

**CLS UK PROPERTIES PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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# **CLS UK Properties plc**

## **Report and Financial Statements 2017**

<b>Contents</b>	<b>Page</b>
Strategic Report	1
Directors' Report	4
Directors' Responsibilities Statement	6
Independent Auditor's Report	7
Group Income Statement	10
Group Balance Sheet	11
Group Statement of Changes in Equity	12
Group Statement of Cash Flows	13
Notes to the Group Financial Statements	14
Company Balance Sheet	30
Company Statement of Changes in Equity	31
Notes to the Company Financial Statements	32

### **Registered office:**

12<sup>th</sup> Floor Westminster Tower,  
3 Albert Embankment,  
London, United Kingdom,  
SE1 7SP

# 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 5 April 2017, the Group purchased 100% of the share capital in Apex Tower Limited. The Group also sold 100% of the share capital in both CLS Aberdeen Limited and Centenary Court Limited.

### Investment property portfolio

At the start of the year, the Group had a portfolio of 29 investment properties located throughout the United Kingdom. During the year the Group acquired one property, disposed of two, and reclassified an investment property as a property held for sale.

At 31 December 2017, the Group had contracted rent of £12 million per annum which represented a net initial yield of 10.9%. The properties had a total lettable area of 79,592 sqm and were let to Government departments, including Job Centres, HMRC, Child Support Agency and the Immigration Service. The weighted average lease length of these properties was 9.8 years, or 0.4 years to the first break.

At 31 December 2017 the investment property portfolio was valued at £130.6 million (2016: £122.0 million) following additions of £29.0 million, disposal of properties valued at £35.2 million, transfers to properties held for sale of £6.2 million and an increase in valuation of £21.0 million.

The Group reclassified an investment property with a net book value of £6.2 million as a property held for sale following exchange of contracts on 21 December 2017 with a prospective purchaser. The sale completed on 21 January 2018 for a consideration of £6.2 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 2017 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 2017 was £13.6 million (2016: £16.0 million) and Group revenue less costs was £11.9 million (2016: £14.6 million). Finance costs for the year were £2.9 million (2016: £3.0 million). Net fair value movements on investment properties in the year were £20.3 million (2016: minus £5.6 million) and profit before tax was £30.8 million (2016: £6.0 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.

In December, the Group exchanged 13 agreements for surrender and new leases on 13 properties. The new leases have a 10 year term, all commencing on 1 April 2018.

On 18 January 2018, CLS Peterborough Limited was sold to a fellow Group company.

### 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.

# CLS UK Properties plc

## Strategic Report (continued)

### Business Strategy (continued)

*- 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.

*- 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 majority of the Group's contracted rent is derived from Government departments and the weighted average lease term is 9.8 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

- Rental income of £12 million represents a yield of 10.9%, whereas the cost of debt remains low at 4.2%.

#### Maintain low vacancy rates

- Vacancy rate has remained below 4.0% 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

- 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.
- 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 9.8 years.
- 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

- 1 *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.
- 2 *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

- 1 *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.
- 2 *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 4.17% 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%.
- 3 *Risk:* Breach of borrowing covenants.  
*Areas of impact:* Cost of borrowing.  
*Mitigation:* Financial covenants are monitored and regularly reported to the board.

#### Taxation Risks

- 1 *Risk:* Increases in tax rates or changes to the basis of taxation.  
*Areas of impact:* Cash flow, profitability, net asset value.  
*Mitigation:* The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change.

#### Political and Economical Risks

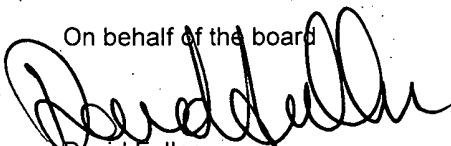
- 1 *Risk:* The exit of the United Kingdom from the European Union.  
*Areas of impact:* Net asset value, profitability.  
*Mitigation:* It is the Directors' view that the United Kingdom's economy remains sufficiently robust to weather any immediate adverse economic effects.

#### Going Concern Risks

- 1 *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

Secretary

28 June 2018

# CLS UK Properties plc

## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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 (2016: nil).

### Directors

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

Henry Klotz  
Alain Millet  
John Whiteley  
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 2017.

### Auditor

In accordance with the Company's articles, a resolution proposing that Deloitte LLP be reappointed as auditor of the Company will be put at a General Meeting.

### 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.

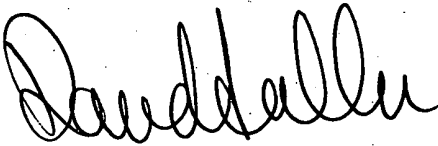
# CLS UK Properties plc

## Directors' Report (continued)

### Going concern

The Group's business activities and review of the business are set out in the Strategic Report. 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 and therefore continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'David Fuller', written over a horizontal line.

David Fuller  
**Secretary**  
28 June 2018

# 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.



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

## **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 2017 and of the group's profit 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 and IFRSs as issued by the International Accounting Standards Board (IASB);
- 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 consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; 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.

## **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](http://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:

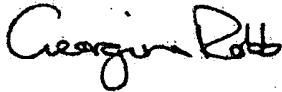
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' 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.

## **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.



Georgina Robb FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
28 June 2018

# CLS UK Properties plc

## Group Income Statement for the year ended 31 December 2017

	Notes	2017 £	2016 £
<b>Continuing operations</b>			
Group revenue		13,592,163	16,003,856
Net rental income	3	13,429,687	15,845,505
Administration expenses		(917,455)	(630,822)
Other expenses		(616,585)	(658,848)
<b>Group revenue less costs</b>		11,895,647	14,555,835
Net movements on revaluation of investment properties	9	20,643,049	(5,567,787)
Gain on sale of subsidiary undertaking		1,086,590	-
<b>Operating profit</b>		33,625,286	8,988,048
Finance income	6	94,016	51,788
Finance costs	7	(2,888,614)	(3,035,762)
<b>Profit before tax</b>	4	30,830,688	6,004,074
Taxation	8	(5,649,051)	(1,050,999)
<b>Profit for the year attributable to owners of the Company</b>		<u>25,181,637</u>	<u>4,953,075</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.

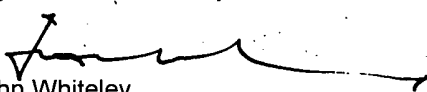
# CLS UK Properties plc

## Group Balance Sheet at 31 December 2017

	Notes	2017 £	2016 £
<b>Non-current assets</b>			
Investment properties	9	130,630,000	121,970,000
Property, plant and equipment		1,057	-
Deferred tax	13	420,794	1,787,376
		<u>131,051,851</u>	<u>123,757,376</u>
<b>Current assets</b>			
Trade and other receivables	10	15,211,268	8,517,498
Properties held for sale		6,150,000	-
Cash and cash equivalents	11	14,258	5,638
		<u>21,375,526</u>	<u>8,523,136</u>
<b>Total assets</b>		<u>152,427,377</u>	<u>132,280,512</u>
<b>Current liabilities</b>			
Trade and other payables	12	(2,095,410)	(5,144,407)
Current tax		(1,590,381)	(2,043,924)
Borrowings	14	(4,072,633)	(4,083,747)
		<u>(7,758,424)</u>	<u>(11,272,078)</u>
<b>Non-current liabilities</b>			
Deferred tax	13	(5,115,512)	(2,509,217)
Borrowings	14	(58,651,323)	(62,778,736)
		<u>(63,766,835)</u>	<u>(65,287,953)</u>
<b>Total liabilities</b>		<u>(71,525,259)</u>	<u>(76,560,031)</u>
<b>Net assets</b>		<u>80,902,118</u>	<u>55,720,481</u>
<b>Equity</b>			
Share capital	16	82,700	82,700
Share premium	17	32,667,300	32,667,300
Retained earnings		48,152,118	22,970,481
<b>Total equity attributable to owners of the Company</b>		<u>80,902,118</u>	<u>55,720,481</u>

The financial statements of CLS UK Properties plc (registered number: 08124770) were approved by the Board of Directors and authorised for issue on 28 June 2018.

Signed on its behalf by:

  
John Whiteley  
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 2017

	Share capital £	Share premium £	Retained earnings £	2017 £
<b>Arising in 2017:</b>				
Total profit for the year	-	-	25,181,637	25,181,637
Total changes arising in 2017	-	-	25,181,637	25,181,637
<b>At 1 January 2017</b>	82,700	32,667,300	22,970,481	55,720,481
<b>At 31 December 2017</b>	<b>82,700</b>	<b>32,667,300</b>	<b>48,152,118</b>	<b>80,902,118</b>
	Share capital £	Share premium £	Retained earnings £	2016 £
<b>Arising in 2016:</b>				
Total profit for the year	-	-	4,953,075	4,953,075
Total changes arising in 2016	-	-	4,953,075	4,953,075
<b>At 1 January 2016</b>	82,700	32,667,300	18,017,406	50,767,406
<b>At 31 December 2016</b>	<b>82,700</b>	<b>32,667,300</b>	<b>22,970,481</b>	<b>55,720,481</b>

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 2017

	Notes	2017 £	2016 £
<b>Cash flows from operating activities</b>			
Cash generated from operations	18	856,946	14,363,135
Interest received		36,985	-
Interest paid		(2,862,577)	(3,034,341)
<b>Net cash (outflow)/inflow from operating activities</b>		<u>(1,968,646)</u>	<u>11,328,794</u>
<b>Cash flows from investing activities</b>			
Purchase of investment properties		(26,853,704)	-
Capital expenditure on investment properties		(2,179,965)	-
Proceeds from sale of investment properties		35,195,000	-
Purchases of property, plant and equipment		(1,057)	-
<b>Net cash inflow from investing activities</b>		<u>6,160,274</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Repayment of external loans		(4,183,008)	(4,183,008)
Loans repaid to group undertakings		-	(7,145,923)
<b>Net cash outflow from financing activities</b>		<u>(4,183,008)</u>	<u>(11,228,931)</u>
<b>Net Increase/(decrease) in cash and cash equivalents</b>		8,620	(137)
Cash and cash equivalents at the beginning of the year		5,638	5,775
<b>Cash and cash equivalents at the end of the year</b>	11	<u>14,258</u>	<u>5,638</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 2017

### 1. Significant accounting policies

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

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 5 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 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 adopted the following amendment for the first time which has not had a material impact on the results for the year:

- Annual improvements to IFRSs: 2014-2016 cycle
- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

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

- IFRS 9 Financial Instruments (2009, 2010 and 2014)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance contracts
- IFRS 2 (amendments) Classification and measurement of share based payment transactions
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IAS 40 (amendments) Transfers of investment property
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRIC 22 Foreign Currency transactions and advanced consideration
- IFRIC 23 Uncertainty over income tax treatments

These pronouncements, when applied, either will result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements. In respect of IFRS 15, the Group's contracts with customers are all within the scope of IAS 17.

In relation to IFRS 16 (which has not yet been endorsed by the EU) as the Group is predominantly a lessor this standard will not have a material impact on adaptation. Where the Group is currently a lessee, this relates to immaterial contracts.

#### 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.



# **CLS UK Properties plc**

## **Notes to the Group Financial Statements 31 December 2017**

### **1. Significant accounting policies (continued)**

#### **1.2 Subsidiary undertakings (continued)**

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.

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

##### **(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 net basis in the accounting period in which the services are rendered.

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 1. Significant accounting policies (continued)

#### 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.

#### 1.7 Leases

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 2017 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.

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 3. Segment information

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

	2017 £	2016 £
Rental income	12,459,425	14,343,422
Other property related income	1,132,738	1,660,434
Service charges and similar expenses	(162,476)	(158,351)
<b>Net rental income</b>	<b>13,429,687</b>	<b>15,845,505</b>

### 4. Profit for the year

	2017 £	2016 £
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	47,800	50,800

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

### 5. Employee benefits expense

None of the Directors received any emoluments during the year in respect of services as Directors to the Group (2016: £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 (2016: none) during the year.

### 6. Finance income

	2017 £	2016 £
Interest income	36,985	1
Interest on amounts due from group undertakings	57,031	51,787
	<b>94,016</b>	<b>51,788</b>

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 7. Finance costs

	2017 £	2016 £
Secured notes	2,753,248	2,931,150
Amortisation of loan issue costs	109,329	103,191
On amounts owed to group undertakings	26,037	1,421
	<u>2,888,614</u>	<u>3,035,762</u>

### 8. Taxation

	2017 £	2016 £
Current tax charge	1,676,174	2,129,717
Deferred tax charge/(credit) (note 13)	3,972,877	(1,078,718)
	<u>5,649,051</u>	<u>1,050,999</u>

The rate of corporation tax for the financial year beginning 1 April 2016 was 20.00%. This fell to 19.00% on 1 April 2017 and will reduce to 17.00% on 1 April 2020 under legislation substantively enacted at the balance sheet date. The weighted average corporation tax rate for the year ended 31 December 2016 was 19.25% (2016: 20.00%). Deferred tax has been calculated at a rate of 17.00% (2016: 17.00%), being the rate expected to apply in the period when the liability is settled or the asset is realised.

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

	2017 £	2016 £
<b>Profit before taxation</b>	<u>30,830,688</u>	<u>6,004,074</u>
Expected tax charge based on a corporation tax rate of 19.25% (2016: 20.00%)	5,934,907	1,200,814
Expenses not deductible for tax purposes	55,951	-
Non-taxable income	(204,347)	-
Change in tax basis of properties, including indexation uplift	259,549	(219,679)
Change in tax rate	(397,009)	72,678
Adjustment in respect of prior periods	-	(2,814)
<b>Tax charge for the year</b>	<u>5,649,051</u>	<u>1,050,999</u>

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 9. Investment properties

	£
<b>At 1 January 2017</b>	121,970,000
Additions	28,967,338
Disposals	(35,195,000)
Net movement on revaluation of investment properties	20,643,049
Transfer to properties held for sale	(6,150,000)
Rent-free period debtor adjustments	328,282
Capitalised leasing costs	66,331
<b>At 31 December 2017</b>	<u>130,630,000</u>

The investment properties were revalued at 31 December 2017 to their fair value. Valuations were 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. We have classified the valuations of our property portfolio as level 3 as defined by IFRS 13. In addition to note 1.3, inputs into the valuations include equivalent yields and rental income and are described as 'unobservable' as per 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.

Investment properties include leasehold properties with a carrying amount of £14,550,000 (2016: £25,395,000).

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.

### 10. Trade and other receivables

	2017 £	2016 £
Trade receivables	178,652	32,831
Prepayments	4,865	23,641
Accrued income	1,800	681,219
VAT recoverable	53,878	-
Other debtors	75,232	127,099
Amounts due from group undertakings	<u>14,896,841</u>	<u>7,652,708</u>
	<u>15,211,268</u>	<u>8,517,498</u>

At 31 December 2017 the Directors do not consider the Group to be exposed to a significant credit risk as the majority of the portfolio is let to Government departments.

There were no material trade and other receivables classified as past due but not impaired (2016: none).

No trade and other receivables were due after more than one year (2016: none). Receivables include a balance of £14,896,841 (2016: £7,652,708) due on demand from fellow group undertakings.

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 11. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	902	5,638
Cash held on behalf of third parties	13,356	-
	<u>14,258</u>	<u>5,638</u>

### 12. Trade and other payables

	2017 £	2016 £
Trade payables	264	237,082
VAT payable	-	215,347
Accruals	286,497	519,727
Amounts due to group undertakings	669,681	2,636,853
Deferred income	1,138,968	1,535,398
	<u>2,095,410</u>	<u>5,144,407</u>

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

Payables include a balance of £669,681 (2016: £2,636,853) due on demand to fellow group undertakings.

### 13. Deferred tax

	2017 £	2016 £
Deferred tax assets		
- after more than 12 months	(420,794)	(1,787,376)
Deferred tax liabilities		
- after more than 12 months	5,115,512	2,509,217
<b>Net deferred tax liability</b>	<u>4,694,718</u>	<u>721,841</u>

The movement in deferred tax was as follows:

	2017 £	2016 £
At 1 January	721,841	1,800,559
Charged/(credited) in arriving at profit after tax	3,972,877	(1,078,718)
<b>At 31 December</b>	<u>4,694,718</u>	<u>721,841</u>

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 13. Deferred tax (continued)

	Fair value adjustment to investment properties £
<b>Deferred tax assets</b>	
At 1 January 2017	(1,787,376)
Charged in arriving at profit after tax	<u>1,366,582</u>
<b>At 31 December 2017</b>	<u><u>(420,794)</u></u>

	Fair value adjustment to investment properties £
<b>Deferred tax assets</b>	
At 1 January 2016	(1,148,720)
Credited in arriving at profit after tax	<u>(638,656)</u>
<b>At 31 December 2016</b>	<u><u>(1,787,376)</u></u>

	Capital allowances £	Fair value adjustment to investment properties £	Total £
<b>Deferred tax liabilities</b>			
At 1 January 2017	570,068	1,939,149	2,509,217
(Credited)/charged in arriving at profit after tax	<u>(234,869)</u>	<u>2,841,164</u>	<u>2,606,295</u>
<b>At 31 December 2017</b>	<u><u>335,199</u></u>	<u><u>4,780,313</u></u>	<u><u>5,115,512</u></u>

	Capital allowances £	Fair value adjustment to investment properties £	Total £
<b>Deferred tax liabilities</b>			
At 1 January 2016	437,443	2,511,836	2,949,279
Charged/(credited) in arriving at profit after tax	<u>132,625</u>	<u>(572,687)</u>	<u>(440,062)</u>
<b>At 31 December 2016</b>	<u><u>570,068</u></u>	<u><u>1,939,149</u></u>	<u><u>2,509,217</u></u>

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 14. Borrowings

	Current £	Non-current £	Total £
<b>At 31 December 2017</b>			
Secured notes	4,072,633	58,651,324	62,723,957
	<u>4,072,633</u>	<u>58,651,323</u>	<u>62,723,957</u>
<b>At 31 December 2016</b>			
Secured notes	4,083,747	62,778,736	66,862,483
	<u>4,083,747</u>	<u>62,778,736</u>	<u>66,862,483</u>

Arrangement fees of £544,011 (2016: £588,493) 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 2017 or 31 December 2016.



# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 14. Borrowings (continued)

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

	<b>Secured notes £</b>
<b>At 31 December 2017</b>	
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	54,901,952
	<hr/>
Unamortised issue costs	63,267,968 (544,011)
	<hr/>
Borrowings	62,723,957
Less amounts due for settlement within 12 months	(4,072,633)
	<hr/>
Amounts due for settlement after 12 months	58,651,324
	<hr/>
	<hr/>
	<b>Secured notes £</b>
<b>At 31 December 2016</b>	
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	12,549,024
More than five years	46,535,936
	<hr/>
Unamortised issue costs	67,450,976 (588,493)
	<hr/>
Borrowings	66,862,483
Less amounts due for settlement within 12 months	(4,083,747)
	<hr/>
Amounts due for settlement after 12 months	62,778,736
	<hr/>
	<hr/>

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 14. Borrowings (continued)

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

	2017		2016	
	Weighted average interest rate (%)	Weighted average period (years)	Weighted average interest rate (%)	Weighted average period (years)
Fixed rate borrowings	<u>4.2%</u>	<u>5.0</u>	<u>4.2%</u>	<u>6.0</u>

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

	Carrying amounts		Fair values	
	2017	2016	2017	2016
Fixed rate borrowings	<u>62,723,957</u>	<u>66,862,483</u>	<u>66,024,873</u>	<u>71,747,209</u>

Arrangement fees of £544,011 (2016: £588,493) 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:

	2017 £	2016 £
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 2017

### 15. Financial instruments

#### Categories of financial instruments

Financial assets of the Group comprise: trade and other receivables, intra-group loans, current tax assets, 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:

	2017 £	2016 £
Debt	63,267,968	67,450,976
Cash and cash equivalents	(14,258)	(5,638)
<b>Net debt</b>	<b>63,253,710</b>	<b>67,445,338</b>
Equity	80,902,118	55,720,481
<b>Net debt to equity ratio</b>	<b>78.2%</b>	<b>121.0%</b>

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 2017

#### 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 2017.

# CLS UK Properties plc

## Notes to the Group Financial Statements 31 December 2017

### 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.

At 31 December 2017	Less than one year	One to two years	Two to five years	Over five years
Financial liabilities:				
Trade and other payables	956,441	-	-	-
Borrowings	4,183,008	4,183,008	54,901,952	-
Interest payments on borrowings †	2,595,289	2,420,815	6,215,607	-
	<u>8,010,556</u>	<u>6,603,823</u>	<u>61,117,559</u>	<u>-</u>

At 31 December 2016	Less than one year	One to two years	Two to five years	Over five years
Financial liabilities:				
Trade and other payables	1,587,542	-	-	-
Borrowings	4,183,008	4,183,008	12,549,024	46,535,936
Interest payments on borrowings †	2,769,762	2,595,289	6,739,026	1,897,396
	<u>8,540,312</u>	<u>6,778,297</u>	<u>19,288,050</u>	<u>48,433,332</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

	2017		2016	
	Ordinary shares in circulation Number	Ordinary shares in circulation £	Ordinary shares in circulation Number	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 2017

### 17. Share premium

	2017 £	2016 £
At 1 January and 31 December	<u>32,667,300</u>	<u>32,667,300</u>

### 18. Cash generated from operations

	2017 £	2016 £
Operating profit	33,625,286	8,988,048
Adjustments for:		
Amortisation of loans	44,482	99,531
Net movements on revaluation of investment property	(20,643,049)	5,567,787
Non-cash rental (income)/expense	(328,282)	37,213
Increase in receivables	(6,636,739)	(392,923)
(Decrease) / Increase in payables	(5,204,752)	63,479
Cash generated from operations	<u>856,946</u>	<u>14,363,135</u>

### 19. Commitments

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

	2017 £	2016 £
Operating lease commitments – where the Group is the lessor		
Within one year	11,079,253	12,990,191
More than one but not more than five years	34,893,212	36,927,312
More than five years	12,840,417	20,018,512
	<u>58,812,882</u>	<u>69,936,015</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 £13,592,163 (2016: £16,003,856) and direct operating expenses arising on the properties in the period was £162,476 (2016: £158,351). 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 2017

#### 20. Subsidiaries

The Group financial statements include the financial statements of CLS UK Properties plc and all of its subsidiaries. The subsidiaries are 100% owned and listed below:

Registered Office: 12<sup>th</sup> Floor Westminster Tower, 3 Albert Embankment, London, SE1 7SF

Apex Tower Limited	CLS Peterborough Limited	GWH Birkenhead Limited
CLS England and Wales Limited	Elmfield Road Limited	
CLS Northern Properties Limited	CLS London Limited	

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

Sidlaw House Limited	CLS Scotland Limited	Ladywell House Limited
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The principal activity of these subsidiaries is property investment and all are incorporated in Great Britain.

#### 21. 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 2017, the Group owed a fellow group company £nil (2016: £nil) under a facility which is due for repayment on 31 December 2022. Interest is charged on any drawdown on this facility at a rate of Libor plus a margin of 2.5%. For the year ended 31 December 2017 a total of £26,037 (2016: £1,421) in interest relating to this loan was charged to the Group's income statement. At 31 December 2017 interest charges of £nil (2016: £nil) were outstanding in the Group's balance sheet.

At 31 December 2017, the Group owed fellow group companies a total of £669,681 (2016: £615,385). These balances are repayable on demand and are interest-free.

At 31 December 2017, the Group was owed £12,325,780 by a fellow group company NYK Investments Limited (2016: £7,023,280). The loan is due for repayment on 31 December 2022. Interest is charged on this loan at a rate of Libor plus a margin of 2.5%. For the year ended 31 December 2017 a total of £57,031 (2016: £51,791) in interest relating to this loan was included in the Group's income statement and at 31 December 2017 of £nil (2016: £51,791) was outstanding in the Group's balance sheet.

At 31 December 2017, the Group was owed £2,571,061 by fellow group companies (2016: £577,637). These loans are repayable on demand and are interest-free.

In the year ended 31 December 2017, the Group incurred costs of £226,544 (2016: £518,970) from a fellow group company for administrative costs.

#### 22. Events after the balance sheet date

On 4 January 2018, the Group released CLS Peterborough Limited and its investment property as security against the Secured Notes. On 18 January 2018, CLS Peterborough Limited was sold to CLS Holdings plc.

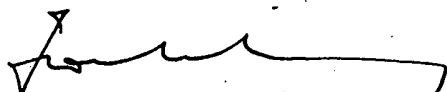
# CLS UK Properties plc

## Company Balance Sheet at 31 December 2017

	Notes	2017 £	2016 £
<b>Non current assets</b>			
Investment in subsidiary undertakings	6	38,702,279	31,000,011
Trade and other receivables	7	40,926,170	61,260,907
		<u>79,628,449</u>	<u>92,260,918</u>
<b>Current assets</b>			
Trade and other receivables	7	14,587,401	7,387,854
Corporation tax recoverable		218,944	100,167
Cash and cash equivalents		-	-
		<u>14,806,345</u>	<u>7,488,021</u>
<b>Total assets</b>		<u>94,434,794</u>	<u>99,748,939</u>
<b>Current liabilities</b>			
Trade and other payables	8	(691,416)	(657,950)
Borrowings	9	(4,072,633)	(4,083,747)
		<u>(4,764,049)</u>	<u>(4,741,697)</u>
<b>Non-current liabilities</b>			
Borrowings	9	(58,651,324)	(62,778,736)
<b>Total liabilities</b>		<u>(63,415,373)</u>	<u>(67,520,433)</u>
<b>Net assets</b>		<u>31,019,421</u>	<u>32,228,506</u>
<b>Equity</b>			
Share capital	10	82,700	82,700
Share premium	11	32,667,300	32,667,300
Profit and loss account		(1,730,579)	(521,494)
<b>Shareholders' funds</b>		<u>31,019,421</u>	<u>32,228,506</u>

The Company reported a loss for the financial year ended 31 December 2017 of £1,209,085 (2016: loss £400,671).

The financial statements of CLS UK Properties plc (registered number: 08124770) were approved by the Board of Directors and authorised for issue on 28 June 2018 and were signed on its behalf by:



John Whiteley

Director



# CLS UK Properties plc

## Company Statement of Changes in Equity at 31 December 2017

	Share capital £	Share premium £	Retained earnings £	Total £
<b>Arising in 2017:</b>				
Total comprehensive income for the year	-	-	(1,209,085)	(1,209,085)
Total changes arising in 2017	-	-	(1,209,085)	(1,209,085)
<b>At 1 January 2017</b>	<b>82,700</b>	<b>32,667,300</b>	<b>(521,494)</b>	<b>32,228,506</b>
<b>At 31 December 2017</b>	<b>82,700</b>	<b>32,667,300</b>	<b>(1,730,579)</b>	<b>31,019,421</b>

	Share capital £	Share premium £	Retained earnings £	Total £
<b>Arising in 2016:</b>				
Total comprehensive income for the year	-	-	(400,671)	(400,671)
Total changes arising in 2016	-	-	(400,671)	(400,671)
<b>At 1 January 2016</b>	<b>82,700</b>	<b>32,667,300</b>	<b>(120,823)</b>	<b>32,629,177</b>
<b>At 31 December 2016</b>	<b>82,700</b>	<b>32,667,300</b>	<b>(521,494)</b>	<b>32,228,506</b>

The notes on pages 32 to 35 are an integral part of these financial statements.

# CLS UK Properties plc

## Notes to the Company Financial Statements 31 December 2017

### 1. General information

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 Company has adequate resources to continue in operational existence for the foreseeable future and therefore 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.

### 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 loss for the financial year was £1,209,085 (2016: loss of £400,671).

Audit fees for the Company were £6,000 (2016: £6,000).

## CLS UK Properties plc

### Notes to the Company Financial Statements 31 December 2017

#### 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

	2017 £	2016 £
At 31 December	<u>38,702,279</u>	<u>31,000,011</u>

Registered Office: 12<sup>th</sup> Floor Westminster Tower, 3 Albert Embankment, London, SE1 7SP

Apex Tower Limited	CLS Peterborough Limited	GWH Birkenhead Limited
CLS England and Wales Limited	Elmfield Road Limited	
CLS Northern Properties Limited	CLS London Limited	

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

CLS Scotland Limited	Ladywell House Limited	Sidlaw House Limited
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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 2017 (2016: none).

#### 7. Trade and other receivables

##### Current

	2017 £	2016 £
Prepayments and accrued income	-	332,493
VAT recoverable	213,727	282,081
Amounts owed by group undertakings	<u>14,373,674</u>	<u>6,773,280</u>
	<u>14,587,401</u>	<u>7,387,854</u>

At 31 December 2017, the Company was owed £12,325,780 by a fellow group company NYK Investments Limited (2016: £7,023,280). The loan is due for repayment on 31 December 2022. Interest is charged on this loan at a rate of Libor plus a margin of 2.5%. (2016: Libor plus a margin of 2.5%)

# CLS UK Properties plc

## Notes to the Company Financial Statements 31 December 2017

### 7. Trade and other receivables (continued)

#### Non-current

	2017 £	2016 £
Amounts owed by group undertakings	40,926,170	61,260,907

Receivables due after more than one year include loans of £40,926,170 (2016: £61,260,907) due from fellow group undertakings. Loans of £40,482,533 (2016: £58,512,285) are due for repayment on 24 November 2022 and interest charged on the loans at a fixed rate of 4.3% (2016: 4.3%).

The remaining loan balance of £443,637 (2016: £2,748,622) is due for repayment on 31 December 2022. Interest is charged on these loans at a rate of LIBOR plus a margin of 2.7% (2016: LIBOR plus a margin of 2.7%).

### 8. Trade and other payables

#### Current

	2017 £	2016 £
Accruals	216,906	214,431
Other creditors	-	26,693
Amounts due to group undertakings	474,510	416,826
	<u>691,416</u>	<u>657,950</u>

### 9. Borrowings

	Current £	Non-current £	Total borrowings £
<b>At 31 December 2017</b>			
Secured note	4,183,008	59,084,960	63,267,968
Unamortised arrangement fees	(110,375)	(433,636)	(544,011)
	<u>4,072,633</u>	<u>58,651,324</u>	<u>62,723,957</u>
<b>At 31 December 2016</b>			
Secured note	4,183,008	63,267,968	67,450,976
Unamortised arrangement fees	(99,261)	(489,232)	(588,493)
	<u>4,083,747</u>	<u>62,778,736</u>	<u>66,862,483</u>

# CLS UK Properties plc

## Notes to the Company Financial Statements 31 December 2017

### 9. Borrowings (continued)

#### 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.

The secured note is repayable as follows:	2017 £	2016 £
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	54,901,952	12,549,024
In more than five years	-	46,535,936
	<u>63,267,968</u>	<u>67,450,976</u>

### 10. Share capital

	2017		2016	
	Ordinary shares in circulation Number	Ordinary shares in circulation £	Ordinary shares in circulation Number	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.

### 11. Share premium

	2017 £	2016 £
At 31 December	<u>32,667,300</u>	<u>32,667,300</u>

### 12. Parent undertaking

The Directors consider that the immediate and ultimate parent undertaking and ultimate controlling party is CLS Holdings plc, which is incorporated in Great Britain. The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2017, being the largest Group into which the Company's financial statements are consolidated. Copies of the Group financial statements are publicly available and may be obtained from the registered address: The Secretary, CLS Holdings plc, 12<sup>th</sup> Floor Westminster Tower, 3 Albert Embankment, London, SE1 7SP.

### 13. Events after balance sheet date

On 04 January 2018, the Company released CLS Peterborough Limited and its investment property as security against the Secured Notes. On 18 January 2018, CLS Peterborough Limited was sold to CLS Holdings plc.