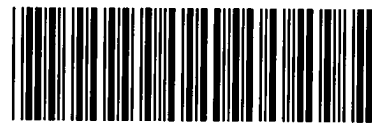


CLS UK PROPERTIES PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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CLS UK Properties plc

Report and Financial Statements 2019

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Registered office:

16 Tinworth Street
London, United Kingdom
SE11 5AL

CLS UK Properties plc

Strategic Report

The principal activity of CLS UK Properties plc and its subsidiary undertakings (the "Group") is the investment in commercial property across the United Kingdom.

On 1 October 2019 the Group sold 100% of the share capital in CLS Scotland Limited and Sidlaw House Limited to CLS Holdings plc and acquired 100% of the share capital in Great West House Limited and CLS Gresham Limited from CLS Holdings plc.

On 26 November 2019 the Group sold 100% of share capital in CLS England and Wales Limited and CLS Northern Properties Limited to CLS Holdings plc, and acquired 100% of the share capital in CLS Clockwork Limited from CLS Holdings plc.

Investment property portfolio

At the start of the year, the Group had a portfolio of 13 investment properties located throughout the United Kingdom. During the year the Group disposed of 10 properties and acquired 3 properties.

At 31 December 2019, the Group had contracted rent of £8.6 million per annum which represented a net initial yield of 6.1%. The properties had a total lettable area of 38,284 sqm and were let to Government departments, including Job Centres, HMRC, and various private sector tenants. The weighted average lease length of these properties was 3.75 years.

At 31 December 2019 the investment property portfolio was valued at £141.95 million (2018: £100.1 million) following disposal of properties valued at £38.98 million and acquisition of properties valued at £82.0 million.

Financing

In 2013 the Group issued £80.0 million of secured, partially amortising notes, which attract interest of 4.2% on the unamortised principal, the balance of which is repayable in December 2022.

The Group is also financed by a £50.0 million term loan facility from a fellow group undertaking. At 31 December 2019 the Group had not drawn on the facility. This facility, which expires in December 2022, incurs interest at a floating rate of 2.5% above LIBOR on drawn balances.

Results for the year

The results for the year are shown on page 10.

Group revenue for 2019 was £8.1 million (2018: £9.3 million) and Group revenue less costs was £6.5 million (2018: £8.3 million). Finance costs for the year were £2.8 million (2018: £2.7 million). Net fair value loss on investment properties in the year were £3.0 million (2018: £Nil) and loss before tax was £0.9 million (2018: profit of £4.5 million).

Outlook

As the Group has secure rental streams and long-term financing in place, the Directors expect it to continue to be profitable. The asset management focus will be on renegotiating leases with existing tenants, otherwise on exploring opportunities to refurbish and redevelop the investment property.

Business Strategy

Corporate Objective

To generate returns for the CLS Holdings plc group through the payment of dividends.

Business Model

- Investments are required to make a high cash-on-cash return.

Focus is on cash returns and on high yielding office properties, financed by a cost of debt well below the net initial yield of the properties.

- Invest in modern, high quality, well-let properties in good locations.

Investments are appraised by local property teams and presented to the boards of the investing entities for investment decisions to be made. The Group looks to create extra value through developments when letting risk and financing risk have been in large part mitigated.

Strategic Report (continued)

Business Strategy (continued)

- *Secure long-term finance to reduce risk.*
The Group has two loans from different lenders. Long-term finance has been secured externally until 2022 at a fixed rate of 4.2% in the form of secured notes. Additional finance has been provided by a fellow group-undertaking until 2022, at a floating rate of 2.5% above LIBOR.

- *Investments retain a strong core income stream.*
The Group seeks customers with strong covenant strength and looks to secure them for extended lease periods. Currently the Group's contracted rent is derived from a mixture of Government departments and private sector tenants with the weighted average lease term being 3.75 years.

- *Maintain low vacancy rates.*
In-house property managers maintain close links with occupiers to understand their needs, focusing on the quality of service and accommodation for our customers.

Performance against KPI's

Cash-on-cash returns

- The properties yield 6.1%, whilst the cost of debt remains low at 4.2%.

Maintain low vacancy rates

- The vacancy rate remained below 7.0% throughout the year.

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.

Property Investment Risks

1 *Risk:* Underperformance of investment portfolio due to cyclical downturn in property market.
Areas of impact: Cash flow, profitability, net asset value, banking covenants.
Mitigation: 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.

2 *Risk:* Changes in supply of space and/or occupier demand.
Areas of impact: Rental income, cash flow, vacancy rate, void running costs, Property values, net asset value.
Mitigation: The majority of the Group's investment property is let to Government occupiers and the weighted-average unexpired lease term is 3.75 years.

3 *Risk:* Poor asset management
Areas of impact: Rental income, cash flow, vacancy rate, void running costs, property values, net asset value.
Mitigation: Property teams proactively manage customers to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted on a monthly basis to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.

CLS UK Properties plc

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

Sustainability Risks

- Risk:** Increasing building regulation and obsolescence.
Areas of impact: Rental income, cash flow, vacancy rate, net asset value, profitability, liquid resources.
Mitigation: Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third-party schemes.
- Risk:** Increasing energy costs and regulation
Areas of impact: Net asset value, profitability, liquid resources.
Mitigation: Investment in energy efficient plant and building mounted renewable energy systems.

Funding Risks

- Risk:** Unavailability of financing at acceptable prices.
Areas of impact: Cost of borrowing, ability to invest or develop.
Mitigation: The Group has a dedicated treasury team and relationships are maintained with the banks thus reducing the credit and liquidity risk.
- Risk:** Adverse interest rate movements.
Areas of impact: Cost of borrowing, cost of hedging.
Mitigation: The majority of the Group's debt is fixed at 4.2% until 2022. Exposure to changes in prevailing market rates is limited to a minority of the Group's debt, which is subject to floating rates of LIBOR plus 2.5%.
- Risk:** Breach of borrowing covenants.
Areas of impact: Cost of borrowing.
Mitigation: Financial covenants are monitored and regularly reported to the board.

Political and Economical Risks

- Risk:** The exit of the United Kingdom from the European Union.
Areas of impact: Net asset value, profitability.
Mitigation: It is the Directors' view that the United Kingdom's economy remains sufficiently robust to weather any immediate adverse economic effects.

COVID-19 Pandemic Risk

- Risk:** The COVID-19 pandemic presents several potential economic impacts.
Areas of impact: Potentially adverse risk to collectability of future contracted rental income.
Mitigation: The Group will continue to leverage the in-house management model to maintain close links with our customers. Furthermore, the Company's policy of collecting rent in advance assists management identify which customers are most significantly impacted and where mitigating action may be required.

Going Concern Risks

- Risk:** The Group will not have adequate working capital to remain a going concern for the next 12 months
Areas of impact: Pervasive.
Mitigation: The Directors regularly stress-test the business model to ensure the Group has adequate working capital.

Approved by the Board of Directors

On behalf of the Board



David Fuller
Company Secretary
29 June 2020

CLS UK Properties plc

Directors' Report

The Directors' present their annual report and the audited financial statements for the year ended 31 December 2019.

The Group has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the Company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the Directors' report. It has done so in respect of:

- Review of the business
- Business strategy
- KPI's and performance against KPI's
- Principal risks and uncertainties
- Future developments

Dividends

The results for the year are set out on page 10.

No dividends were paid. The Directors do not recommend payment of a final dividend (2018: nil).

Directors

The Directors who held office throughout the year and up to the date of signature of the financial statements were as follows:

Andrew Kirkman (appointed 1 July 2019)

Henry Klotz (resigned 14 August 2019)

Alain Millet

John Whiteley (resigned 30 June 2019)

Fredrik Widlund

Simon Wigzell

Directors' insurance

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors who held office in 2019. The ultimate parent company CLS Holdings plc maintains liability insurance for its Directors and Directors of its associated companies.

Auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office. Under the provisions of the Companies Act 2006, the Company is not required to hold an annual general meeting and accordingly the auditors, Deloitte LLP, will therefore be deemed to be reappointed for each succeeding financial year.

Statement of disclosure to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

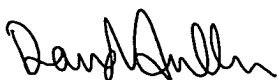
CLS UK Properties plc

Directors' Report (continued)

Going concern

At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is part of a large group of companies ultimately headed by CLS Holdings plc. The Board of Directors of CLS Holdings plc have assessed the resilience of the CLS Holdings plc Group particularly with reference to the impact of COVID-19. This assessment supports the ability of the CLS Holdings plc Group to continue as a going concern. The Group has the ability to seek alternate funding from within the CLS Holdings plc Group. Thus the Directors continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



David Fuller
Company Secretary
29 June 2020

CLS UK Properties plc

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

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

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

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

CLS UK Properties plc

Independent auditor's report to the members of CLS UK Properties plc

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of CLS UK Properties plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group statement of cash flows; and
- the related notes 1 to 22 for the Group and notes 1 to 13 for the Company

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

CLS UK Properties plc

Independent auditor's report to the members of CLS UK Properties plc

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

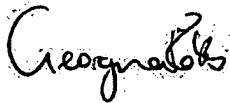
We have nothing to report in respect of these matters.

CLS UK Properties plc

Independent auditor's report to the members of CLS UK Properties plc

Use of our report

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

A handwritten signature in black ink, appearing to read 'Georgina Robb', with a stylized flourish at the end.

Georgina Robb FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 June 2020

CLS UK Properties plc

Group Income Statement for the year ended 31 December 2019

	Notes	2019 £	2018 £
Continuing operations			
Group revenue		8,110,411	9,310,948
Net rental income	3	7,448,544	9,116,873
Administration expenses		(861,569)	(789,292)
Other expenses		(103,991)	(47,914)
Group revenue less costs		6,482,984	8,279,667
Profit on sale of investment property		-	6,520
Net movements on revaluation of investment properties		(3,013,283)	(41,426)
Loss on sale of subsidiary undertaking		(3,046,962)	(1,745,791)
Operating profit		422,739	6,498,970
Finance income	6	1,438,491	724,685
Finance costs	7	(2,810,556)	(2,715,501)
(Loss)/Profit before tax	4	(949,326)	4,508,154
Taxation	8	465,667	(491,194)
(Loss)/Profit for the year attributable to owners of the Company		<u>(483,659)</u>	<u>4,016,960</u>

The income statement has been prepared on the basis that all operations are continuing operations.

There were no items of other comprehensive income other than those stated above for either period and consequently no statement of other comprehensive income is presented.

The notes on pages 14 to 29 are an integral part of these group financial statements.

CLS UK Properties plc

Group Balance Sheet at 31 December 2019

	Notes	2019 £	2018 £
Non-current assets			
Investment properties	9	141,950,000	100,080,000
Trade and other receivables	10	5,256,166	51,855,901
Deferred tax	13	173,890	12,368
		<u>147,380,056</u>	<u>151,948,269</u>
Current assets			
Trade and other receivables	10	2,177,659	480,151
Cash and cash equivalents	11	661,564	13,638
		<u>2,839,223</u>	<u>493,789</u>
Total assets		<u>150,219,279</u>	<u>152,442,058</u>
Current liabilities			
Trade and other payables	12	(5,045,945)	(3,673,377)
Current tax		(1,779,119)	(1,186,104)
Borrowings	14	(4,072,633)	(4,072,633)
		<u>(10,897,697)</u>	<u>(8,932,114)</u>
Non-current liabilities			
Deferred tax	13	(4,380,106)	(4,012,176)
Borrowings	14	(50,506,057)	(54,578,690)
		<u>(54,886,163)</u>	<u>(58,590,866)</u>
Total liabilities		<u>(65,783,860)</u>	<u>(67,522,980)</u>
Net assets		<u>84,435,419</u>	<u>84,919,078</u>
Equity			
Share capital	16	82,700	82,700
Share premium	17	32,667,300	32,667,300
Retained earnings		<u>51,685,419</u>	<u>52,169,078</u>
Total equity attributable to owners of the Company		<u>84,435,419</u>	<u>84,919,078</u>

The financial statements of CLS UK Properties plc (registered number: 08124770) were approved by the Board of Directors and authorised for issue on 29 June 2020.

Signed on its behalf by:



Andrew Kirkman
Director

The notes on pages 14 to 29 are an integral part of these group financial statements.

CLS UK Properties plc

Group Statement of Changes in Equity for the year ended 31 December 2019

	Share capital £	Share premium £	Retained earnings £	2019 £
Arising in 2019:				
Total (loss) for the year	-	-	(483,659)	(483,659)
Total changes arising in 2019	-	-	(483,659)	(483,659)
At 1 January 2019	82,700	32,667,300	52,169,078	84,919,078
At 31 December 2019	82,700	32,667,300	51,685,419	84,435,419
	Share capital £	Share premium £	Retained earnings £	2018 £
Arising in 2018:				
Total profit for the year	-	-	4,016,960	4,016,960
Total changes arising in 2018	-	-	4,016,960	4,016,960
At 1 January 2018	82,700	32,667,300	48,152,118	80,902,118
At 31 December 2018	82,700	32,667,300	52,169,078	84,919,078

The notes on pages 14 to 29 are an integral part of these group financial statements.

CLS UK Properties plc

Group Statement of Cash Flows for the year ended 31 December 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	18	5,348,943	9,861,424
Interest received		-	-
Interest paid		(2,647,205)	(2,698,302)
Net cash outflow from operating activities		<u>2,701,738</u>	<u>7,163,122</u>
Cash flows from investing activities			
Purchase of investment properties		(81,958,650)	-
Capital expenditure on investment properties		(2,004,451)	(101,670)
Proceeds from sale of investment properties		38,980,000	30,500,000
Disposal of property, plant and equipment		-	1,057
Proceeds from disposal of property held for sale		-	6,150,000
Net cash (outflow)/inflow from investing activities		<u>(44,983,101)</u>	<u>36,549,387</u>
Cash flows from financing activities			
Repayment of external loans		(4,183,008)	(4,183,008)
Settlement of intercompany loans		47,112,297	(39,530,121)
Net cash inflow/(outflow) from financing activities		<u>42,929,289</u>	<u>(43,713,129)</u>
Net increase/(decrease) in cash and cash equivalents		647,926	(620)
Cash and cash equivalents at the beginning of the year		13,638	14,258
Cash and cash equivalents at the end of the year	11	<u>661,564</u>	<u>13,638</u>

The notes on pages 14 to 29 are an integral part of these group financial statements.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

1. Significant accounting policies

CLS UK Properties plc (the "Company") and its subsidiaries (together the "Group") is an investment property group which is principally involved in the investment and management of commercial properties in the UK. Company is incorporated in the United Kingdom, registration number 08124770 with its registered office at 16 Tinworth Street, London, SE11 5AL.

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

The company is a public Company limited by shares and is registered in England and Wales

1.1 Basis of preparation

The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 4 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

The Board of Directors of CLS Holdings plc have assessed the resilience of the Group with reference to the impact of COVID-19. The impact has been considered in Principal Risks and Uncertainties section in the Strategic report as set out on page 3.

The financial statements are presented in pounds sterling as that is the currency in which the Group operates.

New standards and interpretations

In the current year, the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. As the Group is a lessor, and all leases were previously classified as operating leases no changes have been made to the financial statements for the year ended 31 December 2019. No other new accounting standards, amendments to accounting standards or IFRIC interpretations that were effective for the year ended 31 December 2019 have had an impact on the Company.

1.2 Subsidiary undertakings

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

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of completion, of assets acquired and liabilities assumed. Acquisition-related costs are recognised in the group income statement as incurred.

1.3 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature. The acquisition of an investment property is recognised when the risks and rewards of ownership have been transferred to the Group, typically on unconditional exchange of contracts or when legal title passes.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

1. Significant accounting policies (continued)

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Changes in fair values are recognised in profit or loss before tax.

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

1.4 Financial instruments

(i) Cash and cash equivalents

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

(ii) Trade and other receivables and payables

Trade and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost with a recognised loss allowance for expected credit losses which is measured at an amount equal to the lifetime expected credit loss. Trade and other payables are stated at cost, which equates to fair value.

(iii) Borrowings

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

1.5 Revenue

(i) Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. The cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

(ii) Service charge income

Service charge income is recognised on a gross basis in the accounting period in which the services are rendered.

1.6 Income tax

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

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

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

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

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

1. Significant accounting policies (continued)

1.7 Leases

When the Group is a lessee, a right-of-use asset and a lease liability is recognised for all leases except leases with a lease term of less than 12 months or with a low underlying asset value.

When the Group is a lessor, leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2. Critical accounting judgements and key sources of estimation uncertainty

In accordance with IAS 1, the Directors have considered the judgements that have been made in the process of applying the Group's accounting policies, which are described in note 1, and which of those judgements have the most significant effect on amounts recognised in the financial statements.

In the Directors' opinion for the year ended 31 December 2019 there are no accounting judgements that are material to the financial statements.

Key sources of estimation uncertainty properties

The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

3. Segment information

The Group has a single operating segment as all income is derived from its investment properties within the United Kingdom. The majority of the investment property portfolio is let to government departments and major corporations.

	2019 £	2018 £
Rental income	8,053,639	9,271,583
Other property related income	-	20,960
Service charge income	56,772	18,405
Service charges and similar expenses	(661,867)	(194,075)
Net rental income	7,448,544	9,116,873

4. (Loss)/Profit for the year

	2019 £	2018 £
(Loss)/Profit for the year has been arrived at after charging:		
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the group accounts	39,938	38,830

No fees were payable to Deloitte LLP for non-audit services to the Group during the current or preceding year.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

5. Employee benefits expense

None of the Directors received any emoluments during the year in respect of services as Directors to the Group (2018: £nil). The emoluments of the Directors of the Group, who are also Directors of the CLS Holdings plc Group, are disclosed in that Group's financial statements in respect of their services to the CLS Holdings plc Group as a whole.

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

The Group had no employees other than directors (2018: none) during the year.

6. Finance income

	2019 £	2018 £
Interest on amounts due from group undertakings	1,438,491	724,685
	<u>1,438,491</u>	<u>724,685</u>

7. Finance costs

	2019 £	2018 £
Interest expense on bank loans	2,407,730	2,587,927
Amortisation of loan issue costs	110,375	110,375
Other finance costs	129,099	-
Interest expense on amounts owed to group undertakings	163,352	17,199
	<u>2,810,556</u>	<u>2,715,501</u>

8. Taxation

	2019 £	2018 £
Current tax charge	1,700,267	1,186,104
Deferred tax credit (note 13)	(2,165,934)	(694,910)
	<u>(465,667)</u>	<u>491,194</u>

The rate of corporation tax for the year beginning 1 January 2019 was 19.00%. The weighted average corporation tax rate for the year ended 31 December 2019 was 19.00% (2018: 19.00%). Deferred tax has been calculated at a rate of 17.00% (2018: 17.00%) and has been based on the rates applicable under legislation substantively enacted at the balance sheet date. Legislation was subsequently enacted on 19 March 2020 to amend the rate of corporation tax to 19.00% from 1 April 2020.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

8. Taxation (continued)

The tax (credit)/charge for the year can be reconciled to the profit on ordinary activities as follows:

	2019 £	2018 £
(Loss)/profit before taxation	(949,326)	4,508,154
Expected tax (credit)/charge based on a corporation tax rate of 19.00% (2018: 19.00%)	(180,372)	856,549
Expenses not deductible for tax purposes	-	276,064
Non-taxable income	(358,170)	(30,573)
Change in tax basis of properties, including indexation uplift	(103,089)	(574,187)
Change in tax rate	254,816	(27,107)
Adjustment in respect of prior periods	(78,852)	(9,552)
Tax (credit)/ charge for the year	(465,667)	491,194

9. Investment properties

	2019 £	2018 £
At 1 January 2019	100,080,000	130,630,000
Acquisitions	81,958,650	-
Capital expenditure	2,010,326	101,170
Disposals	(38,980,000)	(30,500,000)
Net movement on revaluation of investment properties	(3,013,283)	(41,426)
Rent-free period debtor adjustments	(99,818)	(110,244)
Capitalised leasing costs	(5,875)	500
At 31 December 2019	141,950,000	100,080,000

The investment properties were revalued at 31 December 2019 to their fair value, based on current prices in an active market for all properties. The property valuations were carried out by Cushman and Wakefield who are external, professionally qualified valuers.

Property valuations are complex and require a degree of judgement and are based on data which is not publicly available. Consistent with EPRA guidance, we have classified the valuations of our property portfolio as level 3 as defined by IFRS 13. Inputs into the valuations include equivalent yields and rental income and are described as 'unobservable' under the definition in IFRS 13. All other factors remaining constant, an increase in rental income would increase valuations, whilst an increase in equivalent nominal yield would result in a fall in value and vice versa.

There are no leasehold properties included in the investment properties balance at 31 December 2019 (2018: £14,360,000).

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

Substantially all investment properties are secured against debt.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

10. Trade and other receivables

	2019 £	2018 £
Trade receivables	716,392	5,036
Prepayments	166,326	-
Accrued income	107,266	31,800
Other debtors	57,662	239,231
Amounts due from group undertakings	1,130,013	204,084
	<u>2,177,659</u>	<u>480,151</u>

At 31 December 2019 the Directors do not consider the Group to be exposed to a significant credit risk as the majority of the investment property portfolio is let to government departments and major corporations.

There were no material trade and other receivables classified as past due but not impaired (2018: none).

Receivables include a balance of £1,130,013 (2018: £204,804) due on demand from fellow group undertakings.

Non-current

	2019 £	2018 £
Amounts owed by group undertakings	<u>5,256,166</u>	<u>51,855,901</u>

At 31 December 2019, the Company was owed £5,256,166 (2018: £51,855,901) by a fellow group company NYK Investments Limited. The loan is due for repayment on 5 December 2022. Interest is charged on this loan at a rate of LIBOR plus a margin of 2.25%. A portion of the loan was settled ahead of its repayment date on 5 December 2022.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

11. Cash and cash equivalents

	2019 £	2018 £
Cash at bank and in hand	477	247
Cash held on behalf of third parties	661,087	13,391
	<u>661,564</u>	<u>13,638</u>

12. Trade and other payables

	2019 £	2018 £
Trade payables	297,041	1,525,315
VAT payable	62,169	230,735
Accruals	1,518,771	528,223
Amounts due to group undertakings	527,194	858,905
Deferred income	2,640,770	530,199
	<u>5,045,945</u>	<u>3,673,377</u>

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Payables include a balance of £527,194 (2018: £858,905) due on demand to fellow group undertakings.

13. Deferred tax

	2019 £	2018 £
Deferred tax assets		
- after more than 12 months	(173,890)	(12,368)
Deferred tax liabilities		
- after more than 12 months	4,380,106	4,012,176
Net deferred tax liability	<u>4,206,216</u>	<u>3,999,808</u>

The movement in deferred tax was as follows:

	2019 £	2018 £
At 1 January	3,999,808	4,694,718
Deferred tax liability recognised on acquisition	2,372,342	-
Credited in arriving at profit after tax	(2,165,934)	(694,910)
At 31 December	<u>4,206,216</u>	<u>3,999,808</u>

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

13. Deferred tax (continued)

	Fair value adjustment to investment properties £
Deferred tax assets	
At 1 January 2019	(12,368)
Charged in arriving at profit after tax	(161,522)
At 31 December 2019	<u>(173,890)</u>

	Fair value adjustment to investment properties £
Deferred tax assets	
At 1 January 2018	(420,794)
Charged in arriving at profit after tax	408,426
At 31 December 2018	<u>(12,368)</u>

	Capital allowances £	Fair value adjustment to investment properties £	Other £	Total £
Deferred tax liabilities				
At 1 January 2019	396,763	3,615,413	-	4,012,176
Deferred tax on acquisitions	2,366,770	-	5,572	2,372,342
Credited in arriving at profit after tax	(360,148)	(1,638,692)	(5,572)	(2,004,412)
At 31 December 2019	<u>2,403,385</u>	<u>1,976,721</u>	<u>-</u>	<u>4,380,106</u>

	Capital allowances £	Fair value adjustment to investment properties £	Other £	Total £
Deferred tax liabilities				
At 1 January 2018	335,199	4,780,313	-	5,115,512
Charged/(credited) in arriving at profit after tax	61,564	(1,164,900)	-	(1,103,336)
At 31 December 2018	<u>396,763</u>	<u>3,615,413</u>	<u>-</u>	<u>4,012,176</u>

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

14. Borrowings

	Current £	Non-current £	Total £
At 31 December 2019			
Secured notes	4,072,633	50,506,057	54,578,690
	<u>4,072,633</u>	<u>50,506,057</u>	<u>54,578,690</u>
At 31 December 2018			
Secured notes	4,072,633	54,578,690	58,651,323
	<u>4,072,633</u>	<u>54,578,690</u>	<u>58,651,323</u>

Arrangement fees of £323,262 (2018: £433,637) have been offset in arriving at the balances above.

Secured notes

In 2013 the Group issued £80,000,000 of secured, partially amortising notes. The notes attract a fixed rate coupon of 4.2% on the unamortised principal, the balance of which is repayable in December 2022.

The notes are secured by way of a legal charge over the Group's investment property portfolio, and over the shares of the companies within the Group.

Loan covenants

There were no covenant breaches at 31 December 2019 or 31 December 2018.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

14. Borrowings (continued)

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

	Secured notes £
At 31 December 2019	
Within one year or on demand	4,183,008
More than one year but not more than two years	4,183,008
More than two but not more than five years	46,535,936
	<hr/> 54,901,952
Unamortised issue costs	(323,262)
	<hr/> 54,578,690
Borrowings	54,578,690
Less amounts due for settlement within 12 months	(4,072,633)
	<hr/> 50,506,057
Amounts due for settlement after 12 months	<hr/> <hr/>
	Secured notes £
At 31 December 2018	
Within one year or on demand	4,183,008
More than one year but not more than two years	4,183,008
More than two but not more than five years	50,718,944
	<hr/> 59,084,960
Unamortised issue costs	(433,637)
	<hr/> 58,651,323
Borrowings	58,651,323
Less amounts due for settlement within 12 months	(4,072,633)
	<hr/> 54,578,690
Amounts due for settlement after 12 months	<hr/> <hr/>

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

14. Borrowings (continued)

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

	2019		2018	
	Weighted average interest rate (%)	Weighted average period (years)	Weighted average interest rate (%)	Weighted average period (years)
Fixed rate borrowings	<u>4.2%</u>	<u>3.0</u>	<u>4.2%</u>	<u>4.0</u>

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

	Carrying amounts		Fair values	
	2019	2018	2019	2018
Fixed rate borrowings	<u>54,578,690</u>	<u>58,651,323</u>	<u>52,806,741</u>	<u>56,438,517</u>

Arrangement fees of £323,262 (2018: £433,637) have been offset in arriving at the balances in the above table.

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

The Group had the following undrawn committed facilities available from group companies at 31 December:

	2019 £	2018 £
Floating rate: expiring after one year	<u>50,000,000</u>	<u>50,000,000</u>

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

15. Financial instruments

Categories of financial instruments

Financial assets of the Group comprise: trade and other receivables, intra-group loans, and cash and cash equivalents.

Financial liabilities of the Group comprise: trade and other payables, intra-group loans and secured notes.

Except for fixed rate loans, the carrying amounts of all financial assets and liabilities recorded at amortised costs approximate to their fair value.

Capital risk management

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

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

The gearing ratio at the year end was as follows:

	2019 £	2018 £
Debt	54,901,952	59,084,960
Cash and cash equivalents	(661,564)	(13,638)
Net debt	54,240,388	59,071,322
Equity	84,435,418	84,919,078
Net debt to equity ratio	64.0%	70.0%

Debt is defined as interest bearing long and short-term borrowings before unamortised issue costs as detailed in note 14. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

The Group was subject to externally imposed capital requirements to the extent that debt covenants may require it to maintain required ratios of debt to equity and interest cover.

Risk management objectives

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

- market risk
- credit risk
- liquidity risk

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

Risk management is carried out by the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

15. Financial instruments (continued)

(a) Market risk/ Interest rate risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group has mitigated this risk through securing borrowings at a fixed interest rate.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from the ability of customers to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet. For credit exposure other than to occupiers, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, currently, 100% of the Group's portfolio is let to Government occupiers which can be considered financially secure.

(c) Liquidity risk

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long-term requirements. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows so that future requirements can be managed effectively.

Loan covenant compliance is closely monitored. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender or by partial repayment before an event of default takes place. There were no potential loan-to-value covenant breaches at 31 December 2018.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

15. Financial instruments (continued)

(c) Liquidity risk (continued)

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

	Less than one year	One to two years	Two to five years	Over five years
At 31 December 2019				
Financial liabilities:				
Trade and other payables	4,518,751	-	-	-
Borrowings	4,183,008	4,183,008	46,535,936	-
Interest payments on borrowings †	2,246,342	2,071,869	1,897,396	-
	<u>10,948,101</u>	<u>6,254,877</u>	<u>48,433,332</u>	<u>-</u>
At 31 December 2018				
Financial liabilities:				
Trade and other payables	3,143,179	-	-	-
Borrowings	4,183,008	4,183,008	50,718,944	-
Interest payments on borrowings †	2,420,815	2,246,342	3,969,264	-
	<u>9,747,002</u>	<u>6,429,350</u>	<u>54,688,208</u>	<u>-</u>

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

16. Share capital

	2019 Ordinary shares in circulation Number	2019 Ordinary shares in circulation £	2018 Ordinary shares in circulation Number	2018 Ordinary shares in circulation £
At 31 December	<u>82,700</u>	<u>82,700</u>	<u>82,700</u>	<u>82,700</u>

Ordinary shares have a nominal value of £1 each.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

17. Share premium

	2019 £	2018 £
At 1 January and 31 December	<u>32,667,300</u>	<u>32,667,300</u>

18. Cash generated from operations

	2019 £	2018 £
Operating profit	422,739	6,498,970
Adjustments for:		
Amortisation of loans	110,375	110,374
Net movements on revaluation of investment property	3,013,283	41,426
Non-cash rental expense	99,818	110,244
(Increase)/decrease in receivables	(771,579)	3,130,022
Decrease/(increase) in payables	2,474,306	(29,612)
Cash generated from operations	<u>5,348,943</u>	<u>9,861,424</u>

19. Commitments

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

	2019 £	2018 £
Operating lease commitments – where the Group is the lessor		
Within one year	8,597,896	8,023,060
More than one but not more than five years	22,425,743	21,492,898
More than five years	5,491,194	5,162,962
	<u>36,514,833</u>	<u>34,678,920</u>

Operating leases where the Company is the lessor are typically negotiated on a tenant-by-tenant basis and include break clauses and indexation provisions. Rental income earned during the year was £8,053,639 (2018: £9,292,543) and direct operating expenses arising on the properties in the period was £661,867 (2018: £194,075). The lessees do not have an option to purchase the property at the expiry of the lease period.

CLS UK Properties plc

Notes to the Group Financial Statements 31 December 2019

20. Subsidiaries

The Group financial statements include the financial statements of CLS UK Properties plc and all of its subsidiaries.

On 1 October 2019 the Group sold 100% of the share capital in CLS Scotland Limited and Sidlaw House Limited to CLS Holdings plc and acquired 100% of the share capital in Great West House Limited and CLS Gresham Limited from CLS Holdings plc.

On 26 November 2019 the Group sold 100% of share capital in CLS England and Wales Limited and CLS Northern Properties Limited to CLS Holdings plc, and acquired 100% of the share capital in CLS Clockwork Limited from CLS Holdings plc.

The subsidiaries are 100% owned and listed below:

Registered Office: 16 Tinworth Street, London, SE11 5AL

Apex Tower Limited	Elmfield Road Limited
CLS Gresham Limited	CLS London Limited
CLS Clockwork Limited	Great West House Limited

The principal activity of these subsidiaries is property investment and all are incorporated in United Kingdom.

21. Events after the reporting date

Since the year end, the COVID-19 pandemic has given rise to material economic and financial uncertainties. This is considered to be a non-adjusting post balance sheet event for the Company. The impact has been considered by the Directors as set out in the strategic report on page 3.

22. Related party transactions

The Group is part of the CLS Holdings plc group and incurs expenses from, and retains balances with, other subsidiaries within this group.

At 31 December 2019, the Group owed fellow group companies a total of £527,194 (2018: £858,905). These balances are repayable on demand and are interest-free.

At 31 December 2019, the Group was owed £5,256,166 by a fellow group company NYK Investments Limited (2018: £51,855,901). The loan is due for repayment on 5 December 2022. Interest is charged on this loan at a rate of LIBOR plus a margin of 2.25% (2018: LIBOR plus a margin of 2.25%). For the year ended 31 December 2019 a total of £1,438,491 (2018: £724,685) in interest relating to this loan was included in the Group's income statement and at 31 December 2019 of £nil (2018: £nil) was outstanding in the Group's balance sheet.

At 31 December 2019, the Group was owed £1,130,013 by fellow group companies (2018: £204,084). These loans are repayable on demand and are interest-free.

In the year ended 31 December 2019, the Group incurred costs of £793,884 (2018: £671,775) from fellow group companies for administrative costs.

CLS UK Properties plc

Company Balance Sheet at 31 December 2019

	Notes	2019 £	2018 £
Non current assets			
Investment in subsidiary undertakings	6	38,379,677	35,102,276
Trade and other receivables	7	20,206,020	-
		<u>58,585,697</u>	<u>35,102,276</u>
Current assets			
Trade and other receivables	7	61,383,712	68,832,950
Corporation tax recoverable		154,029	230,202
Cash and cash equivalents		-	-
		<u>61,537,741</u>	<u>69,063,152</u>
Total assets		<u>120,123,438</u>	<u>104,165,428</u>
Current liabilities			
Trade and other payables	8	(287,512)	(3,976,073)
Borrowings	9	(4,072,633)	(4,072,633)
		<u>(4,360,145)</u>	<u>(8,048,706)</u>
Non-current liabilities			
Borrowings	9	(50,506,057)	(54,578,690)
Total liabilities		<u>(54,866,202)</u>	<u>(62,627,396)</u>
Net assets		<u>65,257,236</u>	<u>41,538,032</u>
Equity			
Share capital	10	82,700	82,700
Share premium	11	32,667,300	32,667,300
Profit and loss account		32,507,236	8,788,032
Shareholders' funds		<u>65,257,236</u>	<u>41,538,032</u>

The Company reported a profit for the financial year ended 31 December 2019 of £23,719,204 (2018: £10,518,611).

The financial statements of CLS UK Properties plc (registered number: 08124770) were approved by the Board of Directors and authorised for issue on 29 June 2020 and were signed on its behalf by:



Andrew Kirkman

Director

The notes on pages 32 to 36 are an integral part of these financial statements.

CLS UK Properties plc

Company Statement of Changes in Equity at 31 December 2019

	Share capital £	Share premium £	Retained earnings £	Total £
Arising in 2019:				
Total comprehensive income for the year	-	-	23,719,204	23,719,204
Total changes arising in 2019	-	-	23,719,204	23,719,204
At 1 January 2019	82,700	32,667,300	8,788,032	41,538,032
At 31 December 2019	82,700	32,667,300	32,507,236	65,257,236

	Share capital £	Share premium £	Retained earnings £	Total £
Arising in 2018:				
Total comprehensive income for the year	-	-	10,518,611	10,518,611
Total changes arising in 2018	-	-	10,518,611	10,518,611
At 1 January 2018	82,700	32,667,300	(1,730,579)	31,019,421
At 31 December 2018	82,700	32,667,300	8,788,032	41,538,032

The notes on pages 32 to 36 are an integral part of these financial statements.

CLS UK Properties plc

Notes to the Company Financial Statements 31 December 2019

1. General information

CLS UK Properties plc (the "Company") is incorporated in the United Kingdom, registration number 08124770 with its registered office at 16 Tinworth Street, London, SE11 5AL.

These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

CLS Holdings plc is the ultimate parent company of the CLS UK Properties plc. The Company's primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

2. Basis of accounting information

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

These separate financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates, known as its functional currency.

3. Significant accounting policies

The principal accounting policies are summarised below.

3.1. Going concern

At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group is part of a large group of companies ultimately headed by CLS Holdings plc. The Board of Directors of CLS Holdings plc have assessed the resilience of the CLS Holdings plc Group particularly with reference to the impact of COVID-19. This assessment supports the ability of the CLS Holdings plc Group to continue as a going concern. The Group has the ability to seek alternate funding from within the CLS Holdings plc Group. Thus the Directors continue to adopt the going concern basis in preparing the financial statements.

3.2. Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. Dividend income is recognised when received.

3.3. Share capital

Ordinary shares are classified as equity.

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

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

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4. Profit for the financial year

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's retained profit for the financial year was £23,719,204 (2018: £10,518,611).

Audit fees for the Company were £5,000 (2018: £5,000).

5. Employee benefits expense

The Company did not have any employees other than Directors in the current or preceding year.

No fees or other emoluments were paid to the Directors of the Company during either the current or preceding year in respect of their services to the Company as this was not practical to do so. The Directors were paid by another entity within the Group.

6. Investment in subsidiary undertakings

	2019 £	2018 £
At 31 December	<u>38,379,677</u>	<u>35,102,276</u>

On 1 October 2019 the Group sold 100% of the share capital in CLS Scotland Limited and Sidlaw House Limited to CLS Holdings plc and acquired 100% of the share capital in Great West House Limited and CLS Gresham Limited from CLS Holdings plc.

On 26 November 2019 the Group sold 100% of share capital in CLS England and Wales Limited and CLS Northern Properties Limited to CLS Holdings plc, and acquired 100% of the share capital in CLS Clockwork Limited from CLS Holdings plc.

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Apex Tower Limited	Elmfield Road Limited
CLS London Limited	CLS Clockwork Limited
Great West House Limited	CLS Gresham Limited

The investments in subsidiary undertakings are 100% owned and were reviewed for any indications of impairment. No impairment was required in the year to 31 December 2019 (2018: none).

7. Trade and other receivables

Current

	2019 £	2018 £
VAT recoverable	25,561	11,087
Amounts owed by group undertakings	<u>61,358,151</u>	<u>218,944</u>
	<u>61,383,712</u>	<u>230,031</u>

Receivables include a balance of £61,358,151 (2018: £218,944) due on demand from fellow group undertakings.

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7. Trade and other receivables (continued)

Non-current

	2019 £	2018 £
Amounts owed by group undertakings	20,206,020	68,602,919

At 31 December 2019, the Company was owed £5,256,166 by a fellow group company NYK Investments Limited (2018: £51,855,901). The loan is due for repayment on 5 December 2022. Interest is charged on this loan at a rate of LIBOR plus a margin of 2.25% (2018: LIBOR plus a margin of 2.25%).

During the year, loans of £538,029 were repaid by fellow group undertakings in advance of its repayment date on 31 December 2022. No balances are outstanding at 31 December 2019 in respect of these loans.

Loans of £5,004,233 (2018: £7,074,024) are due for repayment on 24 November 2022 and interest is charged on the loans at a fixed rate of 4.30% (2018: 4.30%).

The remaining loan balance of £9,945,621 (2018: £9,134,965) is due for repayment on 31 December 2022. Interest is charged on this loan at a rate of LIBOR plus a margin of 3.0% (2018: LIBOR plus a margin of 3.0%).

8. Trade and other payables

Current

	2019 £	2018 £
Trade creditors	2,040	4,722
Accruals	285,272	184,833
Amounts due to group undertakings	200	3,786,518
	<u>287,512</u>	<u>3,976,073</u>

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9. Borrowings

	Current £	Non- current £	Total borrowings £
At 31 December 2019			
Secured note	4,183,008	50,718,944	54,901,952
Unamortised arrangement fees	(110,375)	(212,887)	(323,262)
	<u>4,072,633</u>	<u>50,506,057</u>	<u>54,578,690</u>
At 31 December 2018			
Secured note	4,183,008	54,901,952	59,084,960
Unamortised arrangement fees	(110,375)	(323,262)	(433,637)
	<u>4,072,633</u>	<u>54,578,690</u>	<u>58,651,323</u>

Secured notes

In 2013 the Company issued £80,000,000 of secured, partially amortising notes. The notes attract a fixed rate coupon of 4.2% on the unamortised principal, the balance of which is repayable in December 2022.

The notes are secured by way of a legal charge over the investment properties held by the Company's subsidiaries, and over the shares of the Company and those of its subsidiaries.

	2019 £	2018 £
The secured note is repayable as follows:		
In one year or less	4,183,008	4,183,008
In more than one year but not more than two years	4,183,008	4,183,008
In more than two years but not more than five years	46,535,936	50,718,944
In more than five years	-	-
	<u>54,901,952</u>	<u>59,084,960</u>

10. Share capital

	2019 Ordinary shares in circulation Number	2019 Ordinary shares in circulation £	2018 Ordinary shares in circulation Number	2018 Ordinary shares in circulation £
At 31 December	<u>82,700</u>	<u>82,700</u>	<u>82,700</u>	<u>82,700</u>

Ordinary shares have a nominal value of £1 each.

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11. Share premium

	2019 £	2018 £
At 31 December	<u>32,667,300</u>	<u>32,667,300</u>

12. Events after the reporting date

Since the year end, the COVID-19 pandemic has given rise to material economic and financial uncertainties. This is considered to be a non-adjusting post balance sheet event for the Company. The impact has been considered by the Directors as set out in the strategic report on page 3.

13. Parent undertaking

The Directors consider that the immediate and ultimate parent undertaking and ultimate controlling party is CLS Holdings plc, which is incorporated in the United Kingdom. The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2019, being the largest and only Group into which the Company's financial statements are consolidated. Copies of the Group financial statements are publicly available and may be obtained from its registered address, CLS Holdings plc, 16 Tinworth Street, London, SE11 5AL.