CLS Holdings plc
Annual Report & Accounts

2011

Company Number 2714781

CORPORATE OVERVIEW

→ Shareholders' funds of £368 million

→ EPRA net assets of £445 million

→ £902 million of office properties across London, France, Germany and Sweden

→ Top property company total shareholder return performance in the last 4 years

→ Strong alignment of interest with shareholders management owns 54%

→ Substantial cash and liquid resources available for new investment

→ Cautiously entrepreneurial approach to future opportunities

INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

- CLS IS A PROPERTY INVESTMENT COMPANY WHICH HAS BEEN LISTED ON THE LONDON STOCK EXCHANGE SINCE 1994
- WE OWN AND MANAGE A DIVERSE PORTFOLIO OF £0 9 BILLION OF MODERN, WELL-LET OFFICE PROPERTIES IN LONDON, FRANCE, GERMANY AND SWEDEN
- OUR PROPERTIES HAVE BEEN SELECTED FOR THEIR POTENTIAL TO ADD VALUE AND TO GENERATE HIGH RETURNS ON CAPITAL INVESTMENT

CONTENTS

HOW WE OPERATE

Our goal is to create long-term shareholder value

WE AIM TO ACHIEVE THIS BY

→ PURSUING AN OPPORTUNISTIC INVESTMENT STRATEGY

→ FOCUSING ON CASH RETURNS

→ OPERATING IN DIVERSE LOCATIONS

→ UTILISING DIVERSIFIED SOURCES OF FINANCE

→ MAINTAINING A BROAD TENANT BASE

→ MINIMISING VACANT SPACE

→ IMPOSING STRICT COST CONTROL

→ RETAINING A HIGH LEVEL OF LIQUID RESOURCES

Key Performance Indicators

→ **Total Shareholder Return**

Aim	– to provide a TSR of over 12% p a over the medium term
Achievement	– 2008-2011 64 9%, or 13 3% p a compound

→ **Effective management of balance sheet**

Aim	– to sell assets with limited growth potential and invest in high yielding alternatives
Achievement	– 2006 to 2011 £746 million of property sales
	– 2011 Pre-let developments in Landshut and Grafelfing, Germany will provide returns on equity of 19 4% and 18 3% p a , respectively

→ **Administration cost ratio**

Aim	– to maintain administration costs below 15% of net rental income
Achievement	– 2011 15 4%
	– 2010 15 2%
	– 2009 14 9%

→ **Occupancy rate**

Aim	– to maintain an occupancy level of over 95%
Achievement	– 2011 96 1%
	– 2010 95 7%
	– 2009 95 5%

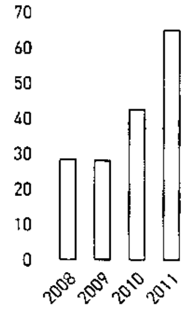
Financial highlights

- EPRA earnings per share **up 53%** to 64 9 pence (2010 42 5 pence)
- **EPRA net assets per share up 3%** to 983 1 pence (2010 952 9 pence)
- **EPRA net assets £444 9 million** (2010 £446 8 million)
- **Earnings per share 82 0 pence** (2010 127 1 pence)
- **Net assets per share up 7%** to 817 5 pence (2010 766 7 pence)
- **Net assets up 3% to £367 5 million** (2010 £357 2 million)
- **Profit after tax £38 8 million** (2010 £60 1 million)
- **Proposed distribution to shareholders £7 9 million** (April 2011 £7 2 million) by way of tender offer buy-back 1 in 42 at 735 pence, equivalent to 17 5 pence per share
- **Low weighted average cost of debt 4 1%** (2010 4 3%)
- **Adjusted solidity 40 5%** (2010 41 7%)
- **Adjusted gearing 128%** (2010 122%)
- **Interest cover 2 6 times** (2010 3 2 times)

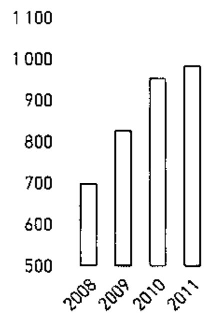
Other key data

- **Top performer in UK listed property sector total shareholder return over 4 years 64 9%**
- **Portfolio value £902 1 million** – up 2 1% in local currencies
- **Proportion of Government tenants 40 4%**
- **Occupancy rate 96 1%**
- **Indexation applies to 65% of contracted rent**
- **Liquid resources £140 4 million**

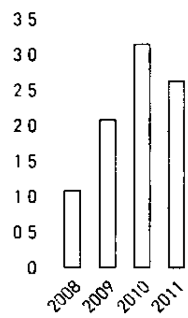
EPRA EARNINGS PER SHARE
(pence)



EPRA NET ASSETS PER SHARE
(pence)



RECURRING INTEREST COVER
(times)



CHAIRMAN'S STATEMENT
Continuing to deliver

OVERVIEW

This was a year of numerous achievements for the Group, both at the core property operating level and with the range and depth of our financing arrangements We have also achieved the highest total shareholder return amongst our peer group since the downturn began in 2008, producing 64 9% over four years, and 11 1% in 2011

The effect of these achievements would have been even greater had they not been impacted to a degree by the difficulties at the broader macroeconomic level, in particular with the Eurozone during the second half of the year Profit after tax was £38 8 million (2010 £60 1 million), earnings per share on an EPRA basis were 64 9 pence (2010 42 5 pence) and EPRA net asset value rose to 983 1 pence (2010 952 9 pence)

At the start of 2011, few were predicting that long-term interest rates would plummet banks would face another round of stress tests the United States and France would lose their AAA rating, or a potential break-up of the Eurozone which would require companies to start contingency planning Politicians in Europe have failed to take decisive action that would restore confidence to markets and provide a platform for growth

However, I am pleased to report that we have been responding with considered tenacity the vacancy rate has been reduced to our lowest level for over 10 years we have made property acquisitions in London, we have started building the two pre-let schemes in Germany, and we have submitted plans for two developments in central London for the medium-term

The benefits of our strategy of diversification remain clear we operate across four countries, we have a solid customer base of some 400 tenants and we are financed by 20 banks Over the long term, this spread of risk has been an important aspect of the Group s outperformance I would stress that our direct exposure to the Eurozone is in its two strongest economies, Germany and France

INVESTMENT PROPERTY PORTFOLIO

During the year the investment property portfolio grew in local currency terms, on a like-for-like basis, by 2 1% The value of the London properties grew by 2 7%, France by 1 9%, Germany by 1 0% and Sweden by 1 5% Acquisitions totalled £7 2 million, being primarily two office buildings in Hounslow, London The total portfolio valuation at the year end rose to £902 1 million, notwithstanding a negative currency impact of £13 7 million

Our core investment proposition remains solid to generate attractive cash returns, using the difference between our net initial yield of 7 0% and our reduced cost of debt of 4 1% This spread of 290 basis points is, we believe one of the largest of the listed property sector The fact that 65% of our rents are indexed is also very valuable at a time of higher inflation and this together with our asset management initiatives, has been an important part of the overall valuation movement

We continue to maintain very low vacancy levels, reduced yet further to just 3 9% from 4 3% last year This was due to the strong emphasis on our in-house asset and property management across all our regions enabling us to attract and retain tenants as our customers by understanding their needs and ensuring the properties are well maintained, and refurbished when required Tenant demand is stable and enquiries are based on genuine need, often at short notice and based on companies growing With no speculative office development activity in our markets, we are continuing to see signs that rents have stabilised with some upward pressure emerging Tenants want well-managed space and this is a key differentiator for us

Our core rental income is secure, with 40% paid by Government tenants, 29% paid by major corporations and a weighted average lease length of 7 7 years, or 6 6 years to first break

In considering new investments we remain very selective on property type and pricing because it is likely that there will continue to be good opportunities for some time ahead as lenders deal with their distressed loan books

Our two pre-let developments in Germany totalling 7,042 sq m have progressed well Grafelfing was completed successfully in February 2012, and the E ON building at Landshut will be ready in late summer The planning applications for our two significant mixed-use schemes in Vauxhall – Spring Mews (20 800 sq m) and Vauxhall Square (154 000 sq m) – were submitted in December and we will be working closely with the local authority during 2012 on both of these applications

Catena, the Swedish listed property company in which the Group owns 29 9%, submitted a planning application for a 150,000 sq m mixed use scheme at the Stora Frosunda site in Solna, a decision on which is expected in the first half of 2012

Since the year end the Group has made an opportunistic investment in Sweden in Cood Investments AB, a residential property company specialising in holiday cottages and cabins on vacation sites, paying £4 1 million for a 16 6% stake In 2011 Cood made a profit after tax in excess of £5 0 million

RESULTS

Profit after tax of £38 8 million (2010 £60 1 million), was reduced by adverse changes in the value of long term interest rate swaps and a lower increase in the value of investment properties than in 2010 EPRA earnings per share, which exclude such revaluation movements to provide a measure of the underlying operating performance, rose to 64 9 pence per share (2010 42 5 pence)

Net assets rose to £367 5 million, up by £10 3 million in the year after distributions to shareholders of £11 8 million, and EPRA net assets per share rose to 983 1 pence (2010 952 9 pence) Basic net assets per share increased by 6 6% to 817 5 pence (2010 766 7 pence)

Recurring interest cover for the year was a comfortable 2 6 times The Group s net debt as a proportion of adjusted net assets was a consistent 128% (2010 122%) and the overall property loan to value was 62 5% (2010 63 5%)

"This was a year of numerous achievements for the Group, both at the core property operating level and with the range and depth of our financing arrangements"

FINANCING

The Group s business model has long been to ring-fence debt on individual properties, and this continues to serve us well We have an active relationship with 20 banks and are delighted to have added two new lenders this year, Saar LB and Santander We value the strong relationships that we enjoy with our banks and the mutual benefits they provide

We have increased and strengthened the Group s financing arrangements during 2011 In total we have refinanced £113 2 million of existing debt and raised a further £33 0 million In May we issued the Group s first corporate bond, a SEK 300 million issue in Sweden, which has been listed on the NASDAQ OMX in Stockholm This five year, unrated, unsecured bond has a coupon of 375 basis points above STIBOR and is testament to the Group s innovative approach to financing

This success in raising new finance is encouraging in a climate where a number of banks are closing for new business We typically approach ten to fifteen banks when seeking new finance and are keen to explore a wide range of financing options

The year saw an unusually steep reduction in long-term interest rates – the sterling 15-year swap rate fell by over 150 basis points, its largest annual downward move for over 12 years – and this impacted some of our hedging arrangements The Group had long-term swaps, covering 22 9% of our debt at the start of the year, and we expected to retain these as a long-term hedge at an average interest rate of 5 74% However, the exceptional fall in rates increased the liabilities on these swaps by £14 2 million during the year, and to provide more flexibility in the Group s financing we chose to close out a swap with a nominal amount of £83 5 million at a cost of £24 2 million At the end of 2011 we had swaps in place with a nominal amount of £50 million, for which there was a liability in the balance sheet of £9 1 million

The positive effect of cancelling the swap, which was due to run until 2026, has been the fall in our weighted average cost of debt to 4 1% (2010 4 3%) and we expect an interest cost saving in the next three years of over £10 7 million in aggregate and breaking even after seven years

Since the year end we have gained credit committee approval to refinance two loans, totalling £89 1 million, including our largest asset Spring Gardens in London These two new loans will increase the weighted average loan length from 4 4 years to 5 1 years

Our balance sheet is strong, with cash and liquid resources of £140 million available for investment We continue to use corporate bonds to generate higher returns than cash At the year end the Group held a portfolio of 39 different bonds with a value of £85 1 million which produced an annual coupon of 10 2% Since first investing in them towards the end of 2008, the corporate bonds have generated a return of £19 8 million, or 32 8% on average cost Since the year end, the bonds have risen in value by £8 2 million

ENERGY EFFICIENCY AND SUSTAINABILITY

During the year, the Group increased its focus on energy efficiency and sustainability, and recruited a full time Sustainability Manager We now have good base data to measure our success in reducing energy consumption and emissions and in lowering costs for our customers and the Group The new £2 3 million geothermal energy facility at Vanerparken in Sweden is complete and operating, and early results are in line with the projected savings of over 80% in consumption and emissions

CORPORATE GOVERNANCE

As Executive Chairman it is my responsibility to ensure that the Board operates efficiently and effectively, and upholds high standards of corporate governance appropriate for a company of our size I believe that the decisions taken by the Board and the resulting performance of the Company against its peers is indicative of the fact that we are doing things right

The steps we have taken this year to change the Board and the composition of its Committees, Board processes and executive remuneration align the Company more closely to the provisions of the UK Corporate Governance Code and introduce greater levels of accountability and transparency to the operation and effectiveness of the Board This underpins our commitment to good governance for the benefit of all shareholders

DISTRIBUTIONS TO SHAREHOLDERS

In April 2011, we distributed £7 2 million by way of our traditional tender offer buy-back of shares, and a further £4 4 million in September The Board proposes to distribute £7 9 million in April using the tender offer buy-back method, at a rate of 1 in 42 shares at 735 pence per share A circular setting out the details will be sent to shareholders with the Report and Accounts

OUTLOOK

For economies to grow, businesses and investors need to have confidence to invest and a reasonable supply of credit Politicians must deliver the basic platform for this to occur, which, in the current climate, means a credible solution to the Eurozone crisis Until this happens, there will continue to be significant uncertainty and risk in the system

However, the Group is solidly placed, with a strong balance sheet a very healthy cash flow, and a high level of liquid resources for investment when we see the right opportunities We continue to attract new tenants, maintain low vacancy and progress added value development plans, and, therefore, I am optimistic that we can continue to deliver for shareholders

Sten Mortstedt
Executive Chairman

5 March 2012

CORPORATE OBJECTIVE, BUSINESS MODEL AND STRATEGY

CORPORATE OBJECTIVE

Our objective is to create long-term shareholder value

which is measured through total shareholder returns and net assets per share	KPI	

BUSINESS MODEL		STRATEGY
Investments are required to make a high cash-on-cash return	KPI	We focus on cash returns, specialising in predominantly high-yielding office properties The cost of debt is kept well below the net initial yield of the properties to enhance the return on equity
We invest in modern, high quality, well-let properties in good locations in selected European cities		Our investment strategy is opportunistic, its approach cautiously entrepreneurial Local teams are required to compete for an allocation of the Group s capital on a case-by-case basis We create extra value via developments when letting risk and financing risk have in large part been mitigated and at the appropriate time in the cycle
We operate in diverse locations		We invest in London France Germany and Sweden and in sterling the euro and Swedish krona
We utilise diversified sources of finance to reduce risk		We have 60 loans from 20 lending sources and a CLS corporate bond Most properties are owned by single purpose vehicles and financed by non-recourse bank debt in the currency used to purchase the asset Usually over 10 banks are approached for each refinancing to achieve the most advantageous terms, and no one bank provides over 20% of the Group s debt During periods of low, benign interest rates debt is hedged using caps and allowed to float at 31 December 2011 79% of debt was at floating rates
The tenant base is diversified, but underpinned by a strong core income stream		We avoid a heavy reliance on any one tenant or business sector and actively seek rent indexation, we have some 400 tenants 40% of rental income is derived from government tenants and a further 29% from major corporations, the weighted average unexpired lease term is 7 7 years, 65% of rental income is subject to indexation
We maintain low vacancy rates	KPI	In-house local property managers maintain close links with tenants to understand their needs We focus on the quality of service and accommodation for our customers
We maintain strict cost control	KPI	We perform as many back office functions as possible in-house, and monitor our performance against our peer group, our administration cost per employee and as a percentage of rents is one of the lowest in the sector
We retain high levels of liquid resources		We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns

PERFORMANCE AGAINST CORPORATE OBJECTIVE

Anticipating a fall in real estate values CLS sold 40% of its property portfolio into an over-heated market between 2006 and 2008

In 2008, the fall of Lehman Brothers and its adverse impact on the banking sector led to falls in property values

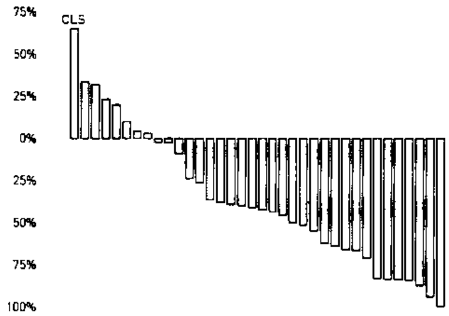
In 2008/09 whilst virtually all UK listed property companies were having to conduct rights issues, CLS returned cash to shareholders

Accordingly, in the four years from 1 January 2008 CLS has provided a total shareholder return of 64 9% or 13 3% per annum compound, representing the best performance amongst its peer group

PERFORMANCE AGAINST OTHER KPIs

See page 2

TOTAL SHAREHOLDER RETURN OF LISTED PROPERTY SECTOR COMPANIES 2008-2011



Source Bloomberg CLS

> The best TSR performance within the real estate sector over the past four years

BUSINESS REVIEW
A clear focus on active management

The main activity of the Group is investment in commercial real estate across four European regions London France Germany and Sweden There is a particular focus on providing well-managed, cost-effective offices and property for cost-conscious companies in key European cities

The Group s total property interests at 31 December 2011 were £919 9 million, comprising the wholly-owned investment property portfolio valued at £902 1 million, and a 29 9% investment in Swedish listed property company Catena AB, which had a market value of £17 8 million The Group s Other Investments comprised the corporate bond portfolio, valued at £85 1 million at the year end, and smaller equity holdings of £13 3 million

INVESTMENT PROPERTY

OVERVIEW At 31 December 2011 the directly held investment portfolio totalled £902 1 million, a like-for-like increase of 2 1% in local currencies or 0 5% when translated into sterling In local currencies, the French portfolio rose by 1 9%, Germany by 1 0%, London by 2 7% and Sweden by 1 5% The capital value of £2 202 per sq m is close to replacement cost, meaning that the land element in these key European cities is minimal this highlights how competitive the Group can be in attracting tenants with cost effective rents

The contracted rent at the year end was £66 3 million, representing a net initial yield of 7 0% on value and an average rent of just £170 per sq m The income stream is strongly secured as 40% is from government tenants 29% from major corporations and 65% of rents are subject to indexation The weighted average lease length is 7 7 years, or 6 6 years to the first break Only 16% of the current rent roll expires in the next three years

The overall vacancy rate has been further reduced to 3 9% reflecting the benefits of active in-house asset and property management together with maintaining strong relationships with our tenants working to understand their needs

In all markets there is less availability of debt than 12 months ago leading to fewer buyers for the high yielding property that the Group prefers This situation is expected to continue for a considerable period, we can thus be highly selective about our purchases Further, the depth of our banking contacts and relationships means that we continue to find debt obtainable

Across the portfolio the Group is increasing its focus on the sustainability of its properties and ways to make them more energy efficient There is a wide range of quick and medium-term wins that can and will be made The employment of a full time Sustainability Manager has helped the Group to promote this and the Corporate Social and Environmental Responsibility Report on page 42 expands on these activities

LONDON

• **Value**	**£398 million**
• **Group's property interests**	**43%**
• **No of properties**	**30**
• **Lettable space**	**133,900 sq m**
• **Net initial yield**	**6.6%**
• **Vacancy rate**	**4.0%**
• **Like-for-like uplift**	**2.7%**
• **Government and major corporates**	**80%**
• **Average unexpired lease length**	**9 3 years**
• **To first break**	**8 6 years**

It has been particularly encouraging to be able to reduce the vacancy rate with more lettings given the economic climate We are seeing fewer but better quality enquiries and a clear trend for tenants to target the better managed buildings where stable landlords are able to maintain and refurbish to a good standard, and be flexible on lease terms to meet customer needs This is a key differentiator compared to buildings owned by landlords who are under financial pressure During the year 6 497 sq m became vacant we let 8 690 sq m and renewed leases on 2,894 sq m with existing tenants, with particular activity at Great West House, Brentford and Cambridge House W6, and we completed the refurbishment programme of common parts at Westminster Tower, SE1

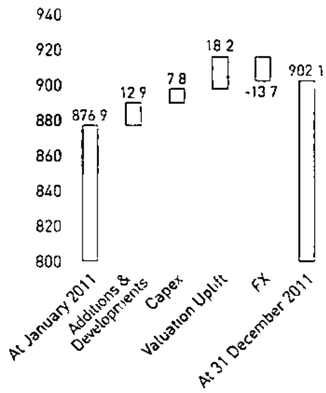
In September, we acquired two office buildings in Hounslow for £5 5 million The total initial rent of £582,091, gave a yield after costs of 10 1%, rising to £627 562 after fixed rental uplifts The one vacant floor of 574 sq m has let since the year end, increasing the yield to over 11% The buildings total 4,693 sq m over four floors, and tenants include Aer Lingus, Alitalia, Telefonica O2, Vandemoortele, First Rate Exchange Services and Quest Diagnostics The purchase price equated to a capital value of £1,172 per sq m, which is well below replacement cost

The commitment of the Greater London Authority, and the London boroughs of Lambeth and Wandsworth to the Vauxhall Nine Elms regeneration zone is absolute and the Group is very well placed as one of the credible parties which can help deliver In December, and after public consultation, we submitted a planning application for a 20,800 sq m mixed use scheme called Spring Mews, behind Albert Embankment in Vauxhall This comprises student accommodation of 402 student rooms and amenity space, a 120 bed mid-market hotel, a new 561 sq m community centre and cafe 469 sq m of office space, a 245 sq m convenience retail unit, and the creation of a new pedestrian mews linking the development to Spring Gardens Subject to receiving planning consent the Group would aim to start on site in the second half of 2012, with completion in 2014 The development, the total cost of which is expected to be in excess of £50 million, would significantly improve the area bringing immediate benefits to the Group s property at Spring Gardens which is directly opposite

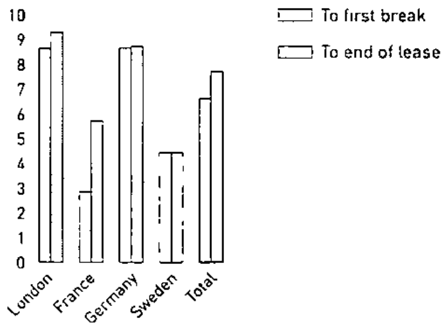
Also in December after almost a year of stakeholder consultations, the Group submitted a planning application for a 154,000 sq m (1,657,650 sq ft) mixed-use development scheme called Vauxhall Square, on the site owned by the Group close to Vauxhall s transport interchange The proposed scheme comprises two residential towers of 50 stories containing 510 homes and 15,231 sq m of office space, 3,500 sq m of retail, restaurant and café space, 416 student units, a 438 bed hotel, a 4 screen cinema, 94 affordable housing units, a new homeless hostel, a major new public square (of similar size to Paternoster Square in the City of London), and public realm improvements Our strong belief is that the redevelopment of the Vauxhall/Nine Elms regeneration area will start at the Vauxhall end and Vauxhall Square is strategically located between the Vauxhall transport links and the proposed new US Embassy Importantly, it is not dependent on the proposed Northern Line extension Subject to receiving planning consent we would aim to start on site in 2014, with phases being completed from 2017 The development cost of the proposed scheme is in excess of £400 million Prudently, no hope value has yet been ascribed to either this development site or Spring Mews and consequently their values fell on a like-for-like basis during the year, due to planning costs

The Group has been very active in promoting a Business Improvement District (BID) for Vauxhall BIDs are an established way for local businesses to be actively involved in improving an area In early 2012 local Vauxhall businesses voted in favour of a BID, which will be called Vauxhall One, and which will start in April 2012, initially for a 5 year period Richard Tice, Chief Executive Officer of the Company, has been the chairman of the campaign to launch a BID, which we believe can be beneficial for our holdings in Vauxhall

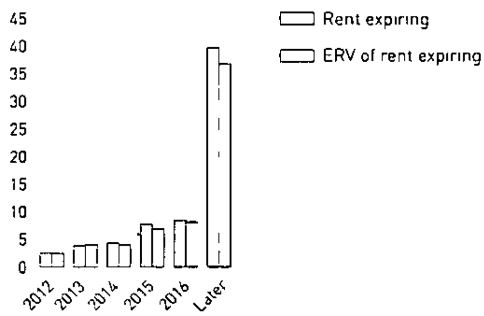
MOVEMENT IN INVESTMENT PROPERTIES 2011
£ millions



AVERAGE UNEXPIRED LEASE TERM
Years



EFFECT OF RENT EXPIRIES
£ millions



BUSINESS REVIEW CONTINUED

FRANCE

• Value	£248 million
• Group s property interests	27%
• No of properties	26
• Lettable space	96,400 sq m
• Net initial yield	7 5%
• Vacancy rate	2.7%
• Like-for-like uplift	1 9%
• Government and major corporates	59%
• Average unexpired lease length	5 7 years
• To first break	2 8 years

The reduction of the vacancy rate from 3 6% a year ago was particularly pleasing given the flexible nature of the traditional French 3 6 9 year lease expiry structure The year saw 8,043 sq m of new lettings or renewals with tenants vacating from 6 524 sq m The economic activity on the ground appears healthier than the macro reports in the press Letting demand continues to be most encouraging across the portfolio, with signs of rental growth especially in Lyon where we were delighted to secure the British Council into our Forum building in 374 sq m Renovation work this year has been limited, at £1 7 million, mainly at this Forum building

The early indications we mentioned a year ago that there would be very little new construction of offices in our locations is holding true, with no sign that this will change in the foreseeable future This is a most positive situation for the Group given that vacancy rates in Paris and Lyon are below 7%, take up in both locations rose by over 14% in 2011 compared to the previous year There are no new schemes forecast to be delivered in Lyon in 2012 and the immediate supply of available space is just over one year

Investment activity, particularly in the first half, was up by over 25% in the Ile de France 'making it hard to acquire additional property Agents forecast lower investment levels in 2012 as banks restrict their lending, and investors wait to see developments in the Eurozone, but there are almost no signs of distress in this region Domestic investors made up approximately 63% of the investment market and prime Paris yields are still somewhat below 5%

GERMANY

• Value	£197 million
• Group's property interests	22%
• No of properties	18*
• Lettable space	138,000 sq m
• Net initial yield	7 0%
• Vacancy rate	6 0%
• Like-for-like uplift	1 0%
• Government and major corporates	48%
• Average unexpired lease length	8 7 years
• To first break	8 7 years

*** plus one under construction**

The average capital value of £1,428 per sq m is comparable with replacement cost and the year end vacancy rate is higher than last year s 5 5% due to the bankruptcy of one tenant in the first half of 2011

Although the German economy is forecast to grow more slowly in 2012 it is robust and we continue to see signs of confidence in the future plans of our tenants and potential occupiers In the economy as a whole, leasing take up grew by 16% in 2011 to the second highest level in 10 years most markedly in Munich Likewise investment volumes increased by some 20%

The main activity during the year has been the construction start for the two pre-let developments near Munich which will add 7 042 sq m when completed The 1,642 sq m extension for Dr Honle AG in Grafelfing was completed at the end of February 2012, and the new 5,400 sq m Landshut building pre-let to E ON Service Plus GmbH completes in summer 2012 The total additional rent from these two pre-let developments will be €856 000 per annum

There is growing pressure in Germany on overseas owners of commercial property, funded by overseas banks, who need to dispose of their assets This is likely to deliver opportunities for CLS in 2012, and there continues to be reasonable availability of bank debt from domestic banks

SWEDEN

• Value	£77 million
Directly owned	
• Value	£59 million
• Group s property interests	6%
• No of properties	1
• Lettable space	45,400 sq m
• Net initial yield	7 1%
• Vacancy rate	1 8%
• Like-for-like uplift	1 5%
• Government and major corporates	95%
• Average unexpired lease length	4 4 years
• To first break	4 4 years
Indirectly owned	
• Value	£18 million
• Group's property interest	2%
• Interest in Catena AB	29 9%

The Group s Swedish property interests consist of two parts First the 45,400 sq m office complex in Vanersborg near Gothenburg, called Vanerparken The £2 3 million investment in energy saving plant for the property was completed in the second half and early data shows the expected savings of over 80% in consumption and CO_2 emissions are already being achieved We are using the same Swedish engineers to advise the Group on opportunities to achieve savings in London which can benefit both the Group and tenants alike

Second, the Group owns 29 9% of the Stockholm-listed real estate company Catena AB, which now is focused on its one remaining but significant property in Stockholm Negotiations are progressing with the local authorities on the 150 000 sq m mixed-use scheme which has been submitted for planning consent for almost 1 000 apartments and 50,000 sq m of commercial space It is interesting to note that the overall cost of submitting an application for a similar sized mixed-use scheme in Stockholm is only 20% of the comparable cost in London At the year end, based on Catena s share price the market value of the Group s investment was £17 8 million, being a surplus of £4 3 million over the book value, which equates to an additional 10 pence per share to CLS s net asset value Following a rise in Catena s share price since the year end, the surplus over book value at 1 March 2012 was £9 4 million, or 21 pence per share of additional net asset value for the Company

The Swedish economy has been one of the better performers in 2011 with GDP growth of 4 0%, which is forecast to slow in 2012 Property markets are stable and tenant demand is firm, both of which bode well for the Catena site in Stockholm

Top 10 tenants

The 10 tenants which contribute most rental income to the Group account for 40 5% of the rent roll, and comprise

London

→ The Home Office	Government
→ Secretary of State for Work and Pensions	Government
→ Cap Gemini	Major Corporation
→ BAE Systems	Major Corporation

France

→ Grand Duchy of Luxembourg	Government
→ Veolia	Major Corporation

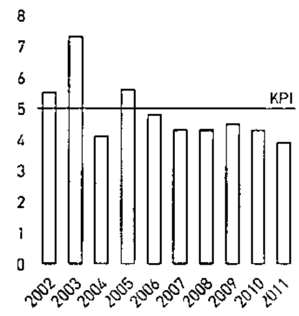
Germany

→ City of Bochum	Government
→ E ON	Major Corporation

Sweden

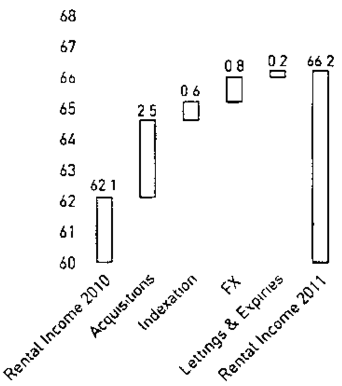
→ Vastra Gotaland County Council	Government
→ Vanersborg Kommun	Government

VACANCY RATE HISTORY
%

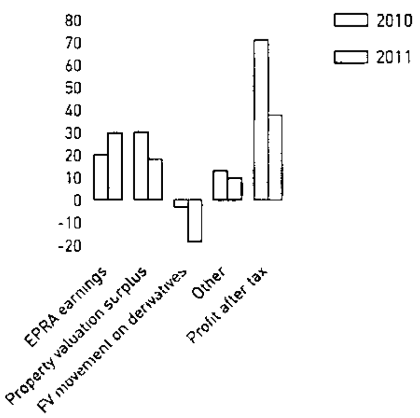


BUSINESS REVIEW CONTINUED

MOVEMENT IN RENTAL INCOME 2010 V 2011
£ millions



PROFIT AFTER TAX
£ millions



RESULTS FOR THE YEAR

HEADLINES Profit after tax of £38 8 million (2010 £60 1 million) generated EPRA earnings per share of 64 9 pence (2010 42 5 pence), and basic and diluted earnings per share of 82 0 pence and 81 9 pence, respectively (2010 127 1 pence each) Gross property assets at 31 December 2011 were £902 1 million (2010 £876 9 million), EPRA net assets per share were 3 2% higher at 983 1 pence (2010 952 9 pence), and basic net assets per share rose by 6 6% to 817 5 pence (2010 766 7 pence)

Approximately 40% of the Group s business is conducted in the reporting currency of sterling, around 50% is in euros, and the balance is in Swedish kronor Overall, compared to last year profits benefited marginally from foreign exchange rate movements as on average the euro was 1 2% stronger and the krona 6 8% stronger against sterling than in 2010 However the euro weakened markedly towards the end of the year, restricting gains in the value of net assets made earlier in the year

EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2009	1 1275	11 5689
2010 average rate	1 1663	11 1221
At 31 December 2010	1 1664	10 4828
2011 average rate	1 1525	10 4091
At 31 December 2011	1 1987	10 7088

STATEMENT OF COMPREHENSIVE INCOME Profit after tax comprised the underlying operating performance of the Group, known as EPRA earnings, and assorted other elements such as fair value movements, profits on sales and other non-recurring items EPRA earnings were £9 6 million higher than last year at £29 7 million (2010 £20 1 million) The net uplift on revaluation of the investment property portfolio was £18 0 million (2010 £30 1 million), but the fair value of derivative financial instruments, included within finance costs, fell by £18 5 million (2010 £3 1 million) Other non-recurring profits in the year were £9 6 million (2010 £13 0 million)

Consequently, although EPRA earnings rose significantly over those of 2010, in aggregate profit after tax was lower than last year at £38 8 million (2010 £60 1 million)

Rental income of £66 2 million was £4 1 million, or 6 6%, higher than last year £2 5 million of this increase was from acquisitions, primarily made in 2010 and £0 6 million came from indexation increases, particularly in Germany and France The comparative weakness of sterling accounted for a further £0 8 million of uplift and the effect of expiries was largely matched by new lettings

We monitor the administration expenses incurred in running the property portfolio by reference to the income derived from it, which we call the administration cost ratio, and this is a key performance indicator of the Group In 2011, administration expenses fell to £12 1 million (2010 £13 0 million), but property-related administration costs increased to £9 7 million (2010 £9 1 million), in part through extending our development team The administration cost ratio of 15 4% (2010 15 2%) was close to the KPI target of 15 0% and, notwithstanding the relative complexity of our pan-European operation was well below that of many real estate companies in our peer group

The net surplus on revaluation of investment properties in the year was £18 0 million (2010 £30 1 million) £10 2 million of this uplift came from the London portfolio, £4 9 million was from France £2 0 million from Germany, and our sole direct property investment in Sweden rose in value by £0 9 million Overall, the underlying revaluation surplus was 2 1% (or 0 5% after foreign exchange effects), comprising 1 7% (4 6% after foreign exchange) in the first half of the year, and 0 4% (minus 3 9% after foreign exchange) in the second half

Finance income of £12 2 million comprised predominantly interest income of £9 2 million (2010 £6 1 million) from our corporate bond portfolio This portfolio fell in value towards the end of 2011 during the euro crisis and ended the year down by £15 6 million, but since first investing in corporate bonds towards the end of 2008, the portfolio has produced an annual compound return on equity of 9 1% At 31 December 2011 the portfolio generated a yield on market value of 10 2% To date, the valuation of the portfolio at 31 December 2011 has proved to be a low point, with steady growth in value of £8 2 million in the first two months of 2012

The rise in Group borrowings (see below) led to an increase in interest expense on bank loans, debenture loans and other loans to £29 2 million (2010 £24 0 million), and the fall in the long-term swap rate in particular created an adverse movement in the fair value of interest rate swaps and caps of £18 5 million (2010 £3 1 million) Consequently finance costs for the year to 31 December 2011 were £47 7 million (2010 £31 1 million)

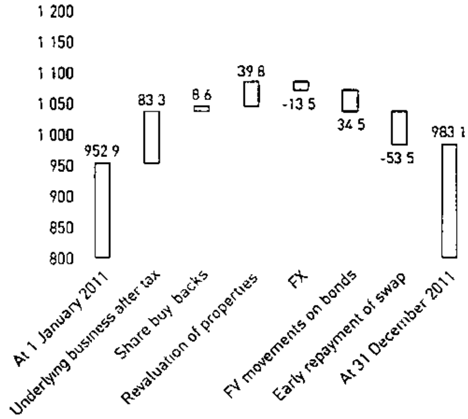
In late 2010 Catena AB in which the Group owns a 29 9% interest sold the majority of its business and in April 2011 distributed the proceeds, of which our share was a cash dividend of £19 9 million The main drivers of the profit of associates after tax of £3 0 million (2010 £7 7 million) were a profit of £3 7 million (2010 £9 4 million) from the reduced business of Catena and a loss of £0 5 million (2010 £1 6 million) from our 48 3% holding in Bulgarian Land Development Plc

Our French operation was the only part of the Group which paid tax Elsewhere in the Group, tax losses, including those generated by closing out an interest rate swap, absorbed taxable profits made in the year, creating a current tax credit of £1 2 million Tax for the year also contained a deferred tax charge of £0 1 million (2010 £6 4 million), which largely represents an adjustment required under IFRS for the potential tax occasioned by valuation movements on investment properties offset by tax losses

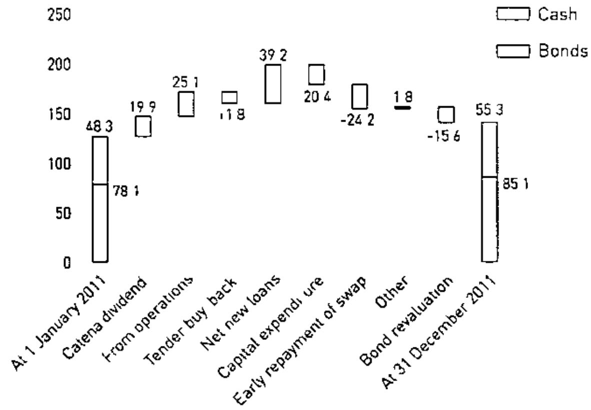
DISTRIBUTIONS TO SHAREHOLDERS In April 2011, £7 2 million was distributed to shareholders by means of a tender offer buy-back of 1 in 47 shares at 725 pence per share In September, a further £4 4 million was distributed by means of a tender offer buy-back of 1 in 72 shares at 700 pence per share and a proposed tender offer buy-back of 1 in 42 shares at 735 pence per share to return £7 9 million will be put to shareholders in April 2012 This represents a 10% uplift over the equivalent distribution last year

BUSINESS REVIEW CONTINUED

MOVEMENT IN EPRA NAV 2011
Pence per share



MOVEMENT IN LIQUID RESOURCES 2011
£ millions



EPRA NET ASSET VALUE At 31 December 2011 EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 983 1 pence (2010 952 9 pence) a rise of 3 2%, or 30 2 pence per share Elements of the business which increased EPRA NAV in the year included profit after tax (83 3 pence per share) the property portfolio revaluation uplift (39 8 pence) and the two tender offer buy-backs (8 6 pence) However due to uncertainty over the euro, the fair value of our corporate bonds fell by the equivalent of 34 5 pence per share the resulting strength in sterling reduced EPRA NAV by 13 5 pence and the early redemption of an interest rate swap reduced it by a further 53 5 pence per share

CASH FLOW, NET DEBT AND GEARING At 31 December 2011 the Group s liquid resources of £140 4 million – comprising cash of £55 3 million and corporate bonds of £85 1 million – were £14 0 million higher than £126 4 million twelve months earlier In May a one-off dividend from our associate Catena AB added £19 9 million The underlying operations of the business generated cash of £25 1 million during the year, of which £11 8 million was distributed to shareholders New loans of £171 4 million, after costs, replaced those repaid of £132 2 million, being a net cash inflow of £39 2 million, which financed in part capital expenditure and acquisitions of £20 4 million The early repayment of an interest rate swap cost £24 2 million, and the bond portfolio fell in value by £15 6 million

Early in 2011, the Board decided that the Group should raise debt in anticipation of a reduction in the general availability of bank finance later in the year and this proved to be a well-judged decision In May, we issued the first CLS corporate bond, for SEK 300 million (£29 5 million), in Sweden This unsecured five-year bond which attracts interest at 375 basis points above STIBOR, has since been listed on the NASDAQ OMX in Stockholm It was noteworthy that the Group looked to issue the bond in London, but investors in Sweden proved more accommodating to the issue even though CLS s shares were not listed there In June, 19 loans in the French portfolio were refinanced by separate facilities from two banks including one bank which was new to the Group The new loans of £116 1 million in aggregate replaced others of £85 7 million, increasing the loan to value ratio on the properties which they financed to 68% from under 50% In London a new loan of £3 3 million was taken out on the acquisitions in Hounslow, and two were refinanced for £6 0 million, whilst in Germany, £1 7 million was drawn on a new development loan

A short-term SEK 300 million facility taken out during the year was subsequently repaid Other repayments of bank loans of £19 1 million were made by way of amortisation in the ordinary course of business Following all of these transactions, and retranslating the resulting loans into sterling, at 31 December 2011 gross debt of £625 1 million was £32 8 million higher than the £592 3 million of twelve months earlier

The weighted average unexpired term of the Group s debt at 31 December 2011 was 4 4 years £151 2 million of loans fell due in 2012 including £14 3 million of amortisation of loan balances in the normal course of business

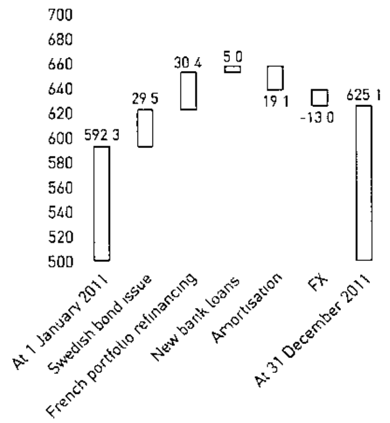
Since 1 January 2012, £30 million has been refinanced, and £89 1 million has been approved by credit committee and all other appropriate bank internal processes, and is subject to completion of legal documentation On refinancing of these loans, the weighted average unexpired term of the Group s debt will be 5 1 years

Adjusted net gearing, which is based on EPRA net assets, was 128% at 31 December 2011 and the weighted average loan-to-value on borrowings against properties was a comfortable 62 5% Adjusted solidity was 40 5% (2010 41 7%)

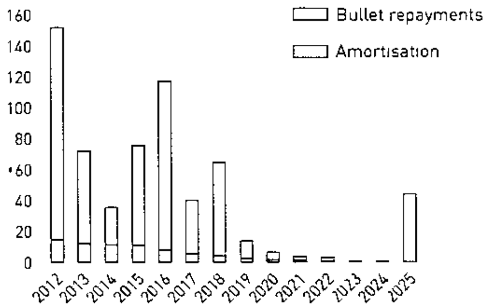
The weighted average cost of debt at 31 December 2011 was 4 1%, one of the lowest in the property sector, and down from 4 3% twelve months earlier The fall was primarily caused by cancelling a long-term swap (see below) With bank financing now more expensive than when existing loans were taken out, all other things being equal refinancing them as they fall due will gradually increase the average cost of debt of the Group

In 2011, our low cost of debt led to recurring interest cover of a comfortable 2 6 times (2010 3 2 times) The fall was caused by a lower share of profit of associates after tax of £3 0 million (2010 £7 7 million), and a higher recurring net interest cost due to higher borrowings

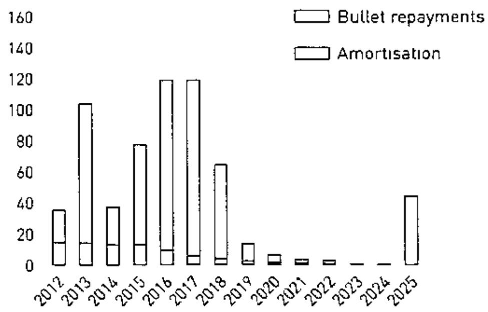
MOVEMENT IN GROSS DEBT 2011
£ millions



DEBT PROFILE AT 31 DECEMBER 2011
£ millions

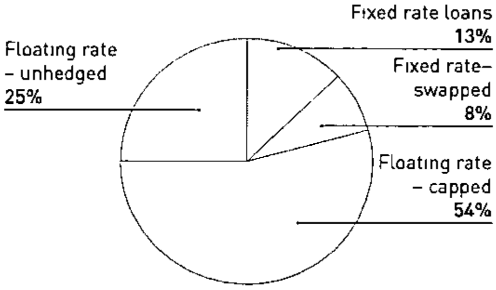


PRO FORMA DEBT PROFILE AFTER CURRENT REFINANCINGS
£ millions

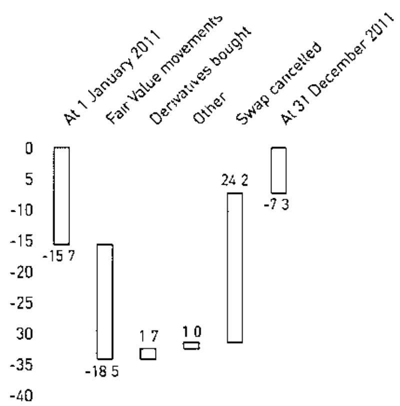


BUSINESS REVIEW CONTINUED

DEBT HEDGING



MOVEMENT ON DERIVATIVES NET LIABILITY
£ millions



FINANCING STRATEGY The Group s strategy is to hold its investment properties predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset In this way credit and liquidity risk can most easily be managed around 70% of the Group s exposure to foreign currency is naturally hedged and the most efficient use can be made of the Group s assets Around 10% of the Group s debt is not property specific and is taken out by the parent Company to provide additional financial flexibility This comprises the Swedish bond issued in 2011, and short-term overdraft facilities Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover None of the Group s debt was in breach of covenants at 31 December 2011 The Group had 64 loans across the portfolio from 20 banks None of the loans at 31 December 2011 had been securitised by any lender, and the Group had no exposure to the CMBS market

To the extent that Group borrowings are not at fixed rates, the Group s exposure to interest rate risk is mitigated by the use of financial derivatives, particularly interest rate swaps and caps The Board believes that interest rates are likely to remain low longer than the forward interest curve would imply, and therefore, its policy is to allow the majority of debt to remain subject to floating rates To mitigate the risk of interest rates increasing more sharply than the Board expects the Group enters into interest rate caps At 31 December 2011, 21% of the Group s borrowings were at fixed rates or subject to interest rate swaps, 54% were subject to caps and 25% of debt costs were unhedged

The Group s financial derivatives - predominantly interest rate swaps and interest rate caps - are marked to market at each balance sheet date, at 1 January 2011 the net liability of such derivatives was £15 7 million The fall in medium and long-term interest rates in 2011 increased the net liability of these derivatives by £18 5 million To provide more flexibility in the Group s financing we chose to close out our major long-term interest rate swap in December crystallising a £24 2 million accumulated loss This left the Group with six interest rate swaps with an aggregate notional amount of only £50 million and a derivative liability of £9 1 million at 31 December 2011, at which date they had a weighted average unexpired term of 4 1 years Other derivatives at 31 December 2011 were mainly interest rate caps and had a net positive value of £1 8 million

SHARE CAPITAL At 1 January 2011, there were 51,381,244 shares in issue of which 4,793,000 were held as treasury shares On 28 April, under the tender offer buy-back, 991,239 shares were cancelled in exchange for £7 2 million distributed to shareholders and on 22 September, under the tender offer buy-back, 633,291 shares were cancelled in exchange for £4 4 million distributed to shareholders In November and December, an aggregate of 10,103 shares were purchased in the market and placed in Treasury Consequently at 31 December 2011, 44,953,611 shares were listed on the London Stock Exchange and 4,803,103 shares were held in Treasury

The Directors intend to put to shareholders in April 2012 a proposal to issue a tender offer to buy-back 1 in 42 shares at 735 pence per share If approved by shareholders this could lead to the purchase and cancellation of 1 070,324 shares, and a distribution to shareholders of £7 9 million

TOTAL RETURNS TO SHAREHOLDERS

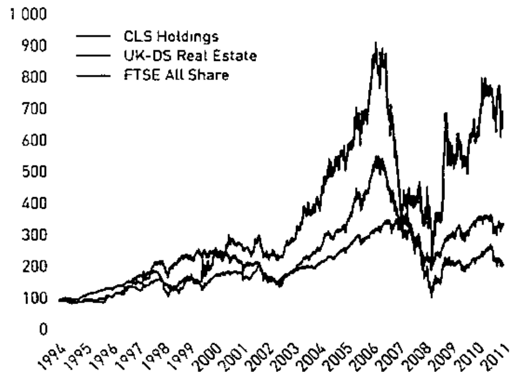
In addition to the distributions and share cancelations associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 535 pence on 31 December 2010 to 590 pence at 31 December 2011 Accordingly the total shareholder return in 2011 was 11 1% In the four years to 31 December 2011 our total shareholder return of 64 9% - a compound annual return of 13 3% - represented the best performance in the listed real estate sector

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE Real Estate and FTSE All Share indices, as set out in the graph on this page The graph includes dividend payments made by other companies, since 1998, CLS had not made dividend payments to shareholders, but instead has made capital distributions through tender offer buy-backs, none of which has been accounted for in the graph

KEY PERFORMANCE INDICATORS

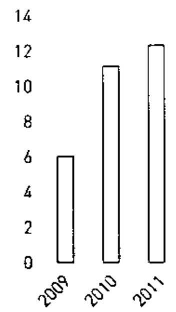
Our performance against our key performance indicators is set out on page 2

TOTAL RETURNS TO SHAREHOLDERS 1994-2011



Source Datastream

DISTRIBUTIONS TO SHAREHOLDERS PAID AND PROPOSED
£ million



ADDING VALUE THROUGH DEVELOPMENT

Looking to the Future

CLS S PRIMARY BUSINESS COMPRISES THE CASH-GENERATIVE INVESTMENT PROPERTY PORTFOLIO WHEN THE TIME IS RIGHT, THE GROUP TAKES THE OPPORTUNITY TO ADD VALUE TO THE BUSINESS BY UNDERTAKING DEVELOPMENTS AFTER FIRST DE-RISKING THEM THROUGH PRE-LETTINGS OR PRE-SALES

IN 2011, TWO SUCH DEVELOPMENTS WERE ON SITE IN GERMANY, AT LANDSHUT AND GRAFELFING A FURTHER TWO, MEDIUM-TERM SCHEMES WERE SUBMITTED FOR PLANNING IN LONDON, AT SPRING MEWS AND VAUXHALL SQUARE

Landshut, Germany

A 5,400 sq m development pre-let to E ON for 17 5 years

In Landshut, which is 70 km north east of Munich, we own three adjacent properties let to E ON Service Plus GmbH In 2011 we agreed to develop a fourth, comprising 5,400 sq m pre-let to the same tenant

The development is to be completed by the summer of 2012 and has been let on a 17 5 year index-linked lease until March 2030 with no breaks It will produce an income of €659 000 p a , which equates to €114 per sq m and represents an initial yield of 8 5% to CLS on a forecast cost of €8 million After debt finance the initial return on equity will be 19 4% p a

The new property is the fourth phase of a 16 100 sq m fully-let office complex, including CLS s original purchase in 2006, and phases two and three developed in 2009 E ON will use the new property as office space for internal services within the E ON group of companies

The building is being built to the high Silver environmental standard

Gräfelfing, Germany

A 1,642 sq m expansion and new 10 year lease with Dr Honle AG in Munich

When the existing single tenant at Grafelfing Munich Dr Honle AG, requested extra space, we were able to meet their needs with a pre-let 1,642 sq m development, and simultaneously replace their existing lease, resulting in an index-linked lease until October 2020 with no breaks, on the entire 8,527 sq m complex

Work began on the extension of the office and light industrial property in Q4 2010 and is due to be completed in early 2012 The expanded space will produce €1,096,236 of income p a , which equates to €120 per sq m and represents a net initial yield on cost of 7 7% With debt finance, the initial return on equity is 18 3% p a

Dr Honle is among the leading manufacturers of UV technology for industrial applications world-wide and is listed on the Prime Standard at the German Stock Exchange

The building is being built to the high Silver environmental standard

Vauxhall Square, London SW8

A 154,000 sq m mixed use development scheme

In December 2011 we submitted a detailed planning application for a 154,000 sq m mixed-use development scheme in Vauxhall following a series of stakeholder consultations conducted during the year The proposed Vauxhall Square redevelopment is located close to Vauxhalls transport interchange and comprises two residential towers of approximately 50 stories containing 510 homes 15,231 sq m of office space, 3,500 sq m of retail restaurant and cafe space, 416 student units a 438 bed hotel, a 4 screen cinema, 94 affordable housing units, a new homeless hostel a major new public square (of similar size to Paternoster Square in the City of London), and significant public realm improvements

Vauxhall Square is at the heart of the Vauxhall Nine Elms regeneration area between the Vauxhall transport links and the proposed new US Embassy Subject to receiving a viable planning consent, and suitable pre-lets and pre-sales, a start on site is possible in 2014, with phases being completed from 2017 onward The development cost of the proposed scheme is in excess of £400 million

Spring Mews, London SE11

A proposed 20,801 sq m mixed-use development scheme

Also in December 2011 we submitted a detailed planning application for a 20,800 sq m student accommodation and hotel led development scheme in Vauxhall called Spring Mews Located close to the Albert Embankment and the Vauxhall transport interchange, the scheme comprises 402 student rooms and amenity space, a 120 bed mid-market hotel, a new 561 sq m community centre and cafe, 469 sq m of office space, a 245 sq m convenience retail unit, and the creation of a new pedestrian mews linking the development to Spring Gardens

Subject to receiving planning consent, we would aim to start on site in 2012, with completion in 2014 The total development cost of the proposed scheme is in excess of £50 million

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Areas of Impact	Mitigation
PROPERTY INVESTMENT RISKS		
Underperformance of investment portfolio due to • Cyclical downturn in property market • Inappropriate buy/sell/hold decisions	Cash flow Profitability Net asset value Banking covenants	Senior management has detailed knowledge of core markets and experience gained through many market cycles This experience is supplemented by external advisors and financial models used in capital allocation decision-making
• Changes in supply of space and/or tenant demand	Rental income Cash flow Vacancy rate Void running costs Bad debts Net asset value	The Group s property portfolio is diversified across four countries The weighted-average unexpired lease term is 7 7 years and the Group s largest tenant concentration is with the Government sector (40%)
• Poor asset management	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Property teams proactively manage tenants to ensure changing needs are met, and review the current status of all properties weekly Written reports are submitted bi-weekly to senior management on inter alia vacancies lease expiry profiles and progress on rent reviews
OTHER INVESTMENT RISKS		
Corporate bond investments • Underperformance of portfolio • Insolvency of bond issuer	Net asset value Liquid resources	In assessing potential investments, the Treasury department undertakes research on the bond and its issuer, seeks third-party advice, and receives legal advice on the terms of the bond, where appropriate The Treasury department and Executive Directors receive updates on bond price movements and third party market analysis on a daily basis, and reports on corporate bonds to the full Board on a bi-weekly basis The Executive Directors formally review the corporate bond strategy monthly
DEVELOPMENT RISKS		
Failure to secure planning permission	Abortive costs Reputation	Planning permission is sought only after engaging in depth with all stakeholders
Contractor solvency and availability	Reduced development returns Cost overruns Loss of rental revenue	Only leading contractors are engaged Prior to appointment, contractors are the subject of a due diligence check and assessed for financial viability
Downturn in investment or occupational markets	Net asset value	Developments are undertaken only after an appropriate level of pre-lets have been obtained

Risk	Areas of Impact	Mitigation
FUNDING RISKS		
Unavailability of financing at acceptable prices	Cost of borrowing Ability to invest or develop	The Group has a dedicated Treasury department and relationships are maintained with some 20 banks, thus reducing credit and liquidity risk The exposure on re-financing debt is mitigated by the lack of concentration in maturities
Adverse interest rate movements	Cost of borrowing Cost of hedging	The Group s exposure to changes in prevailing market rates is largely hedged on existing debt through interest rate swaps and caps, or by borrowing at fixed rates
Breach of borrowing covenants	Cost of borrowing	Financial covenants are monitored by the Treasury department and regularly reported to the Board
Foreign currency exposure	Net asset value Profitability	Property investments are partially funded in matching currency The difference between the value of the property and the amount of the financing is generally unhedged and monitored on an ongoing basis
Financial counterparty credit risk	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	The Group has a dedicated Treasury department and relationships are maintained with approximately 20 banks, thus reducing credit and liquidity risk The exposure on re-financing debt is mitigated by the lack of concentration in maturities
TAXATION RISK		
Increases in tax rates or changes to the basis of taxation	Cash flow Profitability Net asset value	The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change
POLITICAL AND ECONOMIC RISK		
Break-up of the Euro	Net asset value Profitability	Euro-denominated liquid resources are kept to a minimum Euro property assets are largely financed with euro borrowings
Economic downturn	Cash flow Profitability Net asset value Banking covenants	The Group s property portfolio is diversified across four countries The weighted-average unexpired lease term is 7 7 years and the Group s largest tenant concentration is with the Government sector (40%) 65% of rental income is subject to indexation
GOING CONCERN		
The Group will not have adequate working capital to remain a going concern for the next 12 months	Pervasive	The Directors regularly stress-test the business model to ensure the Group has adequate working capital

SCHEDULE OF GROUP PROPERTIES

LONDON

at 31 December 2011	Tenure	Area sq m	Use
London EC4			
Clifford's Inn, Fetter Lane	Freehold	3 042	Offices
London SE1			
Westminster Tower 3 Albert Embankment	Freehold	4,438	Offices
Fielden House, 28/42 London Bridge Street*	Freehold	756	Offices
London SW6			
Quayside, William Morris Way	Freehold	3 064	Offices
London SW8			
Cap Gemini House 95 Wandsworth Rd & 72/78 Bondway & 22 Miles Street	Freehold	10,427	Offices/Industrial
80/84 Bondway	Freehold	1 622	Offices
101/103/107 Wandsworth Road	Freehold	488	Residential
131/137 Wandsworth Road	Freehold	1,546	Offices
18/20 Miles Street	Freehold	152	Offices
London SE11			
Spring Gardens, Tinworth Street	Freehold	19 519	Offices
Spring Gardens Court 79 Vauxhall Walk	Leasehold	115	Residential
2/10 Tinworth Street	Freehold	1,424	Offices/Industrial
16 Tinworth Street	Freehold	218	Industrial
92/98 Vauxhall Walk	Freehold	97	Offices
100 Vauxhall Walk	Freehold	1,533	Community Centre
108 Vauxhall Walk	Freehold	600	Car parking
110 Vauxhall Walk	Freehold	790	Industrial
Western House 5 Glasshouse Walk	Freehold	589	Offices
35 Albert Embankment	Freehold	527	Leisure
London WC1			
214/236 Grays Inn Road	Freehold	26,295	Offices
London WC2			
Ingram House, 13/15 John Adam Street	Freehold	1 308	Offices/Residential
London NW10			
Chancel House, Neasden Lane	Freehold	6,940	Offices
London W6			
Cambridge House, 100 Cambridge Grove	Freehold	6,712	Offices
London W10			
Buspace Studios 10 Conlan Street	Freehold	3 006	Studios/Workshops/ Offices
Brentford			
Great West House Great West Road TW8	Freehold	14 299	Offices
Hounslow			
115/123 Staines Road, TW3	Freehold	2 353	Offices
125/135 Staines Road TW3	Freehold	2 340	Offices
New Malden			
CI Tower, High Street, KT3	Freehold	7,550	Offices
Apex Tower High Street KT3	Freehold	10 217	Offices/Retail
Ipswich			
Zest Nightclub, Princes Street, IP1	Freehold	1,951	Leisure
Investment properties		**133,918**	
Owner-occupied			
86 Bondway SW8	Freehold	891	Offices
		134,809	

* Share of joint venture

FRANCE AND LUXEMBOURG

at 31 December 2011	Tenure	Area sq m	Use
Paris			
48 Rue Croix des Petits Champs 75001	Freehold	1,800	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,058	Offices
18 Rue Stephenson, 75018	Freehold	538	Offices
Le Sully, Ilôt 2 Rue Georges Bizet 78200 Mantes la Jolie	Freehold	2,798	Offices
95/97 Bis Rue de Bellevue, 92100 Boulogne	Freehold	2,478	Offices
16 Rue de Solferino 92100 Boulogne	Freehold	1,046	Offices
58 Avenue General Leclerc, 92100 Boulogne	Freehold	525	Offices
Le Quatuor 168 Avenue Jean Jaures, 92120 Montrouge	Freehold	4,998	Offices
2 Rue Pierre Timbaud 92230 Gennevilliers	Freehold	3,118	Offices
23/27 Rue Pierre Valette, 92240 Malakoff	Freehold	10,778	Offices
Le Sigma Place de Belgique, 90 Bld de L'Europe, 92250 la Garenne-Colombes	Freehold	6,598	Offices
Le Debussy, 77/81 Boulevard de la Republique 92250 la Garenne-Colombes	Freehold	4,199	Offices
62 Avenue Foch, 92250 la Garenne-Colombes	Freehold	181	Offices
120 Rue Jean Jaures 92300 Levallois Perret	Freehold	4,203	Offices
56 Boulevard de la Mission Marchand, 92400 Courbevoie	Freehold	2,784	Offices
53/55 Rue du Capitaine Guynemer 92400 Courbevoie	Freehold	2,171	Offices
7 Rue Eugene et Armand Peugeot 92500 Rueil-Malmaison	Freehold	7,357	Offices
Lyon			
Forum 27/33 Rue Maurice Flandin 69003	Freehold	6,802	Offices
D Aubigny, 27 Rue de la Villette, 69003	Leasehold	4,314	Offices
Rhône Alpes 235 Cours Lafayette, 69006	Freehold	3,147	Offices
Park Avenue 81 Boulevard de Stalingrad, Villeurbanne, 69100	Freehold	4,249	Offices
Front de Parc 109 Boulevard de Stalingrad 69100	Leasehold	5,223	Offices
Lille			
96 Rue Nationale, 59000	Freehold	2,553	Offices
La Madeleine 105 Avenue de la Republique 59110	Freehold	4,449	Offices
Antibes			
Le Chorus 2203 Chemin de St Claude, Nova Antipolis 06600	Freehold	4,333	Offices
Luxembourg			
16 Rue Eugene Ruppert L2453	Freehold	3,698	Offices
		96,398	

SCHEDULE OF GROUP PROPERTIES CONTINUED

GERMANY

at 31 December 2011	Tenure	Area sq m	Use
Munich			
BrainLAB, Kapellenstrasse 12 Feldkirchen D-85622	Freehold	16 312	Offices
Planegg, Maximilian Forum, Lochhamer Strasse 11/15, D-82152	Freehold	13,816	Offices
Grafelfing Lochhamer Schlag 1	Freehold	6,885	Offices
Rudesheimer Strasse 9 D-80686	Freehold	2 588	Offices
Unterschleissheim, Lise-Meitner-Strasse 4 D-85716	Freehold	2,958	Offices
Hamburg			
Fangdieckstrasse 75, 75a, b, 22547	Freehold	13,094	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,569	Offices
Merkurring 33/35 D-22143	Freehold	5 605	Offices
Harburger Ring 33, D-21073	Freehold	3 364	Offices
Frohbosestrasse 12 D-22525	Freehold	1,993	Offices
Berlin			
Rudowerchausee 12, D-12489, Adlershofer Tor	Freehold	19,992	Offices/Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, Charlottenburg	Freehold	6,045	Offices
Bochum			
Hans-Bockler-Strasse 19, 44787	Freehold	24,828	Offices
Dusseldorf			
Schanzenstrasse 76, D-40549	Freehold	3 095	Residential
Landshut			
1, 3, 5 E on Allee Roider-Jackl-Strasse	Freehold	10 665	Offices
Suderhastedt			
Dorfstrasse 14, 25727	Freehold	1,185	Nursing home
		137,994	

SWEDEN

at 31 December 2011	Tenure	Area sq m	Use
Vanerparken			
Lasarettet No 2 6/8, Vanerparken Vanersborgs Kommun	Freehold	45,384	Offices/Education/ Residential/Leisure/ Hospital
		45,384	

Total Portfolio at 31 December 2011	**414,585**	

PROPERTY PORTFOLIO

RENTAL DATA

	Gross rental income for the year £m	Net rental income for the year £m	Lettable space sq m	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end %
London	26 4	24 7	133,918	27 5	26 4	4 3	4 0%
France	18 8	18 5	96 398	18 7	18 3	18 7	2 7%
Germany	14 2	13 4	137,994	13 9	14 5	13 9	6 0%
Sweden	6 2	4 9	45,384	6 2	5 6	6 3	1 8%
Total Portfolio	**65 6**	**61 5**	**413,694**	**66 3**	**64 8**	**43 2**	**3 9%**

Note a further £3 8 million of London contracted rent will be subject to annual indexation from 2015

VALUATION DATA

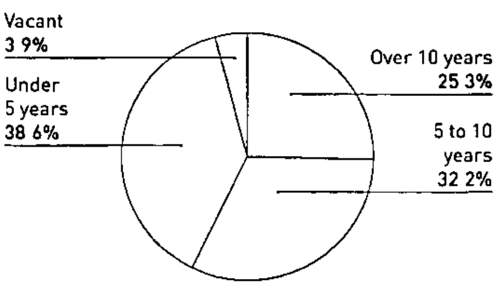
	Market value of property £m	Valuation movement in the year: Underlying £m	Valuation movement in the year: Foreign exchange £m	Net initial yield[1] %	EPRA topped up net initial yield[2] %	Reversion %	Over-rented %	True equivalent yield %
London	398 0	10 2	–	6 6%	6 2%	3 1%	11 0%	6 9%
France	248 3	4 9	(7 0)	7 5%	7 1%	1 8%	6 7%	7 0%
Germany	197 1	2 0	(5 4)	7 0%	6 6%	0 8%	3 1%	6 0%
Sweden	58 7	0 9	(1 3)	7 9%	7 5%	1 3%	13 4%	9 5%
Total Portfolio	**902 1**	**18 0**	**(13 7)**	**7 0%**	**6 6%**	**2 1%**	**8 3%**	

(1) Based on contracted rent and before adding purchasers costs to investment property values if based on passing rent net initial yield would be 6 8%
(2) Based on contracted rent and after adding purchasers costs to investment property values if based on passing rent EPRA net initial yield would be 6 5%

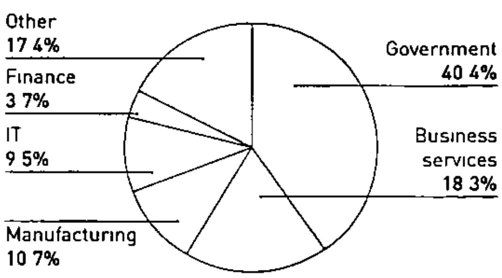
LEASE DATA

	Average lease length		Passing rent of leases expiring in				ERV of leases expiring in			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m
London	8 6	9 3	0 9	1 9	5 1	19 6	0 9	2 1	5 1	17 1
France	2 8	5 7	0 3	0 8	5 3	12 2	0 3	0 9	4 9	11 7
Germany	8 7	8 7	1 2	1 0	5 4	6 4	1 1	0 9	5 2	6 3
Sweden	4 4	4 4	0 1	0 1	4 5	1 6	0 1	0 1	3 7	1 6
Total Portfolio	**6 6**	**7 7**	**2 5**	**3 8**	**20.3**	**39 8**	**2 4**	**4 0**	**18.9**	**36.7**

RENT BY LEASE LENGTH



RENT BY SECTOR



DIRECTORS' REPORT

for the year ended 31 December 2011

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011 The Chairman s Statement Business Review and Corporate Governance Report form part of this report and should be read in conjunction with it

1 PRINCIPAL ACTIVITIES

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

2 REVIEW OF BUSINESS

The group statement of comprehensive income for the year is set out on page 46

A review of results for the year the Group s objective, business model and strategy applied to the business model the principal risks and uncertainties facing the Group and the prospects for the future, are set out within the Chairman s Statement, Business Review and Property Portfolio on pages 4 to 24 and are incorporated into this report by reference These also include analysis using key performance indicators and any other information required to fulfil the requirements of the Business Review

Details of use by the Group of financial instruments are set out in the Business Review on pages 8 to 17 and in note 25 to the group financial statements Risk Management objectives are also detailed in note 25 to the group financial statements

3 DIRECTORS

The Directors of the Company are set out below and changes to the composition of the Board during the year can be found in the Corporate Governance Report on pages 25 to 31

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 36 to 41 Related party transactions are shown in notes 35 and 36

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

Executive Directors

Sten A Mortstedt, aged 72 is Executive Chairman of the Company He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years had formed a property investment partnership In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was floated on the Stock Exchange in Stockholm in 1981 The company was sold in 1985 for a price five times higher than the introduction price which was at that time the largest property deal recorded in Scandinavia

Since 1977 he has been involved in establishing and running property interests in the UK Sweden and France He established CLS in 1987 and has been Executive Chairman since he took the Company to a listing on the main market of the London Stock Exchange in 1994

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

He runs his global interests from his residence in Switzerland

E Henry Klotz, aged 67 was appointed Executive Vice Chairman on 1 January 2011, having previously been Chief Executive Officer from May 2008 He joined the Group in 1999 with responsibility for the management of the Swedish operation and more recently was involved in the setting up of the German division and sourcing new business opportunities for the Group He is a qualified engineer and economist

On behalf of CLS he is Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 29 9% of its issued share capital He is also Non-Executive Chairman of Bulgarian Land Development Plc, in which CLS holds an interest in 48 3% of its issued share capital a Non-Executive Director of Nyheter 24, a Swedish on-line news and media business in which CLS owns an interest in 20% of its issued share capital and a Non-Executive Director of Note AB a technology company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 8 5% of its issued share capital

Richard J S Tice, aged 47 joined the Company in 2010 as Deputy Chief Executive Officer and was appointed Chief Executive Officer on 1 January 2011 He has over 25 years experience in international property and was joint CEO of the Sunley Group plc for 15 years until 2006 when he arranged a shareholder exit prior to the market downturn in 2007 He was then Managing Partner of his own boutique firm specialising in real estate debt For three years until October 2009 he was also a non-executive director then Chairman of AIM listed South African Property Opportunities plc He has been a non-executive director of two other listed companies His property experience covers commercial and residential investment as well as development, together with banking, hedging debt restructuring and distressed debt trading

John H Whiteley, aged 53, joined the Company in 2009 as Chief Financial Officer He was previously Finance Officer at Doughty Hanson & Co Real Estate and for ten years was Finance Director of Great Portland Estates plc a company listed on the London Stock Exchange He is a Fellow of the Institute of Chartered Accountants and spent nine years with Ernst & Young after qualifying as an accountant with Spicer & Pegler

Non-Executive Directors

Malcolm C Cooper, aged 52 joined the Board in 2007 and is the Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration Committee He is Global Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991 Previously he worked for Andersen Consulting He has a first in pure mathematics from Warwick University is a qualified accountant and is a member of the Association of Corporate Treasurers

Joseph A Crawley, aged 52, joined the Board in 2008 He is a Director of Kitewood Estates Limited, a property investment and development company active in London and south-east England and has over 20 years experience of the central London property market He was previously employed by CLS for a number of years and was involved in the development of the Spring Gardens site

Christopher P Jarvis FRICS, aged 56, joined the Board in 2008 and is Chairman of the Remuneration Committee and a member of the Audit Committee He has an M A from Cambridge University and is a Partner of Jarvis & Partners, a boutique real estate consultancy which he established in Berlin in 1994 Previously he was Managing Director of Richard Ellis Germany where he established the firm s Frankfurt and Berlin offices His firm has acted as development partner for the HRO Group in Germany

H O Thomas Lundqvist, aged 67, joined the Board in November 1990 and was Finance Director of the Company until 1995 when he became a Non-Executive Director He was Vice Chairman from 24 November 2009 until 1 January 2011 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

Jennica Mortstedt, aged 27 joined the Board in May 2010 and is the daughter of Bengt Mortstedt a founding member and major shareholder in the Company She has eight years experience in the hotel industry and has a degree in International Business and Hospitality from Ecole Hoteliere de Lausanne Switzerland

Brigith Terry, aged 68, joined the Board in August 2011 She has over 35 years experience in the international banking and property industries and was a bank director responsible for the international commercial property loans business at Wurttembergische Hypotheken-bank AG and then Hypo Real Estate Bank International AG (now part of Deutsche Pfandbriefbank AG) until 30 June 2007 Brigith Terry is a qualified public notary in Germany and is now retired from banking

Thomas J Thomson, aged 61, joined the Board in 2001 as Executive Vice Chairman and Acting Chief Executive and was made Chief Executive in 2004 He became a Non-Executive Director in 2006 and served as Non-Executive Vice Chairman from 2006 to 2009 and Company Secretary from 1983 to 2001 and from 2008 to 2009 He is a qualified solicitor and joined the Group as General Counsel in 1994 having been a partner with Taylor Walton Solicitors for many years

As explained in the Corporate Governance Report on page 31 all directors (other than Mrs Terry) will be subject to annual re-election at the Annual General Meeting in accordance with the Code and Mrs Terry who was appointed since the last Annual General Meeting, and, being eligible, will stand for election

The Executive Chairman recommends the re-election of the retiring Directors, and the election of Mrs Terry at the Annual General Meeting given their performance and continued important contribution to the Company The Senior Independent Non-Executive Director recommends the re-election of the Executive Chairman

4 DIVIDENDS

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

During the year a first tender offer was made by way of a Circular dated 18 March 2011 for the purchase of 1 in 47 shares at 725 pence per share and was completed on 28 April 2011 It returned £7 2 million to shareholders, equivalent to 15 4 pence per share

A second tender offer was made by way of a Circular dated 22 August 2011 for the purchase of 1 in 72 shares at 700 pence per share and was completed on 23 September 2011 It returned £4 4 million to shareholders equivalent to 9 7 pence per share

A tender offer will be put to shareholders in March 2012 for the purchase of 1 in 42 shares at a price of 735 pence per share which, if approved, will return a further £7 9 million to shareholders equivalent to 17 5 pence per share

5 PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2011 Annual General Meeting, during the year the Company made two tender offer purchases totalling 1,624,530 ordinary shares at a cost of £11 6 million Of these, 991,239 ordinary shares were purchased on 28 April 2011 at 725 pence per share and 633,291 ordinary shares were purchased on 23 September 2011 at 700 pence per share These shares were subsequently cancelled

Pursuant to the relevant authority granted at the 2011 Annual General Meeting and in view of the discount of the market price of the Company s shares to the net asset value the Company made market purchases of its own shares during the year totalling 10 103 ordinary shares for which it paid an aggregate amount of £54 669 These shares were subsequently placed in Treasury

The Directors will continue to keep under review whether to make tender offer purchases and market purchases of the Company s shares if they are in the best interests of shareholders, by reference to the cash resources of the Company and the discount of the market price of the Company s shares to the net asset value

A resolution will be proposed at the 2012 Annual General Meeting to give the Company authority to make market purchases of up to 4,495,361 shares along with an additional resolution enabling the Company to undertake tender offer purchases, subject to set parameters, thereby reducing the administrative burden on shareholders of having to hold General Meetings more than once a year Any market purchases or tender offer purchases during the year will not exceed 4 495 361 shares in aggregate

The aggregated authority for the purchase of the Company s own shares that remained valid at the year end following the tender offer purchases and market purchases that took place during the year was in respect of 3,024,191 ordinary shares

6 SHARE CAPITAL

Changes in share capital are shown in note 26 to the group financial statements At 31 December 2011 and at the date of this report the Company s issued share capital consisted of 49,756,714 ordinary shares of 25 pence each, of which 4,803,103 shares were held as treasury shares and all of which ranked pari passu

At the date of this report the total number of voting rights in CLS Holdings plc is 44,953,611, being the number of shares in issue excluding treasury shares The rights (including full details relating to voting) obligations and any restrictions on transfer relating to the Company s shares, as well as the powers of the Directors are set out in the Company s Articles of Association

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2011

6 SHARE CAPITAL CONTINUED

At 31 December 2011 the Company operated two employee share schemes the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme), and the Company s Unapproved Share Option Scheme (USOS) There were options over 300,000 ordinary shares outstanding under these schemes at the year end and as at the date of this report (2010 300,000 ordinary shares) Upon any change of control, option holders under these schemes have directly exercisable rights Details of outstanding options under these schemes are shown on page 40 of the Remuneration Report

Details of the Directors interests in shares are shown in the Remuneration Report on page 41

7 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2011 was carried out by Lambert Smith Hampton for London, Jones Lang Lasalle for France Colliers International for Germany, and CBRE for Sweden which produced an aggregate market value of £902 1 million (2010 £876 9 million)

8 CORPORATE GOVERNANCE

The Corporate Governance Statement prepared in accordance with rule 7 2 of the FSAs Disclosure and Transparency Rules can be found on pages 29 to 35 and forms part of this report

9 EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group s policies on employment, environmental and social issues including charitable donations, are summarised in the Corporate Social Responsibility Report on pages 42 to 44 No political donations were made during 2011

10 INSURANCE OF DIRECTORS AND INDEMNITIES

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

11 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts and seeks to comply with the payment terms 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 20 days purchases based on the year as a whole (2010 21 days) The Company had no trade creditors (2010 nil)

12 AUDITOR

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

13 2012 ANNUAL GENERAL MEETING

The 2012 Annual General Meeting will be held on Wednesday 18 April 2012 The notice of meeting including explanatory notes for the resolutions to be proposed will be posted to shareholders

14 EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are set out in note 36 to the group financial statements

15 DISCLOSURE OF INFORMATION TO THE AUDITOR

Each Director has confirmed at the date of this report that

- so far as they are aware there is no relevant audit information of which the Group s auditor is unaware, and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group s auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

16 GOING CONCERN

The current macro-economic conditions have created a number of uncertainties as set out on pages 20 and 21 The Group s business activities, together with the factors likely to affect its future development and performance are set out in the Business Review on pages 8 to 17 The financial position of the Group, its liquidity position and borrowing facilities are described in the Business Review and in notes 23 and 25 of the group financial statements

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

The Directors Report was approved by the Board on 5 March 2012

By order of the Board

David Fuller BA FCIS
Company Secretary

5 March 2012

CORPORATE GOVERNANCE

1 INTRODUCTION

The principal corporate governance rules which applied to the Company in the year under review were those set out in the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in June 2010 (the Code), the UK Financial Services Authority (FSA) Listing Rules and the FSAs Disclosure and Transparency Rules

Responsibility

The Board has overall responsibility for corporate governance and is accountable to the Companys shareholders for good governance It is committed to achieving a high standard of corporate governance which best fits the Group, as it recognises that this contributes to better performance by assisting the Board to discharge its duties in the best interests of shareholders The Board fully supports the principles of good governance as set out in the Code, which is publicly available on the FRC s website (www frc org uk)

Changes in the Year

During the year the Company made some important enhancements to its governance structure following feedback received from institutional shareholders and trade associations, which are explained in more detail below The Board considers that these changes have better aligned the Company to corporate governance best practice requirements which in turn reassures all stakeholders that their investment is properly safeguarded

Compliance with the Code

The Code contains a number of additional requirements applicable to FTSE 350 companies At the date of this report the Company is not a constituent of the FTSE 350, however, in demonstrating its commitment to good corporate governance the Board has adopted a number of these requirements as explained below Save as identified and explained below the Board considers that throughout 2011 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code

2 LEADERSHIP

The Role of the Board

The Board which met four times during the year, is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources The Board s primary objective is to add value to the assets of the Group by identifying and assessing business opportunities as they arise and ensuring that associated risks are identified, monitored and controlled The Board has a formal schedule of matters specifically reserved to it for decision Matters reserved for Board decisions include identifying strategic long-term objectives and the capital structure of major transactions The implementation of Board decisions and the day-to-day operations of the Group are delegated to the Executive Directors

Strategy

Strategy is determined after having taken due regard of relevant forecasts and domestic and international developments The views of shareholders are sought by the Executive Directors and are reported back to the Board The Board is also appraised of the views of shareholders analysts and potential investors by the Company s advisers

Performance Monitoring

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

Conflicts of Interest

The Company s Articles of Association contain procedures to deal with Directors conflicts of interest The Board considers that these have operated effectively during the year

Meetings

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	4	3	6
Sten Mortstedt	4/4	-	-
Henry Klotz	4/4	-	-
Richard Tice	4/4	-	-
John Whiteley	4/4	-	-
Malcolm Cooper [1]	4/4	3/3	5/5
Joseph Crawley [2]	4/4	-	1/1
Christopher Jarvis [3]	4/4	3/3	5/5
Thomas Lundqvist [4]	4/4	1/1	1/1
Jennica Mortstedt	4/4	-	-
Brigith Terry [5]	2/2		
Thomas Thomson	4/4	-	-

(1) Appointed Member of the Remuneration Committee on 1 July 2011
(2) Stepped down as a member of the Remuneration Committee on 1 July 2011
(3) Appointed Chairman of the Remuneration Committee on 1 July 2011
(4) Stepped down as a member of the Audit Committee and Chairman of the Remuneration Committee on 1 July 2011
(5) Appointed to the Board on 16 August 2011

In addition to attending Board meetings, senior management meet regularly to discuss management issues relating to the Group both formally and informally

CORPORATE GOVERNANCE CONTINUED

2 LEADERSHIP CONTINUED

Insurance

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

Division of Responsibilities

There is a division of responsibilities between the Executive Chairman, who is responsible for the overall strategy of the Group, the Executive Vice Chairman who supports the Executive Chairman, and the Chief Executive Officer, who is responsible for implementing the strategy and for the day-to-day running of the Group The Chief Executive Officer 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

A separate statement on the responsibilities of the Executive Vice Chairman and his role alongside the Executive Chairman and Chief Executive Officer has been reviewed by the Board

The Company does not comply with provision A3 1 of the Code, as the Executive Chairman was not independent on appointment

There have been no significant changes to the commitments of the Executive Chairman during the year

Non-Executive Directors

Mr Cooper is the Senior Independent Non-Executive Director and he is available to shareholders who do not wish to approach the Executive Chairman, the Executive Vice Chairman or the Chief Executive Officer about a Company matter

During the year the Executive Chairman conferred with the Non-Executive Directors without the other Executive Directors present A formal meeting of the Non-Executives took place during the year, without the Executive Directors or the Chairman present, and at which a thorough review of the performance of the Executive Chairman took place The appointment of Mrs Terry as an independent Non-Executive Director has further strengthened the depth of knowledge and experience of the Board, and her biography can be found on page 27

The Board was satisfied with the experience expertise and performance of each board member, they continue to add significant value to the operation of the Company through their combined knowledge and experience, and exercise objectivity in decision-making and proper control of the Company s business

3 EFFECTIVENESS

Composition of the Board

The Board comprises four Executive Directors including the Executive Chairman, and seven Non-Executive Directors three of which the Board has determined to be independent for the purposes of the Code

Their biographies can be found on pages 26 and 27

On 1 January 2011 Richard Tice became Chief Executive Officer and Henry Klotz became Executive Vice Chairman In addition, Thomas Lundqvist stepped down as Vice Chairman but remained a Non-Executive Director

The Board is assisted by the Audit and Remuneration Committees the Terms of Reference for which can be obtained from the Company Secretary

Independence

Guidance to the Code recommends that for FTSE 350 companies at least half the Board, excluding the chairman should comprise independent Non-Executive Directors As the Company was not a constituent of the FTSE 350 and had three independent non-executive directors it was compliant in the year with provision B 1 2 which states that companies outside the FTSE 350 should have two independent non-executive directors

As the Executive Chairman is beneficially interested in over half of the shares in the Company, the Board is fully aware of the need for independent non-executive directors to challenge the views of the executive team and contribute to the Company s overall strategy On 16 August 2011 Brigith Terry was appointed as a third independent Non-Executive Director Mrs Terry brings with her a wealth of international real estate bank financing experience

The Board has determined that, under the Code Guidance, Brigith Terry, Malcolm Cooper and Christopher Jarvis were independent in character and judgement and that there were no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement

The Board further determined that, under the Code Guidance, four Non-Executive Directors, Joseph Crawley, Thomas Lundqvist, Jennica Mortstedt and Thomas Thomson, were not independent Mr Lundqvist has served on the Board for more than nine years Miss Mortstedt is the niece of the Executive Chairman and Mr Lundqvist is the Vice Chairman of the Sten Mortstedt Family and Charity Trust Mr Crawley has a close family tie with the Executive Chairman by way of marriage Mr Thomson has been an employee of the Group within the last five years and has served on the Board for more than nine years from the date of his first election

Appointments to the Board

The Board considered the setting up of a separate Nomination Committee as recommended by the Code but due to the size and nature of the Company, decided that this function was better carried out by the Executive Chairman and other Directors, Non-Executive and Executive as appropriate for each appointment Given that there is no formal Nomination Committee, the Company is not compliant with provision B 2 1 of the Code

Following its annual board evaluation and having regard to stakeholder feedback the Board reviewed its balance of skills, knowledge and experience It considered that an appointment of an additional independent Non-Executive Director with related industry and bank financing experience would be beneficial to the Board

Rather than use the services of an external search consultancy, or openly advertise the position the Company decided to use its own extensive network base Mrs Terry was identified from a list of potential candidates who had the relevant and requisite experience that the Board was seeking Following interviews with the Executive Board members the Senior Independent Non-Executive Director and other Non-Executive Directors, it was agreed that Mrs Terry would be a valued addition to the Board

Revision to the Code

A revision of the Code, to be issued in 2012 and apply to financial years beginning on or after 1 October 2012, will address board diversity including gender Whilst the Board does not intend to pre-empt the provisions of the revised Code, it is the Board s policy to review the balance of skills knowledge and experience on the Board regularly and to make changes to its composition irrespective of gender or any other form of discrimination

Board Evaluation

During the year the Board undertook its annual performance evaluation survey led by the Senior Independent Non-Executive Director with assistance from the Company Secretary The evaluation was based on an extensive questionnaire which addressed three key areas membership of the board, board performance and board operation The questionnaire enabled the Directors to score performance in each of these key areas and also provided an opportunity to raise any other issues outside of these The confidential responses were compiled into a non-attributable report by the Senior Independent Non-Executive Director and provided to the Executive Chairman

From the evaluation, the Directors considered that the Board and its committees were effective and that improvements had been made during the year to their composition and diversity which had been identified in the 2010 evaluation survey Further improvements had been made to increase the Non-Executive s interaction with staff at all levels within the Company The key themes arising from the evaluation which will form an action plan for 2012 are succession planning, future strategy and greater involvement with key employees

In addition, the Senior Independent Non-Executive Director led a separate performance review of the Executive Chairman which involved a comprehensive review involving all of the Non-Executive Directors The results were subsequently fed back to the Executive Chairman

The Board notes provision B 6 2 of the Code requiring an externally facilitated evaluation for FTSE 350 companies every three years As the Company is not a constituent of the FTSE 350, this provision does not apply, but the Board has considered such an evaluation Due to the prohibitive cost of an externally facilitated evaluation and the current structure of the Board the Company intends to continue to undertake an annual performance evaluation survey internally

Information, Support and Development

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

Directors are able to obtain independent professional advice at the Company s expense and have access to the services of the Company Secretary They are given appropriate training and assistance on appointment to the Board and later if and when required

The Company offers all directors the opportunity to update their skills and knowledge and familiarity with the Company in order to fulfil their role on the Board During the year, members of the Board have attended seminars on inter alia, executive remuneration and the responsibilities of directors In addition meetings with senior managers within the Company have been arranged to further familiarise Non-Executive Directors with the Company

Re-election

Under the Articles of Association which can be amended by a special resolution of the shareholders, the Board has the power to appoint directors and where notice is given signed by all the other directors, to remove a director from office

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment Provision B 7 1 of the Code requires all Directors of FTSE 350 companies to seek re-election by shareholders annually As it is not a constituent of the FTSE 350 this does not apply to the Company but nevertheless the Board has implemented this provision Accordingly, all Directors will be seeking election or re-election, as appropriate, at the forthcoming Annual General Meeting and their details are contained in the Directors Report on pages 26 and 27

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment which provides for their removal in certain circumstances, including under s168 Companies Act 2006 Their letters of appointment also set out what is expected of them and the time expected for them to meet their commitment Non-Executive Directors are expected to serve two three-year terms although the Board may invite them to serve for an additional period, subject to a rigorous review The terms of appointment of the Non-Executive Directors can be obtained on request to the Company Secretary

CORPORATE GOVERNANCE CONTINUED

4 ACCOUNTABILITY

The Board is required to present a balanced and understandable assessment of the Company s position and prospects which are explained in this Annual Report

The Audit Committee

The Board has established an Audit Committee to monitor the formal and transparent arrangements for its corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company s Auditor

The Audit Committee comprises Malcolm Cooper (Chairman) and Christopher Jarvis The Board was satisfied that Mr Cooper and Mr Jarvis were independent and Mr Cooper was regarded as having recent and relevant accounting and financial experience Mr Lundqvist stepped down as a member of the Committee on 1 July 2011 As a result of this change, the Committee complied with the recommendation contained in C 3 1 of the Code

The Committee met three times during the year Certain senior management and the Company s Auditor are normally invited to attend the meetings

Duties of the Audit Committee

The principal duties of the Committee are to review the half yearly and annual financial reports before their submission to the Board and to consider any matters raised by the Company s Auditor The Committee also reviews the Interim Management Statements of the Company and the independence and objectivity of the Company s Auditor, taking into account relevant professional and regulatory requirements and the relationship with the Company s Auditor as a whole

The Committee is also responsible for the development, implementation and monitoring of the policy on the provision by the Company s Auditor of any non-audit services, so as to ensure the objectivity and independence of the Company s Auditor The policy which is based on the FRC s Guidance on Audit Committees (December 2010) and reviewed annually categorises non-audit services as excluded, permitted without approval from the Committee but subject to approval by the Chief Financial Officer of up to 10% of the annual aggregate Group audit fee (or £20,000 whichever is smaller) and permitted with approval from the Committee over and above this figure Individual projects with a fee in excess of £30 000 require the pre-approval of at least one member of the Committee

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
- ensure the objectivity and independence of the auditor including occasions when in accordance with the specific policy, non-audit services are provided by monitoring fees and letters of engagement, and
- ensure appropriate whistle-blowing arrangements are in place

Activities of the Audit Committee

During the year the Committee formally reviewed the annual financial report and the half-yearly financial report focusing on key areas of judgement and complexity critical accounting policies and any changes required to them It also reviewed the audit strategy and the findings of the external auditor from their review of the half yearly financial report and their audit of the annual financial report In accordance with the Audit Committee Guidance 2008, the Committee reviewed and endorsed the internal controls and risk management systems of the Group The Committee also reviewed the whistle-blowing procedures which had not been utilised during the year and were deemed to be appropriate

The Committee also met with the Group s valuers, Lambert Smith Hampton, Colliers International and Jones Lang LaSalle, to discuss the methodology used for the bi-annual valuations of the Group s properties

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

The Company adopts best practice with regard to audit partner rotation and the lead audit partner will rotate in 2012

Internal Audit

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

Risk Management and Internal Control

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

It is the Company s aim to manage risk and to control its business and financial affairs economically, efficiently and effectively so as to be able to exploit profitable business opportunities in a disciplined way, avoid or mitigate risks that can cause loss, reputational damage or business failure, and enhance resilience to external events The Board acknowledges that the Directors are responsible for the Group s system of internal control and risk management and has established procedures which are designed to provide reasonable assurance against material misstatement or loss These procedures have operated for the entire financial year and up to the date of approval of the Annual Financial Report

The Audit Committee has reviewed the effectiveness of the system of internal control and risk management for the period and as reported to the Board has not identified any significant weaknesses during the financial year and therefore no remedial action has been necessary The Directors recognise that such a system can only provide a reasonable and not absolute assurance that there has been no material misstatement or loss

The key elements of the process by which the system of internal control and risk management is monitored are as follows

Internal Control

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

The Board is responsible for the Company s overall strategy for approving budgets and major investment decisions and for determining the financial structure of the Group

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

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

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

Set out on pages 4 to 17 is the description of the Group s operations and the strategy which it employs to maximise returns and minimise risks

Risks

In line with the revised Turnbull Guidance, the risks which the Group faces are reviewed in Board and executive meetings on an ongoing basis throughout the financial year

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

The Company s key risks, the areas which they impact and how they are mitigated are described on pages 20 and 21

5 REMUNERATION

The Remuneration Committee

The Board has established a Remuneration Committee which develops the Company s policies on executive remuneration and sets the remuneration packages of individual Directors

The Remuneration Committee comprises Christopher Jarvis (Chairman) and Malcolm Cooper The Remuneration Committee met formally six times during the year and held other informal discussions The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration in the context of business and personal performance It also has authority to grant options under the Company s Executive Share Option Scheme and Company Share Option Plan No awards were made during the year Mr Lundqvist and Mr Crawley stepped down as Chairman and member of the Committee on 1 July 2011 As a result of the changes the Company complied with the composition of the Committee recommended in provision D 2 1 of the Code Full details of the Committee s work are given in the Remuneration Report on pages 36 to 41

6 RELATIONS WITH SHAREHOLDERS

The Company values its dialogue with both institutional and private investors The Board s primary contact with institutional shareholders is through the Chief Executive Officer and the Chief Financial Officer who have regular meetings with institutional shareholders They also undertake analyst presentations following the Company s half-yearly and annual financial results, and investor seminars during the year They are supported by a financial relations adviser and two corporate brokers all of whom are in regular contact with institutional and retail shareholders and analysts Coverage of the Company by analysts is circulated to the Board which in turn ensures that all Directors develop an understanding of the views of institutional shareholders and commentators

Investor seminars and analyst presentations, including those following the announcement of half yearly and annual financial results are webcast and available on the Company s website

The Group issues its annual financial report to each of its shareholders In accordance with the UK company disclosure regulations the Group does not distribute its half-yearly financial report to shareholders but makes it available on its website Copies are available on request

All financial reports and press releases are also included on the Group s website at www clsholdings com

All shareholders have at least 20 working days notice of the Annual General Meeting at which all Directors who are available to attend are introduced and are 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

CORPORATE GOVERNANCE CONTINUED

6 RELATIONS WITH SHAREHOLDERS CONTINUED

Proxy Voting

The proxy forms for the Annual General Meeting and General Meetings which were held in 2011 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 Shareholders may also choose to register their vote by electronic proxy on the Company s website

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

The interests of the Directors in the share capital of the Company at the beginning and end of the year are detailed in the Directors Remuneration Report on page 41

Other than Mr Mortstedt s 53 34% interest referred to in note 8 of the Directors Remuneration Report, as at 2 March 2012 the Company has been notified of the following interests above 3% in the Company s issued share capital

	No of shares	%
Bengt Mortstedt	3 300 448	7 34
F&C Asset Management plc	2 472,620	5 50
AVI Focused European Fund	1,812,185	4 03

There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights The Company knows of no agreements between holders of securities which would result in restrictions on the transfer of securities or on voting rights

8 SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company following a takeover bid may cause a number of agreements to which the Company or its active subsidiaries is party such as commercial trading contracts banking arrangements, property leases and licence agreements, to take effect, alter or terminate In the context of the Group as a whole, only the banking arrangements are considered to be significant There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control or takeover bid

9 JOINT VENTURE AND ASSOCIATES

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

10 DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year The Directors are required by the IAS Regulation to prepare the group financial statements under those International Financial Reporting Standards (IFRSs) adopted by the European Union The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation

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

- properly select and apply accounting policies
- present information, including accounting policies, in a manner which provides relevant reliable comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events or conditions on the entity s financial position and financial performance, and
- make an assessment of the ability of the Company and of the Group to continue as a going concern

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period

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 are sufficient to show and explain the Company s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Statement of Directors' responsibilities

We confirm to the best of our knowledge that

- the financial statements prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets liabilities financial position and profit of the Company and the undertakings included in the consolidation as a whole, and
- the Business Review, which is 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

This statement of responsibilities was approved by the Board on 5 March 2012

By order of the Board

David Fuller BA FCIS
Company Secretary

5 March 2012

DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2011

The report on remuneration of the Directors for the year ended 31 December 2011 is set out below and has been prepared in accordance with the applicable statutory regulations

Certain sections of this Report are subject to statutory audit, as required by the Companies Act 2006 Those sections are indicated in the section title No other sections have been audited

1 THE WORK OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Christopher Jarvis (Chairman) and Malcolm Cooper Thomas Lundqvist and Joseph Crawley stepped down as members of the Committee on 1 July 2011 Following this change the composition of the Committee complied with the recommendation contained in D 2 1 of the Code

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

- the remuneration of the Executive Directors, including any performance-related awards
- the formulation of appropriate remuneration policies and
- the administration of the Company s share option schemes

2011 Overview

In last year s Remuneration Report the Committee explained that it would undertake a review of the remuneration policy with the intention of formulating and implementing appropriate changes, staged over a number of years, which would match more closely current Corporate Governance expectations

The review is now complete and its results are explained in detail below The Committee is satisfied that the new arrangements that will be implemented this year and in subsequent years are a step closer to current Corporate Governance expectations

The Committee met formally six times during the year and held other informal discussions The Committee received advice from the Executive Chairman, the Group s HR Manager and PricewaterhouseCoopers (PwC) as its appointed advisers in relation to the executive remuneration review No other formal advice from other advisers was sought during the year The Committee is able to obtain independent professional advice at the Company s expense

The Committee will use the coming year to assess the impact of the new arrangements so as to ensure they reflect the Group s long term strategy and business model as set out in the Business Review It will also look forward to the outcome of the current BIS consultation on executive remuneration

Remuneration Review

The Committee engaged PwC to advise it with the review and to formulate a remuneration plan which met the Committee s aims Following the review and the advice provided to it the Committee recommended that the Company implement a new Performance Incentive Plan and a new Exceptional Bonus Plan for the Executive Directors with the exception of the Executive Chairman and the introduction of minimum shareholdings for Directors, in order to align more clearly the interests of directors and shareholders in the medium to longer term and to match Corporate Governance expectations Further information on the review is provided below

Performance Incentive Plan

The Performance Incentive Plan (PIP) will introduce a number of important elements with key benefits to shareholders

- Key Performance Indicators – bonuses will be calculated by reference to a set of appropriate measures based on all aspects of the business and within the context of the property sector
- Lock-in/Retention – The PIP promotes retention of executives by deferring 40% of all bonus payments as share price linked awards
- Flexibility of Targets – Performance measures are tailored to be those which are key for a cyclical business like CLS s
- Forfeiture – Awards can be forfeited if performance is not consistently maintained
- Alignment to share price – Deferral in shares exposes deferred bonuses to share price movements
- Best Practice – The changes align the Company s objectives with those of UK corporate governance guidelines

The maximum potential opportunity under this plan for both the Executive Vice Chairman and the Chief Executive Officer will be 150% of salary and for the Chief Financial Officer 100% The Executive Chairman is not a participant in the PIP

Key Performance Indicators (KPIs)

It is currently proposed that the annual bonus award under the PIP will be calculated by reference to the following KPIs total shareholder return, return on equity vacancy rates, administration expenses as a percentage of net rental income basic net asset value EPRA net asset value core profit against budget and personal performance

Each KPI will be allocated a percentage of the maximum potential available dependant on the relevance to the participant, and appropriate stretching targets

Deferral

The PIP will be administered in cycles of three years Each participant will have a pool into which deferred bonuses will be allocated as shares 60% of any bonus will be paid in cash, and the balance placed in the pool 60% of any pool balance from previous years will be paid in shares

Clawback

Half of the deferred element in any year will be subject to possible clawback for underperformance of the KPIs in the following year At the end of four years the balance of the pool will be paid out (subject to clawback) and a new cycle will begin

Exceptional Bonus Plan

The Company s executive remuneration has consistently ranked in the lower quartile of its peers However CLS is an opportunistic and entrepreneurial company which promotes sound business decisions that add shareholder value, such as the successful refurbishment and sale of Solna Business Park in Stockholm, Sweden, or Spring Gardens in London

Therefore, after due consideration, the Committee has decided to implement an Exceptional Bonus Award under which awards of up to 50% of salary for specific transactions that have created exceptional shareholder value can be made in any one year Subject to commercial confidentiality, we would expect to disclose the details of any awards under this provision This bonus pool would in the opinion of the Committee be providing the clear linkage to the opportunistic entrepreneurial outperformance strategy of the Company as proposed by the BIS discussion paper of September 2011

This means that for the Executive Vice Chairman and Chief Executive Officer, their maximum potential bonus pool would be 200%, and 150% for the Chief Financial Officer PwC advised that the Total Incentive Opportunity" for the Chief Executive Officer, for example, is below the lower quartile for property companies in the FTSE All Share Index, and lower to median quartile compared to companies with a similar capitalisation in the broader All Share Index The Committee further believes that this is an appropriate way of fostering a successful entrepreneurial business whilst ensuring the Company is not excessive in its overall remuneration package as compared to its peers

Implementation of Recommendations

The Company has been in consultations with its major shareholders, who are supportive of the PIP and the Exceptional Bonus Plan However, with the uncertainty caused by the Government consulting on proposals which may have an effect on the design of the Company s plans, it is the Committee s intention to await the outcome of the consultation and to implement the scheme in its entirety for the financial year starting in 2013 It will seek formal shareholder approval at the 2013 AGM when it is hoped more clarity over any statutory requirements is available

Nevertheless, as part of its commitment to implement appropriate changes that are better aligned to corporate governance expectations, for the year ending 2012, the Committee will implement key stages of the PIP being the calculation of bonus awards based on KPIs deferral of 40% of the bonus linked to the CLS share price, the Exceptional Bonus Plan new bonus limits and shareholding requirements This will mean that any bonus payments made in respect of the year ending 2012 will be directly linked to company performance and will be measurable in respect of the year that they relate The Committee will report in more detail on the KPIs (as set out above) and the extent to which the targets have been met, in next year s Remuneration Report

Directors' Shareholdings

The Committee has implemented a policy of minimum shareholdings for Executive Directors To this end it is expected that within 5 years of becoming an Executive Director, the Executive Vice Chairman and the Chief Executive Officer should build a holding of at least 100% of salary, and the Chief Financial Officer at least 75% This further aligns the interests of Directors to those of shareholders

Since his appointment in 2010 Richard Tice has acquired 258 732 shares at a total aggregate cost of £1 4m At the year end this represented 748% of salary

At the year end, the Executive Vice Chairman, Henry Klotz was beneficially interested in 11 395 shares which represented 31% of salary and the Chief Financial Officer John Whiteley, was beneficially interested in 10 000 shares which represented 31% of salary Both have agreed to increase their holding to the required limits over the coming years

The Executive Chairman Sten Mortstedt controls or has a beneficial interest in 23,978,169 shares and therefore holds shares very substantially in excess of the minimum requirement

2 **REMUNERATION POLICY**

The Company s policy on remuneration remains 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 The Committee also considers the level of pay and employment conditions throughout the Group when setting Executive Directors remuneration, consistent with the Company s general aim of seeking to reward all employees fairly according to the nature of their role their performance and market forces

Executive Directors

Consistent with this policy emoluments awarded to Executive Directors are intended to be competitive and comprise a mix of both performance-related and non-performance-related remuneration and, from 2012, will include non-discretionary awards based on KPIs This is designed to incentivise Executive Directors and to align their interests with those of shareholders

As at the year end the remuneration arrangements consist of

- base salary
- performance Related Discretionary Bonus and
- pension and other benefits including private medical insurance life insurance, income protection, gym contribution and lunch allowance

The Committee considers the market positioning of the remuneration of the Directors against a peer group of listed real estate companies CLS does not currently operate any long-term incentive plans

Until the financial year ending 2011, the criteria used for judging the Executive Directors remuneration were

- their own personal performance measured against specific targets
- the financial performance of the Group as measured against specific targets, and
- total shareholder return

From financial year end 2012, the criteria will also include additional measurable and reportable targets set by the Committee as identified under the KPIs of the Performance Incentive Plan

The Committee believes in incentivising the Executive Directors by reference to their total remuneration and has reviewed this to ensure that the Executive Directors are not paid excessively in comparison to peer group companies

DIRECTORS' REMUNERATION REPORT CONTINUED

for the year ended 31 December 2011

2 REMUNERATION POLICY CONTINUED

Basic Salaries

The basic salaries of the Executive Directors are reviewed annually with any changes made effective on 1 January The annual review takes account of similar positions in peer group companies With the exception of Mr Mortstedt, the annual increase in basic salaries for Executive Directors from 1 January 2012 was set at approximately 2% in line with average salary increases of staff (Sten Mortstedt £225,000 Henry Klotz £219,750, Richard Tice £208 100 John Whiteley £192 000) Following a peer group review by the Committee, Mr Mortstedt s fee was increased by approximately 22% to correct an anomaly and bring it in line with average market levels

2011 Performance Related Discretionary Bonus

The performance-related discretionary bonus for each Executive Director for the year was determined after taking into account the performance of the individual and the Company, together with the emoluments of the individual compared to those in the Company s peer group This is capped at 120% of salary for each Executive Director who receives a discretionary bonus For the year ending 2011, the following discretionary awards were made Mr Klotz £250,000, Mr Tice £200,000 and Mr Whiteley £80,000 The Committee considered each individual s personal performance, the strong financial performance of the Group against difficult economic conditions and an annual total shareholder return that put it in the top three of its peers

The Executive Chairman does not receive a performance-related discretionary bonus, nor is he a member of the Company s pension scheme as part of his overall remuneration The 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

As noted above, this is the last year that the performance-related discretionary bonus scheme will be in operation From 2012 as explained above KPIs will be used in the calculation of a non-discretionary bonus award alongside the Exceptional Bonus Plan

For the year ended 31 December 2011 the apportionment of remuneration and other benefits between performance-related and non-performance-related elements was as follows

	Performance-related	Non-Performance-related
Sten Mortstedt	Nil	100%
Henry Klotz	50%	50%
Richard Tice	48%	52%
John Whiteley	28%	72%
Malcolm Cooper	Nil	100%
Joseph Crawley	Nil	100%
Christopher Jarvis	Nil	100%
Thomas Lundqvist	Nil	100%
Jennica Mortstedt	Nil	100%
Brigith Terry (1)	Nil	100%
Thomas Thomson	Nil	100%

(1) Appointed to the Board on 16 August 2011

Other Fees

A company associated with Mr Mortstedt provides consultancy services which relate to specific advice which is outside the terms of Mr Mortstedt s contract of employment The Committee has reviewed the fees for these services, such as additional services relating to the issuance of the corporate bond in Sweden, and is of the opinion that the market rate for the services would have far exceeded the amount paid

Mr Klotz receives additional fees in respect of his appointment as Non-Executive Chairman of Catena AB (2011 £20,715, 2010 £18 881) and Non-Executive Director of Note AB (2011 £9 607 2010 £8 991), which are paid to him personally

Both Thomas Lundqvist and Thomas Thomson receive hourly fees for specific projects undertaken subject to the agreement of the Chief Executive Officer or Executive Chairman

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Executive Directors It consists of fees for services to the Board and any additional services such as chairing or being a member of a Board Committee The Senior Independent Director receives an additional fee

The Non-Executive Directors fees are deemed to be appropriate for the Company s size and complexity although this is kept under review by the Executive Directors

During the year, fees for Non-Executive Directors were Board fee £15 000 Senior Independent Director £5,000, Committee Chairmanship £3,000 and Committee membership £3,000 Following a review by the Executive Directors it was agreed to increase the fees for Committee Chairmanship and Committee membership to £8 000 and £5,000 respectively with effect from 1 January 2012

It is the Group s policy that where a Non-Executive Director undertakes work for the Company in addition to their standard duties and time commitment, an additional fee may be agreed by the Executive Directors The Executive Directors considered that Mr Jarvis and Mr Cooper had committed substantially more time and undertaken considerably more work than in previous years in relation to the remuneration review they should each receive an additional fee of £10,000

3 DIRECTORS' REMUNERATION (AUDITED)

For the year ended 31 December 2011 the remuneration received by the Directors was as set out in the table below

	Notes	2011 Fee as Director £000	2011 Salary £000	2011 Other Fees £000	2011 Benefits in kind £000	2011 Total Emoluments £000	2011 Pension Contributions £000	2011 Other Benefits/ Performance Related £000	2011 Total Remuneration £000	2010 Total Remuneration £000
Executive										
Sten Mortstedt (Executive Chairman)		–	189	365	–	554	–	–	554	485
Henry Klotz (Executive Vice Chairman)	1	–	215	30	7	252	–	250	502	481
Richard Tice (Chief Executive Officer)	2	–	204	–	3	207	170	40	417	248
John Whiteley (Chief Financial Officer)		–	188	–	4	192	9	80	281	242
Non-Executive										
Malcolm Cooper	3	25	–	10	–	35	–	–	35	23
Joseph Crawley	4	17	–	–	–	17	–	–	17	18
Christopher Jarvis	5	20	–	10	–	30	–	–	30	18
Thomas Lundqvist	6	18	–	4	–	22	–	–	22	21
Jennica Mortstedt		15	–	–	–	15	–	–	15	10
Brigith Terry	7	6	–	–	–	6	–	–	6	–
Thomas Thomson		15	–	8	–	23	–	–	23	17
2011		**116**	**796**	**427**	**14**	**1,353**	**179**	**370**	**1,902**	1 563
Total for 2010 as reported		105	729	330	14	1,183	25	360	1,563	

(1) Appointed Executive Vice Chairman on 1 January 2011
(2) Appointed Chief Executive Officer on 1 January 2011 Mr Tice was awarded a £200 000 performance-related annual discretionary bonus of which £160 000 was paid into his SIPP by the Company on his behalf
(3) Appointed as a member of the Remuneration Committee on 1 July 2011
(4) Stepped down as a member of the Remuneration Committee 1 July 2011
(5) Appointed as Chairman of the Remuneration Committee 1 July 2011
(6) Mr Lundqvist stepped down as Non-Executive Vice Chairman on 1 January 2011 a member of the Audit Committee on 1 July 2011 and Chairman of the Remuneration Committee on 1 July 2011
(7) Appointed to the Board on 16 August 2011

The benefits provided to Executive Directors are permanent health private medical insurance life assurance and pension contributions under the Company s defined contribution pension scheme No car or car allowance is provided to any Director (2010 none)

DIRECTORS' REMUNERATION REPORT CONTINUED

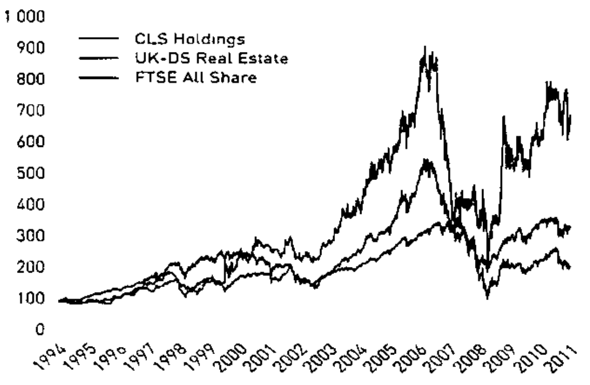
for the year ended 31 December 2011

4 DIRECTORS' PENSION ENTITLEMENT (AUDITED)

The Executive Directors are entitled to participate in a defined contribution pension scheme of which one Director (John Whiteley) was a member at the end of the year (2010: one). Participants are required to contribute 5% of basic UK salary (2010: 5%) which is matched by a contribution from the Company of 5% (2010: 5%). The Company contributes 5% of salary towards Richard Tice's Self Invested Personal Pension (SIPP) in lieu of contributions to the Company pension scheme. In addition £160,000, of Mr Tice's £200,000 annual discretionary bonus was paid into his SIPP.

5 SHARE PERFORMANCE GRAPH

The following graph shows the Company's performance measured by total shareholder return (TSR) since the Company was listed on the London Stock Exchange compared with the TSR performances of the FTSE All Share index and the UK Datastream Real Estate Index over the same period. The UK Datastream Real Estate Index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates. The FTSE All Share Real Estate index that had been used previously is no longer published. The TSR graph below, independently sourced (Datastream), includes the positive impact to the Company's shareholders of substantial capital distributions through tender offer buy-backs.



Source: Datastream

6 SHARE OPTIONS (AUDITED)

The Board has delegated to the Committee the authority to grant options under the Company's share schemes, being the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme) and the Company's Unapproved Share Option Scheme (USOS). Participation in both schemes is open to any Director or employee subject to minimum working hours. Options may normally only be exercised between the third and seventh anniversaries of the date of grant, subject to the satisfaction of the performance conditions.

Any grant of options to an eligible employee under the CSOP is subject to HMRC limits. Both schemes are subject to the aggregate number of options granted in a ten year period not exceeding 10% of the shares then in issue. It is not foreseen that further options will be granted under the schemes unless there are exceptional circumstances, when aggregate awards to an individual under both schemes will be limited to options over a maximum of 300,000 shares.

If an option holder leaves employment, their options normally lapse. However, options are exercisable early in certain circumstances, including death, injury, disability, ill-health, redundancy, retirement, or if the Committee so decides in its absolute discretion for some other reason. In these circumstances, options will be exercisable for a period of six months following cessation (or 12 months in the event of death). Options may also be exercised in the event of a takeover of the Company (or, in certain circumstances, may be exchanged for options over shares in an acquiring company). Options are not transferable other than on death.

In line with the Committee's policy to attract, retain and incentivise high calibre staff, and as reported in the 2010 Directors' Remuneration Report, on joining the Company on 11 March 2010, the Remuneration Committee granted Richard Tice options over 300,000 Ordinary Shares, of which 6,382 were granted under the CSOP and 293,618 under the USOS at an option price of £4.70.

The earliest date of exercise of these share options granted under each scheme is 11 March 2013 and is conditional upon the satisfaction of the appropriate non-market-based performance criterion of the growth in net assets of the Group being at least equivalent to the growth of the All Properties Capital Growth Index maintained by IPD over three years from the date of grant. Whilst current corporate governance requirements prefer stepped vesting conditions, the Committee considered it essential to grant this award to ensure Mr Tice joined the Company. If not exercised, these options will expire on 10 March 2017.

No other Directors held or were granted options over shares in the Company during the year and none of the terms or conditions of the share options was varied during the year.

The highest, lowest and average mid-market share prices in the year were 680 pence, 501 pence and 612 pence, respectively. The closing share price on 31 December 2011 was 590 pence.

7 DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has a service contract of no fixed term, except for Mr Klotz, as reported in the 2010 Remuneration Report and approved at the 2011 Annual General Meeting Mr Klotz's service contract as Executive Vice Chairman began on 1 January 2011 and expires on 31 December 2013 If the Company exercises the right to terminate Mr Klotz's contract earlier than the expiry of the fixed term, the Company would make a payment to Mr Klotz equivalent to the amount due under the unexpired term There is no provision in the contracts of Mr Mortstedt Mr Tice or Mr Whiteley for contractual termination payments save for those payments normally due under employment law

Each Non-Executive Director has a letter of appointment but, in accordance with best practice, none has a service contract All of the Non-Executive Directors are appointed until such time as they are not re-elected The Combined Code recommended that all Non-Executive Directors who had served for more than nine years should retire annually and be able to seek re-election at the Annual General Meeting The New Code requires that all directors of FTSE 350 companies be subject to annual election by shareholders Although the Company is not a constituent of the FTSE 350, the Board adopted this provision in 2011 and requires the annual re-election of all Directors by shareholders If a director fails to be re-elected the terms of their appointment will cease

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

Name	Contract date	Notice period
Sten Mortstedt	01 01 05	12 months
Henry Klotz (1)	01 01 11	n/a
Richard Tice	11 03 10	12 months
John Whiteley	01 10 09	6 months
Malcolm Cooper	15 06 07	3 months
Joseph Crawley	25 11 08	3 months
Christopher Jarvis	25 11 08	3 months
Thomas Lundqvist	01 10 95	3 months
Jennica Mortstedt	11 05 10	3 months
Brigith Terry (2)	16 08 11	3 months
Thomas Thomson	25 01 08	3 months

(1) Fixed term contract to 31 December 2013
(2) Appointed to the Board on 16 August 2011

8 INTERESTS IN SHARES

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

	At 31 December 2011 Ordinary shares of 25p	At 31 December 2010† Ordinary shares of 25p
Sten Mortstedt	**23,978,169**	24,786,501
Henry Klotz	**11,395**	11,395
Richard Tice	**258,732**	224,165
John Whiteley	**10,000**	9,865
Malcolm Cooper	**4,648**	4,826
Joseph Crawley	**-**	-
Christopher Jarvis	**-**	-
Thomas Lundqvist	**79,220**	79 378
Jennica Mortstedt	**-**	-
Brigith Terry*	**-**	-
Thomas Thomson	**110,582**	114,545

† Or at date of appointment

All of the above interests in shares were held beneficially for the Directors The shares in which Sten Mortstedt is beneficially interested are held in trust and include shares held in the name of, beneficially owned by, and held in trust for, Mrs K Mortstedt As at the date of this report, there have been no changes to the interests of the Directors since 31 December 2011

9 LONG-TERM INCENTIVE PLAN

The Company does not operate a long-term incentive plan As part of the review undertaken in 2011, the Committee considered that the changes that will be implemented from 2013 will provide an adequate long-term incentive However it will continue to review its policy on LTIPs annually

10 WAIVER OF EMOLUMENTS

No Director has waived any emoluments during the year

On behalf of the Board,

Christopher Jarvis
Chairman
Remuneration Committee

5 March 2012

CORPORATE, SOCIAL & ENVIRONMENTAL RESPONSIBILITY REPORT

for the year ended 31 December 2011

RESPONSIBILITY

The Group s philosophy on, and commitment to corporate, social and environmental responsibility is known to all staff The Directors actively encourage its integration into the business by employees across the Group as explained further in this document

The Group aims to ensure that it is compliant with all legislation, including environmental legislation, in those countries in which it operates

SUSTAINABILITY

The Group seeks to promote sustainability through the business and via its Green Charter To achieve this, we have assessed our key impacts, which are in the following areas

Corporate

- Some 400 businesses and organisations of all sizes rely on us as a landlord
- As a public company with a market capitalisation of approximately £300 million and a Premium Listing on the London Stock Exchange, our conduct and level of reporting impacts on shareholders, banks, and the capital markets
- The Company has a reputation as a stable and reliable investment providing attractive returns which we have a responsibility to maintain

Social

- Over 400 employers and a number of residential tenants rely on us as a landlord
- Our 76 properties make us a neighbour within numerous communities with which we engage and whom we seek to support
- Our proposed Vauxhall Square and Spring Mews developments will transform and enhance the community by the provision of new public facilities, public spaces, affordable housing and integrated community uses
- The Company has 61 staff whose livelihood and career aspirations are linked to its continued success

Environmental

- Commercial buildings in the UK are responsible for approximately 20% of the nation s greenhouse gas emissions a similar percentage is expected in France, Germany and Sweden
- The Group is categorised as an intensive energy user and has therefore qualified this year for participation in the CRC Energy Efficiency Scheme (CRCEES) The CRCEES is a mandatory Government scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations

The Board acknowledges the Group s impact on the society and the environment in which it operates, and through its actions seeks either to minimise and mitigate them, or to harness them in order to affect positive change in keeping with the Group s Green Charter"

SUSTAINABILITY GREEN" CHARTER

The Group seeks to promote sustainability through affecting continuous improvement through the influence it can have on the environment the local community the economy and its key stakeholders In 2011 the Group adopted its Green Charter, under which it undertakes

- To mitigate our impact on climate change by reducing our carbon footprint
- To be accountable for our performance relating to climate change by communicating our successes and reporting performance regularly against measurable indicators
- To make the most effective use of the duties, powers and resources we have to minimise the impact of our actions on the environment and to enhance the environment, community and economy wherever possible
- To monitor our progress by carrying out regular assessments against the key actions of the Green Charter
- To use our Green Charter to influence the behaviour of our partners tenants, suppliers and other stakeholders, to promote and further the principles on which it is based

Key Performance Drivers

In order to measure and assess our success effectively against our Green Charter we have identified the following Key Performance Drivers on which we will report annually For 2012 these comprise

- Corporate
  - Increase the level of reporting and transparency of our business practices
  - Focus on improving coordination and efficiencies within the business thereby reducing wastage and ultimately reducing costs
- Social
  - Ensure all developments meet or exceed the required targets for environmental performance and sustainability
  - Mitigate unavoidable impacts of our developments by ensuring the views of local stakeholders are taken into account
- Environmental
  - Reduction in paper use throughout the business by 10% compared to 2011
  - Reduction in both CO_2 emissions and electricity use in the London portfolio by 5% per annum compared to the 2010 base year for the next two years

2011 ACHIEVEMENTS

In 2011 we have made significant progress against our corporate social and environmental goals and we have accomplished the following

Corporate

- Launched our new Green Charter
- Employed a new Sustainability Manager reporting to the Chief Executive Officer who is responsible for the implementation of the Green Charter, embedding its principles across the Group and monitoring its compliance

- Appointed Mrs Brigith Terry as an additional independent Non-Executive Director, enhancing the Board's skills set better reflecting corporate governance best practice
- Introduced an Anti-Bribery Policy in line with the UK Bribery Act 2010
- Received a Bronze Award in this year's European Public Real Estate Association ("EPRA") Annual Report Survey. The survey is based on compliance with EPRA's Best Practices Recommendations, which are designed to promote consistency and transparency in annual reporting by listed property companies across Europe
- Suffered no reportable incidents to the Health and Safety Executive

Social

- Supported Vauxhall Garden Community Centre by assisting in the funding of improvements to its facilities and making available surplus office furniture
- Initiated the Vauxhall One Business Improvement District ("BID") committee to launch a BID in Vauxhall in April 2012 which is a partnership between a local authority and the local business community to develop projects and services that will benefit the Vauxhall trading environment
- Provided general office based work-experience for students from Danderyds, Sweden and Manchester University
- Introduced an undergraduate work placement scheme for two local students in 2012 with King's College, London and Surrey University
- Introduced a Give As You Earn scheme which allows employees to donate money to charity through their salary
- Raised our total charitable contributions for the year to £2,731 (2010: £1,831) by events such as a bake sale participation in the JLL Property Triathlon Mixed Relay and in the Land Aid Fun Run, and direct donations from the Company

Environmental

- Completed the installation of a new £2.3 million energy facility at our office property in Vanerparken, Sweden, which is already reducing energy consumption and CO_2 emissions by over 80% compared to 2010 levels through the use of a ground source heating system into the bedrock 200 metres below ground
- Commissioned an independent energy efficiency report on our London portfolio which recommended improvements to lighting, boiler efficiencies and an analysis of photovoltaic and solar thermal opportunities
- Introduced a scheme of boiler and lighting replacement as a direct outcome of the energy efficiency report at seven buildings within the London portfolio and the Group's Head Office
- Trialling energy efficient LED lighting specifications on new build and refurbishments with the aim of adopting them as standard
- Reduced our reliance on fossil fuels in the London portfolio electricity by 2.2% and gas by 25.2% based on 2010 levels through the introduction of training and awareness of building managers, improved plant equipment and monitoring methods and tenant engagement at quarterly tenant meetings
- Reduced water usage in the London portfolio by 44.9% by ensuring minimal water wastage through monitoring controls and the installation of water efficient sanitary ware during refurbishments
- Implemented a paper recycling scheme at all of the Group's offices which aims to reduce paper usage by 10% in 2012
- Implemented and operated recycling facilities at all our managed properties switched an existing minibus shuttle service we provide to tenants from diesel to a bio-fuelled vehicle

EMPLOYEES

The Directors believe that the Group's employees are a source of competitive advantage, and 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, and seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexual orientation nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry into, and progression within, the Group are solely determined by the application of job criteria, personal aptitude and competence. These policies have worked effectively throughout the period.

It is the Group's policy to apply best practice in the employment of disabled people. Full and fair consideration is given both 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.

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.

As part of this process the Company employs specialist accredited advisers to advise on all health and safety matters relating to the Group. The Company also operates a Health and Safety Committee, which covers issues related to the London portfolio and its employees. Chaired by the Company Secretary, the committee comprises House Managers, Asset Managers and advisors, and reports to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. All regions maintain and follow local health and safety policies and report issues to the Chief Executive Officer. This reporting process has worked effectively throughout the year and has ensured ongoing compliance with health and safety legislation.

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. Following the enactment of the Bribery Act 2010 in July 2011, the Company implemented a suitable policy which further demonstrates its commitment to business ethics.

CORPORATE, SOCIAL & ENVIRONMENTAL RESPONSIBILITY REPORT CONTINUED

for the year ended 31 December 2011

EPRA SUSTAINABILITY PERFORMANCE MEASURES

The following tables snow Sustainability Performance Indicators recommended by EPRA and developed by the EPRA Sustainability Reporting Committee in consultation with the wider EPRA membership, of which the Company is part

The tables below outline the performance indicators which EPRA has identified as being core to sustainability and which should be reported by EPRA members where data is available It expects to be able to include annual data for our properties in France and Germany in our 2012 reporting but it has been excluded in the table below as our processes for data collection were not in place for 2011

The offices at 86 Bondway (HQ) have been reported separately as they are the largest centre of the Group s operations

TABLE 1 – SUSTAINABILITY PERFORMANCE – ABSOLUTE MEASURES

Broad Issue Type	Sustainability Performance Measure	HQ	London	Sweden	Units
Energy	Total energy consumption from electricity	180,276	10 188 414 *	666 200	kWh
	Total energy consumption from district heating and cooling	0	0	3,548,140	kWh
	Total energy consumption from fuels	0	16,721,675	0	kWh
Greenhouse gas emissions	Total direct emissions	0	3,070	0	metric tonnes CO_2e
	Total indirect emissions	98	5 214	11	metric tonnes CO_2e
Water***	Total water withdrawal by source	Data not available	45,727	28,000	cubic metres
Waste	Total weight of waste by disposal route	3 2 via recycling	221 9 via recycling 90 to landfill	40 0	metric tonnes
	Percentage of waste by disposal route	Unknown	71% recycled ** 29% landfill	48% energy recovery 49% recycled 3% landfill	Proportion by weight (%)

* of which 9 160 941 kWh is supplied by Npower on a renewable energy tariff for all half hourly metered sites This figure includes 5 761 457 kWh consumed by tenants but which flows through a landlord s meter The Group s annual operating consumption was 4 426 957 kWh

** of which 52 6% was separated on site and the remaining 18 4% separated at a materials recycling facility

*** All water is currently supplied via the mains utility supply

TABLE 2 – SUSTAINABILITY PERFORMANCE – INTENSITY MEASURES

Broad Issue Type	Sustainability Performance Measure	HQ	London	Sweden	Intensity Indicator
Energy	Building energy intensity	203	94†	93†	kWh/m^2/year
Greenhouse gas emissions	Greenhouse gas intensity from building energy	109	176	-	kg CO_2e/ m^2/year
Water	Building water intensity	Unknown	0 97	0 77	m^3/m^2/ year

† common parts and centrally provided heating ventilation and air conditioning only

INDEPENDENT AUDITOR'S 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 2011 which comprise the group statement of comprehensive income the group balance sheet, the group statement of changes in equity the group statement of cash flows and the related notes 1 to 36 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work for this report or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors Responsibilities on page 35, the Directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in note 2 to the group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB)

In our opinion the group financial statements comply with IFRSs as issued by the IASB

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the directors statement contained within the Directors Report in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors remuneration

OTHER MATTER

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2011 and on the information in the Directors Remuneration Report that is described as having been audited

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

5 March 2012

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Continuing operations			
Group revenue	4	**80 1**	79 1
Costs	4	**(30 6)**	(30 3)
		49 5	48 8
Net movements on revaluation of investment properties	13	**18.0**	30 1
Net gain on sale of corporate bonds and other investments		**0 5**	9 3
Profit on sale of subsidiaries and associates	33	**2 2**	-
Operating profit		**70 2**	88 2
Finance income	8	**12 2**	6 1
Finance costs	9	**(47 7)**	(31 1)
Share of profit of associates after tax	17	**3 0**	7 7
Profit before tax		**37 7**	70 9
Taxation	10	**1 1**	(10 8)
Profit for the year	6	**38.8**	60 1
Other comprehensive income			
Foreign exchange differences		**(5.0)**	1 1
Fair value (losses)/gains on corporate bonds and other investments	18	**(16.0)**	3 1
Fair value gains taken to gain on sale of corporate bonds and other investments	18	**(0.8)**	(8 5)
Deferred tax on net fair value gains on corporate bonds and other investments	22	**4.6**	1 8
Share of other comprehensive income of associates	17	**-**	(0 4)
Revaluation of owner-occupied property	14	**0.3**	-
Total comprehensive income for the year		**21 9**	57 2
Profit attributable to			
Owners of the Company		**37 5**	60 1
Non-controlling interests		**1 3**	-
Profit for the year		**38 8**	60 1
Total comprehensive income attributable to			
Owners of the Company		**20.6**	57 2
Non-controlling interests		**1 3**	-
Total comprehensive income for the year		**21 9**	57 2
Earnings per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)			
Basic	11	**82.0**	127 1
Diluted	11	**81.9**	127 1

The notes on pages 50 to 80 are an integral part of these group financial statements

GROUP BALANCE SHEET

At 31 December 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Investment properties	13	**902.1**	876 9
Property plant and equipment	14	**2 7**	2 6
Goodwill and other intangible assets	16	**1 1**	1 1
Investments in associates	17	**24 1**	40 6
Other investments	18	**87 8**	81 6
Derivative financial instruments	24	**1 5**	4 6
Deferred tax	22	**17 7**	11 2
		1,037 0	1,018 6
Current assets			
Trade and other receivables	19	**11 6**	11 5
Derivative financial instruments	24	**0 4**	-
Cash and cash equivalents	20	**55.3**	48 3
		67 3	59 8
Total assets		**1,104.3**	1,078 4
Current liabilities			
Trade and other payables	21	**(30 4)**	(31 8)
Current tax		**(1 2)**	(5 3)
Borrowings	23	**(151 2)**	(85 0)
Derivative financial instruments	24	**(0.1)**	(1 0)
		(182 9)	(123 1)
Non-current liabilities			
Deferred tax	22	**(75 0)**	(74 5)
Borrowings	23	**(469 8)**	(504 3)
Derivative financial instruments	24	**(9 1)**	(19 3)
		(553 9)	(598 1)
Total liabilities		**(736 8)**	(721 2)
Net assets		**367 5**	357 2
Equity			
Share capital	26	**12 5**	12 9
Share premium	28	**71 5**	71 5
Other reserves	29	**86.0**	102 5
Retained earnings		**197.5**	171 6
Equity attributable to the owners of the Company		**367 5**	358 5
Non-controlling interests		**-**	(1 3)
Total equity		**367 5**	357 2

The financial statements of CLS Holdings plc (registered number 2714781) were approved by the Board of Directors and authorised for issue on 5 March 2012 and were signed on its behalf by

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 50 to 80 are an integral part of these group financial statements

Report of the Directors | Property Portfolio | Governance | Accounts | Other Information

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

		Attributable to the owners of the Company						
	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2011		**12.9**	**71 5**	**102.5**	**171.6**	**358 5**	**(1 3)**	**357 2**
Arising in 2011								
Total comprehensive income for the year		**-**	**-**	**(16 9)**	**37 5**	**20 6**	**1 3**	**21.9**
Purchase of own shares	26	**(0 4)**	**-**	**0 4**	**(11 7)**	**(11 7)**	**-**	**(11.7)**
Expenses thereof		**-**	**-**	**-**	**(0 1)**	**(0 1)**	**-**	**(0.1)**
Employee share option schemes		**-**	**-**	**-**	**0 2**	**0 2**	**-**	**0 2**
Total changes arising in 2011		**(0 4)**	**-**	**(16 5)**	**25 9**	**9 0**	**1 3**	**10 3**
At 31 December 2011		**12 5**	**71 5**	**86 0**	**197 5**	**367 5**	**-**	**367 5**

		Attributable to the owners of the Company						
	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2010		13 3	70 5	105 0	121 5	310 3	(1 3)	309 0
Arising in 2010								
Total comprehensive income for the year		-	-	(2 9)	60 1	57 2	-	57 2
Issue of treasury shares		-	1 0	-	-	1 0	-	1 0
Purchase of own shares	26	(0 4)	-	0 4	(10 0)	(10 0)	-	(10 0)
Expenses thereof		-	-	-	(0 1)	(0 1)	-	(0 1)
Employee share option schemes		-	-	-	0 1	0 1	-	0 1
Total changes arising in 2010		(0 4)	1 0	(2 5)	50 1	48 2	-	48 2
At 31 December 2010		12 9	71 5	102 5	171 6	358 5	(1 3)	357 2

The notes on pages 50 to 80 are an integral part of these group financial statements

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	30	**54 1**	51 2
Interest paid		**(26.1)**	(21 7)
Income tax paid		**(2 9)**	(3 4)
Net cash inflow from operating activities		**25.1**	26 1
Cash flows from investing activities			
Purchase of investment property		**(7 2)**	(36 4)
Capital expenditure on investment property		**(13 2)**	(6 5)
Proceeds from sale of investment property		**-**	0 1
Interest received		**6 9**	5 2
Purchase of corporate bonds		**(54 5)**	(51 7)
Proceeds from sale of corporate bonds		**31 8**	47 7
Purchase of equity investments		**(7 6)**	(1 0)
Proceeds from sale of equity investments		**7 2**	0 8
Purchase of interests in associate		**(0 2)**	(1 9)
Distributions received from associate undertakings		**19 9**	11 9
Costs on foreign currency transactions		**(1 4)**	(1 2)
Costs of corporate disposals		**(1 8)**	(0 7)
Purchases of property, plant and equipment		**(0 2)**	(0 3)
Net cash outflow from investing activities		**(20 3)**	(34 0)
Cash flows from financing activities			
Issue of ordinary shares from treasury shares		**-**	1 0
Purchase of own shares		**(11 8)**	(10 1)
New loans		**174 2**	102 7
Issue costs of new loans		**(2 8)**	(1 1)
Repayment of loans		**(132 2)**	(100 6)
Purchase or cancellation of derivative financial instruments		**(25 9)**	(3 9)
Net cash inflow/(outflow) from financing activities		**1 5**	(12 0)
Cash flow element of net increase/(decrease) in cash and cash equivalents		**6.3**	(19 9)
Foreign exchange gain/(loss)		**0 7**	(2 1)
Net increase/(decrease) in cash and cash equivalents		**7 0**	(22 0)
Cash and cash equivalents at the beginning of the year		**48.3**	70 3
Cash and cash equivalents at the end of the year	20	**55 3**	48 3

Interest received has been included in cash flows from investing activities as the majority of it arises from investing in corporate bonds Previously, interest received was disclosed in cash flows from operating activities

The notes on pages 50 to 80 are an integral part of these group financial statements

NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2011

1 GENERAL INFORMATION

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

The Company is registered in the UK registration number 2714781 with its registered address at 86 Bondway, London, SW8 1SF The Company is listed on the London Stock Exchange

2 SIGNIFICANT ACCOUNTING POLICIES

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

2 1 Basis of preparation

The financial statements have been prepared on a going concern basis as explained in the Directors Report on page 28 and have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC) interpretations and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS

New standards and interpretations

In the current year the Group has adopted four standards and guidance for the first time none of which has had a material effect on the results for the year

- Revised IAS 24 – *Related Party Disclosures*
- IFRS 2010 Improvements – *Improvements to IFRSs 2010*
- Amendments to IFRS 7 – *Financial Instruments Disclosures*
- Amendments to IFRS 1 – *Removal of Fixed Dates for First-time Adopters*

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective In some cases these standards and guidance have not been endorsed by the European Union

- Amendments to IAS 1 – *Presentation of items of other comprehensive income*
- Amendments to IAS 12 – *Deferred Tax Recovery of Underlying Assets*
- Amendments to IAS 19 – *Employee benefits*
- IAS 27 – *Separate financial statements (2011)*
- IAS 28 – *Investments in associates and joint ventures (2011)*
- IFRS 9 – *Financial Instruments*
- IFRS 10 – *Consolidated financial statements*
- IFRS 11 – *Joint arrangements*
- IFRS 12 – *Disclosure of interests in other entities*
- IFRS 13 – *Fair value measurement*
- Improvements 2011 – *Improvements to IFRSs 2010*
- Supplement to ES/2009/12 – *IASB supplement to Financial instruments amortised costs and impairment*
- ED/2011/3 – *IASB exposure draft on offsetting financial assets and financial liabilities*
- ED/2011/3 – *Mandatory effective date of IFRS 9*

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

2 2 Business Combinations

(i) Subsidiary undertakings

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

(ii) Joint ventures

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

(iii) Associates

Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group s share of the net assets of the associate less any impairment in the value of individual investments

When the Group s share of losses in an associate equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group s interest in the associates Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred

(iv) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group s interest in the fair value of identifiable assets and liabilities of a subsidiary joint venture or associate at the date of acquisition It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses Goodwill which is recognised as an asset is reviewed for impairment at least annually

2 3 Foreign currency

(i) Foreign currency transactions

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

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

(ii) Consolidation of foreign entities

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

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

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

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

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

2 4 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both Land held under an operating lease is classified and accounted for as an investment property when the definition of investment property is met and the operating lease is accounted for as if it were a finance lease Investment properties are measured initially at cost including related transaction costs

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

2 5 Property, plant and equipment

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

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

Plant and equipment	4 - 5 years
Freehold property	6 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit before tax Freehold property is depreciated until December 2014 after which it is anticipated that it will be redeveloped

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2 6 Intangible assets

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

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

2 7 Financial instruments

(i) Derivative financial instruments

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

(ii) Available-for-sale investments

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

(iii) Cash and cash equivalents

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

(iv) Trade and other receivables and payables

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

(v) Borrowings

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

2 8 Revenue

(i) Rental income

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

(ii) Service charge income

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

(iii) Other property-related income

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

2 9 Profit on sale of investment properties

Profit on sale of an investment property is recognised when the risks and rewards of ownership have been transferred to the buyer, typically on unconditional exchange of contracts or when legal title passes

2 10 Income tax

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

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

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

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

2 11 Leases

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

(i) A Group company is the lessee

(a) Rentals payable under operating leases are charged to profit before tax on a straight-line basis over the term of the lease Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease

(b) Assets held under finance leases are recognised as assets at the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Each lease payment is allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly against income

(ii) A Group company is the lessor

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

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

2 12 Employee benefits

Pension obligations

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

2 13 Share-based payments

The Group issues to certain employees equity-settled share-based payments, the fair values of which are calculated using the Black Scholes share option valuation model Fair value, excluding the effect of non-market-based conditions, is determined at the date of grant and is amortised to profit before tax over the vesting period on a straight-line basis, with a corresponding increase in equity At each balance sheet date the fair value is recalculated based on the extent to which the vesting period has expired and management s best estimate of the non-market conditions and of the number of equity instruments that will ultimately vest and the rate of amortisation is adjusted accordingly

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(i) Fair value of investment properties

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

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

(b) recent prices of similar proserties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices ano

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

(ii) Income Taxes

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

(iii) Impairment of goodwill and other intangible assets

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

(iv) Deferred tax

The method of calculation of deferred tax in relation to London 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

(v) Listed corporate bonds

The best evidence of the fair value of listed corporate bonds is quoted prices in an active market The bond market is not always as liquid as conventional equity markets The Group therefore, is required to make certain judgements when arriving at the fair value of bonds which are less liquid in nature To the extent that bond prices are not available from third party pricing sources the Group determines their fair value by comparing observable market data and making judgements on the liquidity of particular bonds from a variety of sources

(a) the Group uses a broker to obtain multiple quotes directly from market makers and to make a judgement as to the liquidity of those bonds, and the Group determines whether the judgments of liquidity are reasonable and whether the spread of market maker prices is within an expected range, and

(b) the Group makes judgements on price and liquidity based on recent market transactions in particular bonds

(vi) Valuation of derivative financial instruments

The Group s most significant derivative financial instruments are interest rate swaps and interest rate caps The fair value of these financial instruments is determined using valuation techniques Management uses its judgement to select valuation methods and make assumptions which are based on market conditions at the balance sheet date

4 SEGMENT INFORMATION

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

Investment Property – London
France
Germany
Sweden

Other Investments

There are no transactions between the operating segments.

The Group's results for the year ended 31 December 2011 by operating segment were as follows:

	Investment Property					
	London £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £m
Rental income	26.5	19.1	14.4	6.2	–	66.2
Service charge income	4.2	5.2	2.5	0.3	–	12.2
Other property-related income	0.8	0.1	–	–	–	0.9
Income from non-property activities	–	–	–	–	0.8	0.8
Group revenue	**31.5**	**24.4**	**16.9**	**6.5**	**0.8**	**80.1**
Service charges and similar expenses	(5.9)	(5.5)	(3.3)	(1.6)	–	(16.3)
Administration expenses	(1.9)	(1.5)	(1.1)	(0.4)	(1.7)	(6.6)
Other expenses	(1.0)	(0.5)	(0.6)	(0.1)	–	(2.2)
Costs	**(8.8)**	**(7.5)**	**(5.0)**	**(2.1)**	**(1.7)**	**(25.1)**
Group revenue less costs	22.7	16.9	11.9	4.4	(0.9)	55.0
Net movements on revaluation of investment properties	10.2	4.9	2.0	0.9	–	18.0
Net gain on sale of corporate bonds and other investments	–	–	–	–	0.5	0.5
Profit on sale of subsidiaries and associates	–	–	–	1.8	0.4	2.2
Segment operating profit	**32.9**	**21.8**	**13.9**	**7.1**	**–**	**75.7**
Finance income	0.3	0.1	–	–	11.8	12.2
Finance costs	(30.3)	(7.9)	(7.1)	(1.6)	(0.8)	(47.7)
Share of profit of associates after tax	–	–	–	–	3.0	3.0
Segment profit before tax	**2.9**	**14.0**	**6.8**	**5.5**	**14.0**	**43.2**
Taxation	7.7	(4.4)	(0.4)	(2.2)	0.4	1.1
Segment profit after tax	**10.6**	**9.6**	**6.4**	**3.3**	**14.4**	**44.3**
Central administration expenses						(5.5)
Profit for the year						**38.8**

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

4 SEGMENT INFORMATION CONTINUED

The Group s results for the year endec 31 December 2010 by operating segment were as follows

	Investment Property					
	London £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £m
Rental income	24 5	17 8	14 3	5 5	–	62 1
Service charge income	4 2	4 9	2 7	0 3	–	12 1
Other property-related income	0 5	0 1	–	–	–	0 6
Income from non-property activities	–	–	–	–	4 3	4 3
Group revenue	29 2	22 8	17 0	5 8	4 3	79 1
Service charges and similar expenses	(5 5)	(5 2)	(3 0)	(1 4)	–	(15 1)
Administration expenses	(2 9)	(1 5)	(1 0)	(0 3)	(3 9)	(9 6)
Other expenses	(0 5)	(0 2)	(1 3)	–	(0 2)	(2 2)
Costs	(8 9)	(6 9)	(5 3)	(1 7)	(4 1)	(26 9)
Group revenue less costs	20 3	15 9	11 7	4 1	0 2	52 2
Net movements on revaluation of investment properties	4 8	17 8	8 2	(0 7)	–	30 1
Net gain on sale of corporate bonds and other investments	–	–	–	–	9 3	9 3
(Loss)/profit on sale of subsidiaries	–	(1 6)	–	1 6	–	–
Segment operating profit	25 1	32 1	19 9	5 0	9 5	91 6
Finance income	–	0 1	–	–	6 0	6 1
Finance costs	(16 2)	(3 0)	(6 9)	(0 4)	(4 6)	(31 1)
Share of profit of associates after tax	–	–	–	–	7 7	7 7
Segment profit before tax	8 9	29 2	13 0	4 6	18 6	74 3
Taxation	0 1	(9 6)	(0 5)	(0 4)	(0 4)	(10 8)
Segment profit after tax	9 0	19 6	12 5	4 2	18 2	63 5
Central administration expenses						(3 4)
Profit for the year						60 1

Other segment information

	Assets		Liabilities		Capital expenditure	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Investment Property						
London	**435 5**	391 2	**304 9**	295 4	**12.6**	23 7
France	**252 9**	256 7	**212 9**	190 6	**1.8**	15 5
Germany	**201 1**	203 2	**147 2**	154 5	**4 0**	2 7
Sweden	**65 2**	61 6	**42 0**	45 0	**2.5**	0 6
Other investments	**149 6**	165 7	**29.8**	35 7	**-**	–
	1,104 3	1,078 4	**736 8**	721 2	**20 9**	42 5

Included within the assets of other investments are investments in associates of £24 1 million (2010 £40 6 million)

5 ADMINISTRATION COST RATIO

The administration cost ratio is a key performance indicator of the Group It represents the cost of running the property portfolio relative to its net income and is calculated as follows

	2011 £m	2010 £m
Administration expenses of the operating segments	**6.6**	9 6
Central administration expenses	**5 5**	3 4
Total administration expenses of the Group	**12 1**	13 0
Less non-recurring element thereof	**(0 7)**	-
Less administration expenses of Other Investments	**(1 7)**	(3 9)
Property-related and central administration expenses	**9 7**	9 1
Group revenue	**80 1**	79 1
Less income from Other Investments	**(0 8)**	(4 3)
Less service charges and similar expenses	**(16 3)**	(15 1)
Net rental income	**63 0**	59 7
Administration cost ratio	**15.4%**	15 2%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging

	2011 £m	2010 £m
Auditor s remuneration		
Fees payable to the Company s auditor for the audit of the parent Company and group accounts	**0 2**	0 2
Fees payable to the Company s auditor for other services to the Group		
The audit of the Company s subsidiaries pursuant to legislation	**0 1**	0 1
Depreciation of property, plant and equipment	**0 2**	0 3
Employee benefits expense (note 7)	**7 8**	8 0

7 EMPLOYEE BENEFITS EXPENSE

	2011 £m	2010 £m
Wages and salaries	**5.4**	6 2
Social security costs	**0.8**	1 0
Pension costs - defined contribution plans	**0 4**	0 3
Other employee-related expenses	**1 2**	0 5
	7 8	8 0

The Directors are considered to be key management of the Group

Information on Directors emoluments, share options and interests in the Company s shares is given in the Directors Remuneration Report on pages 36 to 41

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

	2011			2010		
	Property number	Other operations number	Total number	Property number	Other operations number	Total number
Male	**24**	**6**	**30**	21	19	40
Female	**31**	**2**	**33**	31	5	36
	55	**8**	**63**	52	24	76

7 EMPLOYEE BENEFITS EXPENSE CONTINUED

Share-based payments

The Group operates two employee share option schemes the 2005 CLS Holcings Plc Company Share Option Plan and the Group s unapproved Share Option Scheme In March 2010, share options under these schemes were granted at an exercise price of 470p and can be exercised from March 2012 to March 2017 Details of vesting conditions in relation to these options are given within the Directors Remuneration report on page 40

The movement in share options during the year was

	2011		2010	
	Number of share options	Exercise price (pence)	Number of share options	Exercise price (pence)
Outstanding at the beginning of the year	**300,000**	**470**	–	–
Granted during the year	**-**	–	300 000	470
Outstanding at the end of the year	**300,000**	**470**	300,000	470
Exercisable at the end of the year	**-**	**-**	–	–

The fair value of share options granted in 2010 were calculated using the Black Scholes model The inputs to this model were

Share price at grant date (pence)	495 0
Exercise price (pence)	470 0
Expected volatility	47 9%
Option life (years)	7 0
Risk-free rate	4 1%
Expected dividend yield	4 3%
Value per option (pence)	177 2

The expected volatility has been estimated using the historical volatility of the share price over a four year period The expected life of the options has been adjusted, based on management s best estimate for the effects of behavioural considerations and exercise restrictions The Group recognised an expense of £0 2 million (2010 £0 1 million) relating to equity-settled share-based transactions in the year and a corresponding increase to equity

8 FINANCE INCOME

	2011 £m	2010 £m
Interest income	**9 2**	6 1
Other finance income	**2 3**	–
Foreign exchange variances	**0 7**	–
	12 2	6 1

9 FINANCE COSTS

	2011 £m	2010 £m
Interest expense		
Bank loans	**21 2**	18 3
Debenture loans	**4.7**	4 7
Other loans	**1 2**	-
Amortisation of loan issue costs	**2 1**	1 0
Movement in fair value of derivative financial instruments		
Interest rate swaps transactions not qualifying as hedges	**14 2**	3 7
Interest rate caps transactions not qualifying as hedges	**4 3**	(0 6)
Foreign exchange variances	**-**	4 0
	47 7	31 1

10 TAXATION

	2011 £m	2010 £m
Current tax (credit)/charge	**(1 2)**	4 4
Deferred tax charge (note 22)	**0.1**	6 4
	(1 1)	10 8

A deferred tax credit of £4 6 million (2010 credit of £1 8 million) was recognised directly in equity (note 23)

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

	2011 £m	2010 £m
Profit before tax	**37 7**	70 9
Tax calculated at domestic tax rates applicable to profits in the respective countries	**10 1**	20 1
Expenses not deductible for tax purposes	**(0 1)**	1 5
Tax effect of unrecognised profits in associates and joint ventures	**(0 8)**	(2 3)
Adjustment in respect of indexation allowance on London properties	**(4 6)**	(2 1)
Other deferred tax adjustments	**(1 6)**	0 4
Deferred tax assets not recognised	**(0.8)**	(1 9)
Adjustment in respect of prior periods	**(3.3)**	(4 9)
Tax (credit)/charge for the year	**(1.1)**	10 8

The weighted average applicable tax rate of 26 7% (2010 28 4%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated

11 EARNINGS PER SHARE

Management has chosen to disclose the European Public Real Estate Association (EPRA) measure of earnings per share (Best Practices Recommendations October 2010 as clarified by Additional Guidance July 2011), which has been provided to give relevant information to investors on the long-term performance of the Group s underlying business The EPRA measure excludes items which are non-recurring in nature such as profits (net of related tax) on sale of investment properties and of other non-current investments, and items which have no impact to earnings over their life, such as the change in fair value of derivative financial instruments and the net movement on revaluation of investment properties, and the related deferred taxation on these items Comparatives have been restated in accordance with EPRA Best Practices Recommendations Additional Guidance July 2011

Earnings	2011 £m	2010 £m (restated)
Profit for the period attributable to the owners of the Company	**37 5**	60 1
Revaluation gains on investment properties	**(18 0)**	(30 1)
Profit on sale of subsidiaries and associates	**(2 2)**	–
Negative goodwill on share acquisitions	**–**	(0 1)
Change in fair value of derivative financial instruments	**18.5**	3 1
Net gain on sale of corporate bonds and other investments	**(0 5)**	(9 3)
Deferred tax relating to the above adjustments	**0 5**	4 1
Adjustments in respect of associates	**(3 8)**	(7 7)
Non-recurring finance income	**(2 3)**	–
EPRA Earnings	**29.7**	20 1

Weighted average number of ordinary shares	2011 Number	2010 Number
Weighted average number of ordinary shares in circulation	**45,738,600**	47,280,274
Dilutive share options†	**67,542**	13,339
Diluted weighted average number of ordinary shares	**45,806,142**	47,293,613

Earnings per Share	2011 Pence	2010 Pence (restated)
Basic	**82 0**	127 1
Diluted	**81 9**	127 1
EPRA	**64 9**	42 5

† 300 000 share options were granted on 11 March 2010 at an exercise price of 470 pence

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

12 NET ASSETS PER SHARE

Management has chosen to disclose the two European Public Real Estate Association (EPRA) measures of net assets per share (Best Practices Recommendations October 2010 as clarified by Additional Guidance July 2011), EPRA net assets per share and EPRA triple net assets per share. The EPRA net assets per share measure highlights the fair value of equity on a long-term basis, and so excludes items which have no impact on the Group in the long term, such as fair value movements of derivative financial instruments and movements on fair value of investment properties, and associated deferred tax. The EPRA triple net assets per share measure discloses net assets per share on a true fair value basis, all balance sheet items are included at their fair value in arriving at this measure, including deferred tax, fixed rate loan liabilities and any other balance sheet items not reported at fair value. Comparatives have been restated in accordance with EPRA Best Practices Recommendations Additional Guidance July 2011.

Net Assets	2011 £m	2010 £m (restated)
Basic net assets	**367.5**	357.2
Dilutive impact of share options	**1.4**	1.4
Diluted net assets	**368.9**	358.6
Adjustment to increase fixed rate debt to fair value, net of tax	**(23.7)**	(19.4)
Goodwill as a result of deferred tax	**(1.1)**	(1.1)
EPRA triple net assets	**344.1**	338.1
Deferred tax on property and other non-current assets	**67.9**	68.4
Fair value of derivative financial instruments	**7.3**	15.7
Adjustment to decrease fixed rate debt to book value, net of tax	**23.7**	19.4
Adjustments in respect of associates	**1.9**	5.2
EPRA net assets	**444.9**	446.8

Number of ordinary shares	2011 Number	2010 Number
Number of ordinary shares in circulation	**44,953,611**	46,588,244
Dilutive share options	**300,000**	300,000
Diluted number of ordinary shares	**45,253,611**	46,888,244

Net Assets Per Share	2011 Pence	2010 Pence (restated)
Basic	**817.5**	766.7
Diluted	**815.2**	764.8
EPRA	**983.1**	952.9
EPRA triple net	**760.4**	721.1

13 INVESTMENT PROPERTIES

	London £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2011	**375.0**	**248 7**	**196 5**	**56 7**	**876 9**
Acquisitions	**6 4**	**-**	**0.8**	**-**	**7 2**
Capital expenditure	**6.1**	**1 7**	**3.2**	**2 5**	**13 5**
Net movement on revaluation of investment properties	**10.2**	**4 9**	**2 0**	**0 9**	**18.0**
Rent-free period debtor adjustments	**0.3**	**-**	**-**	**(0 1)**	**0 2**
Exchange rate variances	**-**	**(7 0)**	**(5 4)**	**(1 3)**	**(13 7)**
At 31 December 2011	**398.0**	**248 3**	**197.1**	**58 7**	**902.1**

	London £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2010	346 8	222 8	192 1	51 3	813 0
Acquisitions	23 4	13 0	-	-	36 4
Capital expenditure	0 1	2 5	2 6	0 6	5 8
Disposals	(0 1)	-	-	-	(0 1)
Net movement on revaluation of investment properties	4 8	17 8	8 2	(0 7)	30 1
Rent-free period debtor adjustments	-	-	-	0 1	0 1
Exchange rate variances	-	(7 4)	(6 4)	5 4	(8 4)
At 31 December 2010	375 0	248 7	196 5	56 7	876 9

The investment properties (and the owner-occupied property detailed in note 14) were revalued at 31 December 2011 to their fair value Valuations were based on current prices in an active market for all properties The property valuations were carried out by external professionally qualified valuers as follows

London Lambert Smith Hampton

France Jones Lang LaSalle

Germany Colliers International

Sweden CB Richard Ellis

Investment properties included leasehold properties with a carrying amount of £19 1 million (2010 £19 6 million)

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

Substantially all investment properties (and the owner-occupied property detailed in note 14) are secured against debt

In 2010 the Group purchased a property in London for £1 8 million Under the terms of the purchase agreement, should the site be developed additional consideration may become due to the vendor The maximum liability in respect of this is estimated to be £0 5 million At the balance sheet date the fair value of the liability was £nil (2010 £nil)

Report of the Directors | Property Portfolio | Governance | Accounts | Other Information

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

14 PROPERTY, PLANT AND EQUIPMENT

	2011 £m	2010 £m
Cost or valuation		
At 1 January	**5.4**	6.8
Additions	**0.2**	0.3
Disposals	**(1.9)**	(1.8)
Revaluation	**0.3**	0.1
At 31 December	**4.0**	5.4
Accumulated depreciation and impairment		
At 1 January	**(2.8)**	(4.3)
Depreciation charge	**(0.2)**	(0.3)
Disposals	**1.7**	1.8
At 31 December	**(1.3)**	(2.8)
Net book value		
At 31 December	**2.7**	2.6

An owner-occupied property was revalued at 31 December 2011 based on the external valuation performed by Lambert Smith Hampton as detailed in note 13

15 JOINT VENTURES

At 31 December 2011 the Group had a one-third interest (2010 one-third) in the issued ordinary share capital of Fielden House Investments Limited, a company incorporated in England and Wales, which had a coterminous year end to that of the Group

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

The following amounts represent the Group's share of the assets and liabilities and of the income and expenditure of Fielden House Investments Limited which are included in the balance sheet and statement of comprehensive income of the Group

	2011 £m	2010 £m
Assets		
Non-current assets	**2.3**	1.9
Current assets	**0.1**	0.1
	2.4	2.0
Liabilities		
Current liabilities	**(0.1)**	(2.1)
Non-current liabilities	**(2.3)**	(0.4)
	(2.4)	(2.5)
Net liabilities	**-**	(0.5)
Income	**0.2**	0.2
Expenses	**(0.2)**	(0.2)
Profit after tax	**-**	-

16 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2011	**18 6**	**7 2**	**25.8**
Disposals	**(17 5)**	**(7 2)**	**(24.7)**
At 31 December 2011	**1 1**	**–**	**1.1**
Amortisation			
At 1 January 2011	**(17 5)**	**(7 2)**	**(24.7)**
Disposals	**17 5**	**7 2**	**24.7**
At 31 December 2011	**–**	**–**	**–**
Net book value			
At 31 December 2011	**1 1**	**–**	**1 1**

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2010 and 31 December 2010	18 6	7 2	25 8
Amortisation			
At 1 January 2010 and 31 December 2010	(17 5)	(7 2)	(24 7)
Net book value			
At 31 December 2010	1 1	–	1 1

Goodwill comprised £0 8 million (2010 £0 8 million) on the acquisition of a French property portfolio in 2004 and £0 3 million (2010 £0 3 million) on a German property acquisition in 2005 All other goodwill and other intangibles (relating to trade names, technology customer relationships capitalised development and other costs) which had been fully written down, related to the Wyatt Media Group which was sold in 2011 as described in note 33

Impairment review 2011 and 2010

Goodwill was reviewed for impairment at 31 December 2011 and at 31 December 2010 using the key assumptions set out below No adjustment for impairment was required

Key assumptions

Unamortised goodwill at 31 December 2011 and at 31 December 2010 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the balance sheet Management have reviewed the sensitivity to a fall in property values of each cash generating unit A fall of 10% would result in a potential impairment of goodwill of up to £0 1 million (2010 £0 2 million)

17 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Total £m
At 1 January 2011	**33 8**	**6.8**	**40 6**
Additions	**0 7**	**1 4**	**2 1**
Disposals	**–**	**(1 5)**	**(1 5)**
Share of profit of associates after tax	**3 0**	**–**	**3 0**
Dividends received	**(19 9)**	**–**	**(19.9)**
Exchange rate differences	**(0 2)**	**–**	**(0 2)**
At 31 December 2011	**17 4**	**6 7**	**24 1**

	Net assets £m	Goodwill £m	Total £m
At 1 January 2010	36 1	4 8	40 9
Additions	0 4	1 5	1 9
Share of profit of associates after tax	7 7	–	7 7
Share of other comprehensive income of associates*	(0 4)	–	(0 4)
Distributions received	(11 9)	–	(11 9)
Exchange rate differences	1 9	0 5	2 4
At 31 December 2010	33 8	6 8	40 6

* Primarily foreign exchange movements

The Group s interests in its principal associates were as follows

At 31 December 2011	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
Interest held in ordinary share capital	***29 9%***	***48 3%***	***various***	
Revenues	**0 8**	**0 6**	**0 6**	**2 0**
Share of profit/(loss) of associates after tax	**3.7**	**(0 5)**	**(0 2)**	**3 0**
Assets	**19 9**	**9 3**	**0 8**	**30.0**
Liabilities	**(11 5)**	**(0 6)**	**(0 5)**	**(12.6)**
Net assets	**8 4**	**8 7**	**0 3**	**17 4**
Goodwill	**5 1**	**–**	**1 6**	**6 7**
Investments in associates	**13 5**	**8 7**	**1 9**	**24 1**
Market value of interest	**17 8**	**n/a**	**n/a**	

At 31 December 2010	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
Interest held in ordinary share capital	*29 9%*	*48 3%*	*various*	
Revenues	4 5	0 8	0 2	5 5
Profit/(loss) after tax	9 4	(1 7)	(0 1)	7 6
Realisation of negative goodwill on acquisition	–	0 1	–	0 1
Share of profit/(loss) of associates after tax	9 4	(1 6)	(0 1)	7 7
Assets	62 1	17 5	0 2	79 8
Liabilities	(37 8)	(8 1)	(0 1)	(46 0)
Net assets	24 3	9 4	0 1	33 8
Goodwill	5 3	–	1 5	6 8
Investments in associates	29 6	9 4	1 6	40 6
Market value of interest	50 6	n/a	n/a	

Catena AB

At 31 December 2011 the Group had a 29 9% (2010 29 9%) interest in Catena AB a listed Swedish property company Henry Klotz Executive Vice Chairman of the Company, is the Non-Executive Chairman of Catena AB

During 2011 Catena returned £19 9 million (2010 £9 9 million) to the Group in cash following significant realisations of its property assets

Bulgarian Land Development Plc

At 31 December 2011 the Group had a 48 3% (2010 48 3%) interest in Bulgarian Land Development Plc (BLD) an unlisted developer of residential and commercial real estate in Bulgaria Henry Klotz Executive Vice Chairman of the Company is the Non-Executive Chairman of BLD

In December 2010 the Group received a return of capital of £2 0 million from BLD by means of a tender offer buy-back

Other associates

As described in note 33, on 31 May 2011 the Group sold the remaining operating subsidiaries and certain associates of the Wyatt Media Group The entities were acquired by Nyheter 24 (a Swedish on-line news and media business) in exchange for a 20% interest in the enlarged Nyheter 24 group The fair value of the Group s interest in Nyheter 24 was determined on acquisition to be £1 9 million Henry Klotz, Executive Vice Chairman of the Company, was appointed to the board of Nyheter 24

The Group retains an associate interest in one former associate of the Wyatt Media Group

Impairment

2011

In assessing the carrying value of Catena AB, management considered that the net asset value of Catena s balance sheet was not representative of true fair value as it did not include the latent development profit on Catena s remaining single development site Haga Norra Furthermore, the market value of the Group s interest in Catena exceeded its carrying value by £4 3 million at 31 December 2011

BLD was carried in the balance sheet at a value equal to the Group s share of its net assets BLD s audited net assets, which were prepared under IFRS were reviewed and found not to be impaired at 31 December 2011 Accordingly there was no requirement to provide for further impairment in the carrying value of the Group s interest in BLD at 31 December 2011

The fair value of Nyheter 24 was determined on acquisition to be £1 9 million and was based upon detailed forward forecasts As the progress to date has not been materially dissimilar from these forecasts the carrying value of Nyheter 24 has not been adjusted since acquisition

2010

In assessing the carrying value of Catena AB management considered that the balance sheet of Catena AB at 31 December 2010 was stated at fair value except for certain deferred tax liabilities It was management s assessment that the realisation of Catena s property assets would occur through corporate disposals and therefore latent deferred tax liabilities were unlikely to crystallise As the Group s share of the net assets of Catena AB excluding deferred tax liabilities exceeded the carrying value of the Group s interest there was no further impairment of the Group s interest in Catena AB at 31 December 2010 Furthermore, the market value of the Group s shares in Catena AB exceeded their carrying value by £21 0 million

BLD s audited net assets at 31 December 2010, which were prepared under IFRS, were reviewed and found not to be impaired Accordingly there was no requirement to provide further impairment in the carrying value of the Group s interest in BLD at 31 December 2010

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

18 OTHER INVESTMENTS

	Investment type	Destination of Investment	2011 £m	2010 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	UK	**56 0**	37 5
		Eurozone	**12 2**	24 1
		Other	**16 9**	16 5
			85 1	78 1
	Listed equity securities	UK	**0 5**	0 5
		Sweden	**1 6**	2 4
		Other	**0 1**	0 1
	Unlisted investments	Sweden	**0 4**	0 4
	Government securities	UK	**0 1**	0 1
			87 8	81 6

The movement of other investments, analysed based on the methods used to measure their fair value, was as follows

	Level 1 Quoted market prices £m	Level 2 Observable market data† £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2011	**3.1**	**78 1**	**0 4**	**81 6**
Additions	**7 6**	**54 5**	**–**	**62 1**
Disposals	**(7 7)**	**(31 1)**	**–**	**(38 8)**
Fair value movements recognised in reserves on available-for-sale assets	**(0 4)**	**(15 6)**	**–**	**(16 0)**
Fair value movements recognised in profit before tax on available-for-sale assets	**(0 1)**	**(0 7)**	**–**	**(0 8)**
Exchange rate variations	**(0 2)**	**(0 1)**	**–**	**(0 3)**
At 31 December 2011	**2 3**	**85 1**	**0 4**	**87.8**

	Level 1 Quoted market prices £m	Level 2 Observable market data† £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2010	3 3	70 0	0 6	73 9
Additions	1 0	51 7	–	52 7
Disposals	(2 2)	(36 7)	(0 2)	(39 1)
Fair value movements recognised in reserves on available-for-sale assets	(0 3)	3 4	–	3 1
Fair value movements recognised in profit before tax on available-for-sale assets	1 0	(9 5)	–	(8 5)
Exchange rate variations	0 3	(0 8)	–	(0 5)
At 31 December 2010	3 1	78 1	0 4	81 6

† Includes £nil (2010 £12 8 million) of corporate bonds priced directly from market makers in those bonds
* Unlisted equity shares valued using multiples from comparable listed organisations

Corporate Bond Portfolio
At 31 December 2011

Sector	Banking	Insurance	Building Societies	Financials	Other	Total
Value	£15 5m	£31 6m	£11 1m	£11 0m	£15 9m	£85 1m
Coupon yield	11 4%	9 1%	9 8%	9 2%	12 0%	10 2%
Issuers	KBC	AXA	Yorkshire	Investec	TUI	
	RBS	Aviva	Nationwide	Euroclear	SAS	
	Co-op	Generali		Man Group	Swissport	
	Lloyds	Irish Life		Aberdeen AM	Corral Finans	
	Dresdner	Swiss Life			Thomas Cook	
	SNS Bank	Old Mutual			Cable & Wireless	
	Rothschild	Storebrand			HeidelbergCement	
	Commerzbank	RL Finance			Renewable Energy Corp	
		Legal & General				
		Scottish Widows				
		Friends Provident				

19 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Current		
Trade receivables	**3 6**	3 5
Prepayments	**0 5**	0 7
Accrued income	**5 2**	3 5
Other debtors	**2 3**	3 8
	11 6	11 5

There was no concentration of credit risk with respect to trade receivables as the Group had a large number of tenants spread across the countries in which it operated

There were no material trade and other receivables classified as past due but not impaired (2010 none) No trade and other receivables were interest-bearing

Included within other debtors is £0 5 million (2010 £nil) due after more than one year

20 CASH AND CASH EQUIVALENTS

	2011 £m	2010 £m
Cash at bank and in hand	**25 7**	23 9
Short-term bank deposits	**29 6**	24 4
	55 3	48 3

At 31 December 2011, Group cash at bank and in hand included £5 8 million (2010 £6 4 million) of cash deposits which were restricted by a third-party charge

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

The cash and cash equivalents currency profile was as follows

At 31 December 2011	**Cash at bank and in hand £m**	**Short-term deposits £m**	**Total £m**
Sterling	**10 1**	**5.2**	**15 3**
Euro	**13 6**	**0 4**	**14 0**
Swedish Krona	**2 0**	**24 0**	**26 0**
	25 7	**29 6**	**55 3**

At 31 December 2010	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	13 6	7 5	21 1
Euro	9 2	0 2	9 4
Swedish Krona	1 1	16 7	17 8
	23 9	24 4	48 3

21 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Current		
Trade payables	**1.7**	1 6
Social security and other taxes	**1 9**	2 1
Other payables	**6 0**	6 4
Accruals	**11.4**	12 8
Deferred income	**9 4**	8 9
	30 4	31 8

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

22 DEFERRED TAX

	2011 £m	2010 £m
Deferred tax assets		
– after more than 12 months	**(17 7)**	(11 2)
Deferred tax liabilities		
– after more than 12 months	**75 0**	74 5
	57 3	63 3

The movement in deferred tax was as follows

	2011 £m	2010 £m
At 1 January	**63.3**	59 6
Charged in arriving at profit after tax	**0 1**	6 4
Credited to other comprehensive income	**(4 6)**	(1 8)
Exchange rate variances	**(1 5)**	(0 9)
At 31 December	**57 3**	63 3

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

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2011	**(5 1)**	**(6 1)**	**(11 2)**
(Credited)/charged in arriving at profit after tax	**(5 5)**	**2 0**	**(3.5)**
Credited to other comprehensive income	**–**	**(3 1)**	**(3.1)**
Exchange rate variances	**–**	**0 1**	**0 1**
At 31 December 2011	**(10 6)**	**(7 1)**	**(17 7)**

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2010	(7 1)	(5 6)	(12 7)
Charged/(credited) in arriving at profit after tax	2 0	(0 5)	1 5
At 31 December 2010	(5 1)	(6 1)	(11 2)

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2011	**10 2**	**62 3**	**2 0**	**74 5**
(Credited)/charged in arriving at profit after tax	**(0 5)**	**3 8**	**0 3**	**3 6**
Credited to other comprehensive income	**–**	**–**	**(1 5)**	**(1 5)**
Exchange rate variances	**–**	**(1 6)**	**–**	**(1.6)**
At 31 December 2011	**9 7**	**64 5**	**0.8**	**75 0**

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2010	12 1	56 5	3 7	72 3
(Credited)/charged in arriving at profit after tax	(1 9)	6 7	0 1	4 9
Credited to other comprehensive income	–	–	(1 8)	(1 8)
Exchange rate variances	–	(0 9)	–	(0 9)
At 31 December 2010	10 2	62 3	2 0	74 5

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable At 31 December 2011 the Group did not recognise deferred tax assets of £7 2 million (2010 £4 7 million) in respect of losses amounting to £27 9 million (2010 £20 2 million) which can be carried forward against future taxable income or gains The majority of deferred tax assets recognised within the other category relate either to deferred tax on swaps with a negative book value or to corporate bonds carried at below cost Losses recognised as deferred tax assets can be carried forward without restriction

On 1 April 2012 the UK corporation tax rate reduces from 26% to 25% As this has been substantively enacted at the balance sheet date the UK deferred tax assets and liabilities have been calculated at a rate of 25% The impact on net assets for 2011 as a result of this change was an increase of £0 2 million It is expected that UK tax rates will reduce to 24% by 1 April 2014 A further 1% fall in the rate of UK tax would increase net assets by £0 1 million, and increase profit after tax by £0 1 million

23 BORROWINGS

At 31 December 2011	Current £m	Non-current £m	Total borrowings £m
Bank loans	**150 0**	**399 6**	**549 6**
Debenture loans	**1 2**	**31 8**	**33.0**
Zero coupon note	**-**	**10 9**	**10.9**
Other loans	**-**	**27 5**	**27 5**
	151 2	**469 8**	**621 0**

At 31 December 2010	Current £m	Non-current £m	Total borrowings £m
Bank loans	81 6	461 5	543 1
Debenture loans	1 1	33 0	34 1
Zero coupon note	–	9 8	9 8
Other loans	2 3	–	2 3
	85 0	504 3	589 3

Arrangement fees of £4 1 million (2010 £3 0 million) have been offset in arriving at the balances in the above tables

Bank loans

Interest on bank loans is charged at fixed rates ranging between 3 1% and 11 2%, including margin (2010 4 9% and 11 2%) and at floating rates of typically LIBOR EURIBOR or STIBOR, plus a margin Fixed rate margins range between 0 8% and 1 8% (2010 0 8% and 1 8%) and floating rate margins range between 0 8% and 3 8% (2010 1 0% and 3 0%) All bank loans are secured by legal charges over the respective properties and in most cases a floating charge over the remainder of the assets held in the company which owns the property In addition the share capital of some of the subsidiaries within the Group has been charged

Debenture loans

The debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1 2 million (2010 £1 2 million) with final repayment due in January 2025 Each instalment is apportioned between principal and interest on a reducing balance basis Interest is charged at an annual fixed rate of 10 8% including margin The debentures are secured by a legal charge over a property and securitisation of its rental income

Zero coupon note

The zero coupon note accrues interest at an annual rate of 11 2%, including margin It is unsecured and is redeemable as a balloon repayment of principal and interest of £43 7 million in aggregate in February 2025

Other loans

Other loans totalling £2 3 million were discharged during 2011 on the liquidation of the subsidiaries which issued the debt Previously the loans attracted variable rate interest ranging from 2 0% to 4 0% per annum comprising LIBOR plus a margin

On 15 April 2011 the Group issued SEK 300 million unsecured bonds The bonds attract a floating rate coupon of 3 75% over three months STIBOR and are due for repayment in 2016 After two years the Group has an option to redeem all outstanding bonds subject to an early repayment premium The bonds were listed on the NASDAQ OMX Stockholm on 5 July 2011

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

23 BORROWINGS CONTINUED

Loan covenants

There were no covenant breaches at 31 December 2011 or at 31 Decemoer 2010

The maturity profile of the carrying amount of the Group s borrowings was as follows

At 31 December 2011	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
Within one year or on demand	**151 0**	**1 2**	**–**	**–**	**152 2**
More than one but not more than two years	**71 9**	**1 3**	**–**	**–**	**73 2**
More than two but not more than five years	**199 4**	**5 0**	**–**	**28 0**	**232 4**
More than five years	**130 9**	**25 5**	**10 9**	**–**	**167 3**
	553 2	**33 0**	**10.9**	**28 0**	**625 1**
Unamortised issue costs	**(3 6)**	**–**	**–**	**(0 5)**	**(4 1)**
Borrowings	**549 6**	**33 0**	**10.9**	**27 5**	**621 0**
Less amount due for settlement within 12 months	**(150 0)**	**(1 2)**	**–**	**–**	**(151 2)**
Amounts due for settlement after 12 months	**399 6**	**31 8**	**10 9**	**27 5**	**469 8**

At 31 December 2010	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
Within one year or on demand	82 4	1 1	–	2 3	85 8
More than one but not more than two years	126 2	1 2	–	–	127 4
More than two but not more than five years	204 4	4 5	–	–	208 9
More than five years	133 1	27 3	9 8	–	170 2
	546 1	34 1	9 8	2 3	592 3
Unamortised issue costs	(3 0)	–	–	–	(3 0)
Borrowings	543 1	34 1	9 8	2 3	589 3
Less amount due for settlement within 12 months	(81 6)	(1 1)	–	(2 3)	(85 0)
Amounts due for settlement after 12 months	461 5	33 0	9 8	–	504 3

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

	At 31 December 2011		At 31 December 2010	
	Weighted average fixed rate of financial liabilities %	**Weighted average period for which rate is fixed Years**	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	**9.6**	**11 1**	6 5	5 6
Euro	**5 1**	**2 3**	4 3	2 2

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

	At 31 December 2011			At 31 December 2010		
	% of net floating rate loans capped	**Average capped interest rate %**	**Average tenure Years**	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
Sterling	**66**	**3 7**	**2 2**	56	2 7	5 0
Euro	**75**	**3 2**	**3 8**	86	4 7	1 0
Swedish Krona	**53**	**2 6**	**1 9**	100	2 6	2 9
Other	**–**	**n/a**	**n/a**	–	n/a	n/a

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

At 31 December 2011	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	**60 2**	**183.5**	**243 7**
Euro	**73.2**	**239.6**	**312 8**
Swedish Krona	**–**	**58.7**	**58 7**
Other	**–**	**5.8**	**5.8**
	133 4	**487.6**	**621 0**

At 31 December 2010	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	155 2	91 6	246 8
Euro	117 6	185 8	303 4
Swedish Krona	–	33 3	33 3
Other	–	5 8	5 8
	272 8	316 5	589 3

The carrying amounts and fair values of the Group s borrowings are as follows

	Carrying amounts		Fair values	
	2011 £m	2010 £m	2011 £m	2010 £m
Current borrowings	**151 2**	85 0	**151 2**	85 0
Non-current borrowings	**469 8**	504 3	**501.1**	530 2
	621 0	589 3	**652 3**	615 2

Arrangement fees of £4 1 million (2010 £3 0 million) have been offset in arriving at the balances in the above table

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

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

	2011 £m	2010 £m
Floating rate		
– expiring within one year	**0 6**	–
– expiring after one year	**–**	–
	0 6	–

24 DERIVATIVE FINANCIAL INSTRUMENTS

	2011 Assets £m	2011 Liabilities £m	2010 Assets £m	2010 Liabilities £m
Non-current				
Interest rate swaps	**–**	**(9 1)**	–	(19 3)
Interest rate caps	**1 5**	**–**	4 6	–
	1.5	**(9 1)**	4 6	(19 3)
Current				
Currency options	**0.4**	**–**	–	–
Forward foreign exchange contracts	**–**	**(0.1)**	–	(1 0)
	0.4	**(0.1)**	–	(1 0)
	1 9	**(9.2)**	4 6	(20 3)

The valuation methods used to measure the fair value of all derivative financial instruments were derived from inputs which were either observable as prices or derived from prices (Level 2)

There were no derivative financial instruments accounted for as hedging instruments

24 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2011 was £50 0 million (2010 £133 5 million) The average period to maturity of these interest rate swaps was 4 1 years (2010 2 8 years)

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to and to minimise the impact of foreign exchange movements on committed cash flows At 31 December 2011 the Group had £19 9 million of outstanding net foreign exchange contracts (2010 £27 0 million)

Currency options

The Group uses currency options from time to time to hedge the foreign exchange risk relating to the translation of the Group s net investment in overseas subsidiaries At 31 December 2011 the Group had purchased options to sell €90 0 million in exchange for sterling at an average exchange rate of £1 €1 2876 (2010 none)

25 FINANCIAL INSTRUMENTS

25 1 Categories of financial instruments

Financial assets of the Group comprise interest rate caps, foreign currency options and forward contracts available-for-sale investments, investments in associates, trade and other receivables, and cash and cash equivalents

Financial liabilities of the Group comprise interest rate swaps forward foreign currency contracts bank loans, debenture loans zero coupon notes other loans trade and other payables provisions and current tax liabilities

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

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

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

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

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

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

Except for investments in associates and fixed rate loans, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value

25 2 Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances The capital structure of the Group consists of debt cash and cash equivalents other investments and equity attributable to the owners of the parent, comprising issued capital reserves and retained earnings Management perform stress tests of the Group s business model to ensure that the Group s objectives can be met The objectives have been met in the year

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

The gearing ratio at the year end was as follows

	2011 £m	2010 £m
Debt	**625 1**	592 3
Cash and cash equivalents	**(55 3)**	(48 3)
Net debt	**569 8**	544 0
Equity	**367.5**	357 2
Net debt to equity ratio	**155%**	152%

Debt is defined as long and short-term borrowings before unamortised issue costs as detailed in note 23 Equity includes all capital and reserves of the Group attributable to the owners of the Company

Externally imposed capital requirement

The Group is subject to a minimum equity ratio of total equity to total assets of 22 5% imposed by other loans of £27 5 million at 31 December 2011 (2010 n/a) The Group is also subject to externally imposed capital requirements to the extent that debt covenants may require group companies to maintain ratios such as debt to equity (or similar) below certain levels

25 3 Risk management objectives

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

- market risk
- credit risk and
- liquidity risk

The Group s overall risk management approach seeks to minimise potential adverse effects on the Group s financial performance whilst maintaining flexibility

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

(a) Market risk

The Group s activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates and to a lesser extent other price risk The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching the duration interest payments and currency of assets and liabilities

(i) Interest rate risk

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

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

Scenario	2011 Statement of Comprehensive Income £m	2010 Statement of Comprehensive Income £m
Cash +50 basis points	**0 3**	0 2
Variable borrowings (including caps) +50 basis points	**(1 9)**	(1 5)
Cash -50 basis points	**(0.3)**	(0 2)
Variable borrowings (including caps) -50 basis points	**2.0**	1 5

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

25 FINANCIAL INSTRUMENTS CONTINUED

(ii) Foreign exchange risk

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

The policy of the Group is to match the currency of investments with the related borrowing, which largely eliminates foreign exchange risk on property investments A portion of the remaining operations, equating to the net assets of the foreign property operations is not hedged except in exceptional circumstances, such as the uncertainty surrounding the euro in late 2011 Where foreign exchange risk arises from future commercial transactions, the Group will hedge the future committed commercial transaction using foreign exchange swaps or forward foreign exchange contracts

The Group s principal currency exposures are in respect of the euro and the Swedish krona If the value of sterling were to increase or decrease in strength the Group s net assets and profit for the year would be affected The impact of a 1% increase or decrease in the strength of sterling against these currencies is set out below

Scenario	2011 Net assets £m	2011 Profit before tax £m	2010 Net assets £m	2010 Profit before tax £m
1% increase in value of sterling against the euro	**(1 1)**	**(0.1)**	(1 6)	(0 3)
1% increase in value of sterling against the Swedish kronor	**(0 7)**	**(0 1)**	(0 5)	(0 1)
1% fall in value of sterling against the euro	**1 1**	**0.1**	1 6	0 3
1% fall in value of sterling against the Swedish kronor	**0 7**	**0 1**	0 5	0 1

(iii) Other price risk

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

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

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

Scenario Shift of 10% in valuations	2011 Directly in equity £m	2010 Directly in equity £m
10% fall in value	**(8 8)**	(8 2)
10% increase in value	**8 8**	8 2

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group Credit risk arises from the ability of tenants to meet outstanding receivables and future lease commitments and from financial institutions with which the Group places cash and cash equivalents, and enters into derivative financial instruments The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet including derivatives with positive fair values

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

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

At 31 December 2011 the Group held £87 8 million (2010 £81 6 million) of available-for-sale and other financial assets Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis Information is gathered from external credit rating agencies (Standard & Poor s) and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders

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

S&P Credit rating at balance sheet date	2011 £m	2010 £m
Investment grade	**27 0**	24 6
Non-investment grade	**20 7**	26 2
Not rated	**40 1**	30 8
Total	**87 8**	81 6

(c) Liquidity risk

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

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

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

Loan covenant compliance is closely monitored by the Group Treasury department Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment before an event of default takes place There were no potential loan-to-value covenant breaches at 31 December 2011

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

At 31 December 2011	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities				
Borrowings	**152 2**	**73.2**	**232 4**	**167 3**
Interest payments on borrowings†	**22 2**	**17 3**	**39.3**	**25 8**
Trade and other payables	**30 4**	**–**	**–**	**–**
Forward foreign exchange contracts				
Cash flow hedges				
– Outflow	**19 9**	**–**	**–**	**–**
– Inflow	**(19 9)**	**–**	**–**	**–**

At 31 December 2010	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities				
Borrowings	85 8	127 4	208 9	170 2
Interest payments on borrowings†	23 4	19 8	42 6	55 1
Trade and other payables	31 8	–	–	–
Forward foreign exchange contracts				
Cash flow hedges				
– Outflow	27 0	–	–	–
– Inflow	(26 0)	–	–	–

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

26 SHARE CAPITAL

	Number					
	Ordinary shares in circulation	**Treasury shares**	**Total ordinary shares**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2011	**46,588,244**	**4,793,000**	**51,381,244**	**11 7**	**1.2**	**12.9**
Cancelled following tender offers	**(1,624,530)**	**–**	**(1,624,530)**	**(0 4)**	**–**	**(0.4)**
Purchase of own shares						
– pursuant to market purchase	**(10,103)**	**10,103**	**–**	**–**	**–**	**–**
At 31 December 2011	**44,953,611**	**4,803,103**	**49,756,714**	**11 3**	**1.2**	**12.5**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2010	48 024 256	5 000 000	53,024 256	12 0	1 3	13 3
Cancelled following tender offer	(1 643 012)	–	(1,643,012)	(0 4)	–	(0 4)
Ordinary shares issued from treasury shares	207 000	(207 000)	–	0 1	(0 1)	–
At 31 December 2010	46 588 244	4 793 000	51,381,244	11 7	1 2	12 9

Ordinary shares have a nominal value of 25 pence each

27 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 18 March 2011 for the purchase of 1 in 47 shares at 725 pence per share was completed in April It returned £7 2 million to shareholders, equivalent to 15 4 pence per share

A tender offer by way of a Circular dated 22 August 2011 for the purchase of 1 in 72 shares at 700 pence per share was completed in September It returned £4 4 million to shareholders, equivalent to 9 7 pence per share

A further tender offer will be put to shareholders in April 2012 for the purchase of 1 in 42 shares at a price of 735 pence per share which if approved, will return £7 9 million to shareholders, equivalent to 17 5 pence per share

28 SHARE PREMIUM

	2011 £m	2010 £m
At 1 January	**71 5**	70 5
Ordinary shares issued from treasury shares	**–**	1 0
At 31 December	**71 5**	71 5

29 OTHER RESERVES

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2011	**20 8**	**51 4**	**2 2**	**28 1**	**102 5**
Purchase of own shares					
- cancellation pursuant to tender offer	**0 4**	**-**	**-**	**-**	**0.4**
Exchange rate variances	**-**	**(5 0)**	**-**	**-**	**(5.0)**
Available-for-sale financial assets					
- net fair value losses in the year	**-**	**-**	**(16 8)**	**-**	**(16 8)**
- deferred tax thereon	**-**	**-**	**4 6**	**-**	**4 6**
Revaluation of owner-occupied property	**-**	**-**	**0 3**	**-**	**0 3**
At 31 December 2011	**21 2**	**46 4**	**(9 7)**	**28 1**	**86 0**

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2010	20 4	50 7	5 8	28 1	105 0
Purchase of own shares					
- cancellation pursuant to tender offer	0 4	-	-	-	0 4
Exchange rate variances	-	1 1	-	-	1 1
Share of other comprehensive income of associates	-	(0 4)	-	-	(0 4)
Available-for-sale financial assets					
- net fair value gains in the year	-	-	(5 4)	-	(5 4)
- deferred tax thereon	-	-	1 8	-	1 8
At 31 December 2010	20 8	51 4	2 2	28 1	102 5

The cumulative translation reserve comprises the aggregate effect of translating net assets of overseas subsidiaries into sterling since acquisition

The fair value reserve comprises the aggregate movement in the value of corporate bonds other available-for-sale assets and owner-occupied property since acquisition, net of deferred tax

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

30 CASH GENERATED FROM OPERATIONS

	2011 £m	2010 £m
Operating profit	**70 2**	88 2
Adjustments for		
Net movements on revaluation of investment properties	**(18.0)**	(30 1)
Depreciation and amortisation	**0 2**	0 3
Profit on sale of subsidiaries and associates	**(2 2)**	-
Net gain on sale of corporate bonds and other investments	**(0 5)**	(9 3)
Share-based payment expense	**0 2**	0 1
Non-cash rental income	**(0.2)**	-
Revaluation of currency options	**0.1**	-
Changes in working capital		
Decrease in debtors	**2 8**	0 5
Increase in creditors	**1 5**	1 5
Cash generated from operations	**54.1**	51 2

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

31 CONTINGENCIES

At 31 December 2011 CLS Holdings plc had guaranteed certain liabilities of Group companies These were primarily in relation to Group borrowings and covered interest and amortisation payments No cross-guarantees had been given by the Group in relation to the principal amounts of these borrowings Certain warranties given in the course of corporate sales during 2008 either have been provided for or are too remote to be considered contingent

32 COMMITMENTS

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

Operating lease commitments – where the Group is the lessee	2011 £m	2010 £m
More than one but not more than five years	**0 5**	0 4
More than five years	**0 8**	0 7
	1 3	1 1

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	2011 £m	2010 £m
Within one year	**65 4**	63 7
More than one but not more than five years	**219 2**	219 2
More than five years	**225.8**	257 0
	510 4	539 9

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

Other commitments

At 31 December 2011 the Group had no other commitments (2010 £nil) There were no authorised financial commitments which were yet to be contracted with third parties (2010 none)

33 BUSINESS DISPOSALS

Wyatt Media Group

On 31 May 2011 the Group disposed of its interests in Wyatt Media Group, comprising five subsidiaries and two associates. All of the corporate entities sold were previously reported in the "Other Investments" division. The entities were disposed of in a share-for-share exchange with Nyheter 24 (a Swedish on-line news and media business) and the Group received a 20% interest in Nyheter 24 following the transaction. In addition the Group received a £0.5 million convertible loan note.

	Wyatt Media Group	
	May-11 £m	Dec-10 £m
Net assets disposed of		
Investments in associates	**1.5**	1.4
Property, plant and equipment	**0.1**	0.1
Trade and other receivables	**0.4**	0.9
Cash and cash equivalents	**0.1**	0.2
Trade and other payables	**(0.5)**	(0.9)
	1.6	1.7
Gain on disposal of subsidiaries and associates	**0.5**	
Costs of disposal	**0.3**	
Total consideration	**2.4**	
Satisfied by		
Convertible loan notes received	**0.5**	
Shares in Nyheter 24 (note 17)	**1.9**	
	2.4	
Net cash inflow arising on disposal		
Cash consideration	**–**	
Cash and cash equivalents disposed of	**(0.1)**	
	(0.1)	

Profit on disposal of subsidiaries and associates	2011 £m	2010 £m
Disposal of the Wyatt Media Group	**0.5**	–
Release of provisions and guarantees in relation to corporate disposals made in prior years	**1.7**	–
	2.2	–

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2011

34 PRINCIPAL SUBSIDIARIES

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

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

Adlershofer Sarl*
Apex Tower Limited
Coventry House Limited
Freres Peugeot SCI
Great West House Limited
Grossglockner Sarl*
Ingrove Limited
Kapellen Sarl*
Museion Forvaltnings AB***
Naropere Sarl*
New Printing House Square Limited
Spring Gardens Limited
Vanerparken Property Investment KB***
Vauxhall Cross Limited

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

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

35 RELATED PARTY TRANSACTIONS

During the year two Group companies, Forvaltnings AB Kilo and Vanerparken Investment AB, rented office space from a company owned by Sten Mortstedt, Executive Chairman of CLS Holdings plc The total payable in the year by Forvaltnings AB Kilo was £19,000 (2010 £36,000) and by Vanerparken Investment AB was £19 000 (2010 £nil) A company owned by Sten Mortstedt purchased accountancy services from both Forvaltnings AB Kilo and Vanerparken Investment AB during the year amounting to £5,000 (2010 £9,000) in respect of Forvaltnings AB Kilo and £5,000 (2010 £nil) in respect of Vanerparken Investment AB In relation to these transactions £nil (2010 £36 000) was payable by Forvaltnings AB Kilo and £nil (2010 £nil) was payable by Vanerparken Investment AB at the balance sheet date

A Group company, CLSH Management Limited provided accounting services to Bulgarian Land Development Plc, an associate of the Group for which a charge of £48,000 was made in the year (2010 £16 000) of which £15,000 (2010 £16,000) remained outstanding at the balance sheet date

36 EVENT AFTER THE BALANCE SHEET DATE

On 12 January 2012, the Group acquired a 16 64% interest in Cood Investments AB (Cood"), an unlisted residential property company specialising in holiday cottages and cabins on vacation sites in Sweden Cood acquires and operates the sites whilst selling the cabins as vacation homes The purchase price was £4 1 million, and the Group also provided to Cood up to £8 0 million of lending facilities at market rates This was a related party transaction as first, the trust in which Sten Mortstedt is beneficially interested simultaneously acquired at the same price per share an 8 39% in, and provided lending facilities on the same terms to Cood and, second, Christer Sandberg who is a director of certain CLS Group companies, owns 7 5% of the enlarged equity of Cood

INDEPENDENT AUDITOR'S 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 2011 which comprise the balance sheet and the related notes 1 to 15 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body, for our audit work, for this report or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors Responsibilities on page 35 the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s (APB s) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the parent company s affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

OTHER MATTER

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2011

Mark Goodey

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

5 March 2012

COMPANY BALANCE SHEET – UK GAAP

at 31 December 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Investment in subsidiary undertakings	5	**133.7**	105.5
Current assets			
Trade and other receivables	6	**67.4**	32.0
Total assets		**201.1**	137.5
Current liabilities			
Trade and other payables	7	**(1.9)**	(4.4)
Non-current liabilities			
Borrowings	8	**(27.5)**	-
Total liabilities		**(29.4)**	(4.4)
Net assets		**171.7**	133.1
Equity			
Called up share capital	9	**12.5**	12.9
Share premium	10	**71.5**	71.5
Other reserves	11	**25.8**	25.4
Profit and loss account	11	**61.9**	23.3
Shareholders' funds		**171.7**	133.1

These financial statements of CLS Holdings plc (registered number 2714781) were approved by the Board of Directors and authorised for issue on 5 March 2012 and were signed on its behalf by

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 83 to 86 are an integral part of these financial statements

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

at 31 December 2011

1 GENERAL INFORMATION

These separate financial statements have been prepared under UK GAAP in accordance with applicable accounting standards under the historical cost convention and are presented as required by the Companies Act 2006 The following accounting policies have been applied consistently throughout the year and the preceding year unless otherwise stated CLS Holdings plc is the ultimate parent company of the CLS Holdings group Its primary activity (which occurs exclusively in the United Kingdom) is to hold shares in subsidiary companies

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Directors Report on pages 26 to 28

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2 1 Investment in Group Companies

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

2 2 Pension costs

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

2 3 Share capital

Ordinary shares are classified as equity

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

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

2 4 Related party transactions

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

There were no other related party transactions during the year

2 5 Foreign currency

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

3 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006 the Company s profit and loss account has not been presented in these financial statements The Company s retained profit for the financial year was £50 4 million (2010 £6 6 million)

Audit fees for the Company were £0 1 million (2010 £0 1 million)

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 36 to 41

Report of the Directors | Property Portfolio | Governance | Accounts | Other Information

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

at 31 December 2011

4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 18 March 2011 for the purchase of 1 in 47 shares at 725 pence per share was completed in April It returned £7 2 million to shareholders equivalent to 15 4 pence per share

A tender offer by way of a Circular dated 22 August 2011 for the purchase of 1 in 72 shares at 700 pence per share was completed in September It returned £4 4 million to shareholders, equivalent to 9 7 pence per share

A further tender offer will be put to shareholders in April 2012 for the purchase of 1 in 42 shares at a price of 735 pence per share which if approved will return £7 9 million to shareholders equivalent to 17 5 pence per share

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2011 £m	2010 £m
At 1 January	**105 5**	90 5
Additions	**28 9**	15 3
Provision for impairment	**(0 7)**	-
Disposals	-	(0 3)
At 31 December	**133 7**	105 5

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length To comply with the Companies Act 2006 a full list of subsidiaries will be filed with the Company s next annual return

6 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Current		
Amounts owed by subsidiary undertakings	**49 4**	31 0
Prepayments and accrued income	**18 0**	1 0
	67 4	32 0

7 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Current		
Amounts owed to subsidiary undertakings	-	3 5
Accruals	**2 1**	0 9
Arrangement fees	**(0 2)**	-
	1 9	4 4

8 BORROWINGS

	2011 £m	2010 £m
Unsecured bonds	**28 0**	-
Arrangement fees	**(0 5)**	-
	27 5	-

On 15 April 2011 the Group issued SEK 300 million unsecured bonds The bonds attract a floating rate coupon of 3 75% over three months STIBOR and are due for repayment in 2016 After two years, the Group has an option to redeem all outstanding bonds subject to an early repayment premium The bonds were listed on the NASDAQ OMX Stockholm on 5 July 2011

9 CALLED UP SHARE CAPITAL

	Number					
	Ordinary shares in circulation	**Treasury shares**	**Total ordinary shares**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2011	**46,588,244**	**4,793,000**	**51,381,244**	**11 7**	**1 2**	**12.9**
Cancelled following tender offers	**(1,624,530)**	**–**	**(1,624,530)**	**(0 4)**	**–**	**(0.4)**
Purchase of own shares						
– pursuant to market purchase	**(10,103)**	**10,103**	**–**	**–**	**–**	**–**
At 31 December 2011	**44,953,611**	**4,803,103**	**49,756,714**	**11 3**	**1 2**	**12.5**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2010	48 024 256	5 000 000	53 024 256	12 0	1 3	13 3
Cancelled following tender offer	(1 643 012)	–	(1 643 012)	(0 4)	–	(0 4)
Ordinary shares issued from treasury shares	207 000	(207 000)	–	0 1	(0 1)	–
At 31 December 2010	46 588 244	4,793 000	51 381 244	11 7	1 2	12 9

Ordinary shares have a nominal value of 25 pence each

10 SHARE PREMIUM ACCOUNT

	2011 £m	2010 £m
At 1 January	**71 5**	70 5
Ordinary shares issued from treasury shares	**–**	1 0
At 31 December	**71 5**	71 5

11 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			
	Capital redemption reserve £m	**Other £m**	**Total £m**	**Profit and loss account £m**
At 1 January 2011	**20 8**	**4.6**	**25 4**	**23 3**
Purchase of own shares	**0 4**	**–**	**0 4**	**(11 7)**
Expenses thereof	**–**	**–**	**–**	**(0 1)**
Profit for the year	**–**	**–**	**–**	**50 4**
At 31 December 2011	**21 2**	**4 6**	**25 8**	**61 9**

	Other reserves			
	Capital redemption reserve £m	Other £m	Total £m	Profit and loss account £m
At 1 January 2010	20 4	4 6	25 0	26 8
Purchase of own shares	0 4	–	0 4	(10 0)
Expenses thereof	–	–	–	(0 1)
Profit for the year	–	–	–	6 6
At 31 December 2010	20 8	4 6	25 4	23 3

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

at 31 December 20ı1

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £m	2010 £m
Balance at 1 January	**133 1**	135 6
Profit for the year	**50 4**	6 6
Premium on issue of ordinary shares from treasury shares	**-**	ı 0
Purchase of own shares	**(11 8)**	(10 1)
Balance at 31 December	**171 7**	133 1

13 DEFERRED INCOME TAX

No deferred tax liability arises relating to the Company (2010 £nil)

14 CONTINGENCIES

At 31 December 2011 CLS Holdings plc had guaranteed certain liabilities of Group companies, primarily in relation to Group borrowings and covering interest and amortisation payments No cross guarantees had been given in relation to the principal amounts of these borrowings Certain warranties were given in the course of corporate sales during 2008 Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company s financial statements and no reportable contingent liability exists

15 COMMITMENTS

At 31 December 2011, the Company had no contracted capital expenditure (2010 £nil) and no authorised financial commitments which were yet to be contracted with third parties (2010 £nil)

FIVE YEAR FINANCIAL SUMMARY

31 December 2011

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Group revenue	**80.1**	79 1	76 3	81 6	89 5
Costs	**(30.6)**	(30 3)	(30 3)	(37 4)	(49 9)
	49 5	48 8	46 0	44 2	39 6
Net movements on revaluation of investment properties	**18 0**	30 1	(6 7)	(103 3)	(68 1)
Gain on sale of corporate bonds and other investments	**0 5**	9 3	1 9	–	–
Profit on sale of investment properties	**-**	-	0 3	7 0	–
Profit/(loss) on sale of subsidiaries/joint venture/associates	**2 2**	-	–	(16 2)	(1 9)
Impairment of intangible fixed assets and goodwill	**-**	–	–	(22 0)	–
Operating profit/(loss)	**70 2**	88 2	41 5	(90 3)	(30 4)
Finance income	**12.2**	6 1	6 6	8 7	6 6
Finance costs	**(47 7)**	(31 1)	(32 1)	(51 7)	(49 3)
Share of profit/(loss) of associates after tax	**3 0**	7 7	2 5	(7 5)	0 5
Other non-recurring costs	**-**	–	–	(1 3)	–
Profit/(loss) before tax	**37 7**	70 9	18 5	(142 1)	(72 6)
Taxation	**1 1**	(10 8)	(1 1)	64 1	39 7
Profit/(loss) for the year	**38 8**	60 1	17 4	(78 0)	(32 9)
Share buy-backs paid and proposed	**12 3**	11 1	6 0	59 0	9 3
Net Assets Employed					
Non-current assets	**1,037 0**	1 018 6	944 2	869 1	1 251 5
Current assets	**67 3**	59 8	80 7	205 9	132 4
	1,104 3	1,078 4	1,024 9	1,075 0	1,383 9
Current liabilities	**(182 9)**	(123 1)	(164 3)	(133 9)	(167 7)
Non-current liabilities	**(553 9)**	(598 1)	(551 6)	(602 5)	(813 1)
Net assets	**367 5**	357 2	309 0	338 6	403 1

Ratios	2011	2010	2009	2008	2007
Net assets per share (pence)	**817 5**	766 7	643 3	548 4	595 1
EPRA net assets per share (pence)	**983 1**	952 9	825 8	698 4	770 4
Earnings/(loss) per share (pence)	**82.0**	127 1	36 4	(120 6)	(45 7)
EPRA earnings/(loss) per share (pence)	**64.9**	42 5	28 0	28 4	(9 1)
Net gearing (%)	**155 0**	152 3	170 0	121 1	169 1
Adjusted net gearing (%)	**128.5**	122 1	132 5	95 1	130 6
Recurring interest cover (times)	**2 63**	3 15	2 08	1 08	1 31

GLOSSARY OF TERMS

ADMINISTRATION COST RATIO
Recurring administration expenses of the Investment Property operating segment expressed as a percentage of net rental income

ADJUSTED NET ASSETS OR ADJUSTED SHAREHOLDERS' FUNDS
Net assets excluding the fair value of financial derivatives deferred tax on revaluations and goodwill arising as a result of deferred tax

ADJUSTED NET GEARING
Net debt expressed as a percentage of adjusted net assets

ADJUSTED SOLIDITY
Adjusted net assets expressed as a percentage of adjusted total assets

ADJUSTED TOTAL ASSETS
Total assets excluding deferred tax assets

CONTRACTED RENT
Annual contracted rental income after any rent-free periods have expired

CORE PROFIT
Profit before tax and before net movements on revaluation of investment properties profit on sale of investment properties subsidiaries and corporate bonds, impairment of intangible assets and goodwill non-recurring costs, change in fair value of derivatives and foreign exchange variances

DILUTED EARNINGS PER SHARE
Profit after tax divided by the diluted weighted average number of ordinary shares

DILUTED NET ASSETS
Equity shareholders funds increased by the potential proceeds from issuing those shares issuable under employee share schemes

DILUTED NET ASSETS PER SHARE OR DILUTED NET ASSET VALUE
Diluted net assets divided by the diluted number of ordinary shares

DILUTED NUMBER OF ORDINARY SHARES
Number of ordinary shares in circulation at the balance sheet date adjusted to include the effect of potential dilutive shares issuable under employee share schemes

DILUTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES
Weighted average number of ordinary shares in issue during the period adjusted to include the effect of potential weighted average dilutive shares issuable under employee share schemes

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

EPRA
European Public Real Estate Association

EPRA EARNINGS PER SHARE
Profit after tax, but excluding net gains or losses from fair value adjustments on investment properties profits or losses on disposal of investment properties and other non-current investment interests, impairment of goodwill and intangible assets, movements in fair value of derivative financial instruments and their related current and deferred tax

EPRA NET ASSETS
Diluted net assets excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

EPRA NET ASSETS PER SHARE
EPRA net assets divided by the diluted number of ordinary shares

EPRA NET INITIAL YIELD
Annual passing rent less net service charge costs on investment properties expressed as a percentage of the investment property valuation after adding purchasers costs

EPRA TOPPED UP NET INITIAL YIELD
Annual net rents on investment properties expressed as a percentage of the investment property valuation after adding purchasers costs

EPRA TRIPLE NET ASSETS
EPRA net assets adjusted to reflect the fair value of debt and derivatives and to include the fair value of deferred tax on property revaluations

EPRA TRIPLE NET ASSETS PER SHARE
EPRA triple net assets divided by the diluted number of ordinary shares

ESTIMATED RENTAL VALUE (ERV)
The market rental value of lettable space as estimated by the Group s valuers

NET ASSETS PER SHARE OR NET ASSET VALUE (NAV)
Equity shareholders funds divided by the number of ordinary shares in circulation at the balance sheet date

NET DEBT
Total borrowings less cash and short-term deposits

NET GEARING
Net debt expressed as a percentage of net assets

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

NET RENT
Contracted rent less net service charge costs

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

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

PASSING RENT
Contracted rent before any rent-free periods have expired

PROPERTY LOAN TO VALUE
Property borrowings expressed as a percentage of the market value of the property portfolio

RECURRING INTEREST COVER
The aggregate of group revenue less costs plus share of results of associates divided by the aggregate of interest expense and amortisation of issue costs of debt less interest income

RENT ROLL
Contracted rent

SOLIDITY
Equity shareholders funds expressed as a percentage of total assets

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

TRUE EQUIVALENT YIELD
The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group s external valuers

DIRECTORS, OFFICERS AND ADVISERS

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

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

Company Secretary
David Fuller BA, FCIS

Registered Office
86 Bondway
London
SW8 1SF

Registered Number
2714781

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

Shareholder Helpline 0870 889 3286

CLS Holdings plc on line
www clsholdings com

email
enquiries@clsholdings com

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

Financial Advisers
Kinmont Limited
5 Clifford Street
London
W1S 2LJ

Stockbrokers
Liberum Capital
Ropemaker Place Level 12
25 Ropemaker Street
London
EC2Y 9LY

Brewin Dolphin
12 Smithfield Street
London
EC1A 9BD

Registered Auditor
Deloitte LLP
Chartered Accountants
2 New Street Square
London
EC4A 3BZ

Financial and Corporate Public Relations
Smithfield Consultants Limited
10 Aldersgate Street
London
EC1A 4HJ

The paper used in this report is produced using wood fibre from fully sustainable forests in Finland, Sweden, Portugal Spain and Brazil with FSC certification The pulps used are Elemental Chlorine Free (ECF), and the manufacturing mill is accredited with the ISO 14001 standard for environmental management and with EMAS (The EU Environmental Management and Audit System)

Designed and produced by **MAGEE**
www magee co uk

Printed by Boss Print Ltd

CLS Holdings plc

86 Bondway
London
SW8 1SF

Tel +44 (0)20 7582 7766
Fax +44 (0)20 7820 7728
email enquiries@clsholdings.com

www.clsholdings.com