Registered Number : 2714781

CLS Holdings plc
Annual Report & Accounts

2008

→ QUALITY IN EVERYTHING WE DO...

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COMPANIES HOUSE

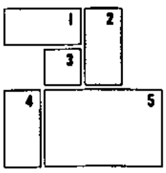
INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

- → 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 of £0.8 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:

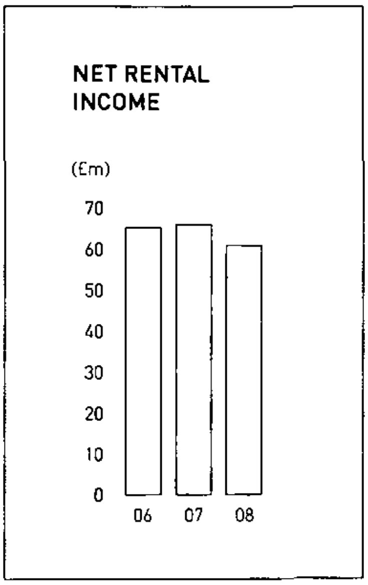
- → Purchase modern, high quality, well-let office properties in good locations in selected European Cities
- → Use our in-house development teams to refurbish or redevelop appropriate properties
- → Focus on minimising vacant space within the portfolio
- → Provide our tenants with high quality accommodation 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

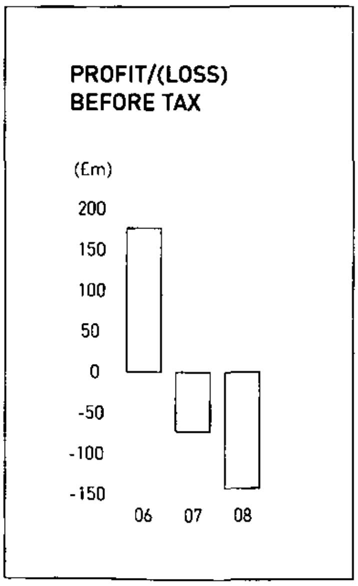


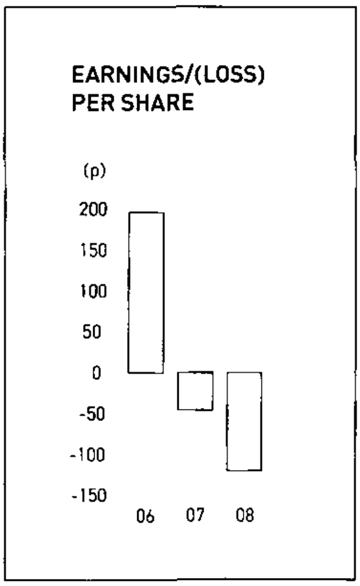
1 Cap Gemini House, London
2 Rue Stephenson, Paris
3 Chancel House, London
4 Général Leclerc, Paris
5 Spring Gardens, London

RESULTS AT A GLANCE

	31-Dec-08 £m	31-Dec-07 £m	Up/ (down) %
INCOME STATEMENT (non-statutory format)			
Net Rental Income	**61.3**	66.3	(7.5%)
Other operating income and associate company results	**(4.9)**	7.1	-
Losses on sale of investment properties, subsidiaries & associates	**(9.2)**	(2.0)	(360.0%)
Overhead and net property expenses	**(19.7)**	(30.9)	(36.2%)
Operating profit (excluding losses on investment properties)	**27.5**	40.5	(32.1%)
Net finance cost excluding derivatives	**(22.1)**	(41.2)	(46.4%)
Underlying profit/(loss) (excluding losses on investment properties)	**5.4**	(0.7)	-
Fair value losses on investment properties	**(103.4)**	(68.1)	(51.8%)
Other fair value losses on financial instruments	**(21.0)**	(1.5)	-
Other non-recurring costs	**(1.2)**	-	-
Impairment of intangibles	**(22.0)**	-	-
Loss provisions on share sales (transferred from other reserves)	-	(2.3)	-
Loss before tax	**(142.2)**	(72.6)	(95.9%)
Tax – current	**(3.6)**	(2.6)	(38.5%)
Tax – deferred	**67.7**	42.3	60.0%
Loss for the year	**(78.1)**	(32.9)	(137.4%)
Adjusted (loss)/earnings per share*	**(68.6)p**	13.8p	
Loss per share	**(120.7)p**	(45.8)p	
Recurring Interest Cover* (times)	**1.3**	1.3	

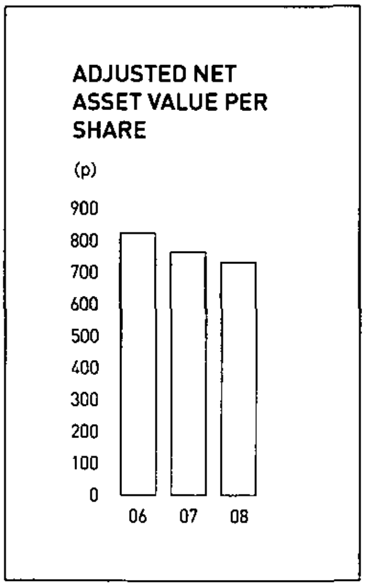


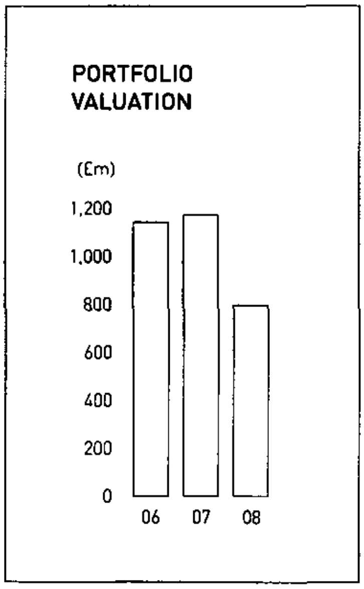


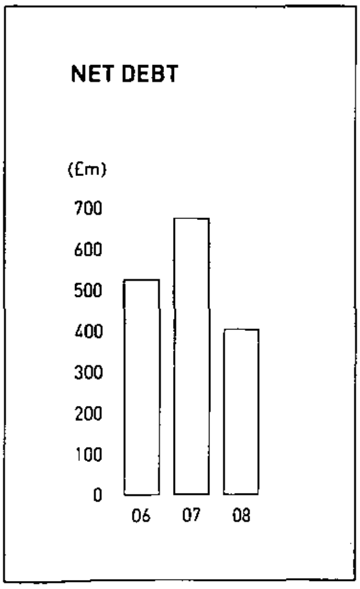


	31-Dec-08 £m	31-Dec-07 £m	Up/ (down) %
BALANCE SHEET (non-statutory format)			
Property portfolio	**798.8**	1,175.3	(32.0%)
Borrowings	**(601.6)**	(798.7)	(24.7%)
Cash	**195.3**	122.0	60.1%
Other	**7.1**	19.1	(62.8%)
Adjusted net assets*	**399.6**	517.7	(22.8%)
Deferred tax	**(61.0)**	(114.6)	(46.8%)
Statutory net assets	**338.6**	403.1	(16.0%)
Share Capital	**16.7**	18.7	(10.7%)
Reserves	**321.9**	384.4	(16.3%)
Shareholders' funds	**338.6**	403.1	(16.0%)
Adjusted NAV per share*	**647.2p**	764.2p	(15.3%)
Pro-forma Adjusted NAV per share * after January tender-offer	**732.1p**	764.2p	(4.2%)
Statutory NAV per share*	**548.4p**	595.1p	(7.8%)
Distribution per share from tender offer buy-backs	**94.8p**	31.5p	201.0%
Adjusted gearing*	**102.6%**	131.7%	(29.1%)
Statutory gearing*	**121.1%**	169.1%	(48.0%)
Adjusted solidity*	**37.7%**	37.5%	0.2%
Statutory solidity*	**31.5%**	29.1%	2.4%
Shares in issue (000's) – excl. treasury shares	**61,745**	67,740	(8.9%)
Shares in issue (000's) - excl. treasury shares, after January tender offer	**48,024**	67,740	(29.1%)

*see glossary of terms on page 94







HIGHLIGHTS

→ **Adjusted Net Asset Value per share* 647.2 pence,** down by 15.3 per cent from 764.2 pence at 31 December 2007 (Statutory NAV* per share 548.4 pence, down 7.8 per cent from 595.1 pence at 31 December 2007).

→ **Pro-forma Adjusted Net Asset Value per share* after tender-offer completed in January 2009 732.1 pence,** down by 4.2 per cent from 764.2 pence at 31 December 2007 (Statutory NAV per share 605.0 pence, up 1.7 per cent from 595.1 pence at 31 December 2007). The number of shares in issue at 24 March 2009 is 48,024,256.

→ **£58.9 million or 94.8 pence per share returned to shareholders via tender-offer including January 09 tender-offer** (December 2007: £22.6 million or 31.5 pence per share). In addition, market purchases of shares amounting to £12.9 million were made during the year.

→ **Property portfolio valued at £798.8 million,** down 32.0 per cent from £1,175.3 million at December 2007 (primarily arising from disposals of £408.1 million, refurbishments of £17.2 million, downward revaluations of £103.4 million and foreign exchange gains of £118.8 million).

→ **Net rental income £61.3 million,** down 7.5 per cent from £66.3 million for the year to 31 December 2007.

→ **Year end cash £195.3 million** (December 2007: £122.0 million). £147.3 million after January 09 tender offer.

→ **Loss before tax £142.2 million** after downward revaluations of £103.4 million on properties, £21.0 million on derivatives, and impairment of intangibles of £22.0 million (December 2007: loss £72.6 million after downward revaluations of £68.1 million on properties, £1.5 million on derivatives, and nil impairment of intangibles).

→ **Loss after tax £78.1 million** after release of deferred tax liabilities of £67.7 million (December 2007: loss £32.9 million after release of deferred tax liabilities of £42.3 million).

→ **Net foreign exchange gain recognised in reserves £40.5 million** (December 2007: £16.9 million).

*see glossary of terms on page 94

1 Vänerparken, Vänersborg
2 Maximilian Forum, Munich
3 Merkurring, Hamburg

CHAIRMAN'S STATEMENT

In 2008 we have seen unprecedented turmoil in financial markets and the global economy as a whole. Governments have reacted with attempts to stabilise conditions and we wait to see whether these reforms and initiatives are successful.

The real estate market has been badly affected by unavailability of funding and its consequent effects in terms of substantially lower transactional volumes and valuations.

Valuations of properties are intended to indicate the price in an open market, and with low transactional volumes our valuers have indicated that greater subjectivity is required in arriving at the open market valuation. My personal view is that open market values generally are proving very difficult to establish with a reasonable level of accuracy.

The IPD UK index indicates that commercial property capital values have fallen by 27 per cent over the year, and whilst a number of companies in the UK listed real estate sector have reported full year falls across their portfolios in excess of 20 per cent, the CLS portfolio has performed comparatively well dropping in value by only 13.4 per cent on average. Our portfolio in France has performed particularly well relative to the local market, and the UK business has reported falls of below 16 per cent.

Our well-let portfolio offers protection against falling markets, and our strategic mix of low-vacancy, non-prime location buildings, with a high proportion of long-term leases to government tenants is now providing significant defensive benefits. I believe we have a resilient portfolio, with a relatively low risk of tenant default given our high proportion of government tenancies (39.8 per cent by rental income).

CLS's strategy of holding property for the medium to long-term and deriving value from active management means that valuation movements are of less significance to us than the fundamentals of secure rental income and effective treasury management.

CLS has always been a well-managed and defensively structured group, evidenced by our tight cash management, the spreading of risk across European markets and currencies, and our hands-on, active management of the portfolio.

One consequence of the global recession is that borrowing rates on existing floating rate debt have fallen. We have 42 per cent of debt on floating rates and therefore if levels remain at current rates this will increase our underlying profitability during 2009 and beyond as the interest burden is lessened substantially.

Companies that are successful over the medium to long-term anticipate changing market conditions and react accordingly. During the second half of 2006, CLS embarked on a strategy of disposing of property assets, both to crystallise capital gains made during the preceding years of good market conditions, and also to free up cash reserves that we felt would be crucial as the downturn began to take effect.

This strategic decision has meant that over £700 million of property has been disposed of in the last 3 years, the 2008 disposals at a weighted average price nearly 5 per cent above 2007 year end valuations and significantly boosted our bank balances. We have returned £72 million in cash to shareholders in the last 12 months. This was by way of tender-offer buy-backs totalling £59 million in the latter part of the year and early 2009, and by buying back shares in the market for £13 million, whilst still maintaining strong cash reserves to see us through the current tightening of credit lines.

We are in discussions with our bankers and loan providers regarding loan-to-value clauses in loan agreements on several of our properties in London. We thank them for their continued support and willingness to negotiate on key terms during these difficult times. We have always maintained good relationships with our banks, and will work in partnership with them going forwards to ensure mutually acceptable terms for continued financing.

In France and Germany it is much more difficult for the lender to enforce a loan-to-value breach if interest, amortisation and agreed interest cover is in place. This is why in the UK many unnecessary repossessions are taking place, and a number of our peers based in the UK are genuinely concerned about this situation. It is hoped that the UK Government will seek to influence banks not to enforce loan-to-value breaches when all other covenants are being honoured.

Our well-let portfolio offers protection against falling markets, and our strategic mix of low-vacancy, non-prime location buildings, with a high proportion of long-term leases to government tenants is now providing significant defensive benefits.

CHAIRMAN'S STATEMENT (continued)

This strategic decision has meant that over £700 million of property has been disposed of in the last 3 years. We have returned £72 million in cash to shareholders in the last 12 months.

We also believe that property yields are now moving towards a level where the gap between yields and returns on cash deposits are sufficiently wide that property will once again become a desirable investment alternative.

In common with many businesses, and as a result of the sale of around one third of the portfolio, the directors have been focussing on reducing the operating cost base and staffing levels. A cost-cutting programme has been implemented and this is expected to show a further £2 million of annualised cost savings in 2009 and beyond, compared with 2008. The results for 2008 show non-recurring costs in relation to this re-structuring.

There have been a number of changes to the Board of directors during 2008. I would like to thank James Dean, Per Sjöberg and Steven Board for their advice, hard work and contribution to the Group over many years.

In May 2008 I welcomed Henry Klotz as CEO, and in November 2008 Joe Crawley and Chris Jarvis joined the Group as non-executive directors to the Board. I look forward to working with them and I am sure that their knowledge, coupled with the Board's experience of previous downturns will steer CLS successfully through these turbulent times.

Finally, I would like to thank our lenders, customers, staff and suppliers for their continued support, enthusiasm and dedication to the business.

Sten Mortstedt
Executive Chairman
14 April 2009

BUSINESS REVIEW 2008

INTRODUCTION

In our last annual report, we reported that 2007 had been a tough year and that we did not anticipate life becoming much easier in 2008. Uncertainty remains, caused by recession in the markets in which we are active and the continuing lack of financial liquidity and lending capacity.

In 2008 we sold properties for gross proceeds of £421.5 million. This has had the effect of reducing our adjusted gearing from 131.7 per cent at 31 December 2007 to 102.6 per cent whilst increasing our cash from £122.0 million at 31 December 2007 to £195.3 million at 31 December 2008, after redeeming the loans relating to the properties sold in addition to servicing the ongoing loans. We have now completed our strategy of selling selected properties to enable the Group to be strongly positioned to take advantage of purchasing opportunities as they arise in the future.

UK

At the beginning of the year the UK portfolio was valued at £485.8 million plus £112.8 million for the London Bridge Quarter (LBQ) and Fielden House joint ventures.

During the year, eleven investment properties were sold for gross proceeds of £113.3 million compared to a December 2007 carrying value of £105.2 million, a premium of 7.6 per cent. The buildings sold were Brent House, Conoco House, Coventry House, One Leicester Square, 22 Duke's Road, 275/281 and London House King Street, Satellite House and Vista Centre. The sale of our interest in LBQ was also completed for £30 million including associated debt. The property at 86 Bondway that was previously included as an investment property has now been transferred to property, plant and equipment from the date that we occupied it as our head office. This property will be held at market value within property, plant & equipment until such time that it is returned to the investment portfolio or sold.

2008 proved to be a difficult year as the markets continued to feel the effects of the global credit crisis, with a further fall in transaction activity across Central London. Yields continued to move out as lack of demand was driven by the reduction of available finance and opportunistic buying.

The occupational market during the year remained strong with a number of new lettings completed, reducing the vacancy rate from 5.8 per cent at 31 December 2007 to 4.4 per cent by rental income at 31 December 2008.

1 CI Tower, London
2 Great West House, London

BUSINESS REVIEW 2008 (continued)

New lettings were achieved at Cambridge House with existing tenants Prostate Cancer Charity and Open Society Foundation taking 320 sq m and 325 sq m respectively. Our subsidiary, Instant Office Limited, acquired a further 988 sq m at Great West House, expanding the business centre to 1,956 sq m. At Westminster Tower, 288 sq m was let to Trustwave Limited and further lettings were completed at Quayside and Ingram House. 86 Bondway was let to our subsidiary CLSH Management as the UK Head Office, assigning the lease on 26th Floor, Portland House, Victoria for a consideration of £0.2 million to Akzo Nobel Coatings (BLD) Limited with a guarantee from Akzo Nobel NV.

At Spring Gardens we achieved a significant increase at the June 2008 annual RPI rent review on units 3 to 5 and units 5 to 6. The index based review resulted in an increase of 4.9 per cent from £2.9 million to £3.1 million per annum in total. We completed the construction of the new on-site gymnasium and restaurant, which were extended to 939 sq m. This is let to the existing Government tenant of Spring Gardens until February 2026, in line with the expiry of all the leases on the estate.

Another significant rent review during the year was with Flight Centre on the 2nd and 6th floors of CI Tower where the rent increased by 20 per cent to £0.1 million p.a. on the 2nd floor and 8 per cent on the 6th floor to £0.1 million p.a. At Ingram House, a rent review was settled with GE Capital Europe on the 3rd floor increasing the rent by 89 per cent to £0.1 million pa.

Prior to the sale of Coventry House we completed the lease renewal on the restaurant over the lower ground, ground and 1st floors for a term of 25 years at a rent of £0.8 million pa, representing an increase of £0.1 million pa.

During 2008 we have been pro-active in seeking lease renewals and extensions to secure tenants and to maintain the income stream across the portfolio. This will remain the focus for 2009, together with reducing the vacancy rate further.

At 31 December 2008 the UK portfolio comprised 27 properties valued at £323.2 million including £2.3 million in respect of CLS' share of the Fielden House joint venture. This reflects a decrease in the value of the current properties on a like for like basis of 15.8 per cent from December 2007.

We believe the biggest risks currently facing the property market is a deepening of the recession in the UK leading to increased vacancy and the lack of bank liquidity which will continue to affect the market. Since approximately 54 per cent of the portfolio is let to government or quasi-government tenants and the average lease period is 11.2 years, we anticipate that our UK property values will prove resilient compared to the wider market.

FRANCE

At 31 December 2007 the French portfolio was valued at £355.3 million (€482.2 million).

There was a significant portfolio sale of 29 companies owning 14 properties in May 2008. Consideration in respect of the properties was £110.3 million (€142.4 million) representing a 7.4 per cent premium on December 2007 valuations. Further to this sale, on 30 July the Group completed the corporate sale of three properties in a western suburb of Paris based on property values of £68.5 million (€87.0 million). These properties were valued at £69.5 million (€94.3 million) at 31 December 2007. As these were all corporate sales the purchasers also acquired the assets and liabilities of the companies, including certain loans secured on the properties which led to a book loss on disposals of £16.0 million (€19.7 million). Consequent to the sales however there was also a release of previously accrued potential deferred tax liabilities of £34.6 million (€43.6 million). The net result in the Income Statement for these disposals therefore was a gain of £18.6 million (€23.9 million – see Financial Review section).

A further property in Courbevoie was sold for £5.4 million (€7.0 million) compared to a December 2007 valuation of £5.0 million (€6.8 million). In addition, a deferred tax liability of £0.5 million (€0.6 million) relating to the property was released through the deferred tax line of the Income Statement.

We are pleased with the prices obtained for all of these properties, which have yielded good returns over our period of ownership.

In 2008, the French economy slowed down considerably, growing by only 0.9 per cent with the collapse of business activity in secondary and tertiary sectors. Business investment began to plunge due to deflationary expectations, blocked inter-bank lending and tougher credit conditions and the slow down of cash flows. The volume of investment represented only 12.5 billion euros, equalling 2004.

The volume of take-up in the Paris region in the year totalled almost 2.4 million sq m (a 14 per cent drop compared to 2007), whilst the immediate supply of office space saw a 13 per cent rise to reach 2.7 million sq m. The average vacancy rate in the Paris region at the end of the year increased to 5.4 per cent.

New leases were completed in respect of 13,385 sq m representing approximately 17 per cent of the portfolio and revenue of €3.0 million. The major re-lettings were located in Lyon with 6,407 sq m at Le Forum and 1,296 sq m at Front de Parc as well as in La Garenne Colombes with 2,385 sq m at Sigma. Additionally we negotiated lease extensions and renewals for 7,630 sq m producing revenue of €1.7 million including a new firm 6 year lease with GRTgaz over 3,170 sq m in Gennevilliers and a new firm 6 year lease with CAMFIL over 1,072 sq m in La Garenne Colombes.

Rents subject to indexation grew in the first half with annualised increases of 4.7 per cent in the first quarter and 4.5 per cent in the second quarter. These uplifts made an annual rent roll increase of approximately €0.6 million.

1 Bellevue, Paris
2 D'Aubigny, Lyon

We continued renovation and refreshment of our buildings in order to offer the best office specifications to our tenants. In 2008 we have spent over €2.8 million including €1.9 million for complete renovation of the vacant premises (mainly at Sigma, Quatuor and Forum), €0.6 million for upgrading of air cooling systems, and €0.3 million for various improvement works in common parts.

At 31 December 2008 the portfolio comprised 25 properties (including 1 in Luxembourg) with a value of £223.4 million (€233.7 million), reflecting a fall in value of 7.4 per cent on a like for like basis during 2008.

The vacancy rate has increased to 4.2 per cent by rental income at the year end from 4.0 per cent at 31 December 2007, however negotiations are at an advanced stage for re-letting part of the vacant areas and we have also launched renovation work for marketing purposes.

GERMANY

At 31 December 2007 the German portfolio was valued at £171.5 million (€233.2 million).

There were no acquisitions or disposals in the first half, but in December 2008 we completed the sale of the STEP 9 property for £11.4 million (€12.9 million) compared with a value at 31 December 2007 of £8.5 million (€11.6 million).

At 31 December 2008 the German portfolio comprised 17 properties with a value of £201.4 million (€210.7 million) reflecting a fall in value of 10.5 per cent on a like-for-like basis compared to 31 December 2007.

Our German operations have entered an exciting phase with approximately £24.6 million (€31 million) being spent on major redevelopments at the Rathaus Centre in the city of Bochum, and two new buildings that will form part of our existing property in Landshut, Munich over the next six months. Both of these properties have strong tenancy agreements in place with Bochum being let on a 30 year indexed lease to the City of Bochum, commencing May 2009, and the Landshut buildings on 10 year leases to E.ON Bayern AG with no breaks.

The German economy grew by 2.5 per cent in 2008 and GDP is expected to decrease by close to 3.0 per cent in 2009, the unemployment rate decreased to 7.2 per cent in 2008 but is expected to increase again to 8.0 per cent by the end of 2009.

The commercial investment market activity decreased dramatically by nearly 65 per cent, from €75.0 billion in 2007 down to €20.7 billion in 2008, due to the lack of financing. Nevertheless this is still 100 per cent above the 10-year-average transaction volume in Germany. Take-up in the office letting market decreased by 4 per cent in 2008 with 3.5 billion sq m which is the 3rd best result ever. We will keep looking for new development opportunities very selectively.

The vacancy rate across the German portfolio at the year end is 3.2 per cent by rental income compared with 2.4 per cent at December 2007.

SWEDEN

The Swedish portfolio remains unchanged with the Vänerparken property in Vänersborg, near Gothenburg. The value of £50.8 million (SEK 581 million) has increased in Sterling terms from its valuation at 31 December 2007 of £49.6 million (SEK 635 million), but this is due to the fall in value of Sterling over the year. In local currency the value has fallen by 8.5 per cent, mostly due to a tenant surrendering space in exchange for a reverse premium amounting to £1.0 million.

The total transaction volume was predicted to decrease dramatically in Sweden during 2008, however, this projection was not fulfilled due to a few exceptionally large transactions. Vasakronan, owned by the Swedish government, was bought by AP Fastigheter in July 2008 at a purchase price of £3.4 billion (SEK 41.1 billion), which is the largest property transaction ever in Sweden. Including this deal, the total volume in Sweden last year amounted to £11.1 billion (SEK 132.8 billion), compared to £12.2 billion (SEK 145.8 billion) in 2007. International investors accounted for 25 per cent of the transaction volume in 2008, a decrease of 34 per cent compared to 2007.

The financial crisis is starting to impact the Swedish economy fully. Sweden's GDP growth, which stagnated during the first half of 2008, is now expected to plunge into negative territory from the fourth quarter. The Swedish National Institute of Economic Research forecast in December that annual GDP growth will end at 0.8 per cent for 2008, compared to 2.5 per cent in 2007. Sweden's unemployment rate was 6.4 per cent in December of 2008 and is predicted to continue to rise.

After experiencing a few years of strong rental growth in Swedish property markets, rents now seem to be levelling out and are expecting to start falling in 2009.

BUSINESS REVIEW 2008 (continued)

Vänerparken consists of approximately 45,415 sq m and has a vacancy rate of 12.73 per cent, since the university vacated 11,783 sq m as they centralised their campuses in four towns into one. We have now let 6,001 sq m of that area to the local authorities and we are in final negotiations of signing new lease agreements for most of the remaining area with the local authority. Around 90 per cent of the rented area is let to Swedish government related tenants offering services such as healthcare, education, a leisure water park and restaurant facilities.

The vacancy rate at 31 December 2008 is 8.2 per cent by rental income compared with 0.8 per cent at December 2007, reflecting the surrender of space mentioned above. Negotiations are currently in progress that if successful will see the vacancy rate reduced to 1.9 per cent.

WYATT MEDIA GROUP

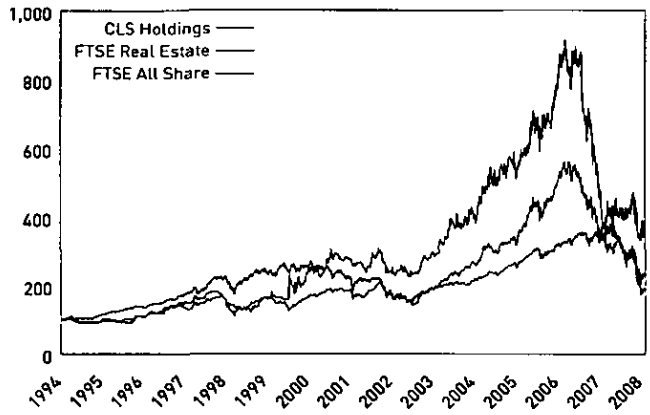
In June of this year the Lunarworks Group was re-branded as the Wyatt Media Group (Wyatt) to better reflect its developing identity as a multi stranded media group that provides effective advertising opportunities for its customers wishing to access the youth market. Wyatt now owns or is associated with seven websites (see wyatt.se) and is Sweden's leading digital media house with 70 per cent of the youth market.

During the first half, the Wyatt Group exercised its option to acquire the remaining 60 per cent of Bilddagboken AB for consideration of SEK 25 million (£2.1 million) bringing its shareholding to 100 per cent. It also increased its shareholding in Internetami AB (Tyda) from 57 per cent to 82.3 per cent for consideration of SEK 5.4 million (£0.4 million) and acquired 40 per cent of blog collection site, Bloggkoll.com.

In May a new CEO joined Wyatt and a new strategy has been implemented that includes growth through both in-house development and acquisitions. As part of this, CLS Group has re-assessed the state of the market Wyatt operates in, the risks and uncertainties associated with that market and the business in its current state of development, the rate of growth that can be expected and the synergies that can be obtained from recent acquisitions within Wyatt. On the basis of this re-assessment the Board has decided to write off all goodwill on the acquisition of Wyatt of £22.0 million. The carrying amount of the Wyatt Group after this write-down is immaterial to the CLS group at 31 December 2008.

TOTAL RETURN TO SHAREHOLDERS

In the period from January 2001 to January 2008 the Group consistently outperformed both the FTSE all share and FTSE real estate indices, however in June 2007 share prices fell in anticipation of the downturn in the commercial property market which occurred in the second half of 2007. Since that time these indices have converged. The graph below, independently sourced by DataStream, includes conventional dividend payments but excludes the positive impact to CLS shareholders of substantial capital distributions through tender offer buy-backs.



DISTRIBUTIONS – In November 2008 and early January 2009 we distributed £58.9 million to shareholders by way of tender offer buy-backs of 16.3 million shares, equating to 94.8 pence per share.

PURCHASE OF OWN SHARES – 3.7 million of our own shares were bought back from the market for cancellation at an average cost of 344.7 pence compared to a closing adjusted NAV per share of 647.2 pence.

THE FUTURE – During 2009 we intend to focus all of our energy and creativity on our core property operations. Our sales programme has now come to an end although our cost-cutting efforts continue. We will also concentrate on our letting activities and ensure that we retain our existing tenants in order to increase our cash flow.

FINANCIAL REVIEW

INTRODUCTION

Due to the continued downturn in the global economy during 2008 causing further downward pressure on property values, the Group has suffered a loss before taxation of £142.2 million for the year (31 December 2007: loss of £72.6 million), and an after tax loss of £78.1 million (31 December 2007; loss of £32.5 million). Adjusted net assets reduced from £517.6 million at 31 December 2007 to £399.6 million, a reduction of £118.0 million or 22.8 per cent (statutory net assets from £403.1 million to £338.6 million).

LOSS BEFORE TAX – The loss before tax of £142.2 million was principally caused by a reduction in the valuation of the Group's property assets, which fell by £103.4 million. The majority of the fall was on yield shift due to volatile markets and low volume of transactions reducing property valuations. The average increase in yield was 90 basis points across the portfolio. On a like-for-like basis, this level of yield shift would indicate a devaluation of around £112 million, indicating that our letting progress during the year and selective disposal of properties on higher yields has had a positive effect.

TAX – The charge for current tax was £3.6 million, mainly incurred in respect of the French and German operating regions. The credit to deferred tax of £67.7 million reflected the disposal of a substantial proportion of the portfolio during the year combined with a reduction in property values for the remaining properties. This shows the benefit of our corporate structure of holding properties in individual entities.

NET ASSETS – Adjusted NAV of 647.2 pence per share (December 2007: 764.2 pence), reduced by 117.0 pence per share or 15.3 per cent during 2008 (Statutory NAV of 548.4 pence per share reduced by 46.7 pence per share or 7.8 per cent over the same period).

The second tender-offer, announced in November 2008, was concluded on 7 January 2009. The terms of this tender offer were to buy back 2 in every 9 shares at 350p per share, a total distribution of £48.0 million. If the results of this tender offer had been taken into account as at 31 December 2008, the adjusted NAV per share would have been 732.1 pence per share, an improvement of 84.9 pence from the year end and only 4.2 per cent down on 31 December 2007.

GOING CONCERN – The directors regularly stress-test the business model to ensure that we have adequate working capital. The results of these analyses indicate that it remains appropriate to treat the business as a going concern.

GEARING AND INTEREST COVER – Adjusted gearing at the year end was 102.3 per cent (December 2007: 131.7 per cent) and statutory gearing was 121.1 per cent (December 2007: 169.1 per cent). Had the second tender offer above been taken into account, adjusted gearing would have increased to 130.3 per cent (statutory gearing 157.6 per cent).

Recurring net interest payments and financial charges were covered by operating profit (excluding fair value adjustments) by 1.3 times (2007: 1.3 times).

DISTRIBUTIONS – During the year the Company distributed £10.9 million to shareholders by way of tender offer buy-back (17.0 pence per share). This compares to distributions of £22.6 million for the year to 31 December 2007 (31.5 pence per share). If the second tender offer were also taken into account, the total distribution to shareholders would have been £58.9 million or 94.8 pence per share. The number of shares purchased through the two tender offer buy-backs amounted to 16.3 million shares representing 24.1 per cent of shares in issue on 1 January 2008.

CASH – The Group held £195.3 million in cash and cash equivalents as at 31 December 2008 (December 2007: £122.0 million). The second tender offer, on 7 January 2009 reduced this figure by £48.0 million. Of the year end cash balance, £11.0 million is restricted by third party charge over funds (December 2007; £21.4 million).

1 Deanery Street, London
2 Vänerparken, Vänersborg

FINANCIAL REVIEW (continued)

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:

	Total £m	UK £m	France £m	Germany £m	Sweden £m	Wyatt £m	Equity Inv £m	2007 £m
Net rental income	**61.3**	25.9	19.3	12.2	3.9	–	–	66.3
Other income (incl associates)	**(4.9)**	1.2	1.1	–	(7.2)	3.6	(3.6)	7.1
Operating expenses	**(19.7)**	(5.7)	(3.2)	(3.0)	(1.4)	(6.4)	–	(30.9)
Net finance expense	**(22.1)**	(8.3)	(8.1)	(6.2)	(1.4)	(0.2)	2.1	(41.2)
Profit on sale of investment properties	**7.0**	6.5	(0.1)	0.6	–	–	–	–
Loss on sale of subsidiaries	**(16.2)**	–	(15.9)	–	(0.3)	–	–	(2.0)
Underlying profit/(loss)	**5.4**	19.6	(6.9)	3.6	(6.4)	(3.0)	(1.5)	(0.7)
Fair value losses on investment properties	**(103.4)**	(59.5)	(17.8)	(19.9)	(6.2)	–	–	(68.1)
Other fair value (losses)/gains	**(21.0)**	(17.4)	(1.0)	(2.6)	–	–	–	(1.5)
Impairment of intangibles	**(22.0)**	–	–	–	–	(22.0)	–	–
Non-recurring costs	**(1.2)**	(1.2)	–	–	–	–	–	(2.3)
Loss before tax	**(142.2)**	(58.5)	(25.7)	(18.9)	(12.6)	(25.0)	(1.5)	(72.6)
Tax – current	**(3.6)**	–	(3.4)	(0.3)	(0.4)	0.3	0.2	(2.6)
Tax – deferred	**67.7**	25.6	37.8	1.8	2.5	–	–	42.3
Loss for the year	**(78.1)**	(32.9)	8.7	(17.4)	(10.5)	(24.7)	(1.3)	(32.9)

See reconciliation table page 96.

NET RENTAL INCOME – of £61.3 million decreased by 7.5 per cent (December 2007: £66.3 million) primarily due to disposals of properties in the first half of the year.

OTHER INCOME – amounted to a net loss of £4.9 million (December 2007: income £7.1 million) and included a £3.6 million contribution from Wyatt Group (formerly Lunarworks).

Our associate companies Catena AB and Bulgarian Land Development Plc (BLD), in common with many listed real estate companies, suffered from downward valuation adjustments during 2008. Consequently our share of their results for the year amounted to a loss of £7.5 million compared to a net profit of £0.5 million in 2007. We have however received dividend income of £1.5 million from Catena during 2008, so this investment remains cash generating to the Group.

A net loss of £4.6 million arose on the mark-to-market of shares held as investments and other listed share trades, including a provision of £3.0 million on our investment in Note AB.

OPERATING EXPENSES – Operating expenses set out in the financial results table above comprised administrative expenditure of £16.1 million (December 2007: £27.7 million) and net property expenses of £3.6 million (December 2007: £3.2 million).

ADMINISTRATIVE EXPENDITURE – amounted to £16.1 million (December 2007: £27.7 million):

	2008 £m	2007 £m	Difference £m
Core property group	**9.6**	12.5	(2.9)
London Bridge Quarter (LBQ)	**–**	8.7	(8.7)
Wyatt Media Group	**6.5**	6.5	–
Total	**16.1**	27.7	(11.6)

Our investment in London Bridge Quarter (LBQ), which included our share of the joint venture developing Southwark Towers and New London Bridge House, was disposed of in early January 2008 and therefore no costs were incurred on this project during the year. The substantial cost savings made on the core property business in 2008 relate principally to lower headcount and a slimmed down senior management team (£1.9 million), the re-location of the head office to a property held by the Group (£0.5 million) and tighter control over professional fees (£0.5 million).

NET PROPERTY EXPENSES – of £3.6 million (December 2007: £3.2 million) included legal, letting and other fees of £1.2 million, reflecting letting success across all regions, advertising and marketing costs of £0.1 million and void costs of £0.8 million. Repair and maintenance costs were £0.5 million, depreciation amounted to £ 0.1 million and bad debts were £0.2 million.

NET FINANCE EXPENSES – amounted to £22.1 million (December 2007: £41.2 million)

Analysis of net finance expense	2008 £m	2007 £m	Difference £m
Interest receivable	**8.6**	5.9	**2.7**
Foreign exchange	**11.9**	0.7	**11.2**
Interest receivable and similar income	**20.5**	6.6	**13.9**
Interest payable and similar charges	**(42.6)**	(47.8)	**5.2**
Net finance expense	**(22.1)**	(41.2)	**19.1**

Finance costs (excluding fair value adjustments on financial instruments) of £42.6 million decreased by £5.2 million compared to the previous year of £47.8 million, principally due to the disposals completed in the first half of 2008 and the resultant redemption of loans.

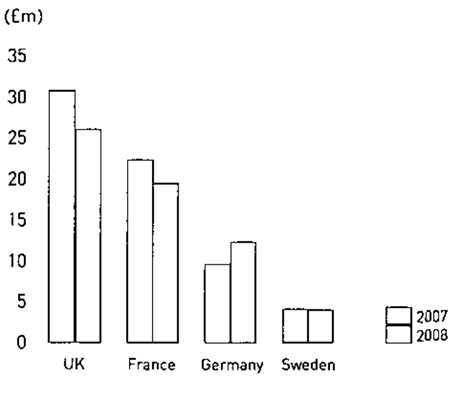
Interest receivable of £20.5 million is comprised of two main items; £8.6 million was earned from average cash reserves during the year of £168 million, combined with an £11.9 million foreign exchange translation gain mostly from Euro cash balances held by the Group being re-translated at the exceptionally low GBP to Euro rate that arose at the end of December. This category also includes a net gain on forward foreign currency exchange contracts entered into during the year of £2.4 million.

The average cost of borrowing for the Group at 31 December 2008, is set out below:

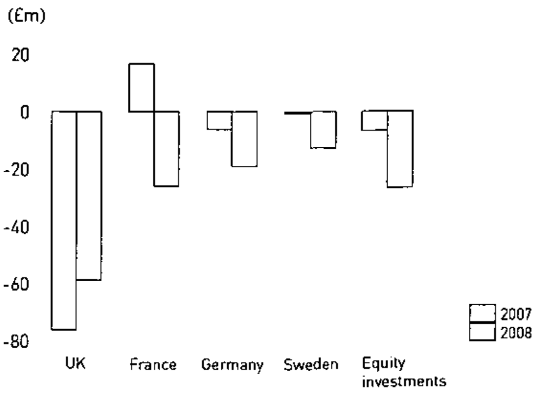
	UK	France	Germany	Sweden	Total
December 2008					
Average interest rate on fixed rate debt	**6.7%**	**4.9%**	**5.2%**	**-**	**6.2%**
Average interest rate on variable rate debt	**6.1%**	**5.4%**	**5.6%**	**4.5%**	**5.3%**
Overall weighted average interest rate	**6.7%**	**5.3%**	**5.3%**	**4.5%**	**5.8%**
December 2007					
Average interest rate on fixed rate debt	6.8%	4.6%	5.1%	5.4%	6.2%
Average interest rate on variable rate debt	7.2%	5.4%	5.5%	5.7%	5.8%
Overall weighted average interest rate	7.0%	5.2%	5.2%	5.6%	6.1%

Financial instruments – The adverse impact of fair value movements in interest rate instruments was £21.0 million (2007: adverse £1.5 million). This amount is almost entirely relating to a floating to fixed rate swap transaction on one property, fixing below 5 per cent on a long-term basis over a principal sum of £106.0 million. At 31 December 2008, with global interest rates falling heavily and long-term yield curves relatively flat, this instrument was marked down accordingly. We believe that this swap transaction is an attractive long-term hedging instrument. It is important to note that if this swap is held to maturity, the net fair value movements reported through the income statement over its life will be zero, leaving only the impact of fixing the interest rate over the life of the instrument.

NET RENTAL INCOME



PROFIT/(LOSS) BEFORE TAX



FINANCIAL REVIEW (continued)

LOSS ON SALE OF SUBSIDIARIES – The loss of £16.0 million principally relates to the sale of French properties by way of corporate sale rather than the sale of the individual buildings. Such sales are accounted for by taking any deductions for latent tax and guarantees provided through the valuation line of the properties within the corporate vehicles. This resulted in the pre-tax loss on disposal of French subsidiaries. In conjunction with the disposals however is a reduction in the Group's potential liability for deferred tax, in this instance amounting to £34.6 million. This movement is shown within the deferred taxation line, thus the net effect on the Group of the French disposals is a profit after tax of £18.6 million.

PROFIT ON SALE OF INVESTMENT PROPERTIES – Disposals of properties in the UK and Germany were by conventional sale of the buildings, which released a profit on disposal of £6.5 million and £0.6 million respectively, and a further release of deferred tax of £7.0 million.

NON-RECURRING COSTS – As reported in the Chairman's statement at the 2007 year end, CLS was considering a number of options to re-structure the Group in order to release reserves for future distributions, to align the structure to the Group's pan-European operational focus and to enable the Group to compete more effectively with other UK property investors enjoying REIT status. Non-recurring costs of £1.2 million were incurred in the year in relation to this proposed change. The release of reserves was completed and the Group structure is being reviewed to rationalise the number of entities.

IMPAIRMENT OF INTANGIBLES – The Group's investment in the Wyatt Group of companies was re-assessed during the year as a result of operational and trading difficulties within the markets that Wyatt operates. The result of this re-assessment was the write-off of all goodwill relating to our investment in this business, a total of £22.0 million. We continue to closely monitor our investment in Wyatt, but the carrying value at 31 December 2008 is immaterial to the CLS Group.

TAXATION

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

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

The method of calculation for the estimate of deferred tax was revised in 2007 to include the effect of indexation allowance available if properties in the UK were to be sold, resulting in a credit to the income statement of £31.4 million in that year. The method was revised during the 2007 financial year as the Group considered that it was more appropriate to assume that it would recover the carrying amount of its investment properties through use followed by eventual disposal. This is evidenced by the decision taken in 2007 to dispose of a significant proportion of the portfolio, completed during 2008.

Prior to the 2007 financial year, the Group had been predominantly long-term investors in property with occasional disposals, and therefore it was more appropriate to determine the tax base as being that of returning value through continued collection of rental income.

For the year ended 31 December 2008 the IAS 12 deferred tax credit included in the Income Statement was £67.7 million. This is after, where appropriate, recognition of tax losses and the reversal of timing differences. The provision for deferred tax reduced net assets by £61.0 million (31 December 2007: credit of £42.3 million and reduction in net assets of £114.6 million respectively).

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

REVIEW OF THE BALANCE SHEET

INVESTMENT PROPERTIES – The Group's property portfolio amounted to £798.8 million, showing a net decrease of £376.5 million over its value at 31 December 2007 of £1,175.3 million. The movement in the portfolio is set out below:

	Group £m	UK £m	France £m	Germany £m	Sweden £m
Opening property assets	**1,175.3**	598.5	355.3	171.8	49.7
Purchases	**–**	–	–	–	–
Refurbishment	**17.2**	2.6	1.2	11.1	2.3
Disposals	**(408.1)**	(217.8)	(180.5)	(9.3)	(0.5)
Revaluation movements	**(103.4)**	(59.5)	(17.8)	(19.9)	(6.2)
Foreign exchange	**118.8**	–	65.7	47.5	5.6
Other	**(1.0)**	(0.6)	(0.5)	0.2	(0.1)
Closing property assets	**798.8**	323.2	223.4	201.4	50.8

PURCHASES – No properties were purchased during the year.

REFURBISHMENT – In the UK, expenditure on refurbishments amounted to £2.6 million, principally on upgrading our property at Spring Gardens to meet the tenant's requirements. Other improvements were made to Great West House and Cap Gemini House.

The bulk of refurbishment and development expenditure was carried out in Germany at our properties in Landshut (Munich) and Bochum (£11.1 million). Various smaller refurbishment works in France amounted to £1.2 million.

DISPOSALS – The detail of the disposals made during the year is covered in the Business Review, but the significant items were the disposal of our share in LBQ in the UK (£110.2 million), the sale of a portfolio of properties in France to LFPI (£97.7 million), Victor Hugo and the Pascal buildings in Paris (£40.4 million and £29.3 million respectively), the sale of 1 Leicester Square (£29.0 million) and Coventry House (£23.8 million).

FOREIGN EXCHANGE – The gross foreign exchange translation gains on properties was £118.8 million, of which £65.7 million related to France, £47.5 million was in respect of Germany and £5.6 million arose in Sweden. Taking into account the effect of foreign exchange translation on loans to finance these assets, the net effect was a gain in reserves of £40.5 million.

Based on the valuations at 31 December 2008 and annualised net contracted rent receivable at that date of £59.2 million, the portfolio shows a yield of 7.4 per cent, an increase of 90 basis points since 31 December 2007, reflecting the increased volatility in the markets, lower volume of comparable transactions and prudent valuations.

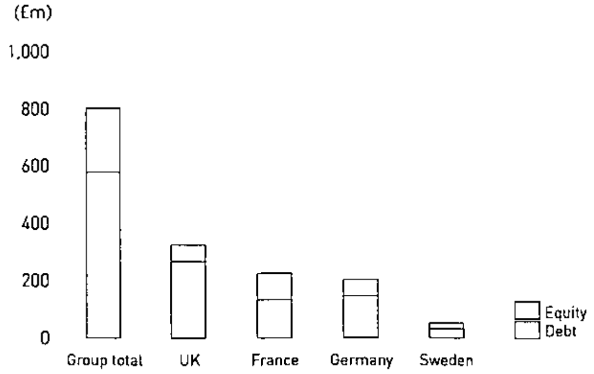
An analysis of the location of investment property assets and related loans is set out below:

	Total £m	UK £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity Investments £m	%
Investment Properties	**798.8**	**323.2**	40.5	**223.4**	28.0	**201.4**	25.2	**50.8**	6.3	**–**	–
Property loans*	**(576.3)**	**(265.4)**	46.1	**(132.5)**	23.0	**(144.9)**	25.1	**(31.2)**	5.4	**(2.3)**	0.4
Equity in Property Assets	**222.5**	**57.8**	26.0	**90.9**	40.9	**56.5**	25.4	**19.6**	8.8	**(2.3)**	(1.0)
Other	**177.1**	**85.7**		**71.5**		**1.6**		**0.5**		**17.8**	
Adjusted net assets	**399.6**	**143.5**	35.9	**162.4**	40.6	**58.1**	14.5	**20.1**	5.0	**15.5**	4.0
Equity in Property as a Percentage of Investment	**27.9**	**17.9**		**40.7**		**28.1**		**38.6**		**–**	
Opening Adjusted net assets	517.6	227.5	44.0	154.1	29.8	56.4	10.8	40.7	7.9	38.9	7.5
(Decrease)/ increase	(118.0)	(84.0)	71.2	8.3	(7.0)	1.7	(1.4)	(20.6)	17.5	(23.4)	19.8
Closing Adjusted net assets	**399.6**	**143.5**	35.9	**162.4**	40.6	**58.1**	14.5	**20.1**	5.0	**15.5**	4.0

*Loans relating to the financing of our investment in Catena AB and other non-property assets were included within "other" and amounted to £25.3 million.

The following exchange rates were used to translate assets and liabilities at the year end; Euro/GBP 1.0461 SEK/GBP 11.4474. Adjusted net assets are reconciled to statutory net assets in the 'Results at a glance' section.

DEBT/EQUITY FINANCING OF PROPERTY ASSETS BY REGION



FINANCIAL REVIEW (continued)

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

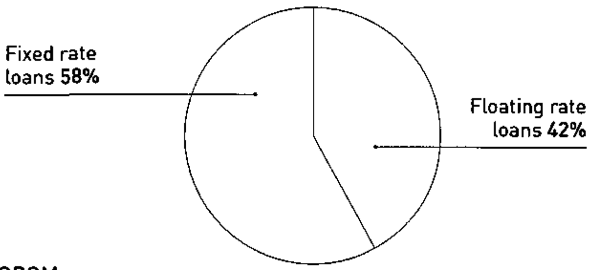
Financial instruments such as interest rate caps and swaps have been taken out with prime banks to manage interest and foreign exchange rate risk in respect of all of the Group's interest rate exposure and a significant proportion of its foreign exchange rate exposure.

Net Interest Bearing Debt

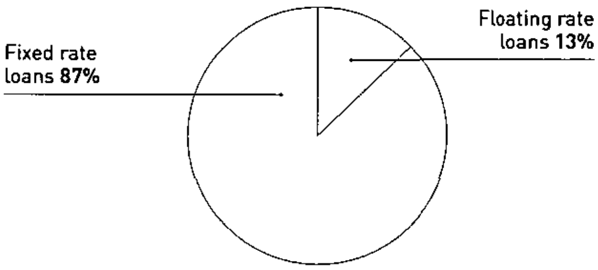
	Total £m	%	UK* £m	%	France £m	%	Germany £m	%	Sweden £m	%	Equity invest. £m	%
2008												
Fixed Rate Loans	**(346.3)**	57.5	**(230.6)**	86.9	**(28.6)**	21.6	**(87.1)**	60.0	-	-	-	-
Floating Rate Loans	**(255.3)**	42.5	**(34.8)**	13.1	**(103.9)**	78.4	**(57.8)**	40.0	**(56.5)**	100.0	**(2.3)**	100.0
	(601.6)	100.0	**(265.4)**	44.1	**(132.5)**	22.0	**(144.9)**	24.0	**(56.5)**	9.4	**(2.3)**	0.5
Bank and cash	**195.3**	100.0	**97.6**	50.0	**79.2**	40.6	**6.7**	3.4	**10.5**	5.4	**1.3**	0.6
Net Interest Bearing Debt	**(406.3)**	100.0	**(167.8)**	41.3	**(53.3)**	13.1	**(138.2)**	34.0	**(46.0)**	11.3	**(1.0)**	0.3
2007	**(676.7)**	100.0	**(338.4)**	50.0	**(194.9)**	28.8	**(113.8)**	16.8	**(29.9)**	4.4	**0.3**	-

*Non interest bearing debt, represented by short-term creditors, amounted to £32.9 million (December 2007: £59.7 million). Borrowings, gross of arrangement fees, amounted to £605.2 million (December 2007: £803.7 million, including amounts owed in respect of Joint Ventures of £68.4 million).

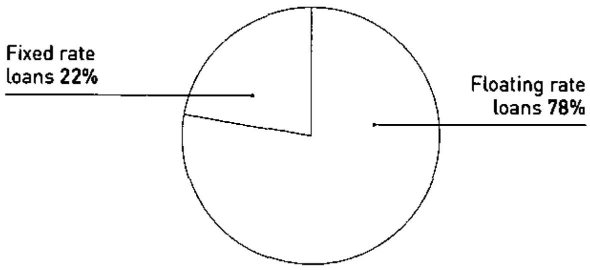
GROUP TOTAL



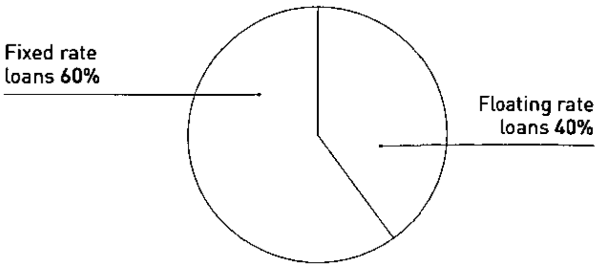
UNITED KINGDOM



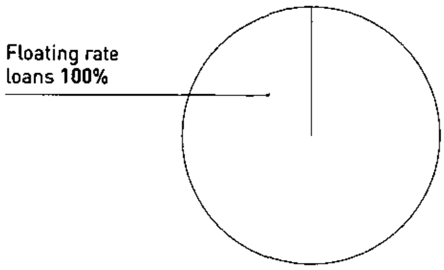
FRANCE



GERMANY



SWEDEN



Interest rate caps

	Total %	UK %	France %	Germany %	Sweden %
2008					
Percentage of net floating rate loans capped	**100.0**	**100.0**	**100.0**	**100.0**	**n/a**
Average base interest rate at which loans are capped	**4.5**	**3.8**	**4.8**	**4.6**	**n/a**
Average tenure	**2.1 years**	**1.7 years**	**2.3 years**	**2.4 years**	**n/a**
2007					
Percentage of net floating rate loans capped	100.0	100.0	100.0	100.0	100.0
Average base interest rate at which loans are capped	4.8	5.5	4.8	4.6	4.5
Average tenure	3.3 years	2.0 years	3.3 years	3.4 years	0.8 years

At the end of 2008, 57.5 per cent of gross debt was fixed (December 2007: 62.8 per cent). This decrease in fixed rate funding is mainly due to the mix of loans redeemed as a result of sales of properties during the year.

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 £35.9 million (December 2007: £36.7 million) at an interest rate of 10.7 per cent with a maturity date of 2025. In addition, there is a zero coupon bond, with a current outstanding balance of £7.6 million (December 2007: £6.9 million), with matching interest rate and maturity date. These debt instruments have a significant adverse effect on the average interest rate.

The net borrowings of the Group at 31 December 2008 were £406.3 million (December 2007: £676.7 million), the decrease being influenced by gross loan repayments and redemptions of £298.4 million, principally resultant from sales of properties. There was also an adverse translation effect in respect of loans held in Euros and SEK of £77.9 million.

The contracted cash flows from the properties securing the loans continue to cover all ongoing interest and loan amortisation obligations. Of the Group's total bank debt of £601.6 million £54.2 million (9.0 per cent) is repayable within the next 12 months, with £270.1 million (44.9 per cent) maturing after more than five years.

OTHER INVESTMENTS – Consists of equity investments amounting to £14.3 million (December 2007: £8.4 million). The majority by value are listed corporate and financial bonds, which are carried at market value of £10.8 million. The bonds were bought at a significant discount to the nominal value and have very attractive coupon rates and yields to maturity. The remaining £3.5 million consists mainly of listed investments.

INVESTMENT IN ASSOCIATE COMPANIES – The Group holds investments in two principal associate companies carried in our books at £39.3 million. The Group holds 29.1 per cent of Catena AB, a Swedish listed property group held at £25.1 million, being the Group's share of the adjusted net assets of Catena excluding any provision for deferred tax, which we believe is unlikely to ever crystallise. Although Catena made a loss for the year due to adverse fair value movements on its properties, our share of which was £3.2 million, it also included positive foreign exchange movement of £3.1 million, a write-off of goodwill amounting to £3.9 million and our share of their negative reserve movements of £0.2 million.

The second associate is Bulgarian Land Development Plc in which our holding of 35.8 per cent is carried at £14.1 million after our share of its losses in the year which amounted to £1.1 million, write-off of opening goodwill of £1.4 million, the recognition of negative goodwill of £2.1 million in respect of additional shares purchased in the year, and our share of their positive reserve movements of £2.2 million.

SHARE CAPITAL – The share capital of the Company amounted to £16.7 million at 31 December 2008, represented by 66,745,471 ordinary shares of 25 pence each, of which 5,000,000 shares were held as Treasury shares. At 31 December 2008 there were therefore 61,745,471 shares quoted on the main market of the London Stock Exchange.

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

A capital distribution by way of tender offer buy-back was made in November 2008 resulting in the purchase and cancellation of 2,575,644 shares and the distribution of £10.9 million to shareholders.

A further tender offer of 2 in every 9 shares at 350 pence was proposed on 1 December 2008 and approved at an AGM held on 18 December 2008. The offer was settled on 7 January 2009 and resulted in the purchase and cancellation of a further 13,721,215 shares and the distribution of £48.0 million.

After the January 2009 tender offer buy-back there were 48,024,256 shares in issue, of which the Mortstedt family holds 57.7 per cent.

Market purchases during the year totalled 3,744,342 shares at an average price of 344.7 pence per share.

The weighted average number of shares in issue during the year was 64,783,048 (December 2007: 71,091,071).

FINANCIAL REVIEW (continued)

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

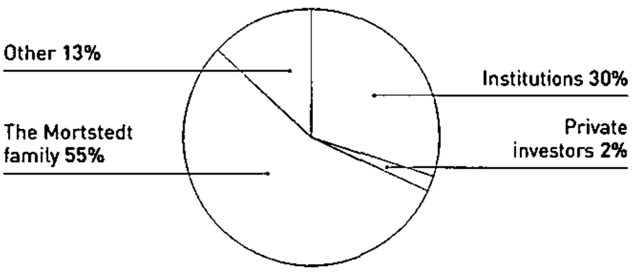
	No. of shares million 2008	No. of shares million 2007
Opening shares for NAV purposes	**67.7**	72.6
Tender offer buy-back	**(2.6)**	(3.3)
Buy-backs in the market	**(3.7)**	(1.6)
Shares issued for the exercise of options	**0.3**	-
Closing shares for NAV purposes	**61.7**	67.7
Shares held in Treasury by the Company	**5.0**	7.1
Closing shares in issue	**66.7**	74.8

An analysis of the year end ownership structure is set out below:

	No. of shares million	Percentage of shares
Institutions	18.7	30.2%
Private investors	0.9	1.4%
The Mortstedt family	34.1	55.3%
Other	8.0	13.1%
	61.7	100.0%
Shares held in Treasury by the Company	5.0	
Total	**66.7**	

At 31 December 2008 there were no share options in existence.

ANALYSIS OF SHARE OWNERSHIP



REVIEW OF CASH FLOWS

Cash balances have increased from £122.0 million at the beginning of the year to £195.3 million at 31 December 2008. The principal movements are the sale of investment property generating £127.6 million, disposal of our interest in the LBQ joint venture for £28.1 million and disposal of subsidiaries owning property in France for £49.2 million.

Loan redemptions resulting from the sale of properties totalled £122.8 million and purchase of own shares through tender-offer buy-back and in the market amounted to £24.0 million. New loans, principally on our development properties in Germany raised cash balances by £21.3 million, mostly utilised on capital expenditure for those properties of £18.9 million.

PROPERTY PORTFOLIO

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

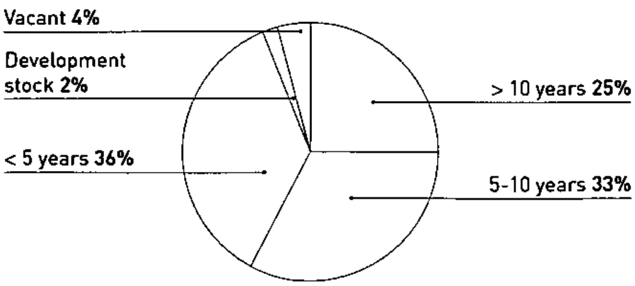
At 31 December 2008, the Group owned 70 properties with a total lettable area of 372,617 sq m (4,010,817 sq ft). 27 properties were in the UK, 24 in France, 17 in Germany, 1 in Sweden and 1 in Luxembourg. We had 356 commercial tenants and 15 residential tenants.

An analysis of contracted rent, book value and yields is set out on the following page.

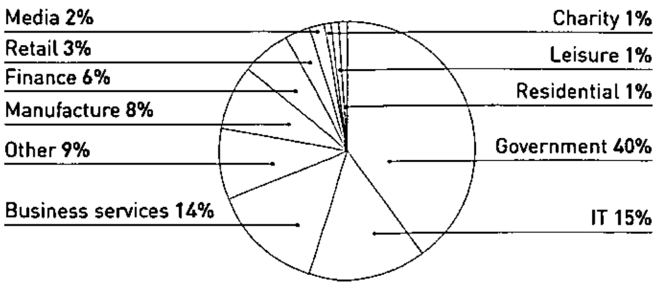
	Contracted Rent £m	%	Net rent £m	%	Book Value £m	%	Yield on net rent %	Yield when fully let %
London South Bank	10.4	17.0%	10.4	17.5%	152.8	19.1%	6.8%	
London Mid town	6.7	10.8%	6.7	11.2%	81.3	10.2%	8.2%	
London West	4.3	7.0%	3.9	6.5%	49.0	6.1%	7.9%	
London West End	0.6	1.0%	0.6	1.0%	9.1	1.1%	6.5%	
London South Bank – JVs	0.1	0.3%	0.1	0.3%	2.3	0.3%	6.8%	
London North West	0.9	1.4%	0.8	1.4%	9.5	1.2%	9.0%	
London South West	1.7	2.8%	1.7	2.9%	17.6	2.2%	9.6%	
Outside London	–	–	–	–	1.6	0.2%	–	
Total UK	**24.7**	**40.3%**	**24.2**	**40.9%**	**323.2**	**40.5%**	**7.5%**	**7.8%**
France Paris	10.2	16.7%	10.0	17.0%	136.6	17.1%	7.3%	
France Lyon	4.4	7.1%	4.3	7.3%	54.8	6.9%	7.9%	
France Lille	0.7	1.1%	0.6	1.0%	10.3	1.3%	5.8%	
France Antibes	0.7	1.1%	0.6	1.1%	8.2	1.0%	7.7%	
Total France	**16.0**	**26.0%**	**15.5**	**26.3%**	**209.9**	**26.3%**	**7.4%**	**7.9%**
Luxembourg	1.2	2.0%	1.2	2.1%	13.5	1.7%	9.0%	
Total Luxembourg	**1.2**	**2.0%**	**1.2**	**2.1%**	**13.5**	**1.7%**	**9.0%**	**9.0%**
Germany Munich	6.2	10.1%	6.3	10.4%	85.0	10.6%	7.3%	
Germany Hamburg	3.3	5.4%	3.3	5.6%	43.7	5.5%	7.6%	
Germany Berlin	3.3	5.4%	3.2	5.4%	44.9	5.6%	7.1%	
Germany Bochum	1.2	1.9%	1.2	2.0%	25.3	3.2%	4.7%	
Germany Düsseldorf	0.3	0.5%	0.3	0.6%	2.5	0.3%	13.3%	
Total Germany	**14.3**	**23.3%**	**14.2**	**23.9%**	**201.4**	**25.1%**	**7.1%**	**7.2%**
Sweden Vänersborg	5.1	8.4%	4.1	6.9%	50.8	6.4%	8.1%	
Total Sweden	**5.1**	**8.4%**	**4.1**	**6.9%**	**50.8**	**6.4%**	**8.1%**	**8.9%**
Group Total	**61.3**	**100.0%**	**59.2**	**100.0%**	**798.8**	**100.0%**	**7.4%**	**7.8%**

Conversion rates: Euro/GBP 1.0461 SEK/GBP 11.4474. Yields on receivable rents and potential rents have been calculated on the assumption that book values at 31 December 2008 will increase by refurbishment expenditure of approximately £19.3 million in respect of projects in Germany and £2.7 million in the UK.

GROUP CONTRACTED RENT BY LEASE LENGTH



RENT BY SECTOR



PROPERTY PORTFOLIO (continued)

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

	Sq. m (000)	Sq. ft (000)	Contracted aggregate rental £m	Contracted but not income producing £m	Unlet space at ERV £m	Space under refurbishment or with planning consent £m	Total £m	Total %
UK >10 yrs	52.7	567.6	13.1	–	–	–	**13.1**	50.5%
UK 5-10 yrs	28.4	305.3	5.0	–	–	–	**5.0**	19.3%
UK < 5 yrs	26.5	285.4	6.6	–	–	–	**6.6**	25.6%
Development Stock	1.1	12.1	–	–	–	–	**–**	0.1%
Vacant	7.0	74.7	–	–	1.1	–	**1.1**	4.4%
Total UK	**115.7**	**1,245.1**	**24.7**	**–**	**1.1**	**–**	**25.8**	**100.0%**
France > 10 yrs	2.8	30.1	0.7	–	–	–	**0.7**	4.2%
France 5-10 yrs	33.1	355.9	7.8	–	–	–	**7.8**	46.4%
France < 5 yrs	34.5	371.8	7.5	–	–	–	**7.5**	45.2%
Vacant	4.2	45.0	–	–	0.7	–	**0.7**	4.2%
Total France	**74.6**	**802.8**	**16.0**	**–**	**0.7**	**–**	**16.7**	**100.0%**
Luxembourg < 5 yrs	3.7	39.8	1.2	–	–	–	**1.2**	100.0%
Total Luxembourg	**3.7**	**39.8**	**1.2**	**–**	**–**	**–**	**1.2**	**100.0%**
Germany > 10 yrs	21.9	235.3	2.5	–	–	–	**2.5**	15.9%
Germany 5-10 yrs	35.5	382.5	4.4	–	–	–	**4.4**	27.6%
Germany < 5 yrs	58.0	623.9	7.3	–	–	–	**7.3**	45.9%
Development Stock	14.1	151.3	–	–	–	1.2	**1.2**	7.4%
Vacant	4.0	43.6	–	–	0.5		**0.5**	3.2%
Total Germany	**133.5**	**1,436.6**	**14.2**	**–**	**0.5**	**1.2**	**15.9**	**100.0%**
Sweden > 10 yrs	–	–	–	–	–	–	**–**	–
Sweden 5-10 yrs	34.1	367.2	4.7	–	–	–	**4.7**	83.6%
Sweden < 5 yrs	5.8	62.7	0.5	–	–	–	**0.5**	8.2%
Vacant	5.3	56.7	–	–	0.5	–	**0.5**	8.2%
Total Sweden	**45.2**	**486.6**	**5.2**	**–**	**0.5**	**–**	**5.7**	**100.0%**
Group > 10 yrs	77.4	833.0	16.3	–	–	–	**16.3**	25.0%
Group 5-10 yrs	131.1	1,410.9	21.9	–	–	–	**21.9**	33.4%
Group < 5 yrs	128.5	1,383.6	23.1	–	–	–	**23.1**	35.5%
Development Stock	15.2	163.4	–	–	–	1.2	**1.2**	1.8%
Vacant	20.5	220.0	–	–	2.8	–	**2.8**	4.3%
Group Total	**372.7**	**4,010.9**	**61.3**	**–**	**2.8**	**1.2**	**65.3**	**100.0%**

We estimate that open market rents are approximately 7.5 per cent lower than current contracted rents receivable, which represents a potential reduction of £4.6 million. An analysis of the net decrease is set out below:

	Contracted Rent £ million	Estimated Rental Value £ million	Reversionary Element £ million
UK	24.7	23.5	(1.2)
France and Luxembourg	17.2	16.1	(1.1)
Germany	14.2	13.6	(0.6)
Sweden	5.2	3.5	(1.7)
Total	**61.3**	**56.7**	**(4.6)**

The total potential gross rental income (comprising contracted rentals, and estimated rental value of un-let space) of the portfolio is £65.3 million p.a.

SCHEDULE OF GROUP PROPERTIES

Properties UK

	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Spring Gardens	Tinworth Street, London SE11	Freehold	19,273	207,453	Offices	1990
New Printing House Square	214/236 Grays Inn Road, London WC1	Freehold	26,295	283,037	Offices	1996
Great West House	Great West Road, Brentford, Middx TW8	Freehold	14,446	155,495	Offices	2005
Cap Gemini House	95 Wandsworth Rd, 72-78 Bondway, 22 Miles Street, London SW8	Freehold	10,427	112,235	Offices/Industrial	1995
Property value £10m – £20m						
CI Tower	High Street, New Malden, Surrey KT3	Freehold	7,538	81,138	Offices	2002
Cambridge House	100 Cambridge Grove, London W6	Freehold	6,628	71,343	Offices	1998
Westminster Tower	3 Albert Embankment, London SE1	Freehold	4,473	48,147	Offices	2004
Property value < £10m						
Chancel House	Neasden Lane, London NW10	Freehold	6,940	74,702	Offices	1990
Clifford's Inn	Fetter Lane, London EC4	Freehold	3,181	34,240	Offices/ Residential	1993
Ingram House	13/15 John Adam Street, London WC2	Freehold	1,124	12,099	Offices	2004
Quayside	William Morris Way, London SW6	Freehold	3,065	32,991	Offices	1989
Tinworth Street	2/10 Tinworth Street, London SE11	Freehold	1,263	13,595	Industrial/Offices	Early 1900's
Buspace Studios	10 Conlan Street, London W10	Freehold	3,006	32,356	Studio/2001 Workshops/Offices	
Bondway	80/84 Bondway, London SE11	Freehold	1,636	17,610	Offices	Early 1900's
Deanery Street	2 Deanery Street, London W1	Freehold	193	2,077	Offices/Residential	1988
Zest Nightclub	Princess Street, Ipswich, Suffolk, IP1	Freehold	1,951	21,000	Nightclub	1999
Wandsworth Road	101/103/107 Wandsworth Road, London SW8	Freehold	388	4,176	Residential	Early 1900's
The Rose	35 Albert Embankment, London SE11	Freehold	531	5,716	Leisure	Early 1900's
Vauxhall Walk	108 Vauxhall Walk, London SE11	Freehold	600	6,458	Car parking	Early 1900's
Vauxhall Walk	110 Vauxhall Walk, London SE11	Freehold	790	8,503	Industrial/Offices	1990
Western House	5 Glasshouse Walk, London SE11	Freehold	538	5,791	Offices	1900's
Miles Street	18/20 Miles Street, London SE11	Freehold	152	1,636	Offices	2001
Tinworth Street	16 Tinworth Street, London SE1	Freehold	218	2,347	Industrial	1995
Vauxhall Walk	92/98 Vauxhall Walk, London SE11	Freehold	97	1,044	Offices	Early 1900's
Holland Park Avenue	London W11	Freehold	–	–	Residential	1997
Share of joint venture						
Fielden House	28-42 London Bridge Street, London SE1	Freehold	755	8,127	Offices	1960's
UK Properties at 31 December 2008		**Sub total**	**115,508**	**1,243,316**		

SCHEDULE OF GROUP PROPERTIES (continued)

Properties France and Luxembourg

	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value £10m - £20m						
Le Sigma	Place de Belgique, 90 Bld de L'Europe,92250 La Garenne Colombes, Paris	Freehold	6,599	71,031	Offices	1993
Forum	27/33 Rue Maurice Flandin, 69003 Lyon	Freehold	6,910	74,379	Offices	1990
Jean Jaurès	120 Rue Jean Jaurès, 92300 Levallois Perret	Freehold	4,219	45,413	Offices	1993
Petits Champs	48 Rue Croix des Petits Champs 75001, Paris	Freehold	1,800	19,375	Offices	1972
Eugène Ruppert	16 Rue Eugène Ruppert, L2453 Luxembourg	Freehold	3,698	39,805	Offices	1991
Le Quatuor	168 Avenue Jean Jaurès, 92120 Montrouge, Paris	Freehold	5,131	55,230	Offices	1991
Le Debussy	77/81 Boulevard de la République, 92250 la Garenne Colombes, Paris	Freehold	4,206	45,273	Offices	1992
Mission Marchand	56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,784	29,967	Offices	1993
Front de Parc	109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,220	Offices	1989
Property value < £10m						
Le Sully	Ilôt 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	30,117	Offices	2006
Park Avenue	81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	4,249	45,736	Offices	1988/89
D'Aubigny	27 Rue de la Villette, 69003 Lyon	Leasehold	4,316	46,457	Offices	1990
Bellevue	95/97Bis Rue de Bellevue, 92100 Boulogne, Paris	Freehold	2,400	25,833	Offices	1988
Capitaine Guynemer	53/55 Rue du Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	2,171	23,368	Offices	1993
Le Chorus	2203 Chemin de St Claude, Nova Antipolis, 06600 Antibes	Freehold	4,333	46,640	Offices	1990
Petits Hôtels	20/22 Rue des Petits Hôtels, 75010 Paris	Freehold	2,001	21,539	Offices	1994
Rue Pierre Timbaud	2 Rue Pierre Timbaud, 92230 Gennevilliers, Paris	Freehold	3,170	34,122	Offices	1994
Rhône Alpes	235 Cours Lafayette, 69006 Lyon	Freehold	3,142	33,820	Offices	1993
La Madeleine	105 Avenue de la République, 59110 Lille	Freehold	4,603	49,546	Offices	1979
Rue Nationale	96 Rue Nationale, 59000 Lille	Freehold	2,243	24,143	Offices	1975
Solférino	16 Rue de Solférino, 92100 Boulogne, Paris	Freehold	1,046	11,259	Offices	1991
Général Leclerc	58 Avenue Général Leclerc, 92100 Boulogne, Paris	Freehold	525	5,651	Offices	1992
Rue Stephenson	18 Rue Stephenson, 75018 Paris	Freehold	538	5,791	Offices	1994
Le Foch	62 Avenue Foch, 92250 la Garenne Colombes, Paris	Freehold	196	2,110	Offices	1992
France and Luxembourg Properties at 31 December 2008		**Sub total**	**78,301**	**842,825**		

Properties Germany

	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Adlershofer Tor	Rudowerchausee 12, D-12489 Adlershofer Tor, Berlin	Freehold	19,722	212,286	Offices/Retail	2003
BrainLAB	Kapellenstrasse 12, Feldkirchen D-85622, Munich	Freehold	16,313	175,592	Offices	2006
Bochum	Hans-Böckler-Strasse 19, 44787, Bochum	Freehold	25,171	270,938	Offices	1982
Planegg	Maximilian Forum, Lochhamer Str 11-15, D-82152, Munich	Freehold	13,819	148,746	Offices	1993/1994
Property value £10m – £20m						
Fangdieckstrasse	Fangdieckstrasse 75, 75a,b, 22547 Hamburg	Freehold	12,969	139,597	Offices	2000
Grafelfing	Lochhamer Schlag 1, Munich	Freehold	7,050	75,886	Offices	2000
Jarrestrasse	Jarrestrasse 8 - 10, D-22303, Hamburg	Freehold	5,645	60,762	Offices	2001
Landshut	Roider-Jackl-Strasse, Landshut	Freehold	3,633	39,105	Offices	2003
Property value < £10m						
Bismarkstrasse	Bismarckstrasse 105 / Leibnitzstrasse 11 - 13, Charlottenburg, Berlin	Freehold	5,944	63,981	Offices	1960/2004
Merkurring	Merkurring 33-35, D-22143, Hamburg	Freehold	8,262	88,931	Offices	2001/2003
Rüdesheimer Strasse	Rüdesheimer Strasse 9, D-80686, Munich	Freehold	2,587	27,846	Offices	2003
Harburger Ring 33	Harburger Ring 33, D-21073, Hamburg	Freehold	3,300	35,521	Offices	1994
Unterschleissheim	Lise-Meitner-Strasse 4, D-85716, Munich	Freehold	2,947	31,721	Offices	2004
Frohbösestrasse	Frohbösestrasse 12, D-22525, Hamburg	Freehold	1,993	21,452	Offices	2003
Schanzenstrasse	Schanzenstrasse 76, D-40549, Düsseldorf	Freehold	3,095	33,314	Residential	1980
Süderhastedt	Dorfstrasse 14, 25727 Süderhastedt	Freehold	1,185	12,755	Nursing home	1991
German properties at 31 December 2008		**Sub total**	**133,635**	**1,438,433**		

Properties Sweden

	Address	Freehold/ Leasehold	Area m²	Area Sq ft	Use	Date of Construction/ Refurbishment
Property value > £20m						
Vänerparken	Lasarettet No. 2, Vänerparken, Vänersborgs Kommun	Freehold	45,206	486,593	Offices/Education/ Residential/Leisure/ Hospital	Various
Swedish Properties at 31 December 2008		**Sub total**	**45,206**	**486,593**		
	TOTAL ALL PROPERTY		**372,650**	**4,011,167**		

ACCOUNTS CONTENTS

DIRECTORS' REPORT

for the year ended 31 December 2008

The Directors present their report and the audited financial statements for the year ended 31 December 2008. 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 42.

A review of results for the year, the general principal risks and uncertainties facing the Company and prospects for the future are included within the Chairman's Statement, Business Review, Financial Review and Property Portfolio (pages 5 to 23). Specific risks and uncertainties are set out below. Key Performance Indicators can be found in the Results at a Glance section on page 3.

Details of use by the Group of financial instruments are set out in the Financial Review on pages 11 to 18 and in the Notes to the consolidated financial statements, Note 2.9 (pages 50 to 52) and Note 3 (pages 55 to 59). Risk Management objectives are detailed in Note 3.3 (pages 56 to 58).

3 RISKS AND UNCERTAINTIES

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

Risk	Mitigation
Property investment risks Underperformance of investment portfolio impacting on financial performance due to: • Cyclical downturn in property market • Inappropriate buy/sell/hold decisions	The senior management has detailed knowledge of core markets and experience gained through many market cycles. This experience is supplemented by external advisors and financial models used in the capital allocation decision.
• Changes in supply and/or tenant demand affecting rents and vacancies	The Group's property portfolio is diversified across four countries. Average time remaining on current leases is 8.1 years and the Groups largest tenant concentration is with the Government sector which comprises 39.8 per cent. The largest single non government tenant represents 3.1 per cent. of gross rent and is a major international bank.
• Poor asset management	Property teams review the current status of all properties weekly and provide a written report to senior management on KPIs including vacancies, lease expiry profiles and progress on rent reviews which are actively managed to mitigate risk.
Funding risks The risk that financing or re-financing will not be obtained at an acceptable price	The Group has a dedicated Treasury department and relationships are maintained with approximately 20 banks across the countries in which we operate thus reducing credit risk and increasing opportunities to obtain the best deal. The Group's exposure to changes in prevailing market rates is largely hedged on existing debt but there is an exposure on re-financing of existing debt although this is mitigated by the lack of concentration in maturities. For new property acquisitions the current and expected future cost of debt is considered in the initial decision to buy.
Foreign currency exposure	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of the financing is generally unhedged but is monitored on an ongoing basis.
Taxation risks The risk that there will be increases in tax rates or changes to the basis of taxation including corporation tax, VAT and stamp duty land tax	The Group monitors legislative proposals and both retains and consults external advisors as required to understand and, if possible, mitigate the effects of any such change.
Going Concern The risk that given the economic uncertainties the Group will not have adequate working capital to remain a going concern for the next 12 months	See section 17 below.

DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

4 DIVIDENDS

In lieu of paying an interim cash dividend in 2008 the Company made two distributions by way of tender offer buy-back.

The first tender offer was by way of a Circular dated 20 October 2008 for the purchase of 1 in every 25 shares at 425pence per share and was completed in November 2008. It returned £10,946,487 to shareholders, equivalent to 17pence per share (2007: distribution of £9,290,370 or 13.2pence per share).

The second tender offer was by way of a Circular dated 1 December 2008 for the purchase of 2 in every 9 shares at 350pence per share and was completed in January 2009. It returned £48,024,252.50 to shareholders, equivalent to 77.78pence per share.

5 PURCHASE OF THE COMPANY'S SHARES

During the year the Company made market and tender offer purchases totalling 6,319,986 of its own shares at a cost of £23,851,664, an average of 344.65 pence per share. This represents £1,579,996.5 in nominal value, or 10.23 per cent of the issued share capital excluding Treasury Shares, as at the year end. All of the 2,575,644 shares purchased through the tender offer, 3,744,342 of the shares purchased through the market, and 2,114,209 of shares held as Treasury shares, totalling 8,434,195 shares, were cancelled during the year. All other shares purchased through the market have been retained as Treasury shares.

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

At the 2008 Annual General Meeting the Company was authorised to make market purchases of up to 6,729,275 ordinary shares. Since last year's Annual General Meeting the Company has made market purchases of 2,942,497 shares and therefore still has authority to purchase 3,786,778 shares.

Following the year end, the second tender offer (as referred to above) was completed and 13,721,215 shares were purchased and subsequently cancelled.

The purchase of 12,108 shares made between 14 January 2008 and 15 March 2008, and 701,853 shares made 1 July 2008 and 21 August 2008, were pursuant to Agreements entered into with an independent third party as announced on 11 January 2008 and 30 June 2008, respectively, which enabled ordinary shares to be purchased on behalf of the Company and within certain pre-set parameters during the Close Period.

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

6 SHARE CAPITAL

Changes in share capital are shown in Note 23 of the Notes to the consolidated financial statements on page 74. At 31 December 2008 the Company's share capital consisted solely of 66,745,471 ordinary shares of 25 pence in issue, of which 5,000,000 shares were held as Treasury shares and all ranking pari passu. Therefore the total number of voting rights in CLS Holdings plc at the same date was 61,745,471 shares equating to the number of shares in issue excluding Treasury shares. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, as well as the powers of the Directors, are set out in the Company's Articles of Association. These can only be amended by special resolution at a general meeting of shareholders.

At 31 December 2008 the Company operated two employee share schemes being the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme) and the Company's Unapproved Share Option Schemes. There were no share options outstanding under any of these share schemes at the year end or as at the date of this report (2007: 405,000). Details of the Directors' interests in shares are shown in the Directors' Remuneration Report on page 39.

As at the date of this report, the Company has 48,024,256 shares in issue and 5,000,000 shares held as Treasury shares.

7 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2008 was carried out by Allsop & Co for the UK and Sweden, and DTZ for France and Germany which produced an open market value of £798.8 million (2007: £1,175.3million). On the basis of these valuations adjusted net assets per share amounted to 647.2 pence (2007: 764.2 pence). The valuation process of the property portfolio has been made more difficult this year given the few comparable transactions that have taken place. Further information on the valuation process is contained in Note 14 on page 66.

8 POST BALANCE SHEET EVENTS

See Note 35 to the consolidated financial statements on page 86 for a description of events after the balance sheet date.

9 DIRECTORS

The Company's Articles of Association contain provisions relating to the appointment and replacement of Directors. In particular, 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.

The current Directors of the Company are shown on page 97 and are referred to in more detail below. Henry Klotz was appointed to the Board on 2 May 2008 and both Christopher Jarvis and Joseph Crawley were appointed as Non-Executive Directors on 25 November 2008. On 2 May 2008 Anders Böös resigned as a Non-Executive Director and Per Sjöberg resigned as Chief Executive Officer. On 8 May 2008 Steven Board resigned as Chief Operating Officer and on 31st December 2008 James Dean retired as a Non-Executive Director.

The statement of Directors' remuneration and their interests in shares and share options of the Company are set out in the Directors' Remuneration Report on pages 35 to 39. Related party transactions are shown on page 86. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control or takeover bid.

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

Executive Directors:

Sten A Mortstedt, aged 69, has a consistent track record during a period of over 40 years, of building profitable and sustainable businesses both within the field of property and in a wide variety of other commercial sectors. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years he had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which he successfully floated on the Stock Exchange in Stockholm, in 1981. The Company was sold in 1985 for a price five times higher than the introduction price and was at that time the largest property deal ever recorded in Scandinavia.

Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987 and 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.

Henry Klotz, aged 64, qualified as an engineer and economist and joined the Group in 1999. He was initially responsible for the management of our Swedish operation and latterly was involved in the set up of our German division. In January 2008 Henry relocated to our London head office and took up the role of Business Development Director responsible for identifying and sourcing new business opportunities for the Group. On 2nd May 2008 he took office as the Chief Executive Officer of the Group.

On behalf of CLS he is also Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm stock exchange, in which CLS holds 29.1% of its shares. He is also a Non-Executive Director of Bulgarian Land Development plc, an AIM listed company in which CLS helds 35.8% of its shares at the year end.

Non-Executive Directors:

Thomas J Thomson, aged 58, has a BA (Hons) in law from Kent University and qualified as a solicitor with Reynolds Porter Chamberlain in 1976. From 1979 to March 1994 he was a partner with Taylor Walton Solicitors. He was Company Secretary and solicitor to CLS from its inception in 1983 until 2001, initially as a partner in Taylor Walton and since 1994 as General Counsel to the Group. He became Vice Chairman and Acting Chief Executive on 5 October 2001, and became Chief Executive on 6 February 2004. On 1 January 2006 he retired as Chief Executive and became Non-Executive Vice Chairman and was appointed Company Secretary on 8 May 2008.

Malcolm C Cooper, aged 49, is Group Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991. Prior to that he worked for Andersen Consulting (now Accenture). He has a first in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers. He joined the Board in May 2007 and chairs the Audit Committee. Malcolm is also the Company's Senior Independent Director.

DIRECTORS' REPORT (continued)

for the year ended 31 December 2008

9 DIRECTORS (CONTINUED)

H O Thomas Lundqvist, aged 64, 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. Thomas chairs the Remuneration Committee and is a member of the Audit Committee.

Bengt F Mörtstedt, aged 61, holds a Bachelor of Law degree from Stockholm University. He began his career as a Junior Judge of the Växjö District Court and in 1974 he joined Citadellet AB, the Mortstedt family property company in Sweden, where he was employed as an analyst. In 1984, he moved to the UK in order to evaluate the London property market before joining the Group in October 1987, at which time he was appointed to the Board of the Company as an Executive Director. He became a Non-Executive Director in September 1998.

Christopher P Jarvis FRICS, aged 53, is a Partner of Jarvis & Partners, a boutique real estate consultancy that he established in Berlin in 1994. Jarvis & Partners acquired a leading role in advising major tenants and owner occupiers in Germany with a client list including Linklaters, Clifford Chance and the European Central Bank. Jarvis & Partners' work has also involved advising a number of German and international equity investors on investment transactions in Europe. Prior to establishing Jarvis & Partners, Christopher worked for Richard Ellis for 13 years in London, and Germany from 1988 to 1994 as Managing Director of Richard Ellis Germany where he established the firm's Frankfurt and Berlin offices. He joined the Board of CLS in November 2008 and is a member of the Audit Committee.

Joseph A Crawley, aged 49, is Chief Executive of Kitewood Estates Ltd, a property investment and development company active in London and south-east England. Kitewood specialises in supplying residential property to housing associations and also has a commercial business which is developing a business park in Kent. Joseph has considerable experience, knowledge and contacts relating to the central London property market and has been active in property development in the area for over 20 years. He was previously employed by CLS from 1988 to 1991 when he was responsible for property development, including the development of the Spring Gardens site. He was also CLS' Development Director from 1995 to September 1999. He joined the Board of CLS in November 2008, and is a member of the Remuneration Committee.

The Board has determined that Non-Executive Directors Malcolm Cooper and Christopher Jarvis are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.

The Board recognises that Bengt Mörtstedt, Tom Thomson, Joseph Crawley, and Thomas Lundqvist are not independent as set out in the Combined Code. Bengt Mörtstedt and Thomas Lundqvist, have also served for more than 9 years as Directors. It is the opinion of the Board that each Non-Executive Director continues to add significant value to the operation of the Company through their combined knowledge and experience. As recommended under provision A.7.2 of the Combined Code, both Thomas Lundqvist and Bengt Mörtstedt, and, as reported in the 2006 Remuneration Report, Tom Thomson, will retire annually. All of whom, being eligible, are seeking re-election to the Board at the Annual General Meeting.

As the 2009 Annual General Meeting is the first AGM since their appointments to the Board, Henry Klotz, Christopher Jarvis and Joseph Crawley will stand for election by shareholders.

The Board recommends to the shareholders the re-election of the retiring Directors, given their performance and continued important contribution to the Company, and the election of the Directors who have been appointed since the last AGM who bring with them a wealth of industry experience and insight to the Group.

10 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 39.

Other than the interest of the Mortstedt family referred to in Note 8 of the Directors' Remuneration Report (57.7%), as at 14 April 2009 the Company has been notified of the following major interests in the Company's issued share capital:

	No. of shares	%
F&C Asset Management plc	2,406,345	5.01

The Company has not been notified of any other substantial interests in its shares. The Company's substantial shareholders do not have different voting rights. The Company is not party to any significant agreement that takes effect, is altered by or terminates upon a change of control of the Company following a takeover bid.

11 EMPLOYEES

The Group's policies on employment are summarised in the report on Corporate Responsibility on page 40.

12 INSURANCE OF DIRECTORS AND INDEMNITIES

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

13 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 22 days total invoices received for the year as a whole (2007: 19 days). The Company has no trade creditors (2007: nil).

14 AUDITORS

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

15 2009 ANNUAL GENERAL MEETING

It is proposed that the 2009 Annual General Meeting will be held on Tuesday 19 May 2009. Confirmation of this notice of meeting including explanatory notes for the resolutions to be proposed will be posted to shareholders.

16 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.

17 GOING CONCERN

The current economic conditions have created a number of uncertainties as set out on page 25. The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review on pages 7 to 10. The financial position of the Group, its liquidity position and borrowing facilities are described on pages 11 to 18 and in Note 3.3 of the accounts.

The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial position of the Group, taking into account the repayment profile of the Group's loan portfolio (as set out in Note 27 to the financial statements), and making reasonable assumptions about future trading performance. After making detailed enquiries, and based upon current information available to them, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board

Thomas J Thomson
Company Secretary
14 April 2009

CORPORATE GOVERNANCE

for the year ended 31 December 2008

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

1 COMBINED CODE

The Board recognises and fully supports the principles of good governance as set out in the 2006 Financial Reporting Council Code on Corporate Governance (the "Code"). Save as identified and explained below, the Board considers that it has complied with the principles as set out in Section 1 of the Code.

2 THE BOARD

The Board currently comprises two Executive Directors, including the Executive Chairman, and six Non-Executive Directors

During the year there were the following changes to the Board:

On 2 May 2008 Per Sjöberg and Anders Böös retired as Chief Executive Officer and Non-Executive Director, respectively, and Henry Klotz was appointed Chief Executive Officer.

On 8 May 2008 Steven Board, Chief Operating Officer and Company Secretary, resigned from the Board and Tom Thomson was appointed Company Secretary in addition to his role as Non-Executive Vice Chairman.

On 25 November 2008 Joseph Crawley and Christopher Jarvis were appointed as Non-Executive Directors of the Company.

On 31 December 2008 James Dean retired as a Non-Executive Director.

Their biographies can be found on page 27.

The Board notes that the Code guidance recommends that at least half the Board should comprise independent Non-Executive Directors. The Board recognises it is not compliant with this provision of the Code. It has determined that Malcolm Cooper and Christopher Jarvis are independent in character and judgement and that there are no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. It has further determined that Bengt Mortstedt, Thomas Thomson, Joseph Crawley and Thomas Lundqvist are not independent as set out in the Code. Bengt Mortstedt and Thomas Lundqvist have both served for more than 9 years as Directors. The Board is satisfied with the experience, expertise and performance that each board member continues to contribute but it will seek to appoint a further independent Non-Executive Director as soon as a suitable candidate has been identified. Thomas Lundqvist will continue to serve on the Board of the Company but will relinquish his chairmanship of the Remuneration Committee and membership of the Audit Committee once the new independent Non-Executive Director has been appointed. The current composition of the Board continues to exercise objectivity in decision-making and proper control of the Company's business.

During the year the Chairman has conferred with the Non-Executive Directors without the other Executive Director present. Due to the changes to the Board that have taken place during the year, and in particular with regard to the appointment of new Non-Executive Directors, a formal meeting of the Non-Executives without the Executive Director or the Chairman present will be arranged when the new appointees are more familiar with the Group. The Board therefore recognises it has not fully complied with provision A.1.3 of the Code.

In accordance with the Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and are subject to re-election at least every three years. Non-Executive Directors are appointed for a specific term of office which provides for their removal in certain circumstances, including under section 168 of the Companies Act 2006. The terms of appointment of the Non-Executive Directors can be obtained by request to the Company Secretary. Those Directors seeking re-election and re-appointment at the forthcoming Annual General Meeting are detailed in the Directors' Report on page 28.

Following the resignation of James Dean on 31 December 2008, the Board has appointed Malcolm Cooper to be the Senior Independent Director. As recommended by the Code, he is available to shareholders who cannot appropriately approach either the Chairman or the Chief Executive about a Company matter.

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

Board members are given appropriate documentation in advance of each Board and Committee meeting and senior executives below Board level attend Board meetings to present and discuss their areas of speciality. In making commercial assessments the Directors review detailed plans including financial viability reports that, among other things, detail the impact of proposals in respect of return on capital, return on cash and the likely impact on the income statement, cash flows and gearing.

Strategy is determined after having taken due regard of forecast domestic and international developments. The views of shareholders are sought by the Executive Chairman and Chief Executive 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.

2 THE BOARD (CONTINUED)

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

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

On 1 October 2008 the new conflicts of interest regime for Directors contained in the Companies Act 2006 came into force. In compliance with the new conflicts of interest regime, the Company's articles of association were amended by Special Resolution on 14 November 2008 and contain procedures to deal with Directors' conflicts of interest which the Board has fully implemented. The Board considers that these have operated effectively following their implementation.

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	5	3	1
Sten Mortstedt	5/5	–	–
Henry Klotz[(1)]	4/4	–	–
Per Sjöberg[(2)]	1/1	–	–
Anders Böös[(2)]	1/1	1/1	–
Steven Board[(3)]	1/1	–	–
Tom Thomson	5/5	–	–
Malcolm Cooper	5/5	3/3	–
Joseph Crawley[(4)]	1/1	–	–
Christopher Jarvis[(4)]			
James Dean[(5)]	5/5	2/3	1/1
Thomas Lundqvist	5/5	3/3	1/1
Bengt Mörtstedt	5/5	–	–

(1) Appointed to the Board 2 May 2008
(2) Resigned from the Board 2 May 2008
(3) Resigned from the Board 8 May 2008
(4) Appointed to the Board 25 November 2008
(5) Retired from the Board 31 December 2008

In addition to Board meetings, the senior management meet regularly to discuss management issues relating to the Group.

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

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

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

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

CORPORATE GOVERNANCE (continued)

for the year ended 31 December 2008

3 THE AUDIT COMMITTEE

The Board is assisted by the following Committees:

The Audit Committee is Chaired by Malcolm Cooper. The Committee's other members are Thomas Lundqvist and Christopher Jarvis. Christopher Jarvis was appointed to the Committee on 31 December 2008. Anders Böös ceased to be a member of the Committee on 2 May 2008 and James Dean stepped down as a member of the Committee following his retirement on 31 December 2008. The Board is satisfied that Malcolm Cooper has recent and relevant financial experience for the purposes of provision C.3.1 of the Code, but notes that as Thomas Lundqvist is deemed not to be independent the Company does not comply with the composition of the Committee contained therein. As referred to above, the composition of the Committee will be reviewed once a suitable independent non-executive candidate has been identified.

The Committee has met three times during the year. The Chief Executive Officer, Group Director - Financial Control and Reporting and external auditor are normally invited to attend the meetings.

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

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

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

The Committee also met with the Group's valuers, Allsop & Co and DTZ, to discuss methodology to be utilised for the bi-annual valuations of the Group's properties.

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. Thomas Lundqvist was appointed Chairman of the Committee and Joseph Crawley was appointed as Member of the Committee, both following the retirement of James Dean on 31 December 2008. The Board has considered the Code's recommendation that the Remuneration Committee should be formed of three Non-Executive Directors however it believes that given the structure of the Board and the relative size of the Company's business, the purposes of the Committee are best achieved by the appointed two Non-Executive Directors. The Remuneration Committee has met formally once but held various other informal discussions during the year. The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration. It also has authority to grant options under the Company's Executive Share Option Scheme and Company Share Option Plan, although no options were granted during the year. The Committee meets at least once a year. The Board notes that as both Thomas Lundqvist and Joseph Crawley are deemed not to be independent, the Company does not comply with the composition of the Committee contained in provision B.2.1 of the Code. As referred to above, the composition of the Committee will be changed once a suitable independent non-executive candidate has been identified. Full details of the Committee's work are given in the Remuneration Report on pages 35 to 39.

5 NOMINATIONS

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

6 INTERNAL CONTROL

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

- The risks which the Group faces or is likely to face are reviewed on an ongoing basis throughout the financial year and up to the publication of the annual report and accounts, in line with the revised Turnbull Guidance, 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

The Board has not identified any significant internal control weaknesses during the financial year and therefore no remedial action has been necessary.

Set out on pages 5 to 18 is the description of the Group's operations and the strategy which it employs to maximise returns and minimise risks. Quarterly and annual budgets are prepared for each area and monitored. Parameters have been established for investment decisions to be referred to the Board for approval. Three-yearly rolling cash flows are updated and distributed weekly and appropriate expenditure authorisation procedures have been adopted.

7 DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

CORPORATE GOVERNANCE (continued)

for the year ended 31 December 2008

7 DIRECTORS' RESPONSIBILITIES (CONTINUED)

The Directors confirm that to the best of their knowledge the Financial Statements comply with the above requirements.

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

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

Directors responsibility statement

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the Business Review, together with the table of risks and uncertainties which are incorporated into the Directors Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

8 SHAREHOLDER RELATIONS

The Group issues full annual financial report and accounts along with half-yearly financial reports to each of its shareholders. In addition, all press releases are included on the Company's website at www.clsholdings.com on the Press Centre, "Press Centre" and "Regulatory News" pages.

The Chairman, the Chief Executive Officer and other senior management have regular meetings with institutional shareholders. All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors are introduced and available for questions. All shareholders are welcome to attend the Company's Annual General Meeting and to arrange individual meetings by appointment. The views received at such meetings are fed back to the Board.

9 PROXY VOTING

The proxy forms for the Annual General Meeting and General Meetings which were held in 2008 included a "vote withheld" box. Details of the proxies lodged for these meetings were announced to the London Stock Exchange and are on the Company's website at www.clsholdings.com on the Press Centre, "Regulatory News" page.

10 JOINT VENTURE & ASSOCIATES

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

By order of the Board

Thomas J Thomson
Company Secretary
14 April 2009

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2008

The report on remuneration of the Directors for the year ended 31 December 2008 is set out below and has been prepared in accordance with the applicable statutory regulations.

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

1 THE WORK OF THE REMUNERATION COMMITTEE

The Board has appointed a Remuneration Committee that was chaired by James Dean until his retirement on 31 December 2008, and its other member was Thomas Lundqvist. With effect from 31 December 2008, Thomas Lundqvist was appointed as chairman and Joseph Crawley as its other member. As referred to in the Corporate Governance Report, Thomas Lundqvist and Joseph Crawley are deemed not to be independent as defined by the Combined Code. The composition of the Committee will be changed once a suitable independent non-executive candidate has been identified. The remit of the Committee is to consider and recommend to the Board:

a) The remuneration of the Executive Directors, including any performance related awards

b) The administration of the Company's share option schemes

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

2 REMUNERATION POLICY

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

Executive Directors

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

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

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

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

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

The Board does not anticipate any significant change to its remuneration policy in the year ending 31 December 2009 or subsequent years, subject to annual review by the Remuneration Committee.

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Board, having received the recommendations of the Executive Directors. Their remuneration consists of fees for their services to the Board and any additional services such as chairing Board Committees and other services. Thomas Lundqvist also received a fee as a Non-Executive Director of CLS Capital Partners Limited, the Company's investment division, until 3 March 2008. Both Thomas Lundqvist and Tom Thomson receive daily fees for specific projects undertaken, subject to the agreement of the Chief Executive Officer.

During the year, the Board reviewed and subsequently considerably reduced the Non-Executive Directors' fees to a level that better suited the Company's size and structure.

Basic salaries

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

DIRECTORS' REMUNERATION REPORT (continued)

for the year ended 31 December 2008

Performance-Related Remuneration

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

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

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

For the year ended 31 December 2008, 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%
Henry Klotz[1]	43%	57%
Per Sjöberg[2]	20%	80%
Anders Böös[2]	Nil	100%
Steven Board[3]	Nil	100%
Tom Thomson	Nil	100%
Malcolm Cooper	Nil	100%
Joseph Crawley[4]	Nil	100%
Christopher Jarvis[4]	Nil	100%
James Dean[5]	Nil	100%
Thomas Lundqvist	Nil	100%
Bengt Mörtstedt	Nil	100%

[1] Appointed to the Board 2 May 2008
[2] Resigned from the Board 2 May 2008
[3] Resigned from the Board 8 May 2008
[4] Appointed to the Board 25 November 2008
[5] Retired from the Board 31 December 2008

3 DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2008, the remuneration received by the Directors was as set out in the table below.

	2008 Fee as Director £000	2008 Salary £000	2008 Other fees £000	2008 Benefits in kind £000	2008 Total emoluments £000	2008 Pension Contributions £000	2008 Other benefits/ Performance-related £000	2008 Total Remuneration £000	2007 Total Remuneration £000
Executive									
Sten Mortstedt (Executive Chairman)	**-**	**175**	**200**[1]	**-**	**375**	**-**	**-**	**375**	475
Henry Klotz[2] (Chief Executive Officer)	**-**	**133**	**24**	**3**	**160**	**7**	**125**	**292**	-
Per Sjöberg[3] (Chief Executive Officer)	**-**	**89**	**-**	**1**	**90**	**4**	**357**	**451**	429
Steven Board[4] (Chief Operating Officer)	**-**	**74**	**-**	**1**	**75**	**115**	**86**	**276**	316
Non-Executive									
Tom Thomson (Non-Executive Vice-Chairman)	**30**	**-**	**73**[8]	**-**	**103**	**-**	**-**	**103**	234
Malcolm Cooper	**35**	**-**	**-**	**-**	**35**	**-**	**-**	**35**	21
Anders Böös[5]	**16**	**-**	**-**	**-**	**16**	**-**	**-**	**16**	10
Joseph Crawley[6]	**2**	**-**	**-**	**-**	**2**	**-**	**-**	**2**	-
Christopher Jarvis[6]	**2**	**-**	**-**	**-**	**2**	**-**	**-**	**2**	-
James Dean[7]	**40**	**-**	**-**	**-**	**40**	**-**	**-**	**40**	40
Thomas Lundqvist	**40**	**-**	**128**[9]	**-**	**168**	**-**	**-**	**168**	71
Bengt Mörtstedt	**35**	**-**	**-**	**-**	**35**	**-**	**-**	**35**	35
2008	**200**	**471**	**425**	**5**	**1,101**	**126**	**568**	**1,795**	
2007	163	956	432	11	1,561	235	350	2,146	

This table is audited

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

[2] Mr Klotz was appointed to the Board on 2 May 2008. Fees earned in respect of Mr Klotz's appointments as Non-Executive Director of Bulgarian Land Development plc (£13.3k) are paid to the Company. Fees earned in respect of his Non-executive Chairmanship of Catena AB (£10.8k) are paid to and retained by the Director. The Performance related bonus (£125k) relates to the entire financial year.

[3] Fees earned in respect of Per Sjöberg's appointments as Non-Executive Director of Bulgarian land Development plc and Cateria AB are paid to the Company and not to the Director. Other benefits of £357k were in respect of the termination payment made to Mr Sjöberg following his resignation from the Board on 2 May 2008, which consisted of £91k in respect of his pro-rated 2008 Performance related bonus and £266k in relation to his loss of office.

[4] A termination payment was made to Mr Board following his resignation from the Board on 8 May 2008, which included £100k in relation to his pension contributions and £86k in relation to his loss of office.

[5] Resigned from the Board on 2 May 2008.

[6] Appointed to the Board 25 November 2008.

[7] Retired from the Board on 31 December 2008.

[8] Fees earned in respect of services rendered in regard to specific projects.

[9] This includes charges of £124k by a consultancy company for services rendered in regard to specific projects and £4k is fees in respect of his role as a Non-Executive Director of CLS Capital Partners Ltd, the investment division.

The benefits provided to Executive Directors are permanent health and private medical insurance, and pension contributions and life assurance under the Company's defined contribution pension scheme of which three Directors were members during the period, and only one Director at the end of the period (2007: four). No car or car allowance is provided to any Director (2007: Nil).

4 DIRECTORS' PENSION ENTITLEMENT (AUDITED)

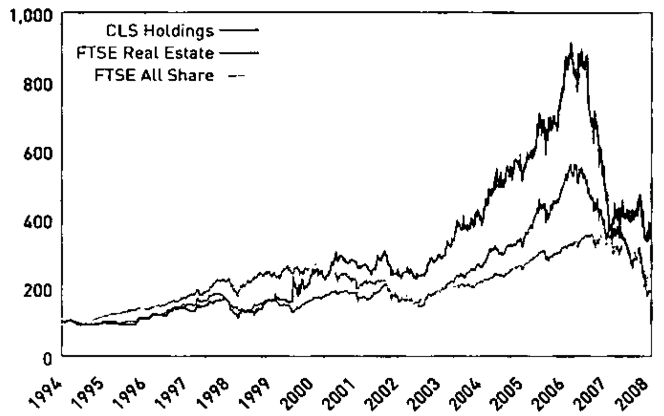
The Executive Directors are entitled to participate in a defined contribution pension scheme. Participants are required to contribute 5 per cent of basic UK salary (2007: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2007: 5 per cent).

DIRECTORS' REMUNERATION REPORT (continued)

for the year ended 31 December 2008

5 SHARE PERFORMANCE GRAPH

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



6 SHARE OPTIONS (AUDITED)

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

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

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 2008	Exercised in year	Market price at exercise (pence)	Lapsed in year	No. at 31 Dec 2008	Aggregate Gain (£)
Per Sjöberg										
unapproved	27.09.05	27.09.08	26.09.12	458.25	73,500	-		73,500	-	-
CSOP	21.12.05	21.12.08	20.12.12	492.75	6,088	-		6,088	-	-
unapproved	21.12.05	21.12.08	20.12.12	492.75	412	-		412	-	-
					80,000	**-**	**-**	**80,000**	**-**	**-**
Tom Thomson										
approved	20.12.01	20.12.04	19.12.11	212.50	14,000	14,000	358.536	-	-	20,445
unapproved	20.12.01	20.12.04	19.12.08	212.50	311,000	311,000	358.536	-	-	454,171
					325,000	**-**	**-**	**-**	**-**	**474,617**

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

The highest, lowest and average mid-market share price in the year were 428.75 pence, 246 pence and 341.31 pence, respectively. The year end share price was 305 pence.

7 DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has a service contract 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.

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.

7 DIRECTORS' SERVICE CONTRACTS (CONTINUED)

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

Name	Contract date	Notice period
Sten Mortstedt	28.04.94	12 months
Henry Klotz[(1)]	01.05.08	6 months
Per Sjöberg[(2)]	27.09.05	12 months
Anders Böös[(2)]	03.10.07	3 months
Steven Board[(3)]	01.12.98	12 months
Malcolm Cooper	15.06.07	3 months
Tom Thomson	25.01.08	3 months
Joseph Crawley[(4)]	25.11.08	3 months
Christopher Jarvis[(4)]	25.11.08	3 months
James Dean[(5)]	09.04.99	6 months
Thomas Lundqvist	20.12.95	6 months
Bengt Mörtstedt	18.12.98	6 months

[(1)] Appointed to the Board 2 May 2008
[(2)] Resigned from the Board 2 May 2008
[(3)] Resigned from the Board 8 May 2008
[(4)] Appointed to the Board 25 November 2008
[(5)] Retired from the Board 31 December 2008

8 INTERESTS IN SHARES

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

	Date of this report	31 December 2008* Ordinary shares of 25p	31 December 2007† Ordinary shares of 25p
Sten Mortstedt	24,098,811	**29,254,846**	30,680,032
Henry Klotz†	11,995	**21,521**	1,521
Per Sjöberg *	n/a	**84,001**	74,001
Anders Böös*	n/a	**-**	-
Steven Board*	n/a	**86,641**	86,641
Malcolm Cooper	-	**-**	-
Tom Thomson	117,728	**177,350**	114,385
Joseph Crawley†	-	**-**	-
Christopher Jarvis†	-	**-**	-
James Dean*	n/a	**53,853**	20,522
Thomas Lundqvist	62,991	**110,265**	110,115
Bengt Mörtstedt	3,628,898	**4,664,726**	4,860,130

* Or at date of resignation or retirement, if earlier
† Or at date of appointment, if later

All of the above interests in shares were held beneficially for the Directors concerned. Except for 291 shares held in the name of his wife, Sten Mortstedt's shares in which he is beneficially interested are held in trust, as announced on 4 July 2007.

Between the 31 December 2008 and the date of this report, the Tender Offer as described in the Circular dated 1 December 2008 was completed on 7 January 2009, in which all Directors with shareholdings participated. Furthermore, Thomas Lundqvist purchased 5,250 shares on 21 January 2009; and Sten Morstedt purchased 29,750 shares on 23 January 2009 and 8,909 shares on 27 March 2009. The resultant holdings are shown in the above table.

9 LONG-TERM INCENTIVE SCHEME

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

10 WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board,

Thomas Lundqvist
Chairman
Remuneration Committee
14 April 2009

CORPORATE RESPONSIBILITY

for the year ended 31 December 2008

1 RESPONSIBILITY

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

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

2 ENVIRONMENT

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

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

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

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

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, 15 of the Company's London employees took part in a fun run for Land Aid Charitable Trust, the real-estate sector charity which assists the homeless. In addition the contributions made by the Group during the year for charitable purposes were £2,717 (2007: £11,345).

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 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related Notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2008.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
14 April 2009

CONSOLIDATED INCOME STATEMENT

year ended 31 December 2008

	Notes	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Continuing operations			
Revenue	5	**77,994**	87,992
Rental and similar revenue		**63,062**	70,042
Service charge and similar revenue		**11,291**	12,260
Service charge expense and similar charges		**(13,055)**	(16,007)
Net rental income		**61,298**	66,295
Net income from non-property activities		**3,641**	5,690
Other operating expense	6	**(1,026)**	(1,568)
Administrative expenses	7	**(16,066)**	(27,724)
Net property expenses	7	**(3,649)**	(3,161)
Operating profit before revaluation movements on investment properties, impairment of intangibles and goodwill and (loss)/profit on disposal of subsidiaries and investment properties		**44,198**	39,532
Net movements from fair value adjustment on investment properties	14	**(103,393)**	(68,077)
Impairment of intangible fixed assets and goodwill	16	**(21,985)**	-
Loss on disposal of subsidiaries	32	**(16,161)**	(1,974)
Profit from sale of investment properties		**7,009**	-
Operating loss		**(90,332)**	(30,519)
Finance income	9	**20,572**	6,557
Finance costs	10	**(63,636)**	(49,218)
Other non-recurring costs	11	**(1,288)**	-
Share of (loss)/profit of associates after tax	17	**(7,470)**	537
Loss before tax		**(142,154)**	(72,643)
Taxation - current		**(3,610)**	(2,610)
Taxation - deferred	26	**67,717**	42,342
Tax credit	12	**64,107**	39,732
Loss for the period		**(78,047)**	(32,911)
Attributable to equity holders of the parent		**(78,175)**	(32,549)
Attributable to minority interests		**128**	(362)
		(78,047)	(32,911)
Loss per share for loss from continuing operations attributable to the equity holders of the Company during the year (expressed in pence per share)			
Basic	13	**(120.7)**	(45.8)
Diluted	13	**(120.7)**	(45.8)

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Non-current assets			
Investment properties	14	**798,761**	1,175,291
Property, plant and equipment	15	**2,756**	1,832
Intangible assets	16	**1,088**	19,538
Investments in associates	17	**39,327**	42,305
Other investments	18	**14,315**	8,424
Derivative financial instruments	19	**371**	1,268
Deferred income tax	26	**12,427**	2,880
Trade and other receivables	20	**45**	49
		869,090	1,251,587
Current assets			
Trade and other receivables	20	**10,597**	9,070
Derivative financial instruments	19	**-**	1,208
Cash and cash equivalents	21	**195,296**	122,030
		205,893	132,308
Total assets		**1,074,983**	1,383,895
Non-current liabilities			
Deferred income tax	26	**73,427**	117,439
Borrowings, including finance leases	27	**529,048**	695,675
		602,475	813,114
Current liabilities			
Trade and other payables	25	**32,853**	59,667
Current income tax		**5,937**	2,690
Derivative financial instruments	19	**22,575**	2,307
Borrowings, including finance leases	27	**72,558**	103,025
		133,923	167,689
Total liabilities		**736,398**	980,803
Net assets		**338,585**	403,092
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	23	**16,686**	18,712
Share premium reserve	24	**70,515**	69,824
Other reserves	24	**100,352**	61,198
Retained earnings		**152,215**	254,432
		339,768	404,166
Minority interest		**(1,183)**	(1,074)
Total equity		**338,585**	403,092

These financial statements were approved by the Board of Directors and authorised for issue on 14 April 2009 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2008

	Notes	Attributable to equity holders of the Company: Share capital £000	Other reserves £000	Retained earnings £000	Minority Interest £000	Total £000
Balance at 1 January 2007		20,021	112,174	316,840	(896)	448,139
Arising in the year:						
Fair value gains/(losses):						
- available-for-sale financial assets	24	-	1,716	-	-	**1,716**
- cash flow hedges	24	-	(1,206)	-	-	**(1,206)**
Currency translation differences on foreign currency net investments	24	-	16,917	-	-	**16,917**
Purchase of own shares expense		-	-	(190)	-	**(190)**
Purchase of own shares	23	(1,120)	1,120	(29,669)	-	**(29,669)**
Employee share option scheme	23/24	-	112	-	-	**112**
Treasury shares cancellation		(189)	189	-	-	**-**
Change in minority interest		-	-	-	184	**184**
Net amounts recognised directly in equity		(1,309)	18,848	(29,859)	184	**(12,136)**
Loss for the year		-	-	(32,549)	(362)	**(32,911)**
Total increase/(decrease) in equity for the year		(1,309)	18,848	(62,408)	(178)	**(45,047)**
Balance at 31 December 2007		**18,712**	**131,022**	**254,432**	**(1,074)**	**403,092**
Arising in the year:						
Fair value losses:						
- available-for-sale financial assets	24	-	(3,299)	-	-	**(3,299)**
- cash flow hedges	24	-	(74)	-	-	**(74)**
Currency translation differences on foreign currency net investments	24	-	40,501	-	-	**40,501**
Purchase of own shares expense		-	-	(189)	-	**(189)**
Purchase of own shares	23	(1,498)	1,498	(23,853)	-	**(23,853)**
Issue of shares		-	-	-	-	**-**
Employee share option scheme	23	-	691	-	-	**691**
Treasury shares cancellation		(528)	528	-	-	**-**
Change in minority interest		-	-	-	(237)	**(237)**
Net amounts recognised directly in equity		(2,026)	39,845	(24,042)	(237)	**13,540**
(Loss)/profit for the year		-	-	(78,175)	128	**(78,047)**
Total increase/(decrease) in equity for the year		(2,026)	39,845	(102,217)	(109)	**(64,507)**
Balance at 31 December 2008		**16,686**	**170,867**	**152,215**	**(1,183)**	**338,585**

CONSOLIDATED STATEMENT OF CASH FLOWS

year ended 31 December 2008

	Notes	Year ended 31 December 2008 £000	Year ended 31 December 2007 £000
Cash flows from operating activities			
Cash generated from operations	29	**49,918**	54,141
Interest paid		**(41,637)**	(43,553)
Income tax paid		**(720)**	(739)
Net cash inflow from operating activities		**7,561**	9,849
Cash flows from investing activities			
Purchase of investment property		**-**	(36,706)
Capital expenditure on investment property		**(18,947)**	(19,974)
Proceeds from sale of investment property		**127,648**	-
Purchases of property, plant and equipment		**(190)**	(821)
Proceeds from sale of property, plant and equipment		**159**	31
Purchase of equity investments		**(13,984)**	(8,229)
Proceeds from sale of equity investments		**1,194**	10,825
Purchase of interests in associate/joint venture		**(828)**	(35,150)
Dividend received from associate undertaking		**1,460**	-
Proceeds on disposal of joint venture net of cash sold		**28,107**	-
Proceeds on foreign currency transactions		**2,376**	-
Proceeds on disposal of subsidiary undertakings net of cash sold		**49,164**	-
Amounts expended in relation to corporate disposals in prior periods		**(3,002)**	(12,305)
Purchase of subsidiary undertaking net of cash acquired		**-**	(1,509)
Interest received		**8,680**	5,820
Net cash inflow/(outflow) from investing activities		**181,837**	(98,018)
Cash flows from financing activities			
Issue of shares		**691**	112
Purchase of own shares		**(24,040)**	(29,861)
Non-recurring re-structuring costs		**(1,288)**	-
New loans		**21,334**	120,675
Issue costs of new bank loans		**(2,232)**	(1,416)
Purchase of financial instruments		**(70)**	(410)
Repayment of loans		**(122,793)**	(38,894)
Net cash (outflow)/inflow from financing activities		**(128,398)**	50,206
Net increase/(decrease) in cash and cash equivalents		**61,000**	(37,963)
Foreign exchange gain		**12,266**	2,422
Cash and cash equivalents at the beginning of the year		**122,030**	157,571
Cash and cash equivalents at the end of the year	21	**195,296**	122,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

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, at registered address: 86 Bondway, London SW8 1SF. The Company is listed on the London Stock Exchange.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 financial statements are prepared on a going concern basis as explained in the Directors' Report on page 29.

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

New standards and interpretations

In the current year, the Group has adopted the following standards and guidance:

- IAS 23 (Revised) 'Borrowing Costs' (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 11: IFRS 2 Group and treasury share transactions; and
- IFRIC 14: IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction.

These pronouncements either had no impact on the financial statements or resulted in changes to presentation and disclosure only.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. It is anticipated they will be applied when they become effective. In some cases these standards and guidance have not been endorsed by the European Union:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: – Reclassification of Financial Instruments; and – Reclassification of Financial Assets; effective for accounting periods beginning on or after 1 July 2008
- IFRS 8 'Operating Segments'; effective for accounting periods beginning on or after 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation; effective for accounting periods commencing on or after 1 October 2008
- IFRIC 17 Distributions of Non-cash Assets to Owners; effective for accounting periods commencing on or after 1 July 2009
- IFRS 8 Operating segments; effective for accounting periods beginning on or after 1 January 2009
- Amendments to IAS 1 Presentation of financial statements – A revised presentation; effective for accounting periods beginning on or after 1 January 2009
- Amendments to IFRS 2 Share-based payment; effective for accounting periods beginning on or after 1 January 2009
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements; effective for accounting periods commencing on or after 1 January 2009
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items; effective for accounting periods commencing on or after 1 January 2009
- IFRIC 15 Agreements for the Construction of Real Estate; effective for accounting periods commencing on or after 1 January 2009
- IFRS 3 (revised) Business combinations; effective for accounting periods beginning on or after 1 July 2009
- Amendments to IAS 27 Consolidated and separate financial statements; effective for accounting periods beginning on or after 1 July 2009
- Amendments to IFRS 1 and IAS 27 Cost of Investment on a subsidiary/jointly controlled Entity or Associate; effective for accounting periods commencing on or after 1 January 2009.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The majority of amendments made as part of the IASB's Annual Improvements programme affect accounting periods beginning on or after 1 January 2009. Included within the amendments is a change in the accounting treatment for development properties. Currently, such properties are accounted for under IAS 16, but they will in future be accounted for under IAS 40. This change will mean that revaluation surpluses and deficits on development properties will in future be recognised in the income statement rather than equity.

2.2 Business combinations

(a) Subsidiaries

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

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

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

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

(b) Joint ventures

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

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

(c) Associates

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Goodwill

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

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

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

2.4 Segment information

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

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Consolidation

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(c) Consolidation (continued)

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.

2.6 Investment property

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

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

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

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

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

Changes in fair values are recorded in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Subsequently the owner-occupied property is depreciated over its useful economic life and revalued at the balance sheet date. Revaluation gains and losses are taken to reserves. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

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

2.7 Property, plant and equipment

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

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

Plant and equipment	4 – 5 years
Freehold property	6 years

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

Freehold property is depreciated until December 2014 after which it is anticipated that it will be re-developed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

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

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

2.9 Financial instruments

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

Financial assets

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

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

Financial assets include other investments (Note 18), derivative financial instruments (Note 19), trade and other receivables (Note 20) and cash and cash equivalents (Note 21).

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

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

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

(b) Loans and receivables

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

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

(c) Held to maturity investments

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

(d) Available for sale financial assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

Effective interest method

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

Derecognition of financial assets

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

Impairment of financial assets

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

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

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

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

(b) Other financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

(i) fair value hedges;

(ii) cash flow hedges; or

(iii) hedges of net investments in foreign operations.

Hedge accounting

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

(a) Fair value hedge accounting

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

(b) Cash flow hedge accounting

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

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

(c) Hedges of net investments in foreign operations

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

(d) Derivatives that do not qualify for hedge accounting

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

2.10 Non current assets held for sale and discontinued operations

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of assets

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

2.12 Income tax

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

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

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

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

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

2.13 Provisions

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

2.14 Revenue recognition

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

(a) Rental and similar revenue

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

(b) Service charge and similar revenue

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

(c) Other operating income

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

(d) Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Revenue recognition (continued)

(e) Gain on disposal of investment property

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

2.15 Leases

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

(a) A Group company is the lessee

(i) Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the relevant lease.

(ii) Assets held under finance leases are recognised as assets at the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Each lease payment is allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

(b) A Group company is the lessor

(i) Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(ii) Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic return on the Group's net investment outstanding in respect of the leases.

2.16 Employee benefits

(a) Pension obligations

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

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at grant date, excluding the impact of any non-market vesting conditions (for example, the employee remaining in the 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Share capital

Ordinary shares are classified as equity.

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

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

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

3 FINANCIAL INSTRUMENTS

3.1 Significant accounting policies

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

3.2 Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as going concern while maximizing the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 27, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. Management perform 'stress tests' of the business model to ensure that objectives are continually met. The objectives have been met in the year.

Gearing ratio

The Group's Directors review the capital structure on at least a quarterly basis to ensure that key strategic goals are being achieved. As part of this review they consider the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end is as follows:

	2008 £000	2007 £000
Debt	**605,192**	803,717
Cash and cash equivalents	**195,296**	122,030
Net debt	**409,896**	681,687
Equity	**338,585**	403,092
Net debt to equity ratio	**121%**	169%

Debt is defined as long and short term borrowings excluding unamortised issue costs as detailed in Note 27. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

Externally imposed capital requirement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives

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

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

(a) Market risk

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

(i) Foreign exchange risk

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

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

The Group's principal foreign currency exposures are in respect of the Euro and the Swedish Kroner. If the value of Sterling were to increase in strength by 1% against the value of the Euro then this would result in an increase of the Group's net assets of £1.7m and a decrease in the Group's loss of £797 thousand. If the value of Sterling were to decrease in strength by 1% against the value of the Euro then this would result in an decrease of the Group equity of £1.7m and an increase in the Group's loss of £813 thousand. If the value of Sterling were to increase in strength by 1% against the value of the Swedish Kroner then this would result in an increase of the Group's net assets of £169 thousand and a decrease in the Group's loss of £115 thousand. If the value of Sterling were to decrease in strength by 1% against the value of the Swedish Kroner then this would result in an decrease of the Group equity of £173 thousand and an increase in the Group's loss of £118 thousand.

Management consider a 1% movement to be a reasonable assumption in normal market conditions.

(ii) Interest rate risk

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

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

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The table below shows the effect on the income statement and to equity that would result from an increase or decrease of 1% (2007: 0.5%) in market interest rates which is an amount management believe to be reasonable in the current market. All other factors are held constant.

Scenario: Shift of 100 basis points (2007: 50 basis points)	2008 Income statement £000	2008 Equity £000	2007 Income statement £000	2007 Equity £000
Cash +100 basis points (2007: +50 basis points)	**1,383**	**1,383**	545	545
Variable borrowings (including caps) +100 basis points (2007: +50 basis points)	**(540)**	**(540)**	(815)	(815)
Cash −100 basis points (2007: −50 basis points)	**(1,383)**	**(1,383)**	(545)	(545)
Variable borrowings (including caps) −100 basis points (2007: -50 basis points)	**1,200**	**1,200**	1,263	1,263

(iii) Other price risk

Equity investments

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

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

(b) Credit risk

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

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

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

Management have considered the credit risk in relation to all financial assets and liabilities at the balance sheet date and no adjustments have resulted.

(c) Liquidity risk

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

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

Loan covenant compliance is closely monitored by the Group's Treasury department. Where covenant breaches are likely to occur, these can generally be rectified by the placing of additional security or cash deposit with the lending party, or by partial repayment before an actual event of default occurs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Risk management objectives (continued)

(c) Liquidity risk (continued)

In the current economic conditions, with severely restricted liquidity and limited access to new borrowing facilities in capital markets generally, and the real estate sector in particular, further downward pressure on valuations is possible in the forthcoming years.

At 31 December 2008 there were a number of loans on the UK portfolio that although not technically in breach, would have breached loan-to-value (LTV) covenants if the lenders concerned had commissioned valuations at the balance sheet date. For all such loans the Group has the unfettered right to place cash on deposit with the lender to remedy such covenant breaches were they to be formally assessed. The total amount of cash required to remedy all such potential covenant breaches at 31 December 2008 is not significant to the Group.

If valuations continue to fall, this could lead to further actual LTV covenant breaches. In advance of this stage we will discuss potential breaches with lenders, which could lead to re-negotiation or possible waiving of this condition, particularly in cases where all other covenants are complied with. On our Continental European assets, our LTV covenants have no such potential breaches at 31 December 2008, and are non-existent on several of our buildings.

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

At 31 December 2008	Less than 1 year £000	1-2 years £000	2-5 years £000	> 5 years £000
Non-derivative financial liabilities				
Borrowings	**73,273**	**61,174**	**200,640**	**270,105**
Interest payments on borrowings (i)	**20,093**	**14,813**	**36,746**	**60,824**
Trade and other payables	**32,853**	-	-	-
Forward foreign exchange contracts				
Cash flow hedges				
Outflow	**(130,077)**	-	-	-
Inflow	**129,856**	-	-	-

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

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

3.4 Fair value estimation

(a) Foreign currency swaps and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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

(c) The fair value of an off market unquoted option to acquire shares in an associated company is considered to be its transaction price.

(d) The fair value of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include equity investments and listed corporate bonds.

3 FINANCIAL INSTRUMENTS (CONTINUED)

3.4 Fair value estimation (continued)

(e) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from brokers. Where the spread of prices is tightly clustered we conclude that the consensus price is at fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade to give context to the quotes available.

(f) The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Except for investment in associates in Note 17 and borrowings set out in Note 27, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate their fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(a) Fair value of investment properties

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

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

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

As referred to in the Chairman's Statement on page 5, the current economic climate and lower transactional volumes in the real estate markets in which CLS is active has meant that our valuers have referred to greater use of professional judgement in arriving at the year end valuation. Further discussion is given in Note 14.

(b) Income Taxes

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

(c) Impairment of goodwill and other intangible assets

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

(d) Deferred tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

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 (including Luxembourg)

(iii) Germany

(iv) Sweden

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

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

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

The segment results for the year ended 31 December 2008 are as follows:

	United Kingdom £000	France £000	Germany £000	Sweden† £000	Unallocated £000	Total £000
Continuing operations						
Revenue	31,631	22,987	14,433	8,943	-	**77,994**
Operating profit/(loss) before losses on investment properties	21,447	17,213	9,110	(3,572)	-	**44,198**
Net loss from fair value adjustment on investment properties	(59,434)	(17,824)	(19,905)	(6,230)	-	**(103,393)**
Write down of goodwill	-	-	-	(21,985)	-	**(21,985)**
Other non-recurring costs	(1,288)	-	-	-		**(1,288)**
Loss on disposal of subsidiaries	-	(15,826)	-	(335)	-	**(16,161)**
Profit/(loss) from sale of investment properties	6,551	(154)	612	-	-	**7,009**
Finance income	14,918	3,245	844	1,565	-	**20,572**
Finance costs	(38,501)	(12,285)	(9,660)	(3,190)	-	**(63,636)**
Share of loss of associates after tax*	-	-	-	(7,470)	-	**(7,470)**
Loss before tax	(56,307)	(25,631)	(18,999)	(41,217)	-	**(142,154)**
Tax credit/(charge) on loss	167	(3,467)	(267)	(43)	67,717	**64,107**
(Loss)/profit for the year from continuing operations	**(56,140)**	**(29,098)**	**(19,266)**	**(41,260)**	**67,717**	**(78,047)**

* Analysis in Note 17.
† Includes the Wyatt Group.

Other information:

	United Kingdom £000	France £000	Germany £000	Sweden £000	Unallocated £000	Total £000
Assets	437,351	307,452	209,615	68,811	12,427	1,035,656
Associates	-	-	-	39,327	-	39,327
Total assets	**437,351**	**307,452**	**209,615**	**108,138**	**12,427**	**1,074,983**
Total liabilities	**293,864**	**145,044**	**151,523**	**72,540**	**73,427**	**736,398**
Capital expenditure	2,667	1,211	11,126	2,397	-	17,401
Depreciation and amortisation	318	19	22	1,091	-	1,450

5 SEGMENT INFORMATION (CONTINUED)

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

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

Other information:

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

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 (comprising Wyatt and other equity investments).

	2008 £000	2007 £000
Continuing operations		
Revenue		
Investment property	**74,353**	82,302
Other investments	**3,641**	5,690
	77,994	87,992
Total assets		
Investment property	**1,017,894**	1,332,019
Other investments	**57,089**	51,876
	1,074,983	1,383,895
Capital expenditure		
Investment property	**17,292**	52,506
Other investments	**109**	447
	17,401	52,953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

6 OTHER OPERATING EXPENSE

	2008 £000	2007 £000
Loss on disposal of equity investments	**(1,089)**	(314)
Loss on disposal of available for sale equity investments	**(513)**	(2,391)
Permanent diminution in value of available for sale equity investments	**(2,996)**	(348)
Other investment related income	**509**	408
Other property related income	**3,063**	1,077
Total	**(1,026)**	(1,568)

Other property related income relates to tenant breaks, insurance commissions and other property related income.

7 EXPENSES BY NATURE

	2008 £000	2007 £000
Audit services		
Fees payable to the Company auditor for the audit of parent Company and consolidated accounts	**138**	101
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**68**	138
Non-audit services - fees payable to the Company's auditor and its associates for other services	**156**	-
Other services pursuant to legislation	**26**	47
Depreciation and amortisation	**1,450**	2,814
Loss on disposal of property, plant and equipment	**236**	115
Repairs and maintenance	**549**	403
Bad debt expense	**176**	407
Employee benefits expense (Note 8)	**7,884**	10,363
Legal and professional fees	**2,794**	10,081
Operating lease rentals	**955**	1,167
Travel, marketing and entertaining	**1,114**	986
Other expenses	**4,169**	4,263
Total	**19,715**	30,885
Classified as:		
Administrative expenses	**16,066**	27,724
Net property expenses	**3,649**	3,161
Total	**19,715**	30,885

8 EMPLOYEE BENEFITS EXPENSE

	2008 £000	2007 £000
Wages and salaries	**5,495**	7,338
Social security costs	**1,235**	1,489
Pension costs – defined contribution plans	**378**	527
Other employee related expenses	**776**	1,009
Total	**7,884**	10,363

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

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

No amounts were charged to the income statement in relation to share-based payments (2007: £Nil).

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

	Property	Other operations	2008 Total	Property	Other operations	2007 Total
Male	**22**	**39**	**61**	27	46	73
Female	**30**	**15**	**45**	33	19	52
Total	**52**	**54**	**106**	60	65	125

9 FINANCE INCOME

	2008 £000	2007 £000
Finance income		
Foreign exchange variances	**11,892**	726
Interest income	**8,680**	5,831
Total	**20,572**	6,557

10 FINANCE COSTS

	2008 £000	2007 £000
Interest expense		
Bank loans	**33,339**	39,696
Debenture loans	**4,705**	4,703
Finance leases	**54**	73
Other interest	**863**	964
Amortisation of issue costs of loans	**3,663**	2,295
Derivative financial instruments (Note 19)		
Interest-rate swaps: transactions not qualifying as hedges	**19,877**	2,441
Interest-rate caps, collars and floors: transactions not qualifying as hedges	**1,135**	(954)
Total	**63,636**	49,218

During 2008 the Group suffered increased loan issue cost amortisation due to the repayment of loans following property sales in the UK, France and Germany.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

11 OTHER NON-RECURRING COSTS

During 2008 the Group incurred £1,288 thousand (2007: £Nil) of professional fees associated with a potential restructuring of the Group.

12 INCOME TAX CREDIT

Year ended 31 December 2008	2008 £000
Current tax	**3,610**
Deferred tax (Note 26)	**(67,717)**
Total	**(64,107)**

Year ended 31 December 2007	Continuing operations £000
Current tax	2,610
Deferred tax (Note 26)	(42,342)
Total	(39,732)

There has been no deferred tax recognised directly to equity during the year (2007: a deferred tax charge of £318 thousand) (see Note 26).

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:

	2008 £000	2007 £000
Loss before tax		
Continuing operations	**(142,154)**	(72,643)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(40,771)**	(19,185)
Expenses not deductible for tax purposes	**10,345**	1,471
Tax effect of unrecognised losses in associates and joint ventures	**2,049**	7,797
Previously unrecognised tax losses and other deferred tax adjustments	**(2,983)**	2,059
Change in calculation method of calculation of deferred tax	**-**	(31,400)
Different taxation treatment of disposals	**(32,428)**	27
Deferred tax assets not recognised	**439**	85
Adjustment in respect of prior periods	**(758)**	(586)
Tax credit for the year	**(64,107)**	(39,732)

The weighted average applicable tax rate was 28.7 per cent (2007: 26.4 per cent).

The change of basis for the calculation of deferred tax in the prior year is described in Note 26.

13 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held as treasury shares (see Note 23).

The weighted average number of shares for the year was 64,783,048 (2007: 71,091,971).

Diluted

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

Instruments that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2008 comprise share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. The effect of these antidilutive securities would have been to increase weighted average shares by 110,877 shares (2007: 405,000 shares were treated as dilutive).

There were no share options remaining at 31 December 2008.

	2008 Loss £000	**2008 Loss per share Pence**	2007 Loss £000	2007 Loss per share Pence
Loss per share from continuing operations:				
Basic and diluted loss per share	**(78,175)**	**(120.7)**	(32,549)	(45.8)
Diluted loss per share – continuing operations	**(78,175)**	**(120.7)**	(32,549)	(45.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

14 INVESTMENT PROPERTIES

	2008 £000	2007 £000
At beginning of year	**1,175,291**	1,143,451
Exchange rate variances	**118,828**	47,026
Acquisitions	**-**	28,960
Capital expenditure	**17,211**	23,175
Transfer to Property, plant and equipment (Note 15)	**(2,320)**	-
Disposal – property sales	**(230,731)**	-
Disposals – corporate sales (Note 32)	**(175,082)**	-
Net loss from fair value adjustments on investment properties	**(103,393)**	(68,077)
Rent free period debtor adjustments	**(1,043)**	756
At end of year	**798,761**	1,175,291

The investment properties (and the owner occupied property detailed in Note 15) were revalued at 31 December 2008 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 external, professionally qualified valuers.

Investment property includes buildings held under finance leases of which the carrying amount is £20,804 thousand (2007: £113,308 thousand).

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

Investment properties (and the owner occupied property detailed in Note 15) are pledged as collateral against debt used to acquire the respective property as disclosed in Note 27.

As referred to in the Chairman's Statement on page 5, the current economic climate and lower transactional volumes in the real estate markets in which CLS is active has meant that our valuers have referred to greater use of professional judgement in arriving at the year end valuations. In addition, the fact that the Group is not a distressed seller may mean realising assets at these values by way of sale in the short term may be difficult to achieve as the transactions that are being completed are generally at distressed levels, rather than indicative of a willing buyer and seller. Given the smaller individual lot sizes, the tenant base and the geographic spread of the CLS portfolio which should mitigate such volatility, the Directors are satisfied that the external valuations supplied are appropriate to adopt for these financial statements without adjustment.

15 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment £000	Owner-occupied property £000	Total £000
Cost or valuation			
At 1 January 2007	6,465	–	6,465
Additions	821	–	821
Disposals	(630)	–	(630)
Exchange rate variances	87	–	87
At 31 December 2007	6,743	–	6,743
Transfer from investment property	–	2,320	2,320
Additions	190	–	190
Disposals	(2,569)	–	(2,569)
Revaluation decrease	–	(348)	(348)
Exchange rate variances	229	–	229
At 31 December 2008	**4,593**	**1,972**	**6,565**
Accumulated depreciation and impairment			
At 1 January 2007	4,470	–	4,470
Depreciation charge	999	–	999
Disposals	(599)	–	(599)
Exchange rate variances	41	–	41
At 31 December 2007	4,911	–	4,911
Depreciation charge	924	22	946
Disposals	(2,174)	–	(2,174)
Exchange rate variances	126	–	126
At 31 December 2008	**3,787**	**22**	**3,809**
Net book value			
At 31 December 2007	1,832	–	1,832
At 31 December 2008	**806**	**1,950**	**2,756**

There were no additions attributable to acquisitions through business combinations in the current or comparative year.

Owner-occupied property was revalued at 31 December 2008 to fair value by Allsop & Co as detailed in Note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

16 INTANGIBLE ASSETS

	Goodwill £000	Other intangibles £000	Total £000
Cost			
At 1 January 2007	12,854	6,328	19,182
Additions	1,794	-	1,794
Exchange rate variations	505	208	713
At 31 December 2007	15,153	6,536	21,689
Additions	3,634	141	3,775
Exchange rate variations	1,432	505	1,937
At 31 December 2008	**20,219**	**7,182**	**27,401**
Amortisation			
At 1 January 2007	-	(336)	(336)
Amortisation	-	(1,815)	(1,815)
At 31 December 2007	-	(2,151)	(2,151)
Amortisation	-	(504)	(504)
Disposals	(1,673)	-	(1,673)
Impairment	(17,458)	(4,527)	(21,985)
At 31 December 2008	**(19,131)**	**(7,182)**	**(26,313)**
Net book value			
At 31 December 2007	15,153	4,385	19,538
At 31 December 2008	**1,088**	**-**	**1,088**

Goodwill

Goodwill on the Group balance sheet comprises £836 thousand (2007: £2,059 thousand) in relation to the acquisition of a French property portfolio in 2004 and a further £252 thousand (2007: £252 thousand) in relation to a German property acquisition in 2005.

In October 2007 the Group purchased, for £1,173 thousand (SEK15 million), a call option for the remaining 60% shareholding in the Bilddagboken AB. The option was exercised on 22 January 2008 for £2,184 thousand (SEK25 million). When exercised, goodwill of £3,351 thousand was recognised (SEK 23.4 million at year end SEK:GBP rate of 11.4474).

In February and April 2008 the Group acquired a further 25.1% of the share capital of Internetami AB (Tyda) taking the Groups total shareholding to 82.3%. On acquisition, goodwill of £201 thousand (SEK2.3 million at year end SEK exchange rate of 11.4474) was recognised.

In October 2008 the Group acquired the remaining 47% of the share capital of Xtraworks AB. On acquisition, goodwill of £81 thousand (SEK964 thousand at year end SEK exchange rate of 11.4474) was recognised.

All goodwill relating to Wyatt including that recognised on acquisitions in the year is fully written off at 31 December 2008, as described below.

Intangible assets

Other intangible assets (relating to trade name, technology, customer relationships, capitalised development and other costs) have been fully written down during the year as described below. These related exclusively to the Wyatt group.

Impairment

The impairment losses recognised in the consolidated income statement, as a separate line within operating profit, in respect of goodwill and intangible assets relate exclusively to the Wyatt Media Group AB ('Wyatt') and its subsidiary companies.

During the year ended 31 December 2008, the goodwill and intangible assets in respect of the Group's online media operations was impaired by £17,458 thousand and £4,527 thousand respectively. This was triggered by significant intensification of market competition (primarily in the social networking environment, which now offers free content and membership) and increasing obsolescence of existing coding and software causing a significant pre-tax risk adjustment which has triggered the impairment charge. At 31 December 2008 there is no goodwill or intangibles in relation to 'Wyatt' remaining.

There was no impairment for the year ended 31 December 2007.

16 INTANGIBLE ASSETS (CONTINUED)

We set out below the key assumptions used in reviewing the goodwill and intangibles of the Wyatt group for impairment at 31 December 2008.

Key assumptions:

Budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) - Budgeted EBITDA, calculated as adjusted operating profit before depreciation and amortisation, has been based on an 'income per user' measure based on existing income streams and new product launches. Projected user volumes using web services has been derived from past experience of the business.

Long-term growth rates - Growth rates of between 2-3% have been used which approximate to the nominal GDP rates in the countries in which the business operates.

Pre-tax adjusted discount rate - The discount rate is derived from a risk free rate adjusted to reflect specific risk premiums in relation to the systematic risk and a risk adjustment ('beta') applied to reflect the specific risk of the operating entity under review.

Summary of assumptions:

The value in use calculation for 31 December 2008 has used pre-tax adjusted discount rates of 33% and long-term growth rates of 2% (2007: pre-tax adjusted discount rate of 14-16%, long-term growth rate of 2-3%). Budgeted EBITDA has been applied consistently in 2008 and 2007 as described above.

17 INVESTMENTS IN ASSOCIATES

	Net assets £000	Goodwill £000	Total £000
At 1 January 2007	-	-	-
Additions	29,003	10,378	39,381
Share of profit	537	-	537
Other equity movements*	324	-	324
Exchange rate variances	2,063	-	2,063
At 31 December 2007	31,927	10,378	42,305
Additions	750	79	829
Reclassification	1,300	(1,300)	-
Share of loss	(4,281)	-	(4,281)
Release of negative goodwill on acquisition of associate	2,073	-	2,073
Impairment of goodwill	-	(5,262)	(5,262)
Share of loss on associates after tax	(2,208)	(5,262)	(7,470)
Other equity movements*	4,284	-	4,284
Dividends received	(1,460)	-	(1,460)
Exchange rate differences	-	839	839
At 31 December 2008	**34,593**	**4,734**	**39,327**

* Primarily relate to foreign exchange movements of the associate undertakings.

£1,300 thousand has been reclassified to net assets from goodwill in 2008 to reflect a revision to the original acquisition calculation in 2007. This was based on preliminary results and updated in 2008 to reflect published data.

During 2008 Bulgarian Land Development Plc restated their 2007 accounts. The result of this restatement has been reflected in these accounts in 2008. A loss of £543 thousand and a debit of £563 thousand has been recognised in reserves in relation to this restatement. These are included within share of loss and other equity movements respectively in the above table.

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

Year ended 31 December 2008	Assets £000	Liabilities £000	Revenues £000	Profit / (loss) £000	Interest held in ordinary share capital %
Catena AB (incorporated in Sweden)	61,408	(40,947)	4,558	(3,176)	29.1
Bulgarian Land Development Plc (incorporated in Isle of Man)	23,763	(9,640)	2,369	(1,061)	35.8
Flavour of the month AB (incorporated in Sweden)	26	(17)	6	(44)	40.0
Total	**85,197**	**(50,604)**	**6,933**	**(4,281)**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

17 INVESTMENTS IN ASSOCIATES (CONTINUED)

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

Catena AB

In May 2007 the Group acquired a 27.6% stake in Catena AB, a listed Swedish property company, increasing this to 29.1% by 3 July 2007, for a sum of SEK382,659 thousand. Henry Klotz, Chief Executive Officer of the Group was appointed as Chairman of Catena in 2007.

The quoted value (market value) of the Group's investment in the shares of Catena AB at year end was £17,616 thousand (2007: £28,033 thousand).

Bulgarian Land Development Plc

During 2007, the Company agreed to subscribe to 7,211,878 shares at a price of £1 per share in Bulgarian Land Development Plc (BLD) which is listed on the Alternative Investment Market of the London Stock Exchange. BLD develops residential and commercial property opportunities in Bulgaria. The new subscription increased the Group's stake in BLD to 11,461,787 shares, representing 28.65 per cent of the issued share capital.

In 2008 a further 2,859,500 shares were acquired by the Group to take the total shareholding to 35.8%. This created negative goodwill of £2,073 thousand which has been released to the income statement in the year and included in the Group's share of loss after tax from associates above.

The quoted value (market value) of the Group's investment in the shares of Bulgarian Land Development Plc (BLD) at the year end was £4,583 thousand (2007: £9,055 thousand).

Flavour of the month AB

In 2008 the Group acquired a 40% interest in a blog resourcing website, Flavour of the month AB. £134 thousand was invested.

Impairment

Given the current economic instability and the likelihood of a slowdown in global growth the Group has considered that this represents a potential indication of impairment in relation to its associate investments. As such the Group has tested the recoverability of its associate investments in accordance with IAS 36, by comparing the carrying amount of the associate investments at the balance sheet date to their recoverable amounts. This has resulted in a write down of £5,262 thousand to goodwill (2007: £Nil)

In assessing the carrying value of Catena AB, the Group has considered that the balance sheet of Catena AB at 31 December 2008 is stated at fair value except for certain deferred tax liabilities. It is managements assessment that the realisation of Catena's property assets in the future would occur through corporate disposals and therefore latent deferred tax liabilities are unlikely to crystallise. Taking this into account the write down in relation to Catena was £3,890k (2007: £Nil) representing excess of carrying value over fair value.

In assessing the carrying value of Bulgarian Land Development Plc ('BLD') there is significant uncertainty around the timing and level of cash-flows in the future which has crystallised a write down of goodwill of £1,372k (2007: £Nil). A review of BLD's underlying assets has been undertaken which are not impaired at the balance sheet date. On this basis the Directors consider the Group's share of net assets approximates to recoverable value.

18 OTHER INVESTMENTS

Investments include the following:

	2008 £000	2007 £000
Available for sale financial investments carried at fair value		
Listed equity securities - UK	**275**	1,689
Listed equity securities - Sweden	**2,332**	4,960
Listed equity securities - Other	**50**	-
Un-listed investments - UK	**57**	-
Un-listed investments - Sweden	**580**	-
Un-listed investments - Other	**16**	13
Listed corporate bonds - UK	**1,225**	-
Listed corporate bonds - Eurozone	**8,336**	-
Listed corporate bonds - Denmark	**1,223**	-
Government securities - UK	**220**	107
	14,314	6,769
Investments designated at fair value through the profit or loss		
Listed equity securities - UK	**-**	775
Listed equity securities - Sweden	**-**	-
Listed equity securities - Other	**-**	263
Un-listed investments - UK	**-**	57
Un-listed investments - Sweden	**-**	519
	-	1,614
Other investments carried at cost	**1**	41
Total	**14,315**	8,424

The investments included above represent investments in listed and unlisted equity securities, corporate bonds and government gilts that present the Group with opportunity for return through dividend and interest income and trading gains or in several cases are considered to be strategic non-controlling interests.

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

The movement of other investments is analysed below:

	Other investments £000
At 1 January 2007	16,193
Additions	36,167
Disposals	(13,530)
Fair value movements recognised in reserves on available for sale assets	1,716
Fair value movements recognised in the income statement on available for sale assets	(348)
Transfers to associate investments	(33,079)
Exchange rate variations	1,397
Other	(92)
At 31 December 2007	8,424
Additions	10,576
Disposals	(313)
Fair value movements recognised in reserves on available for sale assets	(3,299)
Fair value movements recognised in the income statement on available for sale assets	(2,996)
Exchange rate variations	1,962
Other	(39)
At 31 December 2008	**14,315**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2008 Assets £000	2008 Liabilities £000	2007 Assets £000	2007 Liabilities £000
Non-current portion				
Interest-rate swaps	**20**	**-**	49	-
Interest-rate caps and floors	**351**	**-**	1,219	-
	371	**-**	1,268	-
Current portion				
Interest-rate swaps	**-**	**22,395**	-	2,307
Forward foreign exchange contracts	**-**	**180**	35	-
Call option on subsidiary undertaking	**-**	**-**	1,173	-
	-	**22,575**	1,208	2,307
Total	**371**	**22,575**	2,476	2,307

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

Interest-rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2008 was £296,821 thousand (2007: £195,703 thousand). The average period to maturity of the interest-rate swaps was 2.1 years (2007: 3.8 years).

The principal interest rate swap matures at nil amounts payable. During the period to maturity there is a single date in 2012 on which the swap can be cancelled by the counterparty and settled at fair value.

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty and to minimise the impact of foreign exchange movements to future committed cash-flows. At 31 December 2008 the Group had £135,752 thousand of outstanding foreign exchange contracts (2007: £35,000 thousand).

20 TRADE AND OTHER RECEIVABLES

	2008 £000	2007 £000
Non-current		
Other debtors	**45**	49
Current		
Trade receivables	**3,672**	2,910
Prepayments	**721**	1,270
Accrued income	**252**	368
Other debtors	**5,952**	4,522
	10,597	9,070
Total	**10,642**	9,119

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

There were no material assets classified as past due but not impaired in either the current or comparative year. The Directors consider that the carrying amount of all current assets approximates to their fair value. No items are interest bearing.

21 CASH AND CASH EQUIVALENTS

	2008 £000	2007 £000
Cash at bank and in hand	**64,922**	42,745
Short-term bank deposits	**130,374**	79,285
Total	**195,296**	122,030

At 31 December 2008, Group cash at bank and in hand included £10,961 thousand (2007: £21,406 thousand) of cash deposits which are restricted by third party charge over these funds.

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

Cash and cash equivalents currency profile:

Year ended 31 December 2008	Cash at bank and in hand £000	Short-term deposits £000	Total £000
Sterling	**12,418**	**75,014**	**87,432**
Swedish Kroner	**2,199**	**5,720**	**7,919**
Euro	**50,288**	**49,640**	**99,928**
Other	**17**	**–**	**17**
Total	**64,922**	**130,374**	**195,296**

Year ended 31 December 2007	Cash at bank and in hand £000	Short-term deposits £000	Total £000
Sterling	20,602	64,677	85,279
Euro	18,549	4,459	23,008
Swedish Kroner	3,582	10,149	13,731
Other	12	–	12
Total	42,745	79,285	122,030

22 JOINT VENTURE

At 31 December 2008 the Group had an interest in one joint venture:

- Fielden House Investments Limited, incorporated in England and Wales, of which the Group owned 33 1/3 per cent of the ordinary share capital (2007: 33 1/3 per cent).

The principal activity of the above joint venture company is development, management and investment in commercial property.

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

Year ended 31 December 2008	Teighmore £000	New London Bridge House £000	Fielden House Investments £000	Total £000
Assets:				
Non-current assets	–	–	2,267	2,267
Current assets	–	–	42	42
	–	–	2,309	2,309
Liabilities:				
Non-current liabilities	–	–	2,475	2,475
Current liabilities	–	–	40	40
			2,515	2,515
Net liabilities	**–**	**–**	**(206)**	**(206)**
Income	–	–	206	206
Expenses	–	–	(801)	(801)
Loss after income tax	**–**	**–**	**(595)**	**(595)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

22 JOINT VENTURE (CONTINUED)

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

The Group's interest in New London Bridge House and Teighmore were disposed of during the year as described in Note 32. There are no contingent liabilities on sale.

23 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2007	80,082	18,151	1,870	20,021
Employee share option scheme:				
– shares issued	–	8	(8)	–
Issue of shares	–	–	–	–
Cancellation of Treasury Shares	(750)	–	(189)	(189)
Purchase of own shares:				
– pursuant to market purchase	–	(103)	103	–
Cancelled following market purchases	(1,163)	(290)	–	(290)
Cancelled following tender offer	(3,319)	(830)	–	(830)
At 31 December 2007	74,850	16,936	1,776	18,712
Employee share option scheme:				
– shares issued	–	81	(81)	–
Cancellation of Treasury Shares	(2,114)	–	(528)	(528)
Purchase of own shares:				
– pursuant to market purchase	–	(82)	82	–
Cancelled following market purchases	(3,415)	(854)	–	(854)
Cancelled following tender offer	(2,576)	(644)	–	(644)
At 31 December 2008	**66,745**	**15,437**	**1,249**	**16,686**

The total authorised number of ordinary shares is 160,000,000 shares (2007: 160,000,000 shares) with a par value of 25 pence per share (2007: 25 pence per share). All shares issued are fully paid. 66,745,371 (2007: 74,849,736) ordinary shares were in issue at year end of which 61,745,471 (2007: 67,740,457) were quoted on the main market of the London Stock Exchange. All ordinary shares (including treasury shares) are of one class which carry no right to fixed income.

23 SHARE CAPITAL (CONTINUED)

Treasury shares

Treasury shares held at 31 December 2008 were 5,000,000 (2007: 7,109,279). During the year the Company acquired 6,319,986 (2007: 4,894,211) of its own shares, of which 2,575,644 (2007: 3,318,960) were purchased through the tender offer, and 3,744,342 (2007: 1,575,251) were purchased on the market. During the year the Company re-issued 325,000 (2007: 30,000) of its own shares from treasury shares.

Share options

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

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

The following options were exercised during the year:

Date of exercise	Number of shares	Market price (pence) at date of exercise
03 April 2008	325,000	358.536
Total	**325,000**	**358.536**

80,000 share options lapsed during the year (originally granted in 2005) and no new options were granted.

No amounts were charged to the income statement in relation to share based payments (2007: £Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

24 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 2007	69,712	13,663	2,251	1,271	(2,840)	28,117	112,174
Employee share option scheme:							
- shares issued	112	-	-	-	-	-	112
Purchase of own shares:							
- cancellation pursuant to tender offer	-	830	-	-	-	-	830
- cancellation pursuant to market purchase	-	290	-	-	-	-	290
- cancellation of treasury shares		189					189
Exchange rate variances	-	-	16,917	-	-	-	16,917
Available-for-sale financial assets:	-						
- net fair value gains in the period	-	-	-	-	1,716	-	1,716
Cash flow hedges:	-						
- fair value losses in the period	-	-	-	(115)	-	-	(115)
- transfers	-	-	-	(773)	-	-	(773)
- deferred tax	-	-	-	(318)	-	-	(318)
At 31 December 2007	69,824	14,972	19,168	65	(1,124)	28,117	131,022
Employee share option scheme:							
- shares issued	691	-	-	-	-	-	691
Purchase of own shares:							
- cancellation pursuant to tender offer	-	644	-	-	-	-	644
- cancellation pursuant to market purchase	-	854	-	-	-	-	854
- cancellation of treasury shares	-	528	-	-	-	-	528
Exchange rate variances	-	-	40,501	-	-	-	40,501
Available-for-sale financial assets:	-						
- net fair value losses in the period	-	-	-	-	(3,299)	-	(3,299)
Cash flow hedges:							
- fair value losses in the period	-	-	-	(74)	-	-	(74)
- deferred tax	-	-	-	-	-	-	
At 31 December 2008	**70,515**	**16,998**	**59,669**	**(9)**	**(4,423)**	**28,117**	**170,867**

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

25 TRADE AND OTHER PAYABLES

	2008 £000	2007 £000
Current		
Trade payables	**2,541**	5,806
Social security and other taxes	**1,053**	2,089
Amounts due to associate undertaking	**54**	-
Other payables	**4,706**	6,119
Accruals	**16,575**	36,880
Deferred income	**7,924**	8,773
Total	**32,853**	59,667

Included within accruals is accrued interest payable £5,503 thousand (2007: £8,770 thousand), accruals in relation to corporate disposals £5,654 thousand (2007: £8,148 thousand) and construction accruals £542 thousand (2007: £10,851 thousand). Other accruals amount to £4,876 thousand (2007:£9,111 thousand).

The Directors consider that all current liabilities are carried at a value that approximates to fair value.

26 DEFERRED INCOME TAX

	2008 £000	2007 £000
Deferred tax assets:		
- to be recovered after more than 12 months	**(12,427)**	(2,880)
Deferred tax liabilities:		
- to be recovered after more than 12 months	**73,427**	117,439
Total	**61,000**	114,559

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

	Total £000
At 1 January 2007	150,386
Charged to the income statement	(42,342)
Charged to equity	318
Exchange rate variances	6,197
At 31 December 2007	114,559
Credited to the income statement	(33,069)
Released on disposal of subsidiaries (Note 32)	(34,648)
Exchange rate variances	14,158
At 31 December 2008	**61,000**

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:

Deferred tax assets:	Tax losses £000	Other £000	Total £000
At 1 January 2007	(3,544)	(992)	(4,536)
Charged/(credited) to the income statement	1,798	(460)	1,338
Charged to equity	-	318	318
At 31 December 2007	(1,746)	(1,134)	(2,880)
Credited to the income statement	(3,692)	(5,855)	(9,547)
At 31 December 2008	**(5,438)**	**(6,989)**	**(12,427)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

26 DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:	Deduction for UK capital allowances £000	Tax on fair value adjustments to investment properties £000	Other £000	Total £000
At 1 January 2007	15,883	138,844	195	154,922
Credited to the income statement	(53)	(43,554)	(73)	(43,680)
Exchange rate variances	–	6,216	(19)	6,197
At 31 December 2007	15,830	101,506	103	117,439
(Credited)/charged to the income statement	(3,636)	(20,019)	133	(23,522)
Released on disposal of subsidiaries (Note 32)	–	(34,648)	–	(34,648)
Exchange rate variances	–	13,612	546	14,158
At 31 December 2008	**12,194**	**60,451**	**782**	**73,427**

The method of calculation for the estimate of deferred tax was revised in 2007 to include the effect of indexation allowance available if properties in the UK were to be sold, resulting in a credit to the income statement of £31.4 million in that year. The method was revised during the 2007 financial year as the Group considered that it was more appropriate to assume that it would recover the carrying amount of its investment properties through use followed by eventual disposal. This is evidenced by the decision taken in 2007 to dispose of a significant proportion of the portfolio, completed during 2008. Prior to the 2007 financial year, the Group had been predominantly long-term investors in property with occasional disposals, and it was therefore more appropriate to determine the tax base as being that of returning value through continued collection of rental income.

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 2008 the Group did not recognise deferred income tax assets of £292 thousand (2007: £7,438 thousand) in respect of losses amounting to £1,042 thousand (2007: £21,186 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 deferred tax on swaps held at a loss. Currently, losses recognised as deferred tax assets have no restrictions on being carried forward.

27 BORROWINGS, INCLUDING FINANCE LEASES

At 31 December 2008	Current £000	Non-current £000	Total borrowings £000
Bank loans	**71,687**	**483,787**	**555,474**
Debenture loans	**871**	**42,957**	**43,828**
Other loans	**–**	**2,304**	**2,304**
Finance lease liabilities	**–**	**–**	**–**
Total	**72,558**	**529,048**	**601,606**

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

Arrangement fees of £3,586 thousand (2007: £5,017 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 3.94 per cent and 11.2 per cent including margin (2007: 4.52 per cent and 11.20 per cent) and at floating rates of LIBOR, EURIBOR and STIBOR or equivalent plus a margin. Fixed rate margins range between 0.77 per cent and 1.80 per cent (2007: 0.68 per cent and 2.50 per cent) and floating rate margins range between 0.77 per cent and 2.00 per cent (2007: 0.77 per cent and 2.50 per cent). All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the company that owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

27 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

(b) Debenture loans

The £43,828 thousand (2007: £36,699 thousand) of debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1,175 thousand (2007: £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 at a fixed rate of 6.5% and a variable rate of LIBOR + a margin ranging between 2.0 per cent and 4.0 per cent (2007: 2.0 per cent and 4.0 per cent), including margin. The loans are secured by legal charges over the share capital of the subsidiaries to which they relate.

(d) Loan covenants

A loan between Endicott Sweden AB ('Endicott') and Danske Bank for £25,438 thousand (SEK291.2 million) contains an equity to assets ratio covenant that was in breach at year end due to a late fall in the net asset value of Catena AB which is Endicott's only investment. The consequence of the breach (if not rectified) is that the bank has the right to cancel all or part of the facility. A scheduled repayment of £8,482 thousand (SEK97.1 million) was made in January 2009 which rectified the covenant breach.

Other loan covenant breaches relate to loans with a principal of £1,400 thousand. The consequence of the breach requires a payment to remedy the breach of £70 thousand. The Group is in discussion with the bank in question to resolve the breach.

Loans totalling £33,674 thousand in breach at 31 December 2007 were rectified in 2008.

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

At 31 December 2008	**Debt £000**	**Finance leases £000**	**Total £000**
Within one year or on demand	**73,273**	**-**	**73,273**
More than one but not more than two years	**61,174**	**-**	**61,174**
More than two but not more than five years	**200,640**	**-**	**200,640**
More than five years	**270,105**	**-**	**270,105**
	605,192	**-**	**605,192**
Unamortised issue costs	**(3,586)**	**-**	**(3,586)**
Total borrowings, including finance leases net of issue costs	**601,606**	**-**	**601,606**
Less amount due for settlement within 12 months (shown under current liabilities)	**(72,558)**	**-**	**(72,558)**
Amounts due for settlement after 12 months	**529,048**	**-**	**529,048**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

27 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:

	2008 £000	2007 £000
Bank loans are repayable as follows:		
Within one year or on demand	**72,402**	103,024
More than one but not more than two years	**60,205**	53,243
More than two but not more than five years	**194,727**	295,893
More than five years	**231,726**	310,865
	559,060	763,025
Unamortised issue costs	**(3,586)**	(5,016)
Total bank loans net of issue costs	**555,474**	758,009
Less amount due for settlement within 12 months (shown under current liabilities)	**(71,687)**	(102,027)
Amounts due for settlement after 12 months	**483,787**	655,982

	2008 £000	2007 £000
Debenture loans are repayable by installments as follows:		
Within one year or on demand	**871**	784
More than one but not more than two years	**969**	871
More than two but not more than five years	**3,609**	3,245
More than five years	**38,379**	31,799
Total debenture loans	**43,828**	36,699
Less amount due for settlement within 12 months (shown under current liabilities)	**(871)**	(785)
Amounts due for settlement after 12 months	**42,957**	35,914

	2008 £000	2007 £000
Other loans are repayable as follows:		
Within one year or on demand	**-**	-
More than one but not more than two years	**-**	-
More than two but not more than five years	**2,304**	2,450
	2,304	2,450
Unamortised issue costs	**-**	-
Total other loans net of issue costs	**2,304**	2,450
Less amount due for settlement within 12 months (shown under current liabilities)	**-**	-
Amounts due for settlement after 12 months	**2,304**	2,450

	2008 £000	2007 £000
Net obligations under finance leases are repayable as follows:		
Within one year or on demand	**-**	214
More than one but not more than two years	**-**	1,177
More than two but not more than five years	**-**	-
More than five years	**-**	152
	-	1,543
Unamortised issue costs	**-**	(1)
Total obligations under finance leases net of issue costs	**-**	1,542
Less amount due for settlement within 12 months (shown under current liabilities)	**-**	(213)
Amounts due for settlement after 12 months	**-**	1,329

Gross obligations under finance leases are the same as net obligations as all arrangement fees have been expensed.

27 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

	At 31 December 2008		At 31 December 2007	
	Fixed rate financial liabilities	Weighted average period for which rate is fixed Years	Fixed rate financial liabilities	Weighted average period for which rate is fixed Years
Pound sterling	**6.75**	**5.73**	6.65	6.36
Euro	**5.05**	**3.41**	4.87	0.84
Swedish kroner	–	–	5.41	3.34

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 (2007: between one and six months).

Further protection from interest rate movement is provided by interest rate caps on £68,561 thousand of GBP debt at 3.0 per cent to 6.0 per cent expiring within 0.4 to 1.8 years (2007: £44,695 thousand of debt at 5.5 per cent to 6.0 per cent expiring within 1.75 to 3.84 years), and £148,003 thousand of EURO denominated debt at 4.4 per cent to 5.1 per cent expiring within 0.33 to 3.00 years (2007: £169,965 thousand of EURO denominated debt at 4.0 per cent to 6.0 per cent expiring within 0.58 to 4.00 years). There was no floating rate debt denominated in Swedish Kroner at 31 December 2008 (2007: £1,920 thousand of SEK denominated debt at 4.5 to 6.0 per cent expiring within 0.84 years).

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

At 31 December 2008	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Total £000
Pound sterling	**230,369**	**36,975**	**267,344**
Euro	**115,827**	**161,840**	**277,667**
Swedish kroner	–	**56,595**	**56,595**
Total	**346,196**	**255,410**	**601,606**

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

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

	Carrying amounts		Fair values	
	2008 £000	2007 £000	2008 £000	2007 £000
Current borrowings, including finance leases	**72,558**	103,025	**72,558**	103,025
Non-current borrowings, including finance leases	**529,048**	695,675	**563,226**	716,498
Total	**601,606**	798,700	**635,784**	819,523

Arrangement fees of £3,586 thousand (2006: £5,016 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

27 BORROWINGS, INCLUDING FINANCE LEASES (CONTINUED)

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

	2008 £000	2007 £000
Floating rate:		
- expiring within one year	-	-
- expiring after one year	**23,521**	-
Total	**23,521**	-

Uncommitted undrawn borrowings relate to development funding in Germany for the Bochum and Landschut properties and are expected to by drawn down by quarter 3 2009.

28 TENDER OFFER BUY-BACKS

As noted in the Directors' Report in lieu of paying an interim cash dividend in 2008 the Company made one distribution by way of a tender offer buy-back (2007: distribution of £9,290,370 or 13.2 pence per share).

The tender offer was by way of a Circular dated 20 October 2008 for the purchase of 1 in every 25 shares at 425 pence per share and was completed in November 2008. It returned £10,946,487 to shareholders, equivalent to 17 pence per share.

A second tender offer by way of a Circular dated 1 December 2008 for the purchase of 2 in every 9 shares at 350pence per share and was completed in January 2009. It returned £48,024,252.50 to shareholders, equivalent to 78 pence per share. The result of this second tender offer has not been reflected in these financial statements.

29 CASH GENERATED FROM OPERATIONS

	2008 £000	2007 £000
Operating loss from continuing operations	**(90,332)**	(30,519)
Loss on discontinued operations	-	-
Adjustments for:		
– revaluation loss on investment properties	**103,393**	68,077
– depreciation and amortisation	**1,428**	2,814
– Profit on disposal of investment properties	**(7,009)**	-
– loss on disposal of subsidiaries	**16,161**	1,974
– loss on disposal/write down of equity investments	**4,084**	2,689
– Impairment of goodwill	**21,985**	-
Changes in working capital:		
(Increase)/decrease in debtors	**(4,840)**	430
Increase in creditors	**5,048**	8,676
Cash generated from operations	**49,918**	54,141

30 CONTINGENCIES

At 31 December 2008 CLS Holdings Plc had guaranteed certain liabilities of group companies. These are primarily in relation to Group borrowings and cover interest and amortisation payments under the facilities. No cross guarantees have been given by the Group in relation to capital amounts of these borrowings. Certain warranties given in the course of corporate sales during the year have either been provided for or are too remote to be considered contingent.

31 COMMITMENTS

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

Operating lease commitments - where a Group Company is the lessee	2008 £000	2007 £000
Within one year	**24**	592
More than one but not more than five years	**329**	1,121
More than 5 years	**310**	–
Total	**663**	1,713

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

Operating lease commitments - where the Group is lessor	2008 £000	2007 £000
Within one year	**55,342**	63,055
More than one but not more than five years	**174,059**	195,984
More than five years	**203,168**	226,785
	432,569	485,824

Operating leases where the Group is the lessor typically are negotiated on a tenant-by-tenant basis and include many terms but commonly break clauses and indexation provisions. Detail on lease length by area is given in the property portfolio section on page 12.

Other commitments

At 31 December 2008 the Group had £29,921 thousand of contracted capital expenditure in relation to developments in Germany (2007: £Nil). There were no authorised financial commitments which were yet to be contracted with third parties in either the current or preceding year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

32 BUSINESS ACQUISITIONS AND DISPOSALS

Business disposals

French property portfolio disposals

On 15 May 2008, the Group disposed of its interests in 29 subsidiaries, 9 in the Netherlands and 20 in France, owning 14 properties in France. Collectively these are referred to as the LFPI Portfolio. Further to this on 30 July 2008, the Group completed on the disposal of 2 subsidiary undertakings owning two properties in France. This is referred to as the Belin sale. Results of the entities disposed of were previously reported in the French geographical segment.

	LFPI Portfolio		Belin	
	May-08 £000	Dec-07 £000	**Jul-08 £000**	Dec-07 £000
Net assets disposed of:				
Investment properties	**105,412**	97,675	**69,670**	66,635
Property, plant & equipment	**-**	-	**-**	26,125
Trade and other receivables	**18,268**	15,620	**25,326**	-
Cash and cash equivalents	**2,646**	549	**4,455**	-
Deferred income tax	**(17,449)**	-	**(17,199)**	-
Trade and other payables	**(4,206)**	(3,084)	**(2,127)**	(1,042)
Borrowings, including finance leases	**(64,002)**	(59,719)	**(45,319)**	(42,197)
	40,669	51,041	**34,806**	49,521
Gain on disposal	**11,245**		**7,578**	
Costs of disposal	**6,220**		**328**	
Total consideration	**58,134**		**42,712**	
Satisfied by:				
Cash	**38,444**		**17,821**	
Subordination of intercompany debt	**17,322**		**24,891**	
Deferred consideration	**2,368**		**-**	
	58,134		**42,712**	
The gain on disposal is disclosed in the Income Statement as follows:				
Loss on disposal of subsidiaries	**(6,204)**		**(9,621)**	
Release of deferred tax	**17,449**		**17,199**	
	11,245		**7,578**	
Net cash inflow arising on disposal:				
Cash consideration	**38,444**		**17,821**	
Cash and cash equivalents disposed of	**(2,646)**		**(4,455)**	
	35,798		**13,366**	

Included in costs for the LFPI portfolio disposal are rent guarantee provisions of £1,482 thousand, the write-off of goodwill on the original acquisition of the French LFPI portfolio of £1,673 thousand, £1,788 thousand for a contribution to the capital of the disposed subsidiaries and £1,277 thousand of professional and advisory costs incurred. Deferred consideration of £2,368 thousand (classified within other debtors) remains on escrow to cover the rent guarantee provisions as mentioned above and other contingencies (the likelihood of crystallization of these other contingencies is considered remote and as such have not been provided for).

The costs in relation to the Belin sale relate to professional fees incurred.

32 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

Business disposals

London Bridge Quarter (LBQ)

On 9th January 2008 the Group disposed of its 33% interest in the London Bridge Quarter (LBQ) joint venture (Teighmore Limited and New London Bridge House Limited). The joint venture was previously reported within the UK geographical segment.

The interest was not classified as held for sale at 31 December 2007 as the sale was not considered highly probable at that date.

	LBQ	
	Jan-08 £000	Dec-07 £000
Net assets disposed of:		
Investment properties	**110,222**	110,222
Property, plant & equipment	**-**	-
Trade and other receivables	**592**	592
Cash and cash equivalents	**1,893**	1,893
Deferred income tax	**(37)**	(37)
Trade and other payables	**(16,425)**	(16,425)
Borrowings, including finance leases	**(66,245)**	(66,245)
	30,000	30,000
(Loss)/gain on disposal	**-**	
Costs of disposal	**-**	
Total consideration	**30,000**	
Satisfied by:		
Cash	**30,000**	
Deferred consideration	**-**	
	30,000	
The gain on disposal is disclosed in the Income Statement as follows:		
Loss on disposal of subsidiaries	**-**	
Release of deferred tax	**37**	
	37	
Net cash inflow arising on disposal:		
Cash consideration	**30,000**	
Cash and cash equivalents disposed of	**(1,893)**	
	28,107	

*All of the costs in relation to the disposal of LBQ were expensed in 2007. This amounted to £4.9m. At 31 December 2007 the investment in LBQ was written down to its recoverable amount. As such there was no gain or loss on disposal recognised in 2008.

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

Solna and Lövgärdet

On 31 January 2006, the Group disposed in its interests in Lövgärdet Business AB, Lövgärdet Residential AB and Lövgärdet Capital Partners AB, the holding companies of properties at Lövgärdet, Gothenburg, Sweden. In addition, on 21 August 2006, the Group disposed of its interest in Solna Business Holdings AB and Sliparen Ett AB, the holding companies of the properties at Solna Business Park, Stockholm, Sweden. The combined loss on these disposals in 2006 was £1,797 thousand and in 2007 was £1,974 thousand which was recognised in the income statement in the relevant years. During the year ended 31 December 2008, further costs of £336 thousand were incurred relating to commitments made on the disposal of the Solna Business Park properties in 2006 and this amount has been recognised in the income statement for 2008. Cash payments of £3,002 thousand (2007: £12,305 thousand) were made in relation to the disposal of Solna. These payments were committed on sale in 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2008

32 BUSINESS ACQUISITIONS AND DISPOSALS (CONTINUED)

Summary of business disposals

The following table summaries the impact of corporate disposals in 2007 & 2008;

	2008 £000	2007 £000
Loss on disposal of subsidiaries		
LFPI Portfolio	**6,204**	-
Belin	**9,621**	-
Solna and Lövgärdet	**336**	1,974
Total	**16,161**	1,974

33 RELATED PARTY TRANSACTIONS

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

Details of the Directors' participation in the tender offer are given in the Directors' Remuneration Report on page 39.

34 PRINCIPAL SUBSIDIARIES

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

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

All of these subsidiaries were incorporated in England and Wales with the exception of Vänerparken Property Investment KB and Rasstaf Sweden AB which are incorporated in Sweden, Hermalux SARL and CLS Luxembourg SARL which are incorporated in Luxembourg.

CI Tower Investments Limited	CLS Propco One Limited	New Printing House Square Limited*
Citadel Holdings PLC	CLSH Management Limited	Rasstaf Sweden AB*
CLS Germany Limited	Hermalux SARL	Spring Gardens Limited
CLS Luxembourg SARL*	Ingrove Limited	Vänerparken Property Investment KB*

*held indirectly

The principal activity of each of these subsidiaries is property investment apart from CLSH Management Limited whose principal activity is property management, Citadel Holdings PLC, Hermalux SARL, Rasstaf Sweden AB and CLS Luxembourg SARL 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

Tender offer

(i) On 9 January 2009, the Group purchased 13,721,215 Ordinary Shares being 2 in every 9 Ordinary Shares of CLS Holdings Plc at 350 pence per share. The total returned to shareholders was £48,024,253. Following the above transaction, CLS Holdings Plc had 53,024,256 Ordinary Shares in issue, of which 5,000,000 Ordinary Shares are currently held as treasury shares. The result of this tender offer have not been reflected in these financial statements.

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 2008 which comprise the Balance Sheet and the related Notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of CLS Holdings plc for the year ended 31 December 2008 and on the information in the Directors' remuneration report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
14 April 2009

COMPANY BALANCE SHEET

31 December 2008

	Notes	As at 31 December 2008 £000	As at 31 December 2007 £000
ASSETS			
Non-current assets			
Investment in subsidiary undertakings	5	**96,891**	99,454
		96,891	99,454
Current assets			
Trade and other receivables	6	**96,551**	10,560
Cash and cash equivalents	7	**255**	11,986
		96,806	22,546
Total assets		**193,697**	122,000
LIABILITIES			
Current liabilities			
Trade and other payables	9	**15,844**	941
Total liabilities		**15,844**	941
Net assets		**177,853**	121,059
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	8	**16,686**	18,712
Other reserves	10	**92,128**	89,411
Profit and loss account	10	**69,039**	12,936
Total equity		**177,853**	121,059

These financial statements were approved by the Board of Directors and authorised for issue on 14 April 2009 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

at 31 December 2008

1 GENERAL INFORMATION

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the Going Concern basis in preparing the annual report and accounts, as detailed in the Directors report on pages 25 to 29.

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 management considers this to be a permanent diminution in value. This is reviewed on an annual basis. Dividend income will be recognised when received.

2.2 Pension costs

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

2.3 Share capital

Ordinary shares are classified as equity.

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

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

2.4 Related party transactions

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

There were no other related party transactions during the year.

2.5 Payroll

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 35 to 39.

2.6 Foreign Currency

Transactions in foreign currencies are recorded at the rate ruling at the dates of the transactions. Tangible assets denominated in foreign currencies are shown at historical cost. Current assets and all liabilities denominated in foreign currencies are translated at the rate ruling at the end of the financial year. All differences are dealt with through the profit and loss account.

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 £80,141 thousand (2007: Profit of £29,240 thousand).

Fees payable to the Company auditor for the audit of the Company accounts were £45 thousand (2007: £45.5 thousand).

4 TENDER OFFER BUY-BACKS

As noted in the Directors' Report in lieu of paying an interim cash dividend in 2008 the Company made two distributions by way of a tender offer buy-back (2007: distribution of £9,290,370 or 13.2 pence per share).

The first tender offer was by way of a Circular dated 20 October 2008 for the purchase of 1 in every 25 shares at 425pence per share and was completed in November 2008. It returned £10,946,487 to shareholders, equivalent to 17 pence per share.

The second tender offer by way of a Circular dated 1 December 2008 for the purchase of 2 in every 9 shares at 350pence per share and was completed in January 2009. It returned £48,024,252.50 to shareholders, equivalent to 78 pence per share. The second tender offer has not been reflected in these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

at 31 December 2008

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2008 £000	2007 £000
At 1 January	**99,454**	84,682
Additions	**-**	26,858
Provisions	**(1,031)**	-
Disposals	**(1,532)**	(12,086)
At 31 December	**96,891**	99,454

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.

Following a review of the recoverability of the Company's investment in subsidiaries an impairment charge of £1,031 thousand was incurred (2007: £Nil).

6 TRADE AND OTHER RECEIVABLES

	2008 £000	2007 £000
Current		
Amounts owed by subsidiary undertakings	**94,978**	7,991
Prepayments and accrued income	**1,520**	2,463
Other debtors	**53**	106
Total	**96,551**	10,560

7 CASH AND CASH EQUIVALENTS

	2008 £000	2007 £000
Cash and cash equivalents	**255**	11,986

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

8 SHARE CAPITAL

	Number of shares (thousands)	Ordinary shares in circulation £000	Treasury shares £000	Total ordinary shares £000
At 1 January 2007	80,082	18,151	1,870	20,021
Employee share option scheme:				
- shares issued	-	8	(8)	-
Cancellation of Treasury Shares	(750)	-	(188)	(188)
Purchase of own shares:				
- pursuant to market purchase	-	(103)	103	-
Cancelled following market purchases	(1,163)	(291)	-	(291)
Cancelled following tender offer	(3,319)	(830)	-	(830)
At 31 December 2007	74,850	16,935	1,777	18,712
Employee share option scheme:				
- shares issued	-	81	(81)	-
Cancellation of Treasury Shares	(2,114)	-	(528)	(528)
Purchase of own shares:				
- pursuant to market purchase	-	(82)	82	-
Cancelled following tender offer	(3,415)	(854)	-	(854)
Cancelled following market purchases	(2,576)	(644)	-	(644)
At 31 December 2008	**66,745**	**15,436**	**1,250**	**16,686**

8 SHARE CAPITAL (CONTINUED)

The total authorised number of ordinary shares is 160,000,000 shares (2007: 160,000,000 shares) with a par value of 25 pence per share (2007: 25 pence per share). All shares issued are fully paid. 66,745,371 (2007: 74,849,736) ordinary shares were in issue at year end of which 61,745,471 (2007: 67,740,457) were quoted on the main market of the London Stock Exchange. All ordinary shares are of one class which carry no right to fixed income.

Treasury shares

Treasury shares held at 31 December 2008 were 5,000,000 (2007: 7,109,279). During the year the Company acquired 6,319,986 (2007: 4,894,211) of its own shares, of which 2,575,644 (2007: 3,318,960) were purchased through the tender offer, and 3,744,342 (2007: 1,163,140) were purchased on the market. During the year the Company re-issued 325,000 (2007: 30,000) of its own shares from treasury shares.

Share options

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

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

The following options were exercised during the year:

Date of exercise	Number of shares	Market price at date of exercise (pence)
03 April 2008	325,000	358.536
Total	**325,000**	**358.536**

80,000 share options lapsed during the year (originally granted in 2005) and no new options were granted.

No amounts were charged to the income statement in relation to share based payments (2007: £Nil).

9 TRADE AND OTHER PAYABLES

	2008 £000	2007 £000
Current		
Amounts owed to subsidiary undertakings	**15,143**	-
Trade payables	**47**	62
Accruals and deferred income	**654**	879
Total	**15,844**	941

NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

at 31 December 2008

10 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves				
	Share premium reserve £000	Capital redemption reserve £000	Other £000	Total £000	Profit and loss account £000
At 1 January 2007	69,712	13,663	4,615	87,990	13,557
Employee share option scheme:					
- shares issued	112	–	–	112	–
Purchase of own shares expense					(191)
Purchase of own shares	–	1,309	–	1,309	(29,670)
Retained profit for the year	–	–	–	–	29,240
At 31 December 2007	69,824	14,972	4,615	89,411	12,936
Employee share option scheme:					
- shares issued	691	–	–	691	–
Purchase of own shares	–	2,026	–	2,026	(23,852)
Purchase of own shares expense	–	–	–	–	(186)
Retained profit for the year	–	–	–	–	80,141
At 31 December 2008	**70,515**	**16,998**	**4,615**	**92,128**	**69,039**

11 DEFERRED INCOME TAX

There is no deferred tax liability relating to the Company (2007: £Nil).

12 CONTINGENCIES

At 31 December 2008 CLS Holdings Plc had guaranteed certain liabilities of group companies, primarily in relation to Group borrowings, covering interest and amortisation payments under the facilities, but not the principal capital amounts. In addition, certain warranties have been given in the course of corporate sales during the year. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

13 COMMITMENTS

At 31 December 2008, the Company had £Nil of contracted capital expenditure (2007: £Nil) and no authorised financial commitments which were yet to be contracted with third parties (2007: £Nil).

14 EVENTS AFTER THE BALANCE SHEET DATE

Tender offer

(i) On 9 January 2009, the Group purchased 13,721,215 Ordinary Shares being 2 in every 9 Ordinary Shares of CLS Holdings Plc at 350 pence per share. The total returned to shareholders was £48,024,253. Following the above transaction, CLS Holdings Plc had 53,024,256 Ordinary Shares in issue, of which 5,000,000 Ordinary Shares are currently held as treasury shares. The result of this tender offer has not been reflected in these financial statements.

FIVE YEAR FINANCIAL SUMMARY

31 December 2008

	IFRS				
Turnover and results	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Turnover	**77,994**	87,992	81,048	85,039	81,375
Group net rental income	**61,298**	66,295	65,503	69,262	67,603
Operating profit before gains/(losses) on investment properties	**44,198**	39,532	51,652	54,180	58,139
Fair value (losses)/gains on investment properties	**(103,393)**	(68,077)	162,060	67,173	37,236
Results from associate and joint venture undertakings	**(7,470)**	537	2,515	(2,322)	(1,701)
Impairment of goodwill	**(21,985)**	–	-	–	–
(Loss)/gain from sale of investment properties & subsidiaries	**(9,152)**	(1,974)	(2,749)	1,855	464
(Loss)/profit on ordinary activities before interest	**(97,802)**	(29,982)	213,478	120,886	94,138
Net finance costs	**(43,064)**	(42,661)	(36,864)	(36,229)	(34,065)
Other non recurring costs	**(1,288)**	-	–	–	–
(Loss)/profit before taxation	**(142,154)**	(72,643)	176,614	84,657	60,073
Tax on ordinary activities - current	**(3,610)**	(2,610)	(1,225)	(1,304)	(596)
Tax on ordinary activities - deferred	**67,717**	42,342	(19,058)	(21,856)	(16,042)
Discontinued operations	**-**	-	(2,538)	(6,192)	(4,002)
(Loss)/profit for the year	**(78,047)**	(32,911)	153,793	55,305	39,433
Share buy-backs paid and proposed	**(58,970)**	(9,290)	(53,577)	(18,353)	(15,676)
Net Assets Employed					
Fixed assets	**869,090**	1,251,587	1,186,880	1,141,265	1,056,763
Net current assets	**205,893**	132,308	167,718	127,014	79,559
	1,074,983	1,383,895	1,354,598	1,268,279	1,136,322
Non-current liabilities	**(602,475)**	(813,114)	(812,407)	(841,682)	(749,998)
Current liabilities	**(133,923)**	(167,689)	(94,052)	(72,817)	(62,518)
Net assets	**338,585**	403,092	448,139	353,780	323,806

Ratios	2008	2007	2006	2005	2004
Adjusted net assets per share (pence)	**647**	764	824	607	522
Statutory net assets per share (pence)	**502**	595	617	442	386
Earnings per share (pence)	**(120.7)**	(45.8)	196.7	67.5	47.0
Gearing (%)	**121**	169	119	172	181
Interest cover (times)	**1.30**	1.30	1.66	1.48	1.67

GLOSSARY OF TERMS

NET RENT

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

YIELD

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

CONTRACTED RENT

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

ESTIMATED RENTAL VALUE (ERV)

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

UNDERLYING PROFIT

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

ADJUSTED NET ASSETS	= Net assets excluding deferred tax liabilities and deferred tax assets
STATUTORY NET ASSET VALUE (NAV) PER SHARE	= Net assets / Number of ordinary shares in free issue
ADJUSTED NAV PER SHARE	= Net assets + deferred tax liabilities - deferred tax assets / Number of ordinary shares in free issue
STATUTORY GEARING	= Total gross borrowings – cash / Net assets
ADJUSTED GEARING	= Total gross borrowings – cash / Net assets + deferred tax liabilities - deferred tax assets
EARNINGS PER SHARE (EPS)	= Profit after tax attributable to ordinary shareholders / Weighted average number of ordinary shares in free issue
ADJUSTED EPS	= Profit after tax attributable to shareholders of parent excluding deferred tax and fair value gains on investment properties / Weighted average number of ordinary shares in free issue
STATUTORY SOLIDITY	= Total equity / Total assets
ADJUSTED SOLIDITY	= Total equity + deferred tax liabilities – deferred tax assets / Total assets – deferred tax assets
ANNUALISED ADDED VALUE TO SHAREHOLDERS	= Pro-rated Movement in adjusted NAV + Distributions / Opening adjusted NAV
UNDERLYING PROFIT	= Profit before tax before fair value gains on investment properties and non-recurring finance costs
RECURRING INTEREST COVER*	= *Profit before tax – *net gains from fair value adjustment on investment properties / *Net interest payable – change in fair value of interest rate swap

*excluding results of London Bridge Quarter as shown opposite:

The following table sets out the calculation of recurring interest cover:

	Dec 2008 £m	Dec 2007 £m
Net interest excluding fair value adjustment	**22.1**	41.2
Net interest relating to LBQ	**(0.2)**	(5.5)
Ongoing interest	**21.9**	35.7
Operating profit excluding deficits on investment properties	**27.5**	40.0
Adjust for impact of LBQ		
add back operating profit	-	6.8
less recurring expense	-	(1.7)
	-	5.1
Ongoing operating profit	**27.5**	45.1
Recurring interest cover	**1.3**	1.3

Other operating income and associate company results of (£4.9) million (2007: £7.1 million) comprises:

	2008 £m	2007 £m
Net income from non property activities	**3.6**	5.7
Other operating (expense)/income	**(1.0)***	0.8*
Share of (loss)/profit of associate	**(7.5)**	0.6
	(4.9)	7.1

	2008 £m	2007 £m
Other operating income/(expense)	**2.0**	(1.6)
Recycled losses on available for sale investments	**(3.0)**	2.4
Other operating (expense)/income	**(1.0)***	0.8*

* excluding results of London Bridge Quarter.

Reconciliation of statutory to disclosed adjusted statistics	Statutory figure	Deferred tax adjustment	Adjusted figure
Net assets (£ million)	**338.6**	61.0	399.6
Net assets per share (pence)	**548.4**	98.8	647.2
Loss per share (pence)	**(120.7)**	52.1	(68.6)
Diluted loss per share (pence)	**(120.7)**	52.1	(68.6)
Gearing (%)	**121.1**	(18.5)	102.6
Solidity (%)	**31.5**	6.2	37.7

GLOSSARY OF TERMS (continued)

RECONCILIATION OF FINANCIAL RESULTS BY LOCATION TO STATUTORY GEOGRAPHICAL SEGMENT

	UK	France	Germany	Sweden	Wyatt	Equity Inv	Total Sweden	Total
Rental income	26.2	19.6	12.3	5.0	–	–	5.0	**63.1**
Service charge income	5.4	3.4	2.2	0.3	–	–	0.3	**11.3**
Income from non-property activities	–	–	–	–	3.6	–	3.6	**3.6**
Revenue	**31.6**	**23.0**	**14.5**	**5.3**	**3.6**	**–**	**8.9**	**78.0**
Rental income	26.2	19.6	12.3	5.0	–	–	5.0	**63.1**
Service charge income	5.4	3.4	2.2	0.3	–	–	0.3	**11.3**
Service charge expense	(5.7)	(3.7)	(2.3)	(1.4)	–	–	(1.4)	**(13.1)**
Net rental income	**25.9**	**19.3**	**12.2**	**3.9**	**–**	**–**	**3.9**	**61.3**
Income from non-property activities	–	–	–	–	3.6	–	3.6	**3.6**
Other operating income/(expense)	1.2	1.1	–	(0.1)	–	(3.2)	(3.3)	**(1.0)**
Share of loss of associates	–	–	–	(7.1)	–	(0.4)	(7.5)	**(7.5)**
Other income (incl associates)	**1.2**	**1.1**	**–**	**(7.2)**	**3.6**	**(3.6)**	**(7.2)**	**(4.9)**
Admin expenses	(4.0)	(2.4)	(1.9)	(1.4)	(6.4)	–	(7.8)	**(16.1)**
Net property expenses	(1.7)	(0.8)	(1.1)	–	–	–	–	**(3.6)**
Operating expenses	**(5.7)**	**(3.2)**	**(3.0)**	**(1.4)**	**(6.4)**	**–**	**(7.8)**	**(19.7)**
Less : Share of profit of associates	–	–	–	7.1	–	0.4	7.5	**7.5**
Operating profit/(loss) (before losses on investment properties)	**21.4**	**17.2**	**9.2**	**2.4**	**(2.8)**	**(3.2)**	**(3.6)**	**44.2**
Finance income	**12.5**	**3.2**	**0.8**	**1.8**	**(0.2)**	**2.4**	**4.0**	**20.5**
Finance costs	(20.8)	(11.3)	(7.0)	(3.2)	–	(0.3)	(3.5)	**(42.6)**
Other fair value losses/(gains)	(17.4)	(1.0)	(2.6)	–	–	–	–	**(21.0)**
Total finance costs	**(38.2)**	**(12.3)**	**(9.6)**	**(3.2)**	**–**	**(0.3)**	**(3.5)**	**(63.6)**
Add back : Other fair value losses/(gains) - shown below	17.4	1.0	2.6	–	–	–	–	21.0
Net finance expense	**(8.3)**	**(8.1)**	**(6.2)**	**(1.4)**	**(0.2)**	**2.1**	**0.5**	**(22.1)**
Add back : share of profit of associates	**–**	**–**	**–**	**(7.1)**	**–**	**(0.4)**	**(7.5)**	**(7.5)**
Profit on sale of investment properties	**6.5**	**(0.1)**	**0.6**	**–**	**–**	**–**	**–**	**7.0**
Loss on sale of subsidiaries	**–**	**(15.9)**	**–**	**(0.3)**	**–**	**–**	**(0.3)**	**(16.2)**
Underlying profit/(loss)	**19.6**	**(6.9)**	**3.6**	**(6.4)**	**(3.0)**	**(1.5)**	**(10.9)**	**5.4**
Fair value losses on investment properties	(59.5)	(17.8)	(19.9)	(6.2)	–	–	(6.2)	**(103.4)**
Other fair value (losses)/gains – as shown above	(17.4)	(1.0)	(2.6)	–	–	–	–	**(21.0)**
Impairment of intangibles (write-down of goodwill)	–	–	–	–	(22.0)	–	(22.0)	**(22.0)**
Non-recurring costs	(1.2)	–	–	–	–	–	–	**(1.2)**
Loss before tax (per table p 12)	**(58.5)**	**(25.7)**	**(18.9)**	**(12.6)**	**(25.0)**	**(1.5)**	**(39.1)**	**(142.2)**
Equity investment finance income derived in UK	2.4	–	–	–	–	(2.4)	(2.4)	–
Rounding	(0.2)	0.1	(0.1)	0.2	–	–	0.2	–
Loss before tax (per Segment Note 5, page 60)	**(56.3)**	**(25.6)**	**(19.0)**	**(12.4)**	**(25.0)**	**(3.9)**	**(41.3)**	**(142.2)**

DIRECTORS, OFFICERS AND ADVISERS

Directors
Sten A Mortstedt (Executive Chairman)
Henry Klotz (Chief Executive Officer)
Thomas J Thomson BA (Non-executive Vice Chairman)
Malcolm Cooper†‡ (Non-executive Director)
Joseph A Crawley* (Non-executive Director)
Christopher P Jarvis† (Non-executive Director)
H O Thomas Lundqvist*† (Non-executive Director)
Bengt F Mörtstedt Juris Cand (Non-executive Director)

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

Company Secretary
Thomas J Thomson BA

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