



## CLS Holdings plc

86 Bondway  
London  
SW8 1SF

Tel: +44 (0)20 7582 7766  
Fax: +44 (0)20 7840 7710  
e-mail: [enquiries@clsholdings.com](mailto:enquiries@clsholdings.com)

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

Release date: 7 March 2011  
Embargoed until: 07:00

# **PRESS RELEASE**

## **CLS HOLDINGS PLC ("CLS", THE "COMPANY" OR THE "GROUP")**

### **ANNOUNCES ITS AUDITED FULL YEAR RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

**A very strong set of full year results demonstrating the success of CLS's diversified high yielding office portfolio, active property and cash management, and sound financing.**

CLS Holdings plc is a property investment company with a diverse portfolio of £877 million modern, well-let properties in London, France, Germany and Sweden. The Company's properties have been selected for their potential to generate high returns on capital investment through active asset management and have performed well during 2010.

#### **FINANCIAL HIGHLIGHTS**

- Profit before tax: up 283% to £70.9 million (2009: £18.5 million)
- Net assets: up 16% to £357.2 million (2009: £309.0 million)
- Net assets per share: up 19% to 766.7 pence (2009: 643.3 pence)
- Earnings per share: up 249% to 127.1 pence (2009: 36.4 pence)
- EPRA net assets: up 13% to £441.6 million (2009: £390.2 million)
- EPRA earnings per share: up 110% to 58.8 pence (2009: 28.0 pence)
- EPRA net assets per share: up 16% to 941.8 pence (2009: 812.5 pence)
- Proposed distribution to shareholders: £7.1 million (April 2010: £6.0 million) by way of tender offer buy-back: 1 in 46 at 700 pence, equivalent to 15.2 pence per share
- Low weighted average cost of debt: 4.3% (2009: 4.0%)
- Adjusted solidity: up 8% to 41.2% (2009: 38.3%)
- Adjusted gearing 124% (2009: 135%)
- Interest cover up 52% to 3.2 times (2009: 2.1 times)

#### **KEY DATA**

- Top 3 performer in UK listed property sector total shareholder return over 3 years and 10 years: 52% and 247%, respectively
- Portfolio value: £876.9 million: up 3.5% in local currencies
- Proportion of Government tenants: 40.8%
- High occupancy rate: 95.7% up from 95.0% as at 30 June 2010
- Liquid resources: £126.4 million
- Excellent performance of Catena 29.9% shareholding: year end market value £50.6 million, exceeds book value by £21.0 million. Market value as at 4 March 2011: £64.5 million, exceeds book value by £34.9 million
- Indexation applies to 66% of contracted rent

- Acquisitions in London and Paris totalled £36.4 million in 2010
- Progressing a number of development opportunities including a 110,000 sq m (1,184,030 sq ft) mixed use proposal, Vauxhall Square, in London
- Through our associate Catena, involved in a potential 150,000 sq m (1,614,586 sq ft) mixed use development in Solna, Stockholm
- Two pre-lets totalling 5,042 sq m (54,271 sq ft) in Germany to start construction in 2011

Sten Mortstedt, Executive Chairman of CLS, commented:

*“These excellent results in 2010 demonstrate how the Group continues to benefit from its diversity of exposure to four different markets. Our balance sheet is strong, so we intend to exploit attractive acquisition opportunities as they arise and benefit from some very interesting development opportunities both in London and in Sweden”*

**-ends-**

For further information please contact:

CLS Holdings plc www.clsholdings.com Sten Mortstedt, Executive Chairman Henry Klotz, Executive Vice Chairman Richard Tice, Chief Executive Officer	+44 (0)20 7582 7766
--	---------------------

Kinmont Advisory Limited Jonathan Gray	+44 (0)20 7087 9100
---	---------------------

Smithfield Consultants Limited Alex Simmons	+44 (0)20 7360 4900
--	---------------------

Liberum Capital Limited Chris Bowman Tom Fyson	+44 (0)20 3100 2222
--	---------------------

Brewin Dolphin Limited Mark Brady Miriam Greenwood	+44 (0)845 213 4729
--	---------------------

CLS will be presenting to analysts at 8.30am on Monday, 7 March 2011 at Smithfield Consultants, 10 Aldersgate Street, London, EC1A 4HJ. Conference Call dial in numbers as follows:

Participant Telephone Numbers:	+44 (0)20 7806 1960 (UK Toll)
--------------------------------	-------------------------------

Confirmation Code:	2412006
--------------------	---------

Participants will have to quote the above code when dialling into the conference.

## **CHAIRMAN'S STATEMENT**

These excellent results demonstrate how the Group continues to benefit from its diversity.

### **OVERVIEW**

The Group delivered a strong financial and operating performance overall in 2010, continuing the progress of the first half of the year. Pre-tax profit rose by over 280% to £70.9 million, earnings per share on an EPRA basis were 58.8 pence (2009: 28.0 pence) and EPRA net asset value increased by 16% to 941.8 pence per share.

This has all been achieved despite difficult conditions throughout the year, with a backdrop of austerity, a challenging macro-economic and political situation and increasing uncertainty over the sovereign debt of certain Eurozone economies.

We have used this period in the property cycle to start buying property again. We have been successful in letting premises and keeping the vacancy rate low, whilst beginning to progress a number of short to medium-term development opportunities within our portfolio. In addition, our property values are rising again across our regions and we continue to raise finance competitively.

These excellent results demonstrate how the Group continues to benefit from its diversity of exposure to four different economies, three different currencies, some twenty different banks and 381 tenants. This diversification has proved to be a key element to our success.

We constantly seek to manage down risk, whilst striving for attractive returns for shareholders. The obvious success of our policy is demonstrated by our total shareholder return of 52% over the last three years and 247% over the last ten, which makes CLS a top 3 performer in the UK listed property sector over both periods.

### **PORTFOLIO**

Overall, the portfolio performed solidly during 2010, with a like-for-like valuation increase of 3.5% in local currency. The benefit of our diversification across markets is self-evident: the London portfolio increased by 1.3%, France by 7.5%, and Germany by 4.2%, whilst Sweden fell by 1.2%. Acquisitions during the year, in London and in Paris, totalled £36.4 million and, after a negative currency impact of £8.4 million, the total portfolio is now valued at £876.9 million.

The portfolio consists of 71 properties totalling 407,700 sq m. The average capital value is £2,151 per sq m and the average income of leased space is £169 per sq m.

The net initial yield of 7.2% compares to a low average cost of debt of 4.3%, a positive differential of 290 basis points which continues to be amongst the highest in the property sector. It is a further strength of our portfolio that 66% of our rents are subject to indexation which will prove to be valuable in times of higher inflation ahead.

The encouraging signs in the letting market which I indicated in the interim report have continued, and the vacancy rate is 4.3% by rental value (2009: 4.5%). This remains well below the average vacancy for offices in our markets and is testament to the success of our staff in proactively managing the properties, developing good working relationships with tenants and responding to their needs.

The rental income is diversified yet secure, with 41% being paid by Government tenants and 28% by major corporations. Our weighted average lease length is 8.4 years, or 7.3 years to first break.

During the second half we announced two substantial pre-lets of developments totalling 5,042 sq m for existing tenants in Germany. Construction is planned to start in 2011 and, when completed, these will generate £0.5 million of new rent.

Our indirect investment in Swedish property, through our 29.9% holding in listed property company Catena, performed exceptionally well during the year. We received dividends of £9.9 million whilst the share price increased by 104%. At 31 December 2010 our holding in Catena had a market value of £50.6 million compared to the carrying value in our accounts of £29.6 million, and at 4 March 2011 the value of our holding had risen by a further £14 million. The potential surplus value of £21 million equated to 45 pence per CLS share as at the year end, and has since risen to over 74 pence per share. Towards the end of 2010, Catena took advantage of the high property prices in Sweden to sell a substantial part of its property portfolio. From the proceeds, Catena has proposed, subject to shareholder approval, to distribute SEK 59 per share in April 2011, from which CLS would receive approximately £20 million in cash.

Catena's future focus is on the development of the remaining properties in Stora Frösunda, Solna, where building rights for housing, offices and commercial premises will be created when the new zoning plan for the area is approved. Outline planning permission is anticipated to be for approximately 150,000 sq m comprising of 1,000 apartments and 50,000 sq m of commercial area.

In February 2011, we launched a consultation for a major 110,000 sq m mixed use medium-term redevelopment at our HQ site in Vauxhall. Further details can be found in the Business Review. We are also working on redevelopment proposals for two other, smaller sites in Vauxhall.

## **RESULTS**

Profit after tax rose by 245% to £60.1 million (2009: £17.4 million). This includes gains of £10.7 million on the disposal of corporate bonds. Basic earnings per share were 127.1 pence (2009: 36.4 pence).

Net assets rose to £357.2 million, an increase of £48.2 million, and EPRA net assets rose by £51.4 million to £441.6 million. Our basic net assets per share increased by 19% to 766.7 pence (2009: 643.3 pence).

Recurring interest cover for the year increased by 52% to 3.2 times (2009: 2.1 times). The Group's property loan to value ratio was 63.5% and net debt as a proportion of adjusted net assets was 123.6%.

## **FINANCING**

Our strategy of ring-fencing our debt on individual properties and using some 20 different banks, continues to serve us well. Despite the widely reported challenges in the banking sector, we have successfully refinanced £80.3 million of debt and raised £22.4 million of new debt and since 1 January 2011 we have agreed the refinancing of a further £24.7 million of debt. In addition, we have entered into £205.6 million of interest rate caps with start dates between November 2010 and May 2011, of which £182 million have a strike rate of 2.5%. This will protect the Group from the risk of interest rate rises in the next five years.

The weighted average loan length is 4.9 years. We generally approach over ten banks for any financing and actively explore a range of options to secure our ongoing finance requirements. We enjoy strong relationships with our banks, to our mutual benefit.

Our balance sheet is strong with adjusted solidity of 41.2% and we have healthy liquid resources, with £126 million of cash and investments available for deployment. We have

continued to invest surplus cash into corporate bonds as a cash management technique to generate higher returns whilst maintaining liquidity. At the year end, the Group held £78.1 million of bonds, which were generating an annual coupon of 8.3% on average.

### **ENERGY EFFICIENCY**

Energy efficient buildings are both commercially beneficial and socially desirable. We continue to incorporate environmentally efficient features in our developments and convert or modify properties when possible. At Vänerparken in Sweden, for example, we are installing a new energy facility which will produce heating, cooling and hot water whilst decreasing CO<sub>2</sub> and other emissions by approximately 90%. In addition we are reviewing the performance of our existing plants and systems across the portfolio to identify further potential improvements. The short payback period on such investments can lead to valuable cost savings for tenants and for the Group.

### **DISTRIBUTIONS TO SHAREHOLDERS**

In April 2010 we distributed £6.0 million by means of a tender buy-back of shares, and in September a further £4.0 million. We intend to continue our traditional tender buy-back method by distributing £7.1 million to shareholders in April 2011, subject to shareholder approval, by means of a buy-back of 1 in 46 shares at 700 pence per share. A document setting out details of the tender offer will be posted to shareholders with our Annual Report and Accounts.

### **BOARD CHANGES**

On 11 May 2010 Richard Tice and Jennica Mortstedt joined the Board as Deputy Chief Executive and Non-Executive Director, respectively, whilst Bengt Mörtstedt retired as a Non-Executive Director. I thank my brother Bengt for his many years of service and wise counsel to the Group.

On 1 January 2011, Henry Klotz became Executive Vice Chairman, Richard Tice became Chief Executive Officer and Thomas Lundqvist moved from Vice Chairman to Non-Executive Director. These changes are designed to ensure the Group has the appropriate management structure to take it forward.

We have strong teams across the Group and I would like to express my considerable thanks to my Board colleagues and our staff for all their efforts and hard work towards our continued success.

### **OUTLOOK**

The economic signals have rarely been more mixed. In an era of government austerity, inflation is rising, credit is tightening and sovereign debt is a concern. Also the signals from the property sector are mixed: we are letting space, arrears are negligible and interest rates are at all time lows; yet, due to the banks' restrictive credit policies, there are fewer buyers for high-yielding property.

Therefore, we intend to maintain high reserves of liquidity while, on a selective basis, continuing to actively exploit attractive property acquisitions as they arise. Meanwhile, we shall progress some very interesting short and medium-term development opportunities within our portfolio which have the potential to add significant further value.

I am pleased with the strong performance in 2010 and with the fact that the Group is in an excellent position to meet any challenges and opportunities that lie ahead.

**Sten Mortstedt**  
Executive Chairman

## **BUSINESS REVIEW**

The low void rate of 4.3% is a strong reflection on the focus on active management and responding to tenants' needs.

The Group's main activity is in commercial real estate across four European regions: London, France, Germany and Sweden. At 31 December 2010, the Group's property interests of £927.5 million comprised the directly owned investment property portfolio valued at £876.9 million, and an additional property exposure in Sweden via an associate listed on the Stockholm Stock Exchange, property company Catena AB, which investment had a market value of £50.6 million. The remaining Other Investments comprised investments in corporate bonds which had a book value of £78.1 million at the year end, and Bulgarian Land Development Plc, website media company Wyatt Media Group AB and other small corporate investments, which together had a book value of £14.5 million.

### **INVESTMENT PROPERTY**

**OVERVIEW** The Group's core focus is on providing well-managed, cost-effective offices and commercial real estate for companies in key European cities across four countries.

At 31 December 2010, the directly held investment portfolio was valued at £876.9 million, a like-for-like increase in the year of 3.5% in local currencies, or 2.5% after reflecting foreign exchange movements against sterling. In local currency, the French portfolio rose in value by 7.5%, Germany by 4.2% and London by 1.3%, whilst Sweden fell by 1.2%.

The portfolio had a net initial yield of 7.2%, with 381 tenants and a weighted average lease length of 8.4 years, or 7.3 years to the first break. Of the contracted rent of £65.0 million, 66% was subject to indexation.

The overall Group vacancy rate continued to be low at 4.3%, below the 5 year average of 4.7%. This low void rate is a strong reflection on the Group's focus on actively managing our portfolio, with our in-house asset and property management teams responding to tenants' needs.

The property investment markets saw fewer buyers for high-yielding property in 2010, which provided opportunities for acquisitions. In London, the Group acquired Apex Tower, New Malden for £21.6 million, and the strategic acquisition of 100 Vauxhall Walk, SE11 for £1.8 million to complete a development site assembly. These were followed by the purchase in Paris of Colt Group's French subsidiary headquarters for £13.0 million.

### **LONDON**

At 31 December 2010, the London portfolio represented 40% of the Group's property interests with a value of £375.0 million. This was an increase of 1.3% on a like-for-like basis from twelve months earlier, and reflected a variety of asset management initiatives throughout the portfolio. The London portfolio had a strong tenant profile with 53% by rental value let to government tenants, and 29% to major corporations. The income had a weighted average lease term of 10.1 years, or 9.6 years to the first break.

At 31 December 2010, the London portfolio comprised 28 properties with an aggregate lettable area of 127,700 sq m.

Against a backdrop of austerity and recession, the London vacancy rate of 4.7% by rental income was well below the average for comparable property. During the year, 8,112 sq m of property became vacant, and 6,632 sq m was let or had leases renewed with existing tenants.

As a long-term owner of properties we have continued a programme of renovation and refurbishments to a number of buildings in the London portfolio, totalling £0.4 million in aggregate in the year. This included £0.3 million at Westminster Tower, where the common parts and four recently vacated lower floors are under refurbishment, which should improve rental values. Rent reviews were settled at Spring Gardens, Westminster Tower, Cambridge House and CI Tower with a total increase of £0.2 million. Activity of note included a significant lease renewal with, and an additional letting to, Flight Centre at CI Tower totalling 1,497 sq m, and new lettings and lease renewals at Clifford's Inn on 2,937 sq m.

Through our close relationships with tenants we have again achieved excellent levels of debt recovery. On average we received 98% of rent and service charge within 14 days of the due dates.

In November, the Group acquired Apex Tower, New Malden for £21.6 million, including costs. Apex Tower is located on the opposite side of the High Street to CI Tower. This provides a number of medium-term asset management opportunities across the two properties, which, together with their large car parks, cover a total of two acres, directly adjacent to a busy railway station. Apex Tower consists of 9,015 sq m of offices on 15 upper floors, four retail units and a public house at ground floor level (1,202 sq m) and a four storey car park at the rear. The building is fully let and produces £1.9 million of income p.a., of which 94% is from a lease to BAE Systems on the whole of the offices and expiring in June 2020; the retail tenants include Tesco Stores and William Hill Organisation. On acquisition, the net initial yield to CLS was 8.66% and with debt financing the initial return on equity was 16.1% p.a.

In the medium term, substantial regeneration is going to occur in the Vauxhall and Nine Elms area, which is the location of the new United States embassy, due to open in 2016. The Group has substantial landholdings in Vauxhall, including three potential development sites. The largest of these is the three acre Cap Gemini site at Vauxhall Cross, close to Vauxhall mainline, underground and bus stations. This site is identified by the GLA and Lambeth Council as being suitable for tall buildings in the Vauxhall Nine Elms Opportunity Area. In February 2011, following discussions with a number of key stakeholders, the Group made public proposals for a major mixed use redevelopment scheme on this site, including a large new public square for Vauxhall.

These plans aim to provide over 110,000 sq m gross area, including shops, offices, a hotel, a multi-screen cinema, restaurants and bars, together with two 43 storey towers of residential apartments and student housing. In addition the Group has proposed an aerial Linear Walk to improve the public realm for pedestrians in the Vauxhall Cross area. The aim is to submit for planning permission for this large scheme by the end of 2011, and vacant possession of the site is expected in 2014.

The Group's development sites in Vauxhall are important projects in an improving area offering strong potential for adding value to substantial holdings.

## **FRANCE**

The French portfolio was valued at £248.7 million, which represented 27% of the Group's property interests across its four key regions. The portfolio increased in value by 7.5% in the year in local currency on a like-for-like basis. There were no disposals from the French portfolio in the year, which at the year end comprised 26 properties of 96,500 sq m with 171 tenants. 21% of the French portfolio was let to government tenants, most tenancies were of the traditional French 3:6:9 year duration, and the weighted average lease length at 31 December 2010 was 5.9 years, or 3.1 years to the first break.

In October the Group acquired 23/27 Rue Pierre Vallette, in the southern Parisian suburb of Malakoff, for £13.0 million. The building is let to Colt Group SA, a FTSE 250 company specialising in fibre optic networks, on an indexed lease until September 2018 with no breaks. The 10,776 sq m office and industrial property produces €1.1 million p.a., which equates to €104 per sq m and represented an initial yield of 7.38% to CLS. With the debt finance, the initial return on equity was 15.26% p.a. The building is close to the Quatuor office property already owned by CLS in Montrouge.

In the French portfolio there were 16,080 sq m of new lettings or renewals, and tenants vacated 15,463 sq m; the resulting year end vacancy rate was 3.6% by rental value. The letting of 1,131 sq m at Le Debussy, Paris was noteworthy, together with two sizeable lettings in Forum and Rhone Alpes, Lyon totalling 1,026 sq m, which meant that at the year end all five Lyon properties were fully let.

The refurbishment and renovation across the portfolio totalled £2.5 million, of which the major works were at Le Sigma, Paris involving new heating and cooling systems.

The French investment market recovered well in 2010, with circa €12.1 billion of transactions. The supply of vacant space has reduced to 7.2% in the Paris region and with very little new construction under way, rents are stabilising for well managed, cost-effective offices. We expect to start to see some rental growth in 2011 in certain locations. The lack of new construction is a feature common to all our regions and is likely to remain so until speculative construction becomes less difficult to finance.

## **GERMANY**

At 31 December 2010, the German portfolio was valued at £196.5 million, being 21% of the Group's property interests. These 16 properties saw an increase in value of 4.2% in local currency on a like-for-like basis, and comprised 138,000 sq m of lettable space with 83 tenants on a weighted average lease term of 9.6 years, or 9.3 years to the first break. 18% of the contracted rent was from government tenants.

During the year tenants vacated 15,689 sq m, and lettings or lease renewals were achieved in 16,889 sq m, resulting in a void rate of 5.5% by rental value, well below the national vacancy rate for offices of 10.6%.

During the second half of 2010 we proved the benefit of working closely with tenants with the signing of two pre-lets. First, the entire 3,400 sq m of the Phase 4 office development in Landshut, which is to be completed by the summer of 2012, was let on a 17.5 year, index-linked lease with no breaks to E.ON Service Plus GmbH, at a starting rent of £0.4 million per annum. Second, the Group agreed to develop a further 1,642 sq m of space at its office and light industrial property Gräfelfing, in Munich, for its existing single tenant Dr. Hönle AG. The new space is to be completed by the end of 2011, and has been let, together with the existing space, on an index-linked lease until October 2020 with no breaks, to form an 8,527 sq m complex.

Notable activity in Hamburg included letting 1,513 sq m at Fangdieckstrasse to a fast growing medical group, and a lease renewal for 4,153 sq m at Merckuring.

Germany's GDP rebounded strongly in 2010, growing by 3.6% for the year, led by export growth. Activity in the German commercial investment property market increased to €19.4 billion in 2010, up 85%. The main investors were open-ended and closed-ended real estate funds which represented 63% of the market.

The office letting market increased in 2010, and there remained very limited development activity. We would thus expect to see the void rate fall in 2011 across most of the main German cities.

## **SWEDEN**

Our Swedish property interests comprised two elements which together represented 12% of the Group's property interests across its four key regions.

First, the wholly owned 45,500 sq m of offices in Vänersborg, near Gothenburg, called Vänerparken. At 31 December 2010 this was valued at £56.7 million, a fall of 1.2% on a like-for-like basis. The local municipality has leased 91% of the space until 2015 and 2019 subject to annual indexation. The vacancy rate is just 2.0%.

The second element of the Group's exposure to Swedish real estate is through its 29.9% stake in the Stockholm-listed property company Catena AB, our associate which had an outstanding year of performance. During 2010 Catena sold a portfolio of properties in Norway, and since the year end it has sold the majority of its portfolio in Sweden, with the exception of one large site in Stockholm retained for its development potential. Planning permission is being sought for approximately 1,000 residential apartments and 50,000 sq m of commercial area and a decision is expected early in 2012.

In the wake of this activity, the Group received dividends of £9.9 million from Catena in the year and the carrying value of the investment at the year end was £29.6 million. However, the market value of the Group's shareholding based on Catena's year end share price of SEK 153 was £50.6 million, and this uplift of £21.0 million, or 45 pence of NAV per CLS share, is not reflected in the CLS balance sheet. The return on capital of our investment in Catena in 2010 was 168%.

## **OTHER INVESTMENTS**

The corporate bond portfolio is part of the Group's long-term investment strategy in parallel with the ownership of long-term investment properties. During the year disposals of corporate bonds generated historical cost gains of £10.7 million, which are explained further below. Corporate bonds at the year end had a value of £78.1 million against an historical cost of £73.3 million. There were 30 different bonds held in the portfolio, spread across four different sectors – insurance, banks, industrials, and other – and with a coupon on year end value of 8.29%. This portfolio is actively monitored by our in house team and external advisers.

Bulgarian Land Development Plc, an associate, is an unquoted property company holding predominantly residential property assets in Bulgaria. CLS owns 48.3% of the company; during the second half of 2010 BLD returned capital to the Group of £2.0 million, leaving the remaining investment held at our share of net asset value of £9.4 million. Further returns of capital are expected upon future asset sales.

## **RESULTS FOR THE YEAR**

**HEADLINES** Profit after tax of £60.1 million (2009: £17.4 million) generated basic and diluted earnings per share of 127.1 pence (2009: 36.4 pence); EPRA earnings per share rose to 58.8 pence (2009: 28.0 pence). Gross property assets at 31 December 2010 were £876.9 million (2009: £813.0 million), basic net assets per share rose by 19% to 766.7 pence (2009: 643.3 pence) and EPRA net assets per share were 16% higher at 941.8 pence (2009: 812.5 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, as the euro was 3% to 4% weaker than in 2009, profits and net assets were comparatively around 2% lower as a result.

## EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2008	1.0461	11.4474
2009 average rate	1.1233	11.9290
At 31 December 2009	1.1275	11.5689
2010 average rate	1.1663	11.1221
At 31 December 2010	1.1664	10.4828

**STATEMENT OF COMPREHENSIVE INCOME** In summary, profit before tax in the year ended 31 December 2010 of £70.9 million (2009: £18.5 million) comprised a surplus on revaluation of investment properties of £30.1 million (2009: deficit of £6.7 million), a share of profits of associates of £7.7 million (2009: £2.5 million), gains on disposals of corporate bonds and other investments of £9.3 million (2009: £1.9 million), a net negative movement in the fair value of derivatives of £3.1 million (2009: gain of £6.3 million), and a profit from the underlying property portfolio of £26.9 million (2009: £14.5 million).

Rental income for 2010 was £62.1 million, an increase of £1.5 million or 2.5% over 2009. Additions in France and London contributed £2.8 million of new rent, and developments in Germany a further £0.8 million. However, other factors partially countered these rises: the weakness of the euro reduced rents by £0.6 million, a one-off termination receipt inflated rents in 2009, and a significantly over-rented lease came to an end in 2009 with the space let at a market level for 2010.

In total, Group revenue less costs of £48.8 million was £2.8 million higher than in 2009, largely due to the higher rental income.

The net surplus on revaluation of investment properties in the year was £30.1 million (2009: deficit of £6.7 million). £17.8 million of this uplift came from the French portfolio with an underlying gain of 7.5% in local currency, £8.2 million was from Germany's 4.2% like-for-like uplift, and £4.8 million reflected a 1.3% rise in London. Our sole direct property investment in Sweden fell in value by £0.7 million, or 1.2%. The surplus on revaluation of investment properties is excluded in arriving at EPRA earnings per share.

Early in 2010, in response to a perceived shift in the risk profile of part of the corporate bond portfolio, we moved quickly to liquidate around half of our investments, and in doing so realised a gain of £10.7 million, which is the most significant element of the net gain on sale of corporate bonds and other investments of £9.3 million. The bond proceeds were gradually reinvested in bonds with a more appropriate risk profile. The bond portfolio is a cash investment tool intended to earn higher returns than bank deposits – in 2010 the return on capital employed from the bond portfolio was 16.3%.

Net finance costs in 2010 were £25.0 million (2009: £25.5 million). Within this number, interest payable of £24.0 million (2009: £28.5 million) was lower than the previous year due to around half of the Group's debt benefiting from floating interest rates, which were lower than in 2009. Interest income of £6.1 million (2009: £6.4 million) was marginally lower than last year reflecting lower levels of cash and liquid resources. Foreign exchange variances created a lower loss in 2010 of £4.0 million (2009: £9.7 million) due to smaller foreign exchange movements in the year, and the net effect of all of these factors produced net finance costs before the effect of marking derivatives to market of £21.9 million (2009: £31.8 million). The net loss of marking derivatives to market at 31 December 2010 was £3.1 million (2009: gain of £6.3 million), which is excluded from EPRA earnings per share.

The main drivers of the profit of associates after tax of £7.7 million (2009: £2.5 million) were a profit of £9.4 million (2009: £3.0 million) from our 29.9% share in Catena AB, and a loss of £1.6 million (2009: £0.5 million) from Bulgarian Land Development Plc. We received £9.9 million from Catena in dividends, and accounted for our share of the uplift in the net assets which it retained. During the year its share price doubled on the development prospects of its property portfolio. Consequently, as mentioned above, the value of our shares in Catena exceeded its book value by £21.0 million, or 45 pence per CLS share of unbooked net asset value. Bulgarian Land Development delisted from AIM in 2010 and set itself the goal of liquidating its assets in an orderly manner. As a first stage, it returned to us £2.0 million by means of a tender offer buy-back which, together with the loss mentioned above and a foreign exchange movement, reduced our carrying value of BLD to £9.4 million (2009: £13.5 million).

Once again this year the current tax charge was significantly below the weighted average rate of tax in the countries in which we do business. Our French operation was the only part of the Group which paid tax. The Group recognises a deferred tax asset in respect of brought forward and current year losses in certain jurisdictions. These losses will be eroded as future taxable profits are generated. The tax charge also contains a deferred tax charge of £6.4 million (2009: credit of £1.0 million), which largely represents an adjustment required under IFRS for the potential tax occasioned by valuation movements on investment properties.

In April 2010, £6.0 million was distributed to shareholders by means of a tender offer buy-back of 1 in 48 shares at 600 pence per share. In September, a further £4.0 million was distributed by means of a tender offer buy-back of 1 in 74 shares at 625 pence per share, and a proposed tender offer buy-back of 1 in 46 shares at 700 pence per share to return £7.1 million will be put to shareholders at the annual general meeting in April 2011.

**EPRA NET ASSET VALUE** In 2010 CLS joined the European Public Real Estate Association (“EPRA”) and we have adopted many of its reporting metrics this year for the first time. At 31 December 2010, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 941.8 pence (2009: 812.5 pence), a rise of 16%, or 129.3 pence per share. The main reason for the increase was profit after tax which added 125.1 pence. The two tender offer buy-backs in the year added 6.8 pence per share and fair value movements on corporate bonds and listed investments added a further 6.7 pence; against this, exchange rate variances reduced adjusted net assets per share by 5.9 pence, and the issue of shares from treasury shares and the granting of share options reduced EPRA NAV by 3.4 pence.

At 31 December 2010, EPRA triple net assets per share (a diluted measure which discloses net assets per share on a true fair value basis) were 707.2 pence (2009: 591.0 pence), a rise of 20% or 116.2 pence per share.

**CASH FLOW, NET DEBT AND GEARING** At 31 December 2010, the Group’s cash balances of £48.3 million were £22.0 million lower than twelve months previously, mainly due to property acquisitions and other capital expenditure of £42.9 million and distributions to shareholders of £10.1 million exceeding the cash inflow from operating activities of £31.3 million.

Gross debt of £589.3 million was at a similar level to the £592.8 million of twelve months earlier. In practice, £100.6 million of loans were repaid or refinanced in the ordinary course of business, and £102.7 million of new loans drawn. £21.5 million was raised to finance the acquisitions of Apex Tower in New Malden and Rue Pierre Vallette in Paris, £0.9 million to finance developments in Germany, and £80.3 million was drawn under refinancing. Financing activities in the year attracted costs of £1.1 million in aggregate. In addition, £1.0 million of interest was added to the principal outstanding on a zero-coupon bond, £1.0 million

of loan issue costs were amortised, and the effect of translating euro-denominated loans into sterling at an exchange rate 3.3% different from twelve months earlier reduced the sterling value of overseas loans by £6.5 million.

Adjusted net gearing was 123.3% at 31 December 2010 and the weighted average loan-to-value on borrowings against properties was 63.5%. Adjusted solidity was 41.2% (2009: 38.4%).

The weighted average cost of debt at 31 December 2010 of 4.3%, whilst still one of the lowest in the property sector, was marginally higher than the 4.0% twelve months earlier due mainly to the increase in floating rates between the two dates. In 2010, with a rise in net rental income and higher profits from associates, together with lower borrowing costs, recurring interest cover rose to a comfortable 3.2 times (2009: 2.1 times).

**FINANCING STRATEGY** The Group's strategy is to hold its investments predominantly in special-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. 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 2010. The Group had 54 loans across the portfolio from 20 banks. None of the loans at 31 December 2010 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. At 31 December 2010, the weighted average tenure for derivatives against floating rate euro loans was 1.0 year. This relatively short unexpired term reflected the expiry of a number of derivatives in January and April 2011. Consequently, in late 2010 the Group entered into £132.2 million of interest rate caps with forward start dates to supersede the expiring swaps and caps. The impact of these transactions was to produce as at 30 April 2011 a pro forma weighted average tenure for euro derivatives of 4.1 years, with an average cap rate of 3.2%. In total in 2010, in accordance with the Group's strategy to mitigate its interest rate risk at a time of rising rates, we entered into derivatives with a nominal value of £205.6 million.

At 31 December 2010, the Group had fixed rate borrowings of £273.5 million, and floating rate borrowings of £318.8 million; of the latter, £225.7 million were subject to interest rate caps. The effect of the interest rate caps with forward start dates will be that at 30 April 2011, £244.7 million of our debt will be covered by interest rate caps, of which £181.7 million will be capped at 2.5% for over four years.

**SHARE CAPITAL** At 1 January 2010, there were 53,024,256 shares in issue, of which 5,000,000 were held as treasury shares. On 11 March 2010, 207,000 treasury shares, and 300,000 share options, were issued. On 14 April, under the tender offer buy-back, 1,004,817 shares were cancelled in exchange for £6.0 million distributed to shareholders, and on 14 September, under the tender offer buy-back, 638,195 shares were cancelled in exchange for £4.0 million distributed to shareholders. There were no other changes to share capital in the year, and at 31 December 2010, 46,588,244 shares were listed on the London Stock Exchange, and 4,793,000 shares remained in Treasury.

The Directors intended to put to the Annual General Meeting of the Company in April 2011 a proposal to issue a tender offer to buy-back 1 in 46 shares at 700 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 1,012,787 shares, and a distribution to shareholders of £7.1 million.

## TOTAL RETURNS TO SHAREHOLDERS

In addition to the distributions associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 498.8 pence on 31 December 2009 to 534.5 pence at 31 December 2010. Accordingly, the total shareholder return in 2010 was 7.7%. In the three years to 31 December 2010, our total shareholder return of 52% placed us in the top three performers in the listed property sector, and in the ten years ended on the same date our return of 247%, did the same.

## KEY PERFORMANCE INDICATORS

- **Total Shareholder Return**  
 Aim – to provide a TSR of over 12% per annum over the medium term  
 Achievement – 2008-2010: 52%, or 14.9% p.a.  
                   – 2001-2010: 247%, or 9.5% p.a.
  
- **Effective management of balance sheet**  
 Aim – to sell assets with limited growth potential and invest in high yielding alternatives  
 Achievement – 2006 to 2010: £746 million of property sales  
                   – 2010: £36.4 million of acquisitions yielding an average initial return on equity of 15.8%
  
- **Occupancy rate**  
 Aim – to maintain an occupancy level of over 95%  
 Achievement – 2010: 95.7%  
                   – 2009: 95.5%
  
- **Administration cost ratio**  
 Aim – to maintain administration costs below 15% of net rental income  
 Achievement – 2010: 15.6%  
                   – 2009: 14.9%

## CORPORATE BOND PORTFOLIO

At 31 December 2010

Sector	Banking	Insurance	Building Societies	Financials	Other	Total
Value	£25.8m	£23.2m	£8.1m	£5.9m	£15.1m	£78.1m
Coupon yield	10.0%	7.6%	8.0%	7.0%	7.1%	8.3%
Issuers	Lloyds RBS Commerzbank Dresdner BPCE KBC SNS Bank Swedbank	Legal & General Prudential AXA Scottish Widows Swiss Life Old Mutual Storebrand	Nationwide Yorkshire	Aberdeen AM Henderson Man Group Euroclear	TUI Corral Finans FS Funding (ISS) HeidelbergCement PA Resources Renewable Energy Corp	

## PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk	Mitigation
<p><b>Property investment risks</b></p> <p>Underperformance of investment portfolio impacting on financial performance due to:</p> <ul style="list-style-type: none"> <li>• Cyclical downturn in property market</li> <li>• Inappropriate buy/sell/hold decisions</li> </ul>	<p>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.</p>
<ul style="list-style-type: none"> <li>• Changes in supply of space and/or tenant demand affecting rents and vacancies</li> </ul>	<p>The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 8.4 years and the Group's largest tenant concentration is with the Government sector (40.8 per cent).</p>
<ul style="list-style-type: none"> <li>• Poor asset management</li> </ul>	<p>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.</p>
<p><b>Other investment risks</b></p> <p>Underperformance of corporate bond portfolio</p>	<p>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 receives updates on bond price movements and third party market analysis on a daily basis and reports on corporate bonds to the Board on a bi-weekly basis.</p>
<p><b>Funding risks</b></p> <p>Unavailability of financing at acceptable prices</p>	<p>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.</p>
<p>Adverse interest rate movements</p>	<p>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.</p>
<p>Breach of borrowing covenants</p>	<p>Financial covenants are monitored by the Treasury department and regularly reported to the Board.</p>
<p>Foreign currency exposure</p>	<p>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</p>

	monitored on an ongoing basis.
<b>Taxation risks</b> The risk that there will be increases in tax rates or changes to the basis of taxation	The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change.
<b>Going concern</b> The risk that given the economic uncertainties the Group will not have adequate working capital to remain a going concern for the next 12 months	See below.

## PROPERTY PORTFOLIO

At 31 December 2010, the Group owned 71 properties containing 381 tenants in a total lettable area of 407,742 sq m. Contracted rent across the Group was £65.0 million, which contained leases with a reversionary element of £2.0 million, and the ERV of the vacant space was £3.1 million. The contracted rent also contained leases which were over-rented by £6.2 million, of which virtually all was on index-linked rents with over five years unexpired.

68% of the Group's rent roll extended beyond five years and 27% had over 10 years unexpired. The weighted average lease length across the Group was 8.4 years, or 7.3 years to the first break. 41% of the rent roll was let to government tenants, and a further 28% to major corporations.

## 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	24.5	23.7	127,759	26.0	25.5	4.0	4.7%
France	17.8	17.6	96,479	18.7	18.3	18.7	3.6%
Germany	14.3	14.0	137,971	14.1	14.5	14.1	5.5%
Sweden	5.5	4.4	45,533	6.2	5.5	6.2	2.0%
	<b>62.1</b>	<b>59.7</b>	<b>407,742</b>	<b>65.0</b>	<b>63.8</b>	<b>43.0</b>	<b>4.3%</b>

Note: a further £3.6 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			EPRA topped up net initial yield		Reversion %	Over-rented %	True equivalent yield %
		Underlying £m	Foreign exchange £m	Net initial yield(1) %	Net initial yield(2) %				
London	375.0	4.8	–	6.8%	6.4%	3.9%	10.8%	6.8%	
France	248.7	17.8	(7.4)	7.4%	7.0%	2.0%	8.5%	7.0%	
Germany	196.5	8.2	(6.4)	7.1%	6.7%	3.0%	5.7%	6.0%	
Sweden	56.7	(0.7)	5.4	8.6%	8.1%	3.0%	16.2%	8.7%	
	<b>876.9</b>	<b>30.1</b>	<b>(8.4)</b>	<b>7.2%</b>	<b>6.8%</b>	<b>3.1%</b>	<b>9.6%</b>		

- (1) Based on contracted rent and before adding purchasers' costs to investment property values; if based on passing rent, net initial yield would be 7.1%
- (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 6.7%

#### 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	9.6	10.1	0.7	0.7	4.4	20.2	0.7	0.7	4.7	18.0
France	3.1	5.9	1.8	0.6	3.5	12.8	1.4	0.6	3.3	12.3
Germany	9.3	9.6	0.6	0.8	3.1	9.6	0.6	0.8	3.1	9.3
Sweden	5.6	5.6	0.1	0.1	4.4	1.6	0.1	0.1	3.6	1.7
	<b>7.3</b>	<b>8.4</b>	<b>3.2</b>	<b>2.2</b>	<b>15.4</b>	<b>44.2</b>	<b>2.8</b>	<b>2.2</b>	<b>14.7</b>	<b>41.3</b>

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibility statement below has been prepared in connection with the Company's full annual report for the year ending 31 December 2010. Certain parts thereof are not included within this announcement.

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 7 March 2011.

By order of the Board

**David Fuller BA FCIS**

Company Secretary

7 March 2011

**GROUP STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
<b>Continuing operations</b>			
Group revenue	4	79.1	76.3
Costs	4	(30.3)	(30.3)
		<b>48.8</b>	46.0
Net movements on revaluation of investment properties	11	30.1	(6.7)
Net gain on sale of corporate bonds and other investments		9.3	1.9
Profit on sale of investment properties		–	0.3
<b>Operating profit</b>		<b>88.2</b>	41.5
Net finance costs	7	(25.0)	(25.5)
Share of profit of associates after tax	15	7.7	2.5
<b>Profit before tax</b>		<b>70.9</b>	18.5
Taxation	8	(10.8)	(1.1)
<b>Profit for the year</b>	5	<b>60.1</b>	17.4
<b>Other comprehensive income</b>			
Foreign exchange differences		1.1	(9.5)
Fair value gains on corporate bonds and other investments	16	3.1	12.5
Fair value (gains)/losses taken to the income statement on disposal of corporate bonds and other investments	16	(8.5)	1.0
Deferred tax on net fair value gains on corporate bonds and other investments	21	1.8	(3.2)
Share of other comprehensive income of associates	15	(0.4)	0.4
<b>Total comprehensive income for the year</b>		<b>57.2</b>	18.6
<b>Profit attributable to:</b>			
Owners of the Company		60.1	17.5
Non-controlling interests		–	(0.1)
<b>Profit for the year</b>		<b>60.1</b>	17.4
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		57.2	18.7
Non-controlling interests		–	(0.1)
<b>Total comprehensive income for the year</b>		<b>57.2</b>	18.6
<b>Earnings per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)</b>			
Basic	9	127.1	36.4
Diluted	9	127.1	36.4

## GROUP BALANCE SHEET

At 31 December 2010

	Notes	2010 £m	2009 £m
<b>Non-current assets</b>			
Investment properties	11	876.9	813.0
Property, plant and equipment	12	2.6	2.5
Intangible assets	13	1.1	1.1
Investments in associates	15	40.6	40.9
Other investments	16	81.6	73.9
Derivative financial instruments	17	4.6	0.1
Deferred tax	21	11.2	12.7
		<b>1,018.6</b>	<b>944.2</b>
<b>Current assets</b>			
Trade and other receivables	18	11.5	10.4
Cash and cash equivalents	19	48.3	70.3
		<b>59.8</b>	<b>80.7</b>
<b>Total assets</b>		<b>1,078.4</b>	<b>1,024.9</b>
<b>Current liabilities</b>			
Trade and other payables	20	(31.8)	(30.1)
Current tax		(5.3)	(5.0)
Derivative financial instruments	17	(1.0)	(15.7)
Borrowings, including finance leases	22	(85.0)	(113.5)
		<b>(123.1)</b>	<b>(164.3)</b>
<b>Non-current liabilities</b>			
Deferred tax	21	(74.5)	(72.3)
Borrowings, including finance leases	22	(504.3)	(479.3)
Derivative financial instruments	17	(19.3)	–
		<b>(598.1)</b>	<b>(551.6)</b>
<b>Total liabilities</b>		<b>(721.2)</b>	<b>(715.9)</b>
<b>Net assets</b>		<b>357.2</b>	<b>309.0</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the owners of the Company</b>			
Share capital	24	12.9	13.3
Share premium account	26	71.5	70.5
Other reserves	27	102.5	105.0
Retained earnings		171.6	121.5
		<b>358.5</b>	<b>310.3</b>
<b>Non-controlling interests</b>		<b>(1.3)</b>	<b>(1.3)</b>
<b>Total equity</b>		<b>357.2</b>	<b>309.0</b>

## GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Notes	Attributable to the owners of the Company					Non-controlling interests £m	Total £m
		Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
<b>At 1 January 2010</b>		<b>13.3</b>	<b>70.5</b>	<b>105.0</b>	<b>121.5</b>	<b>310.3</b>	<b>(1.3)</b>	<b>309.0</b>
<b>Arising in 2010:</b>								
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	24	(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
<b>Total changes arising in 2010</b>		<b>(0.4)</b>	<b>1.0</b>	<b>(2.5)</b>	<b>50.1</b>	<b>48.2</b>	<b>–</b>	<b>48.2</b>
<b>At 31 December 2010</b>		<b>12.9</b>	<b>71.5</b>	<b>102.5</b>	<b>171.6</b>	<b>358.5</b>	<b>(1.3)</b>	<b>357.2</b>

	Notes	Attributable to the owners of the Company					Non-controlling interests £m	Total £m
		Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 January 2009		16.7	70.5	100.4	152.2	339.8	(1.2)	338.6
Arising in 2009:								
Total comprehensive income/(loss) for the year		–	–	1.2	17.5	18.7	(0.1)	18.6
Purchase of own shares	24	(3.4)	–	3.4	(48.0)	(48.0)	–	(48.0)
Expenses thereof		–	–	–	(0.2)	(0.2)	–	(0.2)
Total changes arising in 2009		(3.4)	–	4.6	(30.7)	(29.5)	(0.1)	(29.6)
At 31 December 2009		13.3	70.5	105.0	121.5	310.3	(1.3)	309.0

## GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Notes	2010 £m	2009 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	51.2	45.7
Interest received		5.2	4.8
Interest paid		(21.7)	(30.1)
Income tax paid		(3.4)	(3.0)
<b>Net cash inflow from operating activities</b>		<b>31.3</b>	<b>17.4</b>
<b>Cash flows from investing activities</b>			
Purchase of investment property		(36.4)	(29.2)
Capital expenditure on investment property		(6.5)	(22.8)
Proceeds from sale of investment property		0.1	2.2
Purchase of corporate bonds		(51.7)	(70.8)
Proceeds from sale of corporate bonds		47.7	24.9
Purchase of equity investments		(1.0)	–
Proceeds from sale of equity investments		0.8	0.7
Purchase of interests in associate		(1.9)	(1.8)
Distributions received from associate undertakings		11.9	1.5
Costs on foreign currency transactions		(1.2)	(4.2)
Amounts expended in relation to corporate disposals in prior periods		(0.7)	(1.0)
Purchases of property, plant and equipment		(0.3)	(0.1)
<b>Net cash outflow from investing activities</b>		<b>(39.2)</b>	<b>(100.6)</b>
<b>Cash flows from financing activities</b>			
Purchase of own shares		(10.1)	(48.2)
New loans		102.7	69.7
Issue costs of new loans		(1.1)	(0.3)
Repayment of loans		(100.6)	(57.4)
Purchase of financial instruments		(3.9)	(0.1)
Issue of ordinary shares from Treasury shares		1.0	–
<b>Net cash outflow from financing activities</b>		<b>(12.0)</b>	<b>(36.3)</b>
<b>Net decrease in cash and cash equivalents</b>			
		<b>(19.9)</b>	<b>(119.5)</b>
Foreign exchange loss		(2.1)	(5.5)
Cash and cash equivalents at the beginning of the year		70.3	195.3
<b>Cash and cash equivalents at the end of the year</b>	19	<b>48.3</b>	<b>70.3</b>

## **NOTES TO THE GROUP FINANCIAL STATEMENTS**

31 December 2010

### **1 GENERAL INFORMATION**

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

The Company is registered in the UK, registration number 2714781, of registered address: 86 Bondway, London, SW8 1SF. The Company is listed on the London Stock Exchange.

The annual financial report (produced in accordance with the Disclosure and Transparency Rules) can be found on the Company’s website [www.clsholdings.com](http://www.clsholdings.com). The 2010 Annual Report and Accounts will be posted to shareholders on 18 March 2011 and will also be available on the Company’s website.

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 December 2010. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Company’s statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Those accounts give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company’s Annual General Meeting. The auditors have reported on those accounts and the auditors’ reports on both the 2009 and 2010 accounts were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under s498(2) or (3) Companies Act 2006 or preceding legislation.

### **GOING CONCERN**

The current economic conditions have created a number of uncertainties as set out above. The Group’s business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The financial position of the Group, its liquidity position and borrowing facilities are described in the Business Review and in the financial statements.

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

### **2 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 2010 by operating segment were as follows:

	Investment property				Other Investments £m	Total £m
	London £m	France £m	Germany £m	Sweden £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
<b>Group revenue</b>	<b>29.2</b>	<b>22.8</b>	<b>17.0</b>	<b>5.8</b>	<b>4.3</b>	<b>79.1</b>
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)
<b>Costs</b>	<b>(8.9)</b>	<b>(6.9)</b>	<b>(5.3)</b>	<b>(1.7)</b>	<b>(4.1)</b>	<b>(26.9)</b>
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	–	–	–	–	9.3	9.3

bonds and other investments						
Profit/(loss) on sale of subsidiaries	–	(1.6)	–	1.6	–	–
<b>Segment operating profit</b>	<b>25.1</b>	<b>32.1</b>	<b>19.9</b>	<b>5.0</b>	<b>9.5</b>	<b>91.6</b>
Net finance costs	(16.2)	(2.9)	(6.9)	(0.4)	1.4	(25.0)
Share of profit of associates after tax	–	–	–	–	7.7	7.7
<b>Segment profit before tax</b>	<b>8.9</b>	<b>29.2</b>	<b>13.0</b>	<b>4.6</b>	<b>18.6</b>	<b>74.3</b>
Taxation	0.1	(9.6)	(0.5)	(0.4)	(0.4)	(10.8)
<b>Segment profit after tax</b>	<b>9.0</b>	<b>19.6</b>	<b>12.5</b>	<b>4.2</b>	<b>18.2</b>	<b>63.5</b>
Central administration costs						(3.4)
<b>Profit for the year</b>						<b>60.1</b>

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

	Investment property				Other Investments £m	Total £m
	London £m	France £m	Germany £m	Sweden £m		
Rental income	25.0	15.9	14.8	4.9	–	60.6
Service charge income	4.7	4.2	1.7	0.3	–	10.9
Other property-related income	0.4	0.3	0.3	–	–	1.0
Income from non-property activities	–	–	–	–	3.8	3.8
<b>Group revenue</b>	<b>30.1</b>	<b>20.4</b>	<b>16.8</b>	<b>5.2</b>	<b>3.8</b>	<b>76.3</b>
Service charges and similar expenses	(6.3)	(4.5)	(2.8)	(1.2)	–	(14.8)
Administration expenses	(2.6)	(1.5)	(1.1)	(0.5)	(3.7)	(9.4)

Other expenses	(1.0)	(0.7)	(1.2)	(0.2)	(0.2)	(3.3)
<b>Costs</b>	<b>(9.9)</b>	<b>(6.7)</b>	<b>(5.1)</b>	<b>(1.9)</b>	<b>(3.9)</b>	<b>(27.5)</b>
Group revenue less costs	20.2	13.7	11.7	3.3	(0.1)	48.8
Net movements on revaluation of investment properties	24.1	(15.9)	(13.5)	(1.4)	–	(6.7)
Gain on sale of corporate bonds and other investments	–	–	–	–	1.9	1.9
Profit on sale of investment properties	0.3	–	–	–	–	0.3
<b>Segment operating profit/(loss)</b>	<b>44.6</b>	<b>(2.2)</b>	<b>(1.8)</b>	<b>1.9</b>	<b>1.8</b>	<b>44.3</b>
Net finance costs	(6.1)	(7.0)	(7.4)	(1.6)	(3.4)	(25.5)
Share of profit of associates after tax	–	–	–	–	2.5	2.5
<b>Segment profit/(loss) before tax</b>	<b>38.5</b>	<b>(9.2)</b>	<b>(9.2)</b>	<b>0.3</b>	<b>0.9</b>	<b>21.3</b>
Taxation	(4.0)	1.6	0.2	0.6	0.5	(1.1)
<b>Segment profit/(loss) after tax</b>	<b>34.5</b>	<b>(7.6)</b>	<b>(9.0)</b>	<b>0.9</b>	<b>1.4</b>	<b>20.2</b>
Central administration costs						(2.8)
<b>Profit for the year</b>						<b>17.4</b>

**Other segment information:**

	Assets		Liabilities		Capital expenditure	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Investment Property						
London	391.2	370.2	295.4	282.0	23.7	1.4
France	256.7	246.1	190.6	187.6	15.5	31.5
Germany	203.2	200.0	154.5	158.8	2.7	17.7
Sweden	61.6	58.6	45.0	30.7	0.6	2.1

Other investments	<b>165.7</b>	150.0	<b>35.7</b>	56.8	–	–
	<b>1,078.4</b>	1,024.9	<b>721.2</b>	715.9	<b>42.5</b>	52.7

Included within the assets of other investments are investments in associates of £40.6 million (2009: £40.9 million).

### 3 NET FINANCE COSTS

	2010 £m	2009 £m
Interest expense		
Bank loans	<b>18.3</b>	22.7
Debenture loans	<b>4.7</b>	4.7
Other interest	–	0.3
Amortisation of issue costs of loans	<b>1.0</b>	0.8
Foreign exchange variances	<b>4.0</b>	9.7
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	<b>3.7</b>	(6.7)
Interest rate caps, collars and floors: transactions not qualifying as hedges	<b>(0.6)</b>	0.4
Interest income	<b>(6.1)</b>	(6.4)
	<b>25.0</b>	25.5

### 4 TAXATION

	2010 £m	2009 £m
Current tax	<b>4.4</b>	2.1
Deferred tax	<b>6.4</b>	(1.0)
	<b>10.8</b>	1.1

A deferred tax credit of £1.8 million (2009: charge of £3.2 million) was recognised directly in equity (note 17).

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:

	2010 £m	2009 £m
<b>Profit before tax</b>	<b>70.9</b>	18.5
Tax calculated at domestic tax rates applicable to profits in the respective countries	<b>20.1</b>	4.9
Expenses not deductible for tax purposes	<b>1.5</b>	0.5
Tax effect of unrecognised (profits)/losses in associates and joint ventures	<b>(2.3)</b>	(0.7)
Adjustment in respect of indexation allowance on UK properties	<b>(2.1)</b>	(3.2)
Other deferred tax adjustments	<b>0.4</b>	(0.5)
Deferred tax assets not recognised	<b>(1.9)</b>	2.9
Adjustment in respect of prior periods	<b>(4.9)</b>	(2.8)
<b>Tax expense for the year</b>	<b>10.8</b>	1.1

The weighted average applicable tax rate of 28.4 per cent (2009: 26.3 per cent) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

## 5 EARNINGS PER SHARE

	2010 £m	2009 £m
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company	60.1	17.5
Revaluation (gains)/losses on investment properties	(30.1)	6.7
Profit on sale of investment properties	–	(0.3)
Negative goodwill on share acquisitions	(0.1)	(2.8)
Change in fair value of derivative financial instruments	3.1	(6.3)
Net gain on sale of corporate bonds and other investments	(9.3)	(1.9)
Deferred tax relating to the above adjustments	4.1	0.6
<b>EPRA Earnings</b>	<b>27.8</b>	<b>13.5</b>

	2010 Number	2009 Number
<b>Weighted average number of ordinary shares</b>		
Weighted average number of ordinary shares	47,280,274	48,249,810
Dilutive share options†	13,339	–
<b>Diluted weighted average number of ordinary shares</b>	<b>47,293,613</b>	<b>48,249,810</b>

	2010 Pence	2009 Pence
<b>Earnings per Share</b>		
Basic	127.1	36.4
Diluted	127.1	36.4
EPRA	58.8	28.0

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

## 6 NET ASSETS PER SHARE

	2010 £m	2009 £m
<b>Net Assets</b>		
Basic net assets	357.2	309.0
Dilutive impact of share options	1.4	–
Diluted net assets	358.6	309.0
Adjustment to increase fixed rate debt to fair value	(25.9)	(24.1)
Goodwill as a result of deferred tax	(1.1)	(1.1)
<b>EPRA Triple Net Assets</b>	<b>331.6</b>	<b>283.8</b>
Deferred tax on property and other non-current assets	68.4	66.7
Fair value of derivative financial instruments	15.7	15.6
Adjustment to decrease fixed rate debt to book value	25.9	24.1
<b>EPRA Net Assets</b>	<b>441.6</b>	<b>390.2</b>

	2010 Number	2009 Number
--	----------------	----------------

Number of ordinary shares in circulation	<b>46,588,244</b>	48,024,256
Dilutive share options	<b>300,000</b>	–
Diluted number of ordinary shares in issue	<b>46,888,244</b>	48,024,256

Net Assets Per Share	<b>2010</b> <b>Pence</b>	2009 Pence
Basic	<b>766.7</b>	643.3
Diluted	<b>764.8</b>	643.3
EPRA	<b>941.8</b>	812.5
EPRA Triple Net	<b>707.2</b>	591.0

## 7 INVESTMENT PROPERTIES

	London £m	France £m	Germany £m	Sweden £m	Total £m
<b>At 1 January</b>					
<b>2010</b>	<b>346.8</b>	<b>222.8</b>	<b>192.1</b>	<b>51.3</b>	<b>813.0</b>
Acquisitions	23.4	13.0	–	–	36.4
Disposals	(0.1)	–	–	–	(0.1)
Capital expenditure	0.1	2.5	2.6	0.6	5.8
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)
<b>At 31 December</b>					
<b>2010</b>	<b>375.0</b>	<b>248.7</b>	<b>196.5</b>	<b>56.7</b>	<b>876.9</b>

	London £m	France £m	Germany £m	Sweden £m	Total £m
<b>At 1 January</b>					
<b>2009</b>	<b>323.2</b>	<b>223.4</b>	<b>201.4</b>	<b>50.8</b>	<b>798.8</b>
Acquisitions	–	29.2	–	–	29.2
Capital expenditure	1.3	2.3	17.7	2.1	23.4
Disposals – property sales	(1.9)	–	–	–	(1.9)
Net movement on revaluation of investment properties	24.0	(15.9)	(13.5)	(1.3)	(6.7)
Rent-free period debtor adjustments	0.2	–	1.0	0.3	1.5
Exchange rate variances	–	(16.2)	(14.5)	(0.6)	(31.3)
<b>At 31 December</b>					
<b>2009</b>	<b>346.8</b>	<b>222.8</b>	<b>192.1</b>	<b>51.3</b>	<b>813.0</b>

The investment properties (and the owner-occupied property) were revalued at 31 December 2010 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 (2009: DTZ Debenham Tie Leung)

Germany: Colliers International (2009: DTZ Debenham Tie Leung)

Sweden: CB Richard Ellis

Investment properties included leasehold properties with a carrying amount of £19.6 million (2009: £18.1 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 the current or comparative years.

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

During the year 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.

## 8 PROPERTY, PLANT AND EQUIPMENT

	2010 £m	2009 £m
<b>Cost or valuation</b>		
At 1 January	6.8	6.6
Additions	0.3	0.1
Disposals	(1.8)	–
Revaluation increase	0.1	0.1
At 31 December	5.4	6.8
<b>Accumulated depreciation and impairment</b>		
At 1 January	(4.3)	(3.8)
Depreciation charge	(0.3)	(0.5)
Disposals	1.8	–
At 31 December	(2.8)	(4.3)
<b>Net book value</b>		
At 31 December	2.6	2.5

An owner-occupied property was revalued at 31 December 2010 based on the external valuation performed by Lambert Smith Hampton.

## 9 INTANGIBLE ASSETS

	Goodwill £m	Other intangibles £m	Total £m
<b>Cost</b>			
<b>At 1 January 2010 and at 31 December 2010</b>	18.6	7.2	25.8
<b>Amortisation</b>			
<b>At 1 January 2010 and at 31 December 2010</b>	(17.5)	(7.2)	(24.7)
<b>Net book value</b>			
<b>At 31 December 2010</b>	1.1	–	1.1

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

### Goodwill

Goodwill comprised £0.8 million (2009: £0.8 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2009: £0.3 million) on a German property acquisition in 2005. All other goodwill related to Wyatt Media Group AB and was fully written down in 2008.

### Other intangibles

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

### 2010 Impairment review

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

#### Key assumptions:

Unamortised goodwill 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.

### 2009 Impairment review

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

#### Key assumptions:

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

## 10 JOINT VENTURES

At 31 December 2010 the Group had a one-third interest (2009: one-third) in the issued ordinary share capital of Fielden House Investments Limited, a company incorporated in England and Wales.

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

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

	2010 £m	2009 £m
<b>Assets</b>		
Non-current assets	1.9	1.8
Current assets	0.1	0.2
	<b>2.0</b>	<b>2.0</b>
<b>Liabilities</b>		
Current liabilities	(2.1)	(0.2)
Non-current liabilities	(0.4)	(2.5)
	<b>(2.5)</b>	<b>(2.7)</b>
<b>Net liabilities</b>	<b>(0.5)</b>	<b>(0.7)</b>
Income	0.2	0.2
Expenses	(0.2)	(0.2)
<b>Profit after tax</b>	<b>-</b>	<b>-</b>

## 11 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Total £m
<b>At 1 January 2010</b>	<b>36.1</b>	<b>4.8</b>	<b>40.9</b>
<b>Additions</b>	<b>0.4</b>	<b>1.5</b>	<b>1.9</b>
<b>Share of profit of associates after tax</b>	<b>7.7</b>	<b>-</b>	<b>7.7</b>
<b>Other equity movements*</b>	<b>(0.4)</b>	<b>-</b>	<b>(0.4)</b>
<b>Distributions received</b>	<b>(11.9)</b>	<b>-</b>	<b>(11.9)</b>
<b>Exchange rate differences</b>	<b>1.9</b>	<b>0.5</b>	<b>2.4</b>
<b>At 31 December 2010</b>	<b>33.8</b>	<b>6.8</b>	<b>40.6</b>
	Net assets £m	Goodwill £m	Total £m
At 1 January 2009	34.6	4.7	39.3
Additions	1.7	0.1	1.8
Share of profit of associates after tax	2.5	-	2.5
Other equity movements*	0.4	-	0.4
Dividends received	(1.5)	-	(1.5)
Exchange rate differences	(1.6)	-	(1.6)
At 31 December 2009	36.1	4.8	40.9

\* Primarily foreign exchange movements of the associate undertakings.

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

At 31 December 2010	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
<i>Interest held in ordinary share capital</i>	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	

At 31 December 2009	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
<i>Interest held in ordinary share capital</i>	29.8%	47.7%	40.0%	
Revenues	5.1	2.1	–	7.2
Profit/(loss) after tax	3.0	(3.3)	–	(0.3)
Realisation of negative goodwill on acquisition	–	2.8	–	2.8
Share of profit/(loss) of associates after tax	3.0	(0.5)	–	2.5
Assets	66.4	27.4	–	93.8

Liabilities	(43.8)	(13.9)	–	(57.7)
Net assets	22.6	13.5	–	36.1
Goodwill	4.8	–	–	4.8
Investments in associates	27.4	13.5	–	40.9
Market value of interest	26.1	4.3	n/a	

### **Catena AB**

At 31 December 2009 the Group had a 29.8 per cent interest in Catena AB, a listed Swedish property company. During 2010 the Group acquired a further 0.1 per cent at a cost of £0.3 million, increasing the aggregate interest to 29.9 per cent. Henry Klotz, Executive Vice Chairman of the Group, is the Chairman of Catena AB.

During 2010 Catena returned £9.9 million (2009: £1.5 million) to the Group in cash following significant realisations of its property assets.

### **Bulgarian Land Development Plc**

At 31 December 2009 the Group had a 47.7 per cent interest in Bulgarian Land Development Plc (BLD), a developer of residential and commercial real estate in Bulgaria. Given the challenges of the Bulgarian property sector, BLD's major shareholders agreed that it should reduce running costs, effect an orderly disposal of its assets, and distribute the net proceeds in order to maximise returns for shareholders. As a result BLD was de-listed from the Alternative Investment Market of the London Stock Exchange on 19 August 2010. As part of the de-listing process the Group acquired a further 1.0 per cent of BLD for £0.1 million increasing the aggregate interest to 48.7 per cent.

In December 2010, the Group received a return of capital of £2.0 million from BLD by means of a tender offer buy-back. As the tender was not fully subscribed the Group's interest in BLD fell to 48.3%.

### **Other associates**

Other associates comprise associates of the Wyatt Media Group internet business, each incorporated in Sweden.

### **Impairment 2010**

In assessing the carrying value of Catena AB, the Group 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 is carried in the balance sheet at a value equal to the Group's share of its net assets. BLD's net assets, which were prepared under IFRS, were reviewed and found not to be impaired at 31 December 2010. Accordingly there was no further provision against the carrying value of the Group's interest in BLD at 31 December 2010.

## 2009

The carrying value of Catena AB was assessed by management at 31 December 2009 under the same methodology as in 2010. As the Group's share of the net assets of Catena AB, excluding deferred tax liabilities, exceeded the carrying value of the Group's interest there was no further impairment of the Group's interest in Catena AB at 31 December 2009.

BLD's net assets, which were prepared under IFRS, were reviewed and found not to be impaired at 31 December 2009. Accordingly there was no further provision against the carrying value of the Group's interest in BLD at 31 December 2009.

## 12 OTHER INVESTMENTS

	2010 £m	2009 £m
Available-for-sale financial investments carried at fair value		
Listed corporate UK bonds	37.5	17.1
Eurozone	24.1	40.0
Other	16.5	12.9
Listed equity securities		
UK	0.5	0.6
Sweden	2.4	2.5
Other	0.1	0.1
Unlisted investments	0.4	0.6
Government securities	0.1	0.1
	<b>81.6</b>	<b>73.9</b>

The movement of other investments is analysed below:

	2010 £m	2009 £m
<b>At 1 January</b>	<b>73.9</b>	<b>14.3</b>
Additions	52.7	70.7
Disposals	(39.1)	(23.4)
Fair value movements recognised in reserves on available-for-sale assets	3.1	12.5
Fair value movements recognised in profit before tax on available-for-sale assets	(8.5)	1.0
Exchange rate variations	(0.5)	(1.2)
<b>At 31 December</b>	<b>81.6</b>	<b>73.9</b>

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

	2010 £m	2009 £m
Level 1 – quoted unadjusted market prices	3.1	3.3
Level 2 – valuation from observable market data†	78.1	70.0
Level 3 – other valuation methods*	0.4	0.6
	<b>81.6</b>	<b>73.9</b>

† Includes £12.8 million (2009: £5.1 million) of corporate bonds priced directly from market makers in those bonds.

\* Unlisted equity shares valued using multiples from comparable listed organisations.

### 13 DERIVATIVE FINANCIAL INSTRUMENTS

	2010 Assets £m	2010 Liabilities £m	2009 Assets £m	2009 Liabilities £m
<b>Non-current</b>				
Interest rate swaps	–	(19.3)	–	–
Interest rate caps and floors	4.6	–	0.1	–
	<b>4.6</b>	<b>(19.3)</b>	<b>0.1</b>	<b>–</b>
<b>Current</b>				
Interest rate swaps	–	–	–	(15.7)
Forward foreign exchange contracts	–	(1.0)	–	–
	<b>–</b>	<b>(1.0)</b>	<b>–</b>	<b>(15.7)</b>
	<b>4.6</b>	<b>(20.3)</b>	<b>0.1</b>	<b>(15.7)</b>

### 14 TRADE AND OTHER RECEIVABLES

	2010 £m	2009 £m
<b>Current</b>		
Trade receivables	3.5	2.8
Prepayments	0.7	0.8
Accrued income	3.5	2.2
Other debtors	3.8	4.6
	<b>11.5</b>	<b>10.4</b>

### 15 CASH AND CASH EQUIVALENTS

	2010 £m	2009 £m
Cash at bank and in hand	23.9	47.0
Short-term bank deposits	24.4	23.3
	<b>48.3</b>	<b>70.3</b>

The cash and cash equivalents currency profile was as follows:

	Cash at bank and in hand £m	Short-term deposits £m	Total £m
<b>At 31 December 2010</b>			
<b>Sterling</b>	13.6	7.5	21.1
<b>Euro</b>	9.2	0.2	9.4
<b>Swedish Krona</b>	1.1	16.7	17.8
	<b>23.9</b>	<b>24.4</b>	<b>48.3</b>

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

## 16 TRADE AND OTHER PAYABLES

	2010 £m	2009 £m
<b>Current</b>		
Trade payables	1.6	1.9
Social security and other taxes	2.1	1.8
Other payables	6.4	5.4
Accruals	12.8	12.1
Deferred income	8.9	8.9
	31.8	30.1

## 17 DEFERRED TAX

	2010 £m	2009 £m
Deferred tax assets:		
– after more than 12 months	(11.2)	(12.7)
Deferred tax liabilities:		
– after more than 12 months	74.5	72.3
	63.3	59.6

The movement in deferred tax was as follows:

	2010 £m	2009 £m
<b>At 1 January</b>	59.6	61.0
Charged/(credited) to the tax charge in the statement of comprehensive income	6.4	(1.0)
(Credited)/charged to equity	(1.8)	3.2
Exchange rate variances	(0.9)	(3.6)
<b>At 31 December</b>	63.3	59.6

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
<b>At 1 January 2010</b>	(7.1)	(5.6)	(12.7)
<b>(Credited)/charged to the tax charge in the statement of comprehensive income</b>	2.0	(0.5)	1.5
<b>At 31 December 2010</b>	(5.1)	(6.1)	(11.2)

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

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 to the tax charge in the statement of comprehensive income	(1.9)	6.7	0.1	4.9
Credited to equity	–	–	(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 liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2009	12.2	60.5	0.7	73.4
Credited to the tax charge in the statement of comprehensive income	(0.1)	(0.4)	(0.2)	(0.7)
Charged to equity	–	–	3.2	3.2
Exchange rate variances	–	(3.6)	–	(3.6)
At 31 December 2009	12.1	56.5	3.7	72.3

## 18 BORROWINGS

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

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

### Loan covenants

There were no covenant breaches at 31 December 2010 or at 31 December 2009.

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

At 31 December 2010	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
<b>Within one year or on demand</b>	82.4	1.1	–	2.3	85.8
<b>More than one but not more than two years</b>	126.2	1.2	–	–	127.4
<b>More than two but not more than five years</b>	204.4	4.5	–	–	208.9
<b>More than five years</b>	133.1	27.3	9.8	–	170.2
	546.1	34.1	9.8	2.3	592.3
<b>Unamortised issue costs</b>	(3.0)	–	–	–	(3.0)
<b>Borrowings</b>	543.1	34.1	9.8	2.3	589.3
<b>Less amount due for settlement within 12 months</b>	(81.6)	(1.1)	–	(2.3)	(85.0)
<b>Amounts due for settlement after 12 months</b>	461.5	33.0	9.8	–	504.3

At 31 December 2009	Bank loans £m	Debenture loans £m	Zero coupon note £m	Other loans £m	Total £m
Within one year or on demand	113.1	1.0	–	–	114.1
More than one but not more than two years	27.3	1.1	–	2.3	30.7
More than two	200.7	4.0	–	–	204.7

but not more than five years	208.4	29.0	8.8	–	246.2
More than five years	549.5	35.1	8.8	2.3	595.7
Unamortised issue costs	(2.9)	–	–	–	(2.9)
Borrowings	546.6	35.1	8.8	2.3	592.8
Less amount due for settlement within 12 months	(112.5)	(1.0)	–	–	(113.5)
Amounts due for settlement after 12 months	434.1	34.1	8.8	2.3	479.3

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

	At 31 December 2010		At 31 December 2009	
	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	6.5	5.6	6.5	6.6
Euro	4.3	2.2	4.3	3.1

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

	At 31 December 2010			At 31 December 2009		
	% 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	56	2.7	5.0	100	3.9	0.7
Euro	86	4.7	1.0	100	4.7	1.6
Swedish Krona	100	2.7	2.9	–	n/a	n/a
US Dollar	–	n/a	n/a	n/a	n/a	n/a

In 2010, the Group entered into certain interest rate caps with forward start dates of January and April 2011 to replace interest rate swaps and caps due to expire on those dates. The impact of these transactions produces a pro forma position at April 2011 of:

**Pro forma at 30 April 2011**

	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
<b>Sterling</b>	<b>64</b>	<b>2.5</b>	<b>4.6</b>
<b>Euro</b>	<b>93</b>	<b>3.2</b>	<b>4.1</b>
<b>Swedish Krona</b>	<b>100</b>	<b>2.7</b>	<b>2.7</b>
<b>US Dollar</b>	<b>–</b>	<b>n/a</b>	<b>n/a</b>

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

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
<b>At 31 December 2010</b>			
<b>Sterling</b>	<b>155.2</b>	<b>91.6</b>	<b>246.8</b>
<b>Euro</b>	<b>117.6</b>	<b>185.8</b>	<b>303.4</b>
<b>Swedish Krona</b>	<b>–</b>	<b>33.3</b>	<b>33.3</b>
<b>US Dollar</b>	<b>–</b>	<b>5.8</b>	<b>5.8</b>
	<b>272.8</b>	<b>316.5</b>	<b>589.3</b>

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

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

	Carrying amounts		Fair values	
	2010 £m	2009 £m	2010 £m	2009 £m
Current borrowings	<b>85.0</b>	113.5	<b>85.0</b>	113.5
Non-current borrowings	<b>504.3</b>	479.3	<b>530.2</b>	503.4
	<b>589.3</b>	592.8	<b>615.2</b>	616.9

19 SHARE CAPITAL

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2010	48,024,256	5,000,000	53,024,256	12.0	1.3	13.3
Cancelled following tender offers	(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

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

## 20 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 23 March 2010 for the purchase of 1 in 48 shares at 600 pence per share was completed in April. It returned £6.0 million to shareholders, equivalent to 12.5 pence per share.

A tender offer by way of a Circular dated 19 August 2010 for the purchase of 1 in 74 shares at 625 pence per share was completed in September. It returned £4.0 million to shareholders, equivalent to 8.5 pence per share.

A further tender offer will be put to shareholders in April 2011 for the purchase of 1 in 46 shares at a price of 700 pence per share which, if approved, will return £7.1 million to shareholders, equivalent to 15.2 pence per share.

## 21 SHARE PREMIUM ACCOUNT

	2010 £m	2009 £m
<b>At 1 January</b>	<b>70.5</b>	<b>70.5</b>
Ordinary shares issued from treasury shares	1.0	–
<b>At 31 December</b>	<b>71.5</b>	<b>70.5</b>

## 22 OTHER RESERVES

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
<b>At 1 January 2010</b>	<b>20.4</b>	<b>50.7</b>	<b>5.8</b>	<b>28.1</b>	<b>105.0</b>
<b>Purchase of own shares:</b>					
– cancellation pursuant to tender offer	0.4	–	–	–	0.4
<b>Exchange rate variances</b>	–	1.1	–	–	1.1
<b>Share of exchange rate variances of associates</b>	–	(0.4)	–	–	(0.4)
<b>Available-for-sale financial assets:</b>					
– net fair value gains in the year	–	–	(5.4)	–	(5.4)
– deferred tax thereon	–	–	1.8	–	1.8
<b>At 31 December 2010</b>	<b>20.8</b>	<b>51.4</b>	<b>2.2</b>	<b>28.1</b>	<b>102.5</b>

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

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

## 23 CASH GENERATED FROM OPERATIONS

	2010 £m	2009 £m
Operating profit	88.2	41.5
Adjustments for:		
Net movements on revaluation of investment properties	(30.1)	6.7
Depreciation and amortisation	0.3	0.5
Profit on disposal of investment properties	–	(0.3)
Gain on disposal of corporate bonds and other investments	(9.3)	(2.1)
Share-based payment expense	0.1	–
Changes in working capital:		
Decrease/(increase) in debtors	0.5	(0.7)
Increase in creditors	1.5	0.1
<b>Cash generated from operations</b>	<b>51.2</b>	<b>45.7</b>

## **24 RELATED PARTY TRANSACTIONS**

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt, Executive Chairman of CLS Holdings plc. The total payable in the year was £36,000 (2009: £34,000). A company owned by Sten Mortstedt purchased accountancy services from Förvaltnings AB Klio during the year amounting to £9,000 (2009: £8,000). In relation to these transactions £36,000 was payable at the balance sheet date (2009: £3,000). A Group company, CLSH Management Limited, provided accounting services to Bulgarian Land Development Plc, an associate of the Group, for which a charge of £16,000 was made in the year (2009: £nil) and remained outstanding at the balance sheet date.

## **GLOSSARY OF TERMS**

### **ADJUSTED NET ASSETS OR ADJUSTED SHAREHOLDERS' FUNDS**

Net assets excluding the mark-to-market on effective cash flow hedges and related debt adjustments and deferred tax on revaluations

### **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 mark-to-market on effective cash flow hedges and related debt adjustments, 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