Primary reporting format – geographical segments

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 5 SEGMENT INFORMATION (CONTINUED)

Primary reporting format – geographical segments (continued)

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

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
<b>Continuing operations</b>						
Revenue	36 204	20 676	5 331	18 837	–	81 048
Operating profit before gains/(losses) on investment properties	21 637	18 460	2 507	9 048	–	51 652
Net gain from fair value adjustment on investment properties	105 925	35 814	7 047	13 274	–	162 060
Profit on disposal of associate	3 721	–	–	–	–	3 721
Loss on disposal of subsidiaries (see note 31)	–	–	–	(1 797)	–	(1 797)
Loss from sale of investment properties	–	(952)	–	–	–	(952)
Finance income	4 898	911	21	2 505	–	8 335
Finance costs	(24 722)	(5 441)	(2 836)	(6 949)	–	(39 948)
Exceptional finance costs	(2 687)	–	–	(2 564)	–	(5 251)
Share of (loss)/profit of associates after tax	(1 423)	–	–	217	–	(1 206)
Profit before tax	107 349	48 791	6 739	13 735	–	176 614
Tax charge on profit	–	–	–	–	(20 283)	(20 283)
<b>Profit for the year from continuing operations</b>						<b>156,331</b>

### Other information

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

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

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

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
<b>Continuing operations</b>						
Revenue	40 256	20 350	254	24 179	–	85 039
Operating profit before gains/(losses) on investment properties	21 464	18 310	147	14 259	–	54 180
Net gain/(loss) from fair value adjustment on investment properties	24 137	33 798	(581)	9 819	–	67 173
Loss on disposal of part share of joint venture	(1 106)	–	–	–	–	(1 106)
Profit from sale of investment properties	1 489	366	–	–	–	1 855
Finance income	652	442	87	244	–	1 425
Finance costs	(22 053)	(4 762)	(78)	(10 761)	–	(37 654)
Share of loss of associates after tax	(1 216)	–	–	–	–	(1 216)
Profit/(loss) before tax	23 367	48 154	(425)	13 561	–	84 657
Tax charge on profit	–	–	–	–	(23 160)	(23 160)
<b>Profit for the year from continuing operations</b>						<b>61 497</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 5 SEGMENT INFORMATION (CONTINUED)

### Other information

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
Assets	575 587	347 000	14 821	313 320	14 025	1 264 753
Associates	3 526	–	–	–	–	3 526
<b>Total assets</b>	<b>579 113</b>	<b>347 000</b>	<b>14 821</b>	<b>313 320</b>	<b>14 025</b>	<b>1 268 279</b>
Liabilities	347 641	198 826	13 589	206 535	147 908	914 499
Capital expenditure	14 438	12 918	11 593	36 258	–	75 207
Depreciation and amortisation	384	10	–	110	–	504

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

### Secondary reporting format – business segments

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

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

	2006 £000	2005 £000
<b>Continuing operations</b>		
<b>Revenue</b>		
Investment property	76,583	85 039
Other investments	4,465	–
	<b>81,048</b>	<b>85 039</b>
<b>Total assets</b>		
Investment property	1,309,887	1 239 935
Other investments	44,711	28 344
	<b>1,354,598</b>	<b>1 268 279</b>
<b>Capital expenditure</b>		
Investment property	189,643	75 207
Other investments	861	–
	<b>190,504</b>	<b>75 207</b>

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

## 6 OTHER OPERATING INCOME

	2006 £000	2005 £000
Realised gains on available-for-sale financial assets	579	1 114
Other property related income	2,139	1 058
Other income	–	1 188
<b>Total</b>	<b>2,718</b>	<b>3 360</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 7 EXPENSES BY NATURE

	2006 £000	2005 £000
Audit services		
Audit of parent Company and consolidated accounts	119	137
Non-audit services – fees payable to the Company's auditor and its associates for other services		
Audit of the Company's subsidiaries pursuant to legislation	138	163
Other services pursuant to legislation	14	15
Other services	22	65
Depreciation and amortisation	1,102	504
Loss on disposal of property, plant and equipment	165	425
Repairs and maintenance	361	243
Bad debt expense	122	902
Employee benefits expense (note 8)	9,980	7,430
Legal and professional fees	4,503	5,425
Operating lease rentals	754	610
Other expenses	3,754	2,523
<b>Total</b>	<b>21,034</b>	<b>18,442</b>
Classified as		
Administrative expenses	17,539	14,910
Net property expenses	3,495	3,532
<b>Total</b>	<b>21,034</b>	<b>18,442</b>

## 8 EMPLOYEE BENEFITS EXPENSE

	2006 £000	2005 £000
Wages and salaries	7,761	5,603
Social security costs	1,051	1,049
Share options granted to directors and employees	4	6
Pension costs – defined contribution plans	275	231
Other employee related expenses	889	541
<b>Total</b>	<b>9,980</b>	<b>7,430</b>

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

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

	Property	Other operations	2006 Total	Property	Other operations	2005 Total
Male	28	42	70	35	–	35
Female	38	26	64	40	–	40
<b>Total</b>	<b>66</b>	<b>68</b>	<b>134</b>	<b>75</b>	<b>–</b>	<b>75</b>

## 9 FINANCE INCOME

	2006 £000	2005 £000
Finance income		
Foreign exchange variances	3,251	(47)
Interest income	5,084	1,472
<b>Total</b>	<b>8,335</b>	<b>1,425</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 10 FINANCE COSTS

	2006 £000	2005 £000
Interest expense		
Bank loans	33,392	31 286
Debenture loans	4,707	4 698
Finance leases	183	55
Other interest	235	9
Amortisation of issue costs of loans	1,549	1 392
Derivative financial instruments (note 18)		
Interest-rate swaps cash flow hedges (transfer from equity)	–	141
Interest-rate swaps transactions not qualifying as hedges	(302)	66
Interest-rate caps collars and floors transactions not qualifying as hedges	184	7
<b>Total</b>	<b>39,948</b>	<b>37 654</b>

### Exceptional finance costs

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

## 11 INCOME TAX EXPENSE

Year ended 31 December 2006	Continuing operations £000
Current tax	1,225
Deferred tax (note 25)	19,058
<b>Total</b>	<b>20,283</b>
Year ended 31 December 2005	Continuing operations £000
Current tax	1 304
Deferred tax (note 25)	21 856
<b>Total</b>	<b>23 160</b>

In addition to the deferred tax expense charged to the income statement a deferred tax charge of £107 thousand (2005 a deferred tax credit of £2 896 thousand) has been recognised directly in equity (see note 25).

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

	2006 £000	2005 £000
<b>Profit before tax</b>		
Continuing operations	176,614	84 657
Tax calculated at domestic tax rates applicable to profits in the respective countries	53,744	24 803
Expenses not deductible for tax purposes	6,397	2 125
Tax effect of unrecognised losses in associates and joint ventures	(9,517)	338
Previously unrecognised tax losses	(3,302)	(322)
Different taxation treatment of disposals	(28,163)	(1 917)
Losses used through consortium relief by minorities	–	(1 380)
Deferred tax assets not recognised	825	–
Adjustment in respect of prior periods	299	(487)
<b>Tax expense for the year</b>	<b>20,283</b>	<b>23 160</b>

The weighted average applicable tax rate was 30.4 per cent (2005 29.3 per cent).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 12 EARNINGS PER SHARE

### Basic

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

The weighted average number of shares for the period was 78 192 301 (2005 82 316 545)

### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares

The Group has only one category of dilutive potential ordinary shares those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year the effect of these dilutive securities is to increase weighted average shares by 435 000 shares (2005 595 000 shares)

	2006		2005	
	Earnings £000	Earnings per share Pence	Earnings £000	Earnings per share Pence
<b>Earnings per share</b>				
<b>Basic earnings per share</b>	<b>153,793</b>	<b>196.7</b>	55 537	67.5
Dilution				
Share options	-	(1.1)	-	(0.5)
<b>Diluted earnings per share</b>	<b>153,793</b>	<b>195.6</b>	55 537	67.0
<b>Earnings per share from continuing operations</b>				
<b>Basic earnings per share</b>	<b>153,793</b>	<b>196.7</b>	55 537	67.5
Less discontinued operations				
Losses from discontinued operations after tax	2,538	3.2	6 192	7.5
<b>Basic earnings per share – continuing operations</b>	<b>156,331</b>	<b>199.9</b>	61 729	75.0
Dilution				
Share options	-	(1.1)	-	(0.5)
<b>Diluted earnings per share – continuing operations</b>	<b>156,331</b>	<b>198.8</b>	61 729	74.5
<b>Earnings per share from discontinued operations</b>				
<b>Discontinued operations</b>				
Losses from discontinued operations after tax	(2,538)	(3.2)	(6 192)	(7.5)
<b>Basic earnings per share – discontinued operations</b>	<b>(2,538)</b>	<b>(3.2)</b>	(6 192)	(7.5)
Dilution				
Share options	-	-	-	-
<b>Diluted earnings per share – discontinued operations</b>	<b>(2,538)</b>	<b>(3.2)</b>	(6 192)	(7.5)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 13 INVESTMENT PROPERTIES

	2006 £000	2005 £000
<b>At beginning of year</b>	<b>1,096,361</b>	<b>1,022,539</b>
Exchange rate variances	(5,198)	(27,024)
Acquisitions – business	–	9,105
Acquisitions – property	129,585	21,883
Capital expenditure	45,092	43,342
Transfer from Property plant and equipment (note 14)	14,210	–
Disposal – property	(23,798)	(45,587)
Disposals – business	(275,674)	–
Net gain from fair value adjustments on investment properties	162,060	67,173
Rent free period debtor adjustments	813	4,930
<b>At end of year</b>	<b>1,143,451</b>	<b>1,096,361</b>

The investment properties were revalued at 31 December 2006 to their fair value. valuations were based on current prices in an active market for all properties. The property valuations were carried out by Allsop & Co (for the UK and Swedish properties) and DTZ Debenham Tie Leung (for the French and German properties) who are independent professionally qualified valuers.

Investment property includes buildings held under finance leases of which the carrying amount is £122,361 thousand (2005: £45,897 thousand).

The period of leases whereby the Group leases out its investment property under operating leases is typically 3 years or more. No contingent rents have been recognised in 2006 (2005: £nil).

## 14 PROPERTY, PLANT AND EQUIPMENT

	Property plant and equipment £000	Property in the course of construction £000	Total £000
<b>Cost</b>			
At 1 January 2005	9,536	5,670	15,206
Additions	1,764	967	2,731
Disposals	(6,374)	–	(6,374)
Exchange rate variances	(77)	–	(77)
<b>At 31 December 2005</b>	<b>4,849</b>	<b>6,637</b>	<b>11,486</b>
Additions	1,616	7,573	9,189
Transfer to Investment properties (note 13)	–	(14,210)	(14,210)
<b>At 31 December 2006</b>	<b>6,465</b>	<b>–</b>	<b>6,465</b>
<b>Depreciation</b>			
At 1 January 2005	4,496	–	4,496
Depreciation charge	1,460	–	1,460
Impairment	1,000	–	1,000
Disposals	(3,547)	–	(3,547)
Exchange rate variances	(42)	–	(42)
<b>At 31 December 2005</b>	<b>3,367</b>	<b>–</b>	<b>3,367</b>
Depreciation charge	766	–	766
Disposals	349	–	349
Exchange rate variances	(12)	–	(12)
<b>At 31 December 2006</b>	<b>4,470</b>	<b>–</b>	<b>4,470</b>
<b>Net book value</b>			
At 31 December 2005	1,482	6,637	8,119
<b>At 31 December 2006</b>	<b>1,995</b>	<b>–</b>	<b>1,995</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The net book amount of property, plant and equipment held under finance leases was £nil as these contracts expired in October and November of 2006 (2005: £nil). The depreciation expense charged to the income statement in relation to property, plant and equipment held under finance leases during the year was £81 thousand (2005: £7 thousand).

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

Lease rentals amounting to £36 thousand (2005: £27 thousand) relating to the lease of property, plant and equipment are included in the income statement.

## 15 INTANGIBLE ASSETS

	Goodwill £000	Other intangibles £000	Total £000
At 1 January 2005	2,509	848	3,357
Additions	252	89	341
At 31 December 2005	2,761	937	3,698
Additions	8,810	4,749	13,559
Transfers from investment in associates	1,283	642	1,925
Amortisation	-	(336)	(336)
At 31 December 2006	12,854	5,992	18,846

### Goodwill

As part of the acquisition of Lunarworks AB during the year, £10,093 thousand of goodwill has been recognised. This represents £8,810 thousand from the acquisition during the year (see note 31) and £1,283 thousand being an amount transferred from investments in associates.

### Intangible assets

As part of the acquisition of Lunarworks AB during the year, £5,017 thousand of other intangibles were identified. This amount is attributable to acquired trade name, customer relationships and technology. This represents £4,375 thousand from the acquisition during the year (see note 31) and £642 thousand being an amount transferred from investments in associates.

Other intangibles include internally generated capitalised development and other costs, the balance of which at year end was £1,311 thousand including additions for the year of £374 thousand (2005: £937 thousand including additions for the year of £89 thousand).

All amortisation charges in the year have been charged through operating expenses (see note 7). The average remaining useful lives for intangible assets with a finite useful life is 9.7 years.

### Impairment of intangible assets

Intangible asset balances have been reviewed for impairment. Management has concluded that there has been no impairment during the year.

## 16 INVESTMENTS IN ASSOCIATES

	Net assets £000	Goodwill £000	Total £000
At 1 January 2005	155	2,855	3,010
Additions	1,714	-	1,714
Share of loss	(420)	-	(420)
Other equity movements	230	(230)	-
Impairment	(271)	(525)	(796)
Exchange rate variances	18	-	18
At 31 December 2005	1,426	2,100	3,526
Disposals	(1,426)	(175)	(1,601)
Transfer to intangible assets	-	(1,925)	(1,925)
At 31 December 2006	-	-	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 16 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

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

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

### Lunarworks

In April 2006 the Group made a General offer for the remaining shares in Lunarworks AB which it did not own. Acceptances were received for the majority of these shares by the end of April 2006 and the Group has consolidated the results of Lunarworks AB as a subsidiary from 1 May 2006.

Details of the acquisition are presented in note 31.

### Keronite

The Group disposed of the majority of its investment in Keronite in August 2006. The Group retains a holding of 6.5 per cent which is now classified as an available-for-sale financial asset (note 17).

During 2005 the carrying amount of the Keronite investment was reduced to £nil through the recognition of an impairment loss of £796 thousand. The impairment loss was based on discounted cash flow projections. These losses were included in the income statement.

## 17 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 £000	2005 £000
<b>Beginning of year</b>	<b>13,918</b>	<b>22,671</b>
Additions	8,057	3,382
Disposals	(1,360)	(1,200)
Provision charged to income statement	-	(441)
Revaluation deficit movements in equity	(4,471)	(10,377)
Exchange rate variances	57	(117)
<b>End of year</b>	<b>16,193</b>	<b>13,918</b>
<b>Less: non-current portion</b>	<b>(16,193)</b>	<b>(13,918)</b>
<b>Current portion</b>	<b>-</b>	<b>-</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

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

Available-for-sale financial assets include the following

	2006 £000	2005 £000
<b>Listed securities</b>		
Equity securities – UK	8,250	9,371
Equity securities – Sweden	2,728	1,372
Equity securities – Other	256	58
Government securities – UK	164	150
	<b>11,398</b>	<b>10,951</b>
<b>Unlisted securities</b>		
Equity securities – UK	3,249	2,156
Equity securities – Sweden	999	221
Equity securities – Other	506	549
	<b>4,754</b>	<b>2,926</b>
<b>Other investments</b>	<b>41</b>	<b>41</b>
<b>Total</b>	<b>16,193</b>	<b>13,918</b>

## 18 DERIVATIVE FINANCIAL INSTRUMENTS

	2006 Assets £000	2006 Liabilities £000	2005 Assets £000	2005 Liabilities £000
<b>Non-current portion</b>				
Interest-rate swaps – cash flow hedges	1,072	–	353	890
Forward foreign exchange contracts – cash flow hedges	–	–	–	92
	<b>1,072</b>	<b>–</b>	<b>353</b>	<b>982</b>
<b>Current portion</b>				
Interest-rate swaps – not qualifying as hedges	–	–	–	207
Interest-rate caps and floors – not qualifying as hedges	943	–	457	78
	<b>943</b>	<b>–</b>	<b>457</b>	<b>285</b>
<b>Total</b>	<b>2,015</b>	<b>–</b>	<b>810</b>	<b>1,267</b>

### Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2006 was £107,489 thousand (2005 £108,312 thousand). The average period to maturity of the interest-rate swaps was 1.7 years (2005 2.7 years).

### Forward foreign exchange contracts

In 2005 the Group provided funds for working capital investment in re-development of investment properties in Sweden. The Group hedged the risk of adverse foreign exchange rate movements by entering into forward foreign exchange contracts.

There were no outstanding forward foreign exchange contracts at 31 December 2006.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 19 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
<b>Non-current</b>		
Prepayments	-	315
Other debtors	787	950
	787	1 265
<b>Current</b>		
Trade receivables	3,989	4 109
Prepayments	1,300	1 593
Accrued income	432	449
Other debtors	3,483	2 244
	9,204	8 395
<b>Total</b>	<b>9,991</b>	<b>9 660</b>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of tenants internationally dispersed. Included in the above non-current other debtors balance is an amount due from the sale of the WightCable business in December 2005; this has been discounted at 8.0 per cent (2005: 8.0 per cent) representing the time value of money.

## 20 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Cash at bank and in hand	84,622	112 841
Short term bank deposits	72,949	5 321
<b>Total</b>	<b>157,571</b>	<b>118 162</b>

At 31 December 2006 Group cash at bank and in hand included £19 918 thousand (2005: £3 861 thousand) of cash deposits which are subject to either a legal assignment or a charge in favour of a third party.

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

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

Cash and cash equivalents currency profile

	Cash at bank and in hand £000	Short-term deposits £000	Total £000
<b>Year ended 31 December 2006</b>			
Sterling	47,457	53,772	101,229
Euro	15,896	-	15,896
Swedish Kroner	21,258	19,177	40,435
Other	11	-	11
<b>Total</b>	<b>84,622</b>	<b>72,949</b>	<b>157,571</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 21 JOINT VENTURES

The Group has an interest in three joint ventures

- Teighmore Limited incorporated in Jersey of which the Group owns 33 1/3 per cent of the ordinary share capital (2005 33 1/3 per cent)
- New London Bridge House Limited incorporated in England and Wales of which the Group owns 33 1/3 per cent of the ordinary share capital (2005 33 1/3 per cent)
- Fielden House Investments Limited incorporated in England and Wales of which the Group owns 33 1/3 per cent of the ordinary share capital. The company was incorporated on 24 August 2006

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

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

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

Year ended 31 December 2005	Teighmore £000	New London Bridge House £000	Total £000
<b>Assets</b>			
Non-current assets	24 999	16 376	41 375
Current assets	341	378	719
	25 340	16 754	42 094
<b>Liabilities</b>			
Non-current liabilities	12 652	9 758	22 410
Current liabilities	2 458	1 271	3 729
	15 110	11 029	26 139
<b>Net assets</b>	<b>10 230</b>	<b>5 725</b>	<b>15 955</b>
Income	924	2 114	3 038
Expenses	(941)	(1 381)	(2 322)
<b>(Loss)/profit after income tax</b>	<b>(17)</b>	<b>733</b>	<b>716</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 22 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2005	85 497	20 963	411	21 374
Employee share option scheme				
– shares issued	30	8	–	8
Issue of shares	–	4	(4)	–
Purchase of own shares				
– pursuant to tender offer	–	(850)	850	–
– pursuant to market purchase	–	(111)	111	–
At 31 December 2005	85 527	20 014	1 368	21 382
Employee share option scheme				
– shares issued	–	40	(40)	–
Purchase of own shares				
– pursuant to tender offer	–	(476)	476	–
– pursuant to market purchase	–	(66)	66	–
Cancelled pursuant to tender offer	(5 445)	(1 361)	–	(1 361)
<b>At 31 December 2006</b>	<b>80,082</b>	<b>18,151</b>	<b>1,870</b>	<b>20,021</b>

The total authorised number of ordinary shares is 160 000 000 shares (2005 160 000 000 shares) with a par value of 25 pence per share (2005 25 pence per share). All shares issued are fully paid.

### Treasury shares

Treasury shares held at 31 December 2006 were 7 477 168 (2005 5 469 490). During the year the Company acquired 7 613 019 (2005 3 843 835) of its own shares of which 7 350 815 (2005 3 402 835) were purchased through the tender offer and 262 204 (2005 441 000) were purchased through the market. During the year the Company re-issued 160 000 (2005 18 521) of its own shares from treasury shares.

### Share options

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

Date of grant	Exercise price (pence)	Exercise period	2006	2005
30 November 2000	188	2003 – 2013	–	15 000
30 November 2000	188	2003 – 2007	–	10 000
20 December 2001	212.5	2004 – 2008	<b>311,000</b>	436 000
20 December 2001	212.5	2004 – 2011	<b>14,000</b>	14 000
03 March 2003	204.5	2006 – 2013	–	10 000
06 October 2003	240	2006 – 2013	<b>12,500</b>	12 500
06 October 2003	240	2006 – 2010	<b>17,500</b>	17 500
27 September 2005	458.25	2008 – 2012	<b>73,500</b>	73 500
21 December 2005	492.75	2008 – 2012	<b>6,088</b>	6 088
21 December 2005	492.75	2008 – 2012	<b>412</b>	412
<b>Total</b>			<b>435,000</b>	595 000

The following options were exercised during the year:

Date of exercise	Number of shares	Exercise price (pence)
12 September 2006	10 000	204.5
12 September 2006	25 000	188.0
13 September 2006	125 000	212.5
<b>Total</b>	<b>160,000</b>	

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 23 OTHER RESERVES

	Share premium reserve £000	Capital redemption reserve £000	Cumulative translation reserve £000	Cash flow hedge reserve £000	Fair value reserve £000	Other reserves £000	Total £000
At 1 January 2005	69 284	12 302	12 373	262	9 512	28 111	131 844
Employee share option scheme							
– value of service provided	–	–	–	–	–	6	6
– shares issued	56	–	–	–	–	–	56
Issue of shares	79	–	–	–	–	–	79
Exchange rate variances	–	–	(7 663)	–	–	–	(7 663)
Available-for-sale financial assets							
– net fair value losses in the period	–	–	–	–	(10 377)	–	(10 377)
– tax on net fair value losses	–	–	–	–	2 896	–	2 896
Cash flow hedges							
– fair value losses in the period	–	–	–	(940)	–	–	(940)
– transfer to net profit	–	–	–	141	–	–	141
At 31 December 2005	69 419	12 302	4 710	(537)	2 031	28 117	116 042
Employee share option scheme							
– value of service provided	–	–	–	–	–	–	–
– shares issued	293	–	–	–	–	–	293
Purchase of own shares							
– pursuant to tender offer	–	1 361	–	–	–	–	1 361
Exchange rate variances	–	–	(2 459)	–	–	–	(2 459)
Available-for-sale financial assets							
– net fair value losses in the period	–	–	–	–	(4 471)	–	(4 471)
– tax on net fair value losses	–	–	–	–	(400)	–	(400)
Cash flow hedges							
– fair value gains in the period	–	–	–	1 808	–	–	1 808
At 31 December 2006	69,712	13,663	2,251	1,271	(2,840)	28,117	112,174

## 24 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
<b>Non-current portion</b>		
Other payables	–	–
	–	–
<b>Current</b>		
Trade payables	3,264	4 896
Social security and other taxes	1,375	1 952
Other payables	7,716	6 208
Accruals	44,207	14 182
Deferred income	10,330	18 156
	66,892	45 394
<b>Total</b>	66,892	45 394

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 25 DEFERRED INCOME TAX

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

	2006 £000	2005 £000
Deferred tax assets		
- to be recovered after more than 12 months	(4,536)	(14,025)
Deferred tax liabilities		
- to be recovered after more than 12 months	154,922	146,109
<b>Total</b>	<b>150,386</b>	<b>132,084</b>

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

	Total £000
At 1 January 2005	116,010
Charged to the income statement	21,856
Release from equity	(2,896)
Acquisition of subsidiaries	252
Exchange rate variances	(3,138)
At 31 December 2005	132,084
Charged to the income statement	19,058
Charged to equity	107
Exchange rate variances	(863)
<b>At 31 December 2006</b>	<b>150,386</b>

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

	Tax losses £000	Other £000	Total £000
<b>Deferred tax assets</b>			
At 1 January 2005	(7,703)	(7,126)	(14,829)
Charged to the income statement	21	873	894
Release from equity	-	(90)	(90)
At 31 December 2005	(7,682)	(6,343)	(14,025)
Charged to the income statement	4,138	5,162	9,300
Charged to equity	-	189	189
<b>At 31 December 2006</b>	<b>(3,544)</b>	<b>(992)</b>	<b>(4,536)</b>

	Deduction for UK capital allowances £000	Tax on fair value adjustments to investment properties £000	Other £000	Total £000
<b>Deferred tax liabilities</b>				
At 1 January 2005	15,559	112,370	2,910	130,839
Credited/(charged) to the income statement	(413)	21,229	146	20,962
Release from equity	-	-	(2,806)	(2,806)
Acquisition of subsidiary	-	252	-	252
Exchange rate variances	-	(2,970)	(168)	(3,138)
At 31 December 2005	15,146	130,881	82	146,109
Charged to the income statement	737	8,824	197	9,758
Release from equity	-	-	(82)	(82)
Exchange rate variances	-	(861)	(2)	(863)
<b>At 31 December 2006</b>	<b>15,883</b>	<b>138,844</b>	<b>195</b>	<b>154,922</b>

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2006 the Group did not recognise deferred income tax assets of £6,850 thousand (2005: £5,378 thousand) in respect of losses amounting to £22,919 thousand (2005: £17,926 thousand) that can be carried forward against future taxable income or gains in those entities. The majority of deferred tax assets recognised within the "other" category relate to properties which have fallen below original cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 26 BORROWINGS, INCLUDING FINANCE LEASES

	Current £000	Non-current £000	Total borrowings £000
At 31 December 2006			
Bank loans	24,607	605,867	630,474
Debenture loans	705	36,700	37,405
Other loans	843	13,495	14,338
Finance lease liabilities	187	1,423	1,610
<b>Total</b>	<b>26,342</b>	<b>657,485</b>	<b>683,827</b>
At 31 December 2005			
Bank loans	23,689	640,818	664,507
Debenture loans	634	37,404	38,038
Other loans	833	14,664	15,497
Finance lease liabilities	183	1,705	1,888
<b>Total</b>	<b>25,339</b>	<b>694,591</b>	<b>719,930</b>

Arrangement fees of £5,886 thousand (2005: £6,541 thousand) have been offset against the balances in the above tables.

### a) Bank loans

Interest on bank loans is charged at fixed rates ranging between 3.87 per cent and 11.2 per cent including a margin (2005: 3.32 per cent and 11.2 per cent) and at floating rates of LIBOR, EURIBOR and STIBOR or equivalent plus a margin. Fixed rate margins range between 0.75 per cent and 2.00 per cent (2005: 0.70 per cent and 1.80 per cent) and floating rate margins range between 0.77 per cent and 2.00 per cent (2005: 0.77 per cent and 3.25 per cent). All bank loans are secured by legal charges over the respective properties to which they relate and in most cases floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

### b) Debenture loans

The £37,405 thousand (2005: £38,038 thousand) of debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1,175 thousand (2005: £1,175 thousand) 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 10.77 per cent including margin. The debentures are secured by a legal charge over the relevant property and securitisation of its rental income.

### c) Other loans

Interest on other loans is charged at fixed rates ranging between 7.5 per cent and 11.6 per cent (2005: 7.5 per cent and 11.6 per cent) including margin. The loans are secured by legal charges over the respective properties to which they relate.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

	2006 £000	2005 £000
<b>Bank loans are repayable as follows</b>		
Within one year or on demand	26,107	24,314
In more than one but not more than two years	122,060	19,302
In more than two but not more than five years	216,534	278,741
In more than five years	271,652	348,678
	636,353	671,035
Unamortised issue costs	(5,879)	(6,528)
Total bank loans net of issue costs	630,474	664,507
Less amount due for settlement within 12 months (shown under current liabilities)	(24,607)	(23,689)
Amounts due for settlement after 12 months	605,867	640,818
<b>Debenture loans are repayable by instalments as follows</b>		
Within one year or on demand	705	634
In more than one but not more than two years	784	705
In more than two but not more than five years	2,918	2,624
In more than five years	32,998	34,075
Total debenture loans	37,405	38,038
Less amount due for settlement within 12 months (shown under current liabilities)	(705)	(634)
Amounts due for settlement after 12 months	36,700	37,404
<b>Other loans are repayable as follows</b>		
Within one year or on demand	844	844
In more than one but not more than two years	11,480	844
In more than two but not more than five years	2,020	13,820
In more than five years	-	-
	14,344	15,508
Unamortised issue costs	(6)	(11)
Total other loans net of issue costs	14,338	15,497
Less amount due for settlement within 12 months (shown under current liabilities)	(843)	(833)
Amounts due for settlement after 12 months	13,495	14,664
<b>Net obligations under finance leases are repayable as follows</b>		
Within one year or on demand	188	184
In more than one but not more than two years	195	255
In more than two but not more than five years	1,076	1,299
In more than five years	152	152
	1,611	1,890
Unamortised issue costs	(1)	(2)
Total obligations under finance leases net of issue costs	1,610	1,888
Less amount due for settlement within 12 months (shown under current liabilities)	(187)	(183)
Amounts due for settlement after 12 months	1,423	1,705

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 26 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

	At 31 December 2006		At 31 December 2005	
	Fixed rate financial liabilities		Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Pound sterling	7.27	5.49	7.21	8.61
Euro	4.77	4.56	4.61	2.21
Swedish kroner	5.45	1.84	5.61	2.74

Floating rate financial liabilities bear interest at rates based on relevant LIBOR, EURIBOR, STIBOR or equivalents, which are fixed in advance for periods of between one and six months (2005: between one and six months).

Further protection from interest rate movement is provided by interest rate caps on £59,633 thousand of debt at 5.5 per cent to 6.0 per cent expiring within 1.75 to 3.84 years (2005: £95,516 thousand of debt at 5.5 per cent to 6.0 per cent expiring within 0.75 to 4.92 years), £160,772 thousand of EURO denominated debt at 4.0 per cent to 6.0 per cent expiring within 0.08 to 5.00 years (2005: £112,529 thousand of EURO denominated debt at 4.0 per cent to 6.5 per cent expiring within 0.83 to 5.17 years) and £1,792 thousand of SEK denominated debt at 4.5 per cent expiring within 1.84 years (2005: £84,859 thousand of SEK denominated debt at 4.0 per cent to 6.0 per cent expiring within 1.08 to 4.00 years).

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

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total £000
At 31 December 2006			
Pound sterling	254,785	102,378	357,163
Euro	126,063	162,427	288,490
Swedish kroner	28,923	9,251	38,174
<b>Total</b>	<b>409,771</b>	<b>274,056</b>	<b>683,827</b>
At 31 December 2005			
Pound sterling	221,690	98,342	320,032
Euro	79,376	126,392	205,768
Swedish kroner	88,436	105,694	194,130
<b>Total</b>	<b>389,502</b>	<b>330,428</b>	<b>719,930</b>

Arrangement fees of £5,886 thousand (2005: £6,541 thousand) have been offset against the balances in the above tables.

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

In order to mitigate the effect of interest rate fluctuations the Group has purchased interest rate caps or secured fixed rate borrowings for the majority of its debt.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 26 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	
	2006 £000	2005 £000	2006 £000	2005 £000
Current borrowings including finance leases	26,342	25,339	26,342	25,339
Non-current borrowings including finance leases	657,485	694,591	679,872	734,099
<b>Total</b>	<b>683,827</b>	<b>719,930</b>	<b>706,214</b>	<b>759,438</b>

Arrangement fees of £5,886 thousand (2005: £6,541 thousand) have been offset against the balances in the above table.

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

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

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

	2006 £000	2005 £000
Floating rate		
– expiring within one year	1,347	5,846
– expiring after one year	–	–
<b>Total</b>	<b>1,347</b>	<b>5,846</b>

The above undrawn facilities expiring within one year at 31 December 2006 and 31 December 2005 have been arranged to help finance the Group's proposed development projects.

## 27 TENDER OFFER BUY-BACKS

As noted in the Directors' Report it is proposed that the Company buy back 1 in 41 shares at 750 pence per share in lieu of a final dividend (2005: 1 in 42 shares at 600 pence per share).

In lieu of an interim dividend the Company bought back 3 in 43 shares at 740 pence per share in November (2005: 1 in 60 shares at 510 pence per share in November).

## 28 CASH GENERATED FROM OPERATIONS

	2006 £000	2005 £000
Operating profit from continuing operations	214,684	122,102
Loss on discontinued operations	(2,538)	(6,192)
Adjustments for:		
– revaluation surplus on investment properties	(162,060)	(67,173)
– depreciation and amortisation	1,102	4,803
– loss on sale of fixed assets and investment properties	952	324
– loss on disposal of subsidiaries	1,797	–
– profit on disposal of associate	(3,721)	–
– other provisions	–	6
– foreign exchange gains	1,130	120
Changes in working capital:		
– Increase in debtors	(5,456)	(3,111)
– Increase in creditors	15,682	1,347
<b>Cash generated from operations</b>	<b>61,572</b>	<b>52,226</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 29 CONTINGENCIES

At 31 December 2006 CLS Holdings had guaranteed certain of the Group companies liabilities

## 30 COMMITMENTS

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

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

	2006 £000	2005 £000
Not more than 1 year	492	497
Later than 1 year and not later than 5 years	1,264	1,758
Later than 5 years	-	-
<b>Total</b>	<b>1,756</b>	<b>2,255</b>

### Other commitments

At 31 December 2006 the Group had £nil of contracted capital expenditure (2005: £19,700 thousand). At 31 December 2006 the Group had no authorised financial commitments which were yet to be contracted with third parties (2005: £nil).

## 31 BUSINESS ACQUISITIONS AND DISPOSALS

### Business acquisitions

#### Lunarworks AB

On 30 April 2006 the Group acquired a further 50.4 per cent of Lunarworks AB for total consideration of £14,877 thousand. From that date the Group held 98.6 per cent of the ordinary voting share capital. Lunarworks AB is the parent company of a group of companies involved in the operation of youth community websites.

From the date of acquisition to 31 December 2006 the business contributed £4,465 thousand to turnover and £382 thousand to profit before tax. If the acquisition had occurred on 1 January 2006 Group revenue would have increased by £2,165 thousand and profit before tax would have increased by £233 thousand.

The goodwill arising on the acquisition of Lunarworks AB is attributable to the additional value of a strong local management team, a well known brand in the Nordic region and the market potential of the acquired Group which has a strong track record of growth.

	Acquiree's carrying amount £000	Fair value £000	Proportion acquired (50.4%) £000
Net assets acquired			
Cash and cash equivalents	2,975	2,975	1,499
Property, plant and equipment	589	589	297
Trade and other receivables	1,367	1,250	630
Trade and other payables	(1,456)	(1,456)	(734)
Intangible assets	-	8,681	4,375
	3,475	12,039	6,067
Goodwill			8,810
<b>Total consideration</b>			<b>14,877</b>
Satisfied by			
Cash			14,877
			<b>14,877</b>
Net cash outflow arising on acquisition			
Purchase consideration settled in cash			14,877
Cash and cash equivalents in subsidiary acquired			(2,975)
			<b>11,902</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 31 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

### Business disposals

#### Solna and Lovgardet

On 31 January 2006 the Group disposed of its interests in Lovgardet Business AB Lovgardet Residential AB and Lovgardet Capital Partner AB the holding companies of the properties at Lovgardet Gothenburg Sweden In addition on 21 August 2006 the Group disposed of its interests in Solna Business Holdings AB and Sliparen Ett AB the holding companies of the properties at Solna Business Park Stockholm Sweden Prior to their disposal these business groups formed part of the Sweden and investment property geographical and business segments

	Lovgardet		Solna	
	Jan-06 £000	Dec 05 £000	Aug-06 £000	Dec 05 £000
Net assets disposed of				
Investment properties	40,211	39 777	235,125	215 524
Property plant and equipment	3	3	363	357
Trade and other receivables	90	109	5,349	1 549
Cash and cash equivalents	3,716	841	386	5 668
Deferred income tax	(2,138)	(2 118)	(24,843)	(24 608)
Trade and other payables	(1,395)	(2 582)	(5,180)	(15 100)
Borrowings including finance leases	(35,174)	(35 061)	(122,961)	(119 934)
	5,313	969	88,239	63 456
Gain on disposal	1,877		23,307	
Costs of disposal	383		1,103	
Total consideration	7,573		112,649	
Satisfied by				
Cash	7,573		128,662	
Deferred consideration	-		(16,013)	
	7,573		112,649	
The gain on disposal is disclosed in the Income Statement as follows				
Loss on disposal of subsidiaries	(261)		(1,536)	
Release of deferred tax	2,138		24,843	
	1,877		23,307	
Net cash inflow arising on disposal				
Cash consideration	7,573		112,649	
Cash and cash equivalents disposed of	(3,716)		(386)	
	3,857		112,263	

The deferred consideration will be settled in cash by the Group by quarterly instalments with the final payment on or before 21 August 2016

#### WightCable North Limited

On 20 January 2006 the sale of the business and substantially all of the assets of WightCable North Limited a cable company was completed The transaction required costs of disposal amounting to £2 150 thousand which has been expensed in 2006

The provisions of IFRS 5 apply to the sale of the disposal group formed from WightCable North Limited as such the assets and liabilities of the disposal group have been classified as held for sale and the result has been classified as a discontinued operation

	Jan-06 £000
Business and assets at carrying value	-
Disposal costs	2,150
	2,150
Less consideration received	-
Loss on disposal	2,150

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

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

### Held for sale assets and liabilities

At 31 December 2006 the Group had no non-current assets which were required to be classified as held for sale

### Discontinued operations

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

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	2006 £000	2005 £000
<b>Revenue</b>	<b>230</b>	<b>5 644</b>
Operating expense	(538)	(9 771)
<b>Operating loss</b>	<b>(308)</b>	<b>(4 127)</b>
Finance expense	(80)	(150)
<b>Loss before tax</b>	<b>(388)</b>	<b>(4 277)</b>
Taxation	-	-
<b>Loss after tax</b>	<b>(388)</b>	<b>(4 277)</b>
Loss on disposal of assets	(2,150)	(491)
Acquisition of minority interest	-	(1 316)
Accrued costs for disposal of assets	-	(108)
<b>Loss for the year from discontinued operations</b>	<b>(2,538)</b>	<b>(6 192)</b>

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

## 33 RELATED PARTY TRANSACTIONS

CLSH management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as an agent in respect of the collection of rental income for Teighmore Limited and New London Bridge House Limited, joint ventures of the Group. At 31 December 2006 Teighmore Limited was owed £802 thousand by the Group (2005: £817 thousand) and New London Bridge House Limited was owed £39 thousand (2005: owed £224 thousand).

A Group company, Forvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £29 thousand (2005: £29 thousand). A company owned by Sten Mortstedt also purchased accountancy services from Forvaltnings AB Klio during the year amounting to £7 thousand (2005: £6 thousand).

As part of the general offer to purchase the shares in Lunarworks AB, 665 150 shares were purchased from Sten Mortstedt for a total consideration of £1 723 thousand, representing 6.3 per cent of the issued share capital in that company. As the terms offered were the same to all shareholders, the Company considers that this was an arm's length transaction.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

## 34 PRINCIPAL SUBSIDIARIES

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

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

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

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

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

## 35 EVENTS AFTER THE BALANCE SHEET DATE

### (i) Acquisitions

#### Bulgarian Land Development plc ( BLD )

On 20 February 2007 CLS Holdings plc agreed to subscribe to 7 211 878 shares at a price of £1 per share in BLD which is listed on the Alternative Investment Market of the London Stock Exchange. BLD develops residential and commercial property opportunities in Bulgaria.

On 14 March 2007 Per Sjöberg, Chief Executive Officer of CLS Holdings plc, became Non-Executive Chairman of BLD.

The new subscription will increase the stake of CLS in BLD to 11 461 787 shares representing 28.65 per cent of the issued share capital.

### (ii) Income tax

On 21 March 2007 the Chancellor proposed a reduction in the Corporation tax rate in the UK from 30 per cent to 28 per cent effective from 1 April 2008. In accordance with the IFRS provisions the existing rate of 30 per cent is still used as a basis for the calculation of the deferred tax stated. An estimate of the financial effect of this change cannot be made due to the uncertain timing of the reversal or crystallisation of the deferred tax provisions.



# 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 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2006.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

## BASIS OF AUDIT OPINION

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

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

## OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
30 March 2007

# COMPANY BALANCE SHEET

31 December 2006

	Notes	As at 31 December 2006 £000	As at 31 December 2005 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiary undertakings	6	84,682	81 035
		<b>84,682</b>	<b>81 035</b>
<b>Current assets</b>			
Trade and other receivables	7	42,226	41 844
Cash and cash equivalents	8	465	17
		<b>42,691</b>	<b>41 861</b>
<b>Total assets</b>		<b>127,373</b>	<b>122 896</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	5,805	964
<b>Total liabilities</b>		<b>5,805</b>	<b>964</b>
<b>Net assets</b>		<b>121,568</b>	<b>121 932</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	20,021	21 382
Other reserves	10	87,990	86 336
Profit and loss account	10	13,557	14 214
<b>Total equity</b>		<b>121,568</b>	<b>121 932</b>

These financial statements were approved by the Board of Directors and authorised for issue on 28 March 2007 and were signed on its behalf by

Mr S A Mortstedt  
Director

Mr P Sjöberg  
Director

The notes on pages 91 to 94 are an integral part of these financial statements

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2006

## 1 GENERAL INFORMATION

The financial statements have been prepared under UK GAAP in accordance with applicable accounting standards under the historical cost convention. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. CLS Holdings plc is the ultimate parent company of the CLS Holdings group. Its primary activity is to hold shares in subsidiary companies.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Investment in Group Companies

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

### 2.2 Turnover

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

### 2.3 Pension costs

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

### 2.4 Share-based compensation

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

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

### 2.5 Share capital

Ordinary shares are classified as equity.

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

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

### 2.6 Tender offer buy-backs

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

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

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

## 3 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been presented in these financial statements. The parent Company's retained profit for the financial year was £53,552 thousand (2005: Loss of £2,152 thousand).

Audit fees for the Company were £35 thousand (2005: £35 thousand).

## 4 TENDER OFFER BUY-BACKS

As noted in the Directors' Report, it is proposed that the Company buy back 1 in 41 shares at 750 pence per share in lieu of a final dividend (2005: 1 in 42 shares at 600 pence per share).

In lieu of an interim dividend, the Company bought back 3 in 43 shares at 740 pence per share in November (2005: 1 in 60 shares at 510 pence per share in November).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2006

## 5 TANGIBLE FIXED ASSETS

The Company has no tangible fixed assets

## 6 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2006 £000	2005 £000
At 1 January	81,035	78,988
Additions	3,647	2,047
<b>At 31 December</b>	<b>84,682</b>	<b>81,035</b>

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

## 7 TRADE AND OTHER RECEIVABLES

	2006 £000	2005 £000
<b>Current</b>		
Amounts owed by subsidiary undertakings	42,094	41,228
Prepayments	65	89
Other debtors	67	527
<b>Total</b>	<b>42,226</b>	<b>41,844</b>

## 8 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Cash and cash equivalents	465	17

At 31 December 2006 the Company cash and cash equivalents included £nil of cash deposits which are subject to either a legal assignment or a charge in favour of a third party (2005: £nil).

## 9 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2005	85,497	20,963	411	21,374
Employee share option scheme				
- shares issued	30	8	-	8
Issue of shares	-	4	(4)	-
Purchase of own shares				
- pursuant to tender offer	-	(850)	850	-
- pursuant to market purchase	-	(111)	111	-
At 31 December 2005	85,527	20,014	1,368	21,382
Employee share option scheme				
- shares issued	-	40	(40)	-
Purchase of own shares				
- pursuant to tender offer	-	(476)	476	-
- pursuant to market purchase	-	(66)	66	-
Cancelled pursuant to tender offer	(5,445)	(1,361)	-	(1,361)
<b>At 31 December 2006</b>	<b>80,082</b>	<b>18,151</b>	<b>1,870</b>	<b>20,021</b>

The total authorised number of ordinary shares is 160,000,000 shares (2005: 160,000,000 shares) with a par value of 25 pence per share (2005: 25 pence per share). All shares issued are fully paid.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2006

## 9 SHARE CAPITAL (CONTINUED)

### Treasury shares

Treasury shares held at 31 December 2006 were 7 477 168 (2005 5 469 490). During the year the Company acquired 7 613 019 (2005 3 843 835) of its own shares of which 7 350 815 (2005 3 402 835) were purchased through the tender offer and 262 204 (2005 441 000) were purchased through the market. During the year the Company re-issued 160 000 (2005 18 521) of its own shares from treasury shares.

### Share options

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

Date of grant	Exercise price (pence)	Exercise period	2006	2005
30 November 2000	188	2003 – 2013	–	15 000
30 November 2000	188	2003 – 2007	–	10 000
20 December 2001	212.5	2004 – 2008	311,000	436 000
20 December 2001	212.5	2004 – 2011	14,000	14 000
03 March 2003	204.5	2006 – 2013	–	10 000
06 October 2003	240	2006 – 2013	12,500	12 500
06 October 2003	240	2006 – 2010	17,500	17 500
27 September 2005	458.25	2008 – 2012	73,500	73 500
21 December 2005	492.75	2008 – 2012	6,088	6 088
21 December 2005	492.75	2008 – 2012	412	412
<b>Total</b>			<b>435,000</b>	<b>595 000</b>

The following options were exercised during the year:

Date of exercise	Number of shares	Exercise price (pence)
12 September 2006	10 000	204.5
12 September 2006	25 000	188.0
13 September 2006	125 000	212.5
<b>Total</b>	<b>160,000</b>	

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

## 10 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Share premium reserve £000	Capital redemption reserve £000	Other reserves Other £000	Total £000	Profit and loss account £000
At 1 January 2005	69 284	12 302	4 609	86 195	35 339
Employee share option scheme					
– value of service provided	–	–	6	6	–
– shares issued	56	–	–	56	–
Issue of shares	79	–	–	79	–
Purchase of own shares	–	–	–	–	(18 858)
Purchase of own shares expense	–	–	–	–	(115)
Retained loss for the year	–	–	–	–	(2 152)
At 31 December 2005	69 419	12 302	4 615	86 336	14 214
Employee share option scheme					
– shares issued	293	–	–	293	–
Purchase of own shares	–	1 361	–	1 361	(53 902)
Purchase of own shares expense	–	–	–	–	(307)
Retained profit for the year	–	–	–	–	53 552
<b>At 31 December 2006</b>	<b>69,712</b>	<b>13,663</b>	<b>4,615</b>	<b>87,990</b>	<b>13,557</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2006

## 11 TRADE AND OTHER PAYABLES

	2006 £000	2005 £000
<b>Current</b>		
Amounts owed to subsidiary undertakings	16	-
Trade payables	214	17
Accruals and deferred income	5,575	947
<b>Total</b>	<b>5,805</b>	<b>964</b>

## 12 DEFERRED INCOME TAX

No deferred tax liability arises relating to the Company (2005: Nil)

## 13 CONTINGENCIES

At 31 December 2006 the Company had guaranteed £70,086 thousand of Group Companies' liabilities (2005: £92,779 thousand). Of the amount guaranteed, £13,470 thousand (2005: £9,945 thousand) is limited to a maximum annual liability of £2,050 thousand (2005: £2,050 thousand). As the likelihood of payment by the Company under any of these guarantees is extremely remote, no provision has been made in the Company's accounts.

## 14 COMMITMENTS

At 31 December 2006 the Company had Nil million of contracted capital expenditure (2005: Nil) and no authorised financial commitments which were yet to be contracted with third parties (2005: Nil).

## 15 RELATED PARTY TRANSACTIONS

CLSH management Limited, a wholly owned subsidiary of CLS Holdings plc, acts as an agent in respect of the collection of rental income for Teighmore Limited and New London Bridge House Limited, joint ventures of the Group. At 31 December 2006 Teighmore Limited was owed £802 thousand by the Group (2005: £817 thousand) and New London Bridge House Limited was owed £39 thousand (2005: owed £224 thousand).

A Group company, Forvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt. The total payable in the year was £29 thousand (2005: £29 thousand). A company owned by Sten Mortstedt also purchased accountancy services from Forvaltnings AB Klio during the year amounting to £7 thousand (2005: £6 thousand).

As part of the general offer to purchase the shares in Lunarworks AB, 665,150 shares were purchased from Sten Mortstedt for a total consideration of £1,723 thousand, representing 6.3 per cent of the issued share capital in that company. As the terms offered were the same to all shareholders, the Company considers that this was an arm's length transaction.

## 16 EVENTS AFTER THE BALANCE SHEET DATE

### Acquisitions

**Bulgarian Land Development plc (BLD)**

On 20 February 2007, CLS Holdings plc agreed to subscribe to 7,211,878 shares at a price of £1 per share in BLD, which is listed on the Alternative Investment Market of the London Stock Exchange. BLD develops residential and commercial property opportunities in Bulgaria.

On 14 March 2007, Per Sjöberg, Chief Executive Officer of CLS Holdings plc, became Non-Executive Chairman of BLD.

The new subscription will increase the stake of CLS in BLD to 11,461,787 shares, representing 28.65 per cent of the issued share capital.

# FIVE YEAR FINANCIAL SUMMARY

31 December 2006

	IFRS			UK GAAP	
	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
<b>Turnover and results</b>					
<b>Turnover</b>	<b>81,048</b>	<b>85,039</b>	<b>81,375</b>	<b>79,658</b>	<b>70,682</b>
<b>Group net rental income</b>	<b>65,503</b>	<b>69,262</b>	<b>67,603</b>	<b>62,412</b>	<b>59,421</b>
<b>Operating profit before gains/(losses) on investment properties</b>	<b>51,652</b>	<b>54,180</b>	<b>58,139</b>	<b>45,293</b>	<b>45,316</b>
Fair value gains on investment properties	162,060	67,173	37,236	-	-
Results from associate and joint venture undertakings	2,515	(2,322)	(1,701)	1,085	790
(Loss)/gain from sale of investment properties	(2,749)	1,855	464	1,932	(153)
<b>Profit on ordinary activities before interest</b>	<b>213,478</b>	<b>120,886</b>	<b>94,138</b>	<b>48,310</b>	<b>45,953</b>
Net finance costs	(36,864)	(36,229)	(34,065)	(30,737)	(28,886)
<b>Profit before taxation</b>	<b>176,614</b>	<b>84,657</b>	<b>60,073</b>	<b>17,573</b>	<b>17,067</b>
Tax on ordinary activities – current	(1,225)	(1,304)	(596)	(676)	(648)
Tax on ordinary activities – deferred	(19,058)	(21,856)	(16,042)	591	(1,497)
Discontinued operations	(2,538)	(6,192)	(4,002)	-	-
<b>Profit for the year</b>	<b>153,793</b>	<b>55,305</b>	<b>39,433</b>	<b>17,488</b>	<b>14,922</b>
<b>Share buy-backs paid and proposed</b>	<b>(53,577)</b>	<b>(18,353)</b>	<b>(15,676)</b>	<b>(14,607)</b>	<b>(14,007)</b>
<b>Net Assets Employed</b>					
Fixed assets	1,186,880	1,141,265	1,056,763	901,184	857,152
Net current assets	167,718	127,014	79,559	19,078	35,558
	1,354,598	1,268,279	1,136,322	920,262	892,710
Non-current liabilities	(812,407)	(841,682)	(749,998)	(529,575)	(507,735)
Provision for liabilities and charges	(94,052)	(72,817)	(62,518)	(5,713)	(13,255)
<b>Net assets</b>	<b>448,139</b>	<b>353,780</b>	<b>323,806</b>	<b>384,974</b>	<b>371,720</b>

Ratios	2006	2005	2004	2003	2002
Adjusted net assets per share (pence)	824	607	522	446	409
Statutory net assets per share (pence)	617	442	386	439	395
Earnings per share (pence)	196.7	67.5	47.0	20.7	15.7
Gearing (%)	119	172	181	127	124
Interest cover (times)	1.66	1.48	1.67	1.57	1.59

Reconciliation of statutory to disclosed adjusted statistics	Statutory figure	Deferred tax adjustment	Fair value property gains adjustment	Discontinued operations minority interest, and finance cost adjustment	Adjusted figure
Net Assets (£ million)	448.1	150.5	-	-	598.6
Statutory net assets per share (pence)	617.3	207.1	-	-	824.4
Earnings per share (pence)	196.7	24.4	(207.3)	10.0	23.8
Diluted earnings per share (pence)	195.6	24.4	(207.3)	10.0	22.7
Gearing (%)	118.7	(29.8)	-	-	88.9

# GLOSSARY OF TERMS

## NET RENT

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

## CONTRACTED RENT

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

## UNDERLYING PROFIT

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

## YIELD

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

## ESTIMATED RENTAL VALUE (ERV)

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

## ADJUSTED NET ASSETS

- Net assets excluding deferred tax liabilities and deferred tax assets

## STATUTORY NET ASSET VALUE (NAV) PER SHARE

- $\frac{\text{Net assets}}{\text{Number of ordinary shares in free issue}}$

## ADJUSTED NAV PER SHARE

- $\frac{\text{Net assets} + \text{deferred tax liabilities} - \text{deferred tax assets}}{\text{Number of ordinary shares in free issue}}$

## STATUTORY GEARING

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

## ADJUSTED GEARING

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

## EARNINGS PER SHARE (EPS)

- $\frac{\text{Profit after tax attributable to ordinary shareholders}}{\text{Weighted average number of ordinary shares in free issue}}$

## ADJUSTED EPS

- $\frac{\text{Profit after tax attributable to ordinary shareholders excluding deferred tax}}{\text{Weighted average number of ordinary shares in free issue}}$

## STATUTORY SOLIDITY

- $\frac{\text{Total equity}}{\text{Total assets}}$

## ADJUSTED SOLIDITY

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

## INTEREST COVER

- $\frac{\text{Profit before tax} - \text{net gains from fair value adjustment on investment properties}}{\text{Net interest payable}}$



---

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

---

**CLS Holdings plc**

26th Floor Portland House  
Bressenden Place  
London SW1E 5BG

Tel +44 (0)20 7582 7766  
Fax +44 (0)20 7828 0960  
e-mail [enquiries@clsholdings.com](mailto:enquiries@clsholdings.com)