



CLS HOLDINGS PLC

(incorporated with limited liability in England and Wales with registered number 02714781)

5.50 per cent. Bonds due 2019

Issue Price: 100.00 per cent.

The 5.50 per cent. Bonds due 2019 (the “**Bonds**”) of CLS Holdings plc (the “**Issuer**”, the “**Company**” and “**CLS**”) are proposed to be issued on a date, which is expected to be 11 September 2012, to be set forth in an announcement which will be published by the Issuer by Regulatory Information Service (expected to be the Regulatory News Service operated by the London Stock Exchange) on or about 5 September 2012 (the “**Sizing Announcement**”). The aggregate principal amount of the Bonds to be issued will be determined following a process of “bookbuilding” by the Manager as described under “*Subscription and Sale*”, and will be set forth in the Sizing Announcement.

The Bonds will rank *pari passu* without any preference among themselves and they will (subject to Condition 3(a) (Negative Pledge) of the terms and conditions of the Bonds) constitute unsecured obligations of the Issuer. See “*Terms and Conditions of the Bonds – Status of the Bonds and Coupons*”.

Interest on the Bonds is payable in equal instalments in arrear on 30 June and 31 December in each year, except that the first payment of interest, to be made on 31 December 2012, will be in respect of the period from and including the Issue Date to but excluding 31 December 2012.

The Bonds mature on 31 December 2019 (the “**Maturity Date**”). The Bonds are subject to redemption in whole, at their principal amount together with accrued interest, at the option of the Issuer, at any time in the event of certain United Kingdom tax changes. The Bonds may also be redeemed in whole by the Issuer, at its option, at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield of the relevant United Kingdom Government Stock plus a margin of 1.00 per cent., together with accrued interest. See “*Terms and Conditions of the Bonds – Redemption and Purchase*”.

Application will be made after the publication of the Sizing Announcement to the Financial Services Authority (the “**FSA**”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Bonds to be admitted to trading on the London Stock Exchange’s regulated market (the “**Market**”) and through the electronic order book for retail bonds (the “**ORB**”) of the London Stock Exchange. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments (“**MiFID**”).

The denomination of the Bonds shall be £100. The Bonds will initially be represented by a global Bond (the “**Global Bond**”), without interest coupons, which will be deposited with a common depository on behalf of Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”) on or about the Issue Date. The Global Bond will be exchangeable for definitive Bonds in bearer form in the denomination of £100 not less than 60 days following the request of the Issuer or the holder in the limited circumstances set out in it. See “*Summary of Provisions relating to the Bonds while represented by the Global Bond*”.

AN INVESTMENT IN THE BONDS INVOLVES CERTAIN RISKS. PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE HEADING “*RISK FACTORS*”.

Manager

Canaccord Genuity Limited

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the “**Prospectus Directive**”).

The Issuer (the “**Responsible Person**”) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, in the context of any public offer of Bonds that is not within an exemption from the requirement to publish a prospectus under the Prospectus Directive, as amended (a “**Public Offer**”), the Issuer accepts responsibility in the United Kingdom, for the content of this Prospectus, in relation to any person (an “**Investor**”) to whom an offer of any Bonds is made by any financial intermediary (an “**Authorised Offeror**”) where the offer is made pursuant to the conditions set out in the following paragraph. However, neither the Issuer nor the Manager has any responsibility for any of the actions of any Authorised Offeror, including compliance by an Authorised Offeror with applicable conduct of business rules or other applicable regulatory requirements or other securities law requirements in relation to such offer.

The Issuer consents to the use of this Prospectus in connection with a Public Offer of any Bonds during the period commencing from, and including, 22 August 2012 until 5.00 p.m. (London time) on 4 September 2012 (the “**Offer Period**”) in the United Kingdom by any financial intermediary which satisfies the following Conditions:

(a) is authorised to make such offers under the MiFID, (b) acts in accordance with all applicable laws, rules, regulations and guidance of any applicable regulatory bodies (the “**Rules**”), including the Rules published by the FSA (including its guidance for distributors in “The Responsibilities of Providers and Distributors for the Fair Treatment of Customers”) from time to time including, without limitation and in each case, Rules relating to both the appropriateness or suitability of any investment in the Bonds by any person and disclosure to any potential investor, (c) complies with the restrictions set out under “*Subscription and Sale*” in this Prospectus which would apply as if it were the Manager, (d) ensures that any fee (and any commissions or benefits of any kind) received or paid by that financial intermediary in relation to the offer or sale of the Bonds does not violate the Rules and is fully and clearly disclosed to investors or potential investors, (e) holds all licences, consents, approvals and permissions required in connection with solicitation of interest in, or offers or sales of, the Bonds under the Rules, including authorisation under the FSMA, (f) complies with applicable anti-money laundering, anti-bribery and “know your client” Rules, and does not permit any application for Bonds in circumstances where the financial intermediary has any suspicions as to the source of the application monies, (g) retains investor identification records for at least the minimum period required under applicable Rules, and shall, if so requested, make such records available to the Manager and the Issuer or directly to the appropriate authorities with jurisdiction over the Issuer and/or the Manager in order to enable the Issuer and/or the Manager to comply with anti-money laundering, anti-bribery and “know your client” Rules applying to the Issuer and/or the Manager and (h) does not, directly or indirectly, cause the Issuer or the Manager to breach any Rule or subject the Issuer or the Manager to any requirement to obtain or make any filing, authorisation or consent in any jurisdiction.

For the Public Offer Jurisdictions outside the UK (being Jersey, Guernsey and the Isle of Man), the Issuer consents to the use of this Prospectus in connection with an offer of any Bonds either by any financial intermediary that satisfies the equivalent of conditions (a) – (h) applicable in those jurisdictions or as otherwise agreed by the Issuer.

Any Authorised Offeror who wishes to use this Prospectus in connection with a Public Offer is required, for the duration of the Offer Period, to publish on its website that it is using this Prospectus for such Public Offer in accordance with the consent of the Issuer and the conditions attached thereto.

A Public Offer may be made, subject to the conditions set out above, during the Offer Period by any of the Issuer, the Manager or any Authorised Offeror.

Other than as set out above, neither the Issuer nor the Manager have authorised the making of any Public Offer by any person in any circumstances and such person is not permitted to use this Prospectus in connection with its offer of any Bonds. Any such offers are not made on behalf of the Issuer or by the Manager or Authorised Offerors and none of the Issuer or the Manager or Authorised Offerors has any responsibility or liability for the actions of any person making such offers.

An Investor intending to acquire or acquiring any Bonds from an Authorised Offeror will do so, and offers and sales of the Bonds to an Investor by an Authorised Offeror will be made, in accordance with any terms and other arrangements in place between such Authorised Offeror and such Investor including as to price, allocations and settlement arrangements (the “Terms and Conditions of the Public Offer”). The Issuer will not be a party to any such arrangements with Investors (other than the Manager) in connection with the offer or sale of the Bonds and, accordingly, this Prospectus will not contain such information. The Terms and Conditions of the Public Offer shall be provided by the relevant Authorised Offeror to the Investor at the relevant time. None of the Issuer or the Manager or other Authorised Offerors has any responsibility or liability for such information.

As noted under "*Terms and Conditions of the Offer*" below, the issue of the Bonds is conditional upon various matters, including the Subscription Agreement being signed by the Issuer and the Manager and customary conditions precedent contained therein.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all material information with respect to the Issuer and the Bonds (including all information which, according to the particular nature of the Issuer and of the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Bonds), that the information contained or incorporated in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Prospectus are honestly held and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated within and form part of the Prospectus.

Neither the Manager nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds. Neither the Manager nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds or their distribution.

No person is or has been authorised by the Issuer, the Manager or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Manager or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a

recommendation by the Issuer, the Manager or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Each potential investor in the Bonds must determine the suitability of an investment in the Bonds in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal and interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Manager and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this document, see “*Subscription and Sale*” below.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Manager or the Trustee to any person to subscribe for or to purchase any Bonds. In particular, this Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Manager and the Trustee do not represent that this Prospectus may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken (other than in the United Kingdom) by the Issuer or the Manager or by the Trustee anywhere which is intended to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States, the Member States of the European Economic Area, Guernsey and the Isle of Man, see “*Subscription and Sale*”.

This Prospectus has been prepared on the basis that any offer of Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) other than offers (the “**Permitted Public Offers**”) which are made prior to the Issue Date, and which are contemplated in the Prospectus in the United Kingdom once the Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive, and in respect of which the Issuer has consented in writing to the use of the Prospectus, will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Bonds. Accordingly, any person making or intending to make an offer in that Relevant Member State of Bonds which are the subject of the offering contemplated in this Prospectus, other than the Permitted Public Offers, may only do so in circumstances in which no obligation arises for the Issuer or the Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Issuer, or the Manager have authorised, nor do they authorise, the making of any offer of Bonds in circumstances in which an obligation arises for the Issuer or the Manager to publish or supplement a prospectus for such offer. The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

In certain circumstances, investors may hold interests in the Bonds through Euroclear UK & Ireland Limited (formerly known as CRESTCo Limited) (“**CREST**”) through the issuance of dematerialised depository interests (“**CREST Depository Interests**” or “**CDIs**”) issued, held, settled and transferred through CREST, representing interests in the Bonds underlying the CDIs (the “**Underlying Bonds**”). CREST Depository Interests are independent securities constituted under English law and transferred through CREST and will be issued by CREST Depository Limited (the “**CREST Depository**”) pursuant to the global deed poll dated 25 June 2001 as subsequently modified, supplemented and/or restated (the “**CREST Deed Poll**”). Neither the Bonds nor any rights attached thereto will be issued, settled, held or transferred within the CREST system other than through the issue, settlement, holding or transfer of CDIs. Holders of CREST Depository Interests (“**CDI Holders**”) will not be entitled to deal directly in the Bonds and, accordingly, all dealings in the Bonds will be effected through CREST in relation to the holding of CDIs.

IN CONNECTION WITH THE ISSUE OF THE BONDS, CANACCORD GENUITY LIMITED AS STABILISING MANAGER (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to “Sterling”, “GBP” and “£” refer to the currency of the United Kingdom.

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SUMMARY

This summary is comprised of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary relating to the Bonds and the Issuer. As some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in this summary because of the nature of the Bonds and the Issuer it is possible that no relevant information can be given regarding each Element. In this case, a short description of the Element is included in the summary and marked as “Not Applicable”.

Section A - Introduction and warnings

A.1 This summary should be read as an introduction to this Prospectus. Any decision to invest in the Bonds should be based on a consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including the translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Bonds.

A.2 The Issuer has granted a general consent for the use of this Prospectus in connection with any Public Offer of any Bonds during the period commencing from, and including, 22 August 2012 until 5.00 p.m. (London time) on 4 September 2012, in the United Kingdom by any financial intermediary which complies with the conditions attached to the Issuer’s consent.

Any Authorised Offeror who wishes to use this Prospectus in connection with a Public Offer is required, for the duration of the Offer Period, to publish on its website that it is using this Prospectus for such Public Offer in accordance with the consent of the Issuer and the conditions attached thereto.

An Investor intending to acquire or acquiring any Bonds from an Authorised Offeror will do so, and offers and sales of the Bonds to an Investor by an Authorised Offeror will be made, in accordance with any terms and other arrangements in place between such Authorised Offeror and such Investor including as to price, allocations and settlement arrangements. The Issuer will not be a party to any such arrangements with Investors (other than the Manager) in connection with the offer or sale of the Bonds and, accordingly, this Prospectus will not contain such information. The Terms and Conditions of the Public Offer shall be provided by the relevant Authorised Offeror to the Investor at the relevant time. None of the Issuer or the Manager or other Authorised Offerors has any responsibility or liability for such information.

Section B - The Issuer

B.1 The legal and commercial name of CLS Holdings plc
the Issuer:

B.2 The domicile and legal form of the Issuer, the legislation under which the Issuer operates and its country of incorporation: The Issuer was incorporated and registered in England and Wales under the Companies Act 2006 as a public limited company with registered number 02714781.

B.4b	A description of any known trends affecting the Issuer and the industries in which it operates:	Banks' caution over new lending in the non-prime London markets has led to many proposed investment transactions, including some on which the CLS Group was underbidder, being delayed or abandoned, which, coupled with an apparent reluctance from the banks to put too many financially distressed properties on the market too quickly, implies that the window for new acquisition opportunities could remain open for some considerable time. In France, the run up to the presidential election led to a pause in activity in investment markets. In our view, bank debt continues to be more prevalent than in London and there are very few signs of distress amongst property owners in France. Whilst there was a decline in investment transaction volumes in Germany of some 15 per cent. in the first quarter, there were significant positive net inflows into German open-ended funds in the same period, suggesting that private investors were increasingly enthusiastic about the sector. This may have marked a positive turning point for an important part of the German domestic investment market, and vacancy levels have continued to fall overall. The Swedish economy is not immune from the issues in the Eurozone, as evidenced by the falling availability of bank debt to the property sector, particularly on non-prime real estate. The gap in value between prime property and non-prime has grown, driven by the demand for prime assets, the increasingly higher cost of borrowing on non-prime assets, and the increased supply of non-prime assets for sale by closed-ended funds.
B.5	Description of the Group and the Issuer's position within the Group:	The Issuer is the parent company of a group of companies whose main activity is the investment, management and development of commercial real estate across four European regions: London, France, Germany and Sweden.
B.9	Profit forecast or estimate:	Not Applicable; no profit forecasts or estimates have been made by the Issuer.
B.10	Qualifications in the Auditors' report:	Not Applicable; there are no qualifications contained in the audit reports on the historical financial information.
B.12	Selected financial information:	<p>The selected financial information set out below has been extracted without material adjustment from the audited consolidated financial statements of the Issuer for the years ending 31 December 2010 and 31 December 2011 and the unaudited financial results for the six month periods ending 30 June 2011 and 30 June 2012:</p>

	<i>2011</i>	<i>2010</i>		<i>June 2011</i>
Gross property assets (£m).....	919.9	927.5	920.4	924.8
Borrowings net of liquid resources (£m).....	480.6	462.9	466.6	457.1
Net Assets (£m).....	367.5	357.2	379.7	396.3
Group Revenue (£m)	80.1	79.1	40.0	39.9
Profit before tax (£m).....	37.7	70.9	27.1	37.1
Property net initial yield (%).....	7.0%	7.2%	7.0%	7.1%
Weighted average cost of debt (%) ...	4.1%	4.3%	3.7%	4.5%
Interest cover (times)	2.6x	3.2x	3.4x	3.4x
Occupancy rate (%).....	96.1%	95.7%	96.5%	95.8%

There has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2011 (being the end of the last financial period of the Issuer for which audited financial statements have been published).

There has been no significant change in the financial or trading position of the Issuer or the Group since 30 June 2012 (being the end of the latest financial period of the Issuer for which interim financial information has been published).

- B.13 Recent material events particular to the Issuer's solvency:** Not Applicable; there are no recent events particular to the Issuer which are to a material extent relevant to the evaluation of the Issuer's solvency.
- B.14 Extent to which the Issuer is dependent upon other entities within the Group:** Not Applicable; the Issuer is not dependent on any other entities within the Group.
- B.15 Principal activities of the Issuer:** The Issuer is the parent company of a group of companies (the Company and its subsidiaries together constitute the "Group") whose main activity is the acquisition and development of commercial real estate across London, France, Germany and Sweden.
- B.16 Extent to which the Issuer is directly or indirectly owned or controlled:** The Issuer is a public limited company with its ordinary shares traded on the London Stock Exchange. 60.74 per cent. of the shares in the capital of the Issuer is held by Sten Mortstedt's Family & Charity Trust, a trust established by Sten Mortstedt, who founded the business in 1992, and by his brother Bengt Mortstedt.
- B.17 Credit ratings assigned to the Issuer on its debt securities:** Not Applicable; neither the Issuer nor any of its debt has been assigned any credit rating.

Section C - Securities

- C.1 Type and class of the Bonds:** The 5.50 per cent. Bonds due 2019 will be issued in bearer form in denominations of £100 and integral multiples thereof. The Bonds represent, subject to a Negative Pledge, unsecured obligations of the Issuer.

The ISIN for the Bonds is XS0820711215 and the Common

Code is 082071121.

C.2	Currency:	Pounds Sterling (“£”).
C.5	A description of any restrictions on the free transferability of the Bonds:	Not Applicable; there are no restrictions on the free transferability of the Bonds.
C.8	Description of the rights attaching to the Bonds:	<p><i>Status of the Bonds:</i> The Bonds constitute (subject to the Negative Pledge described in the paragraph below) unsecured obligations of the Issuer and at all times shall rank <i>pari passu</i> and without preference among themselves.</p> <p><i>Negative Pledge:</i> For so long as any Bond or Coupon remains outstanding, the Issuer will not, and will ensure that NYK Investments Limited (whilst it remains a Subsidiary of the Issuer) will not, create or have outstanding any security interest, other than certain Permitted Security Interests, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds and the Coupons the same security or such other security as the Trustee or else the Bondholders may agree. NYK Investments Limited is a wholly owned subsidiary of the Company and the company through which the majority of the Group’s internal treasury operations (including most of its intra-group lending) is conducted.</p> <p><i>Covenants:</i> The Issuer undertakes to procure that, for the one year period to which the Annual Accounts Relate and the six month period to which the Half-Year Accounts relate, the Group maintains an Interest Coverage Ratio (being Gross Profit in relation to Net Finance Costs) of at least 1.4:1.</p> <p>The Issuer undertakes, on 31 December and 30 June of each year, to procure that the Group maintains an Equity Ratio (being Equity in relation to Total Assets) of at least 22.5 per cent.</p> <p>The Issuer undertakes not to pay any dividends or distributions to shareholders, repurchase shares or redeem share capital, if such event would result in the Group having less than £250 million of Equity.</p> <p><i>Events of Default:</i></p> <p>The Conditions contain Events of Default including those relating to (a) non-payment, (b) breach of other obligations, (c) cross-acceleration, (d) enforcement proceedings, (e) security enforcement, (f) insolvency, (g) winding-up, (h) lack</p>

of authorisations and consents and (i) illegality. The provisions include certain minimum thresholds and grace periods. In addition, Trustee certification that certain events would be materially prejudicial to the interests of the Bondholders is required before certain events will be deemed to constitute Events of Default.

Withholding tax:

Payments of principal and interest by the Issuer in respect of the Bonds and the Coupons shall be made free and clear of withholding or deduction for tax by or within the UK unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by Bondholders and/or Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain customary exemptions.

Meetings of Bondholders:

The Conditions contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not vote on the relevant resolution and Bondholders who voted in a manner contrary to the majority.

Modification, waiver and substitution:

The Trustee may, without the consent of Bondholders, agree to (i) any modification of (subject to certain exceptions), or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) the substitution of the holding company or of a subsidiary of the Issuer or of a successor in business as principal debtor under any Bonds in place of the Issuer.

Governing law:

English law.

C.9 Interest rate, maturity and early redemption provisions, yield and representatives of the Bondholders:

Interest rate:

The Bonds will bear interest from (and including) the Issue Date to (but excluding) the Maturity Date (as defined below) at a fixed rate of 5.50 per cent. per annum, payable semi-annually in equal instalments in arrear on 30 June and 31 December in each year, except that the first payment of interest, to be made on 31 December 2012, will be in respect of the period from and including the Issue Date to but excluding 31 December 2012.

Maturity:

Unless previously redeemed or purchased and cancelled in accordance with the Conditions, the Bonds will mature and become due and payable at their principal amount on 31 December 2019.

Optional Early Redemption by Issuer for tax reasons:

The Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at par plus accrued interest in the event of certain tax changes caused by any change in, amendment to, or application or official interpretation of the laws or regulations of the United Kingdom on or after the Issue Date and which may have an impact on payments to be made in respect of the Bonds.

Optional Early Redemption by Issuer at any time:

The Bonds may also be redeemed in whole by the Issuer, at its option, at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield of the relevant United Kingdom Government stock plus a margin of 1.00 per cent., together with accrued interest.

Indication of Yield:

5.50 per cent. The yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Trustee:

Deutsche Trustee Company Limited

C.10	Derivative component in interest payments:	Not Applicable; the Bonds bear interest at a fixed rate and there is not a derivative component in the interest payment.
C.11	Listing and Admission to Trading:	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on its EEA regulated market and through the ORB market. Admissions are expected to be granted on or about 11 September 2012, subject only to the issue of the Global Bond.

Section D- Risks

Key information on the key risks that are specific to the Issuer:

- (a) Valuations of property and property related assets are subject to uncertainty and may

not reflect actual sale prices.

- (b) Property assets are relatively illiquid.
- (c) The Group may be unable to let properties, leading to vacancies and reduced revenues.
- (d) The Group may be unable to obtain funds which may affect its ability to meet its investment objectives and generate returns on investments.
- (e) The Group is exposed to the risk that its counterparties may default on their contractual obligations. In particular, the Group has credit exposure to tenants, in respect of cash and cash equivalents and under derivative financial instruments and committed transactions.

D.2

- (f) There is no certainty that the Group will be able to put in place and retain new and existing debt facilities. If any member of the Group breaches the financial covenants under its debt facilities, this may result in the Group being required to dispose of assets at a lower value than predicted, and may result in a cross-default under certain of the Group's other facilities and result in further requirements to make repayments.
- (g) The Group has invested in several listed and unlisted companies and has a corporate bond portfolio. The value of these investments may fluctuate.
- (h) The Group is exposed to foreign exchange rate risk, particularly in respect of the Swedish Krona and Euro.
- (i) Environmental liabilities may arise from the ownership of properties, which may include remedial costs.
- (j) The Group relies on key personnel and does not maintain key man insurance.
- (k) The Group may be exposed to uninsured losses.
- (l) The taxation and legal and regulatory regimes affecting the Group may change.

Key information on the key risks that are specific to the Bonds:

- (a) The obligations of the Issuer under the Bonds are structurally subordinated to any liabilities of the Issuer's subsidiaries.
- (b) The conditions of the Bonds contain provisions for calling meetings of Bondholders which permit defined majorities to bind all Bondholders including Bondholders who did not vote on the relevant resolution and Bondholders who voted in a manner contrary to the majority.
- (c) No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.
- (d) If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax.
- (e) Holders of Crest Depositary Interests will hold or have an interest in a separate legal

instrument and will not be the legal owners of the Underlying Bonds.

- D.3**
- (f) The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.
 - (g) The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks if an investor's financial activities are denominated principally in a currency or currency unit other than Sterling, as the value of the principal cash interest may, when converted to the investor's functional currency, fluctuate in line with movements in exchange rates, affecting the value of the Bonds as reported by the investor. There is a risk that exchange rates may significantly change and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls.
 - (h) The Bonds bear interest at a fixed rate. Potential investors should note that if interest rates rise, then the income payable on the Bonds might become less attractive and the price that investors could realise on a sale of the Bonds may fall.

Section E- Offer:

E.2b Reason for the offer and use of proceeds: The reason for the offer of the Bonds is in order for the Issuer to raise funds for general corporate purposes and to diversify the Issuer's funding base. All of the proceeds of the Bonds will be used for the Issuer's general corporate purposes.

E.3 Terms and Conditions of the Offer: Any Investor intending to acquire any Bonds from a bank, financial intermediary or other entity (including an Authorised Offeror) will do so in accordance with any terms and other arrangements in place between the seller or distributor and such Investor, including as to price, allocations and settlement arrangements.

The aggregate principal amount of the Bonds to be issued will depend partly on the amount of Bonds for which indicative offers to subscribe are received during the Offer Period and will be specified in the Sizing Announcement.

The minimum subscription per Investor is GBP 2,000 in principal amount of the Bonds. There is no maximum amount of the Bonds which can be subscribed for or that may be issued.

Investors will be notified by the Manager or their relevant Authorised Offeror (as applicable) of their allocations of Bonds (if any) in accordance with the arrangements in place between the relevant Investor and the Manager or Authorised Offeror.

In the event that the issue is oversubscribed, there will be no refund as investors will not be required to pay for any Bonds until any application for Bonds has been accepted and the

Bonds allotted.

The issue of the Bonds will be conditional upon the Subscription Agreement being signed by the Issuer and the Manager and will be made further to the terms of the Subscription Agreement which will in certain circumstances entitle the Manager to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the Bonds.

E.4 Interests of natural and legal persons involved in the offer and issue of the Bonds, including conflicts of interest: So far as the Issuer is aware, no person involved in the offer of the Bonds has an interest material to the offer. There are no conflicts of interest which are material to the offer of the Bonds.

E.7 Estimated expenses charged to investors by the Issuer or the Authorised Offerors: The Issuer will not charge any expenses to any Investor. Expenses may be charged by an Authorised Offeror; these are beyond the control of the Issuer and are not set by the Issuer. They may vary depending on the size of the amount subscribed for and the Investor's arrangements with the Authorised Offeror.

The Issuer estimates that, in connection with the sale of Bonds to an Investor, the expenses charged by the Authorised Offerors known to it at the date of this Prospectus will be around 1.75 per cent. of the aggregate principal amount of the Bonds sold to such Investor.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bonds, but the Issuer may be unable to pay interest, principal or other amounts on the Bonds for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Further risk factors that are currently not known, or that are currently not considered significant, could also affect the Group's future operations, results and financial position and therefore the Issuer's ability to meet its obligations under the Bonds. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Risks Relating to the Issuer and its business

Investment objectives

The group's key investment objective is to generate cash returns from its main activity which is the investment management and development of commercial real estate and the funding thereof. There can be no guarantee that the investment objectives of the Group will be met. If investment objectives are not met, the Group may not be able to obtain tenants for properties and vacancy rates may increase, increased refurbishment costs may be incurred including in connection with obtaining tenants, and the Group may be unable to obtain bank financing in order to progress new developments or refinance existing developments, each of which may adversely affect the Group's returns on investment. Reduced returns on investment may adversely affect the Company's ability to fulfil its commitments to make payment of interest and principal under the Bonds.

Competition for tenants

The Group may face competition from other property companies, which may adversely affect its ability to secure tenants for its properties at satisfactory rental rates and on a timely basis and to acquire properties or development land at satisfactory prices. This may have an adverse effect on the Group's returns on investment and thereby the Issuer's ability to fulfil its commitments under the Bonds.

Development and refurbishment

The Group may undertake refurbishment or redevelopment of property or invest in property that requires refurbishment prior to renting the property. The risks of such development or refurbishment include, but are not limited to, delays in timely completion of the project, cost over runs, poor quality workmanship and inability to rent or inability to rent at a rental level sufficient to generate profits. These factors may have an adverse effect on the Issuer's returns on investment and thereby its ability to fulfil its commitments under the Bonds.

Valuations

Valuations of property are subject to uncertainty and cash generated on disposal may be different from the value of the asset previously carried on the balance sheet. There is no assurance that valuations of the properties, when made, will reflect actual sale prices even where those sales occur shortly after the valuation

date. This may mean that the value ascribed by the Issuer and the Group to the properties held by it may not reflect the value realised on sale, and that the returns generated by the Group on disposals of properties are less than anticipated, which may have an adverse effect on the ability of the Issuer to fulfil its commitments under the Bonds.

Economic risk

The financial turmoil and ongoing instability in global capital markets as well as significant developments in macroeconomic and political conditions that are out of the Group's control could have an adverse effect on its business, results of operations and financial condition. There is a risk that unfavourable property market conditions across Europe will continue in the foreseeable future. Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the acquisition, development or redevelopment and management of the property, as well as upon changes in its market value. Rental income and the market value for properties are affected mainly by overall economic conditions, such as tenant and investor demand for property, growth in gross domestic product, employment trends, inflation and changes in interest rates. Changes in gross domestic product may also impact employment levels, which in turn may impact the demand for premises. Lower demand for premises may result in vacancies or lower rental income than anticipated, which may reduce the Group's return on investments and adversely affect the Issuer's ability to fulfil its commitments under the Bonds.

Rental income and property values may also be affected by other factors specific to the real estate market, including competition from other property owners and investors, the perceptions of prospective tenants of the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair and re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. In addition, certain significant expenditures, including operating expenses, may need to be met by the owner. Increased costs will reduce the Group's returns on investment and may have an adverse effect on the ability of the Issuer to fulfil its commitments under the Bonds.

Changes in the rates of inflation and interest rates may affect the income and capital value of investment properties, which may have an adverse effect on the Issuer's ability to fulfil its obligations under the Bonds.

Defaults, vacancies and rental income

Lease payment defaults by tenants could cause the Group to have to meet the tenant's costs relating to the property which may have a negative impact on its ability to make payments of interest and/or principal under the Bonds. In the event of a tenant's default, the Group may experience delays in enforcing its rights as landlord and may incur substantial costs including litigation, enforcement and related expenses in protecting its investment and re-letting its property. If a lease is terminated, the Group may be unable to lease the property for the level of rent which it previously received or sell the property without incurring a loss. Lettings at a reduced level of rent and disposals of property at a loss may result in reduced returns on the relevant investment, which may have an adverse effect on the ability of the Issuer to fulfil its commitments under the Bonds. Certain of the Group's properties are occupied by a single tenant. Where this is the case, the consequence of any lease payment default will be accentuated.

In the event of default by an occupational tenant of the Group's property, the expiry of a lease where the tenant does not renew, or during any other period in which a property is vacant, the Group will suffer a rental shortfall and incur additional cost in maintaining, running, insuring and re-letting the property until it is occupied. Rent reviews may not achieve the then estimated rental values.

Historically, certain of the properties of the Group, when acquired, had some level of vacancy, and this is expected to be the case on certain future acquisitions. As at 30 June 2012, the vacancy rate across the Group's

properties was 3.5 per cent. by value. Certain of the Group's properties may be specifically suited to the particular needs of a tenant. The Group may have difficulty in obtaining a new tenant for any vacant space. If the vacancy continues for a long period of time, the Group may suffer reduced revenues, which may have an adverse effect on the Issuer's ability to fulfil its obligations under the Bonds. In addition, the sale value of a property could be diminished because its market value may depend upon the lease or leases granted to tenants in respect of that property.

Lack of funding

The Group's investment strategy has been to use a variety of sources of capital, comprising equity, bank debt and bonds, in addition to the cash generated from the existing business, in order to deliver its investment objectives. The Group cannot be certain that it will have adequate sources of funding available to it for it to meet these purposes in the future. Failure to deliver on investment objectives and to generate cash returns from investments may have an adverse effect on the Issuer's ability to fulfil its obligations under the Bonds.

Realisation

Investments in property are relatively illiquid and may be more difficult to realise than listed equities or bonds. Whilst the Group typically invests in properties for the long term, and usually disposes of properties only when it anticipates a fall in property values at the macro level, it may wish to dispose of properties, including in order to realise the investment. No assurances can be given that the Group's intention to dispose of properties when it wishes to do so will be achieved. The current downturn in the real estate sector could materially adversely affect the ability of the Group to dispose of properties. The Group cannot predict whether it will be able to sell any property for the price or on the terms set by it, or whether any price or other terms offered by a prospective purchaser would be acceptable to it. The ability of the Group to sell property and the amount of proceeds generated on any sale may affect the Group's returns on investment and could have an adverse effect on the Issuer's ability to fulfil its commitments to make payment of interest and principal under the Bonds.

Investment in other property investment funds or companies

The Group has invested in several listed and unlisted companies to date, including a Swedish property company listed on the Stockholm Stock Exchange, Catena AB, and Bulgarian Land Development plc. The value of investments in these companies will vary directly with the value and share price performance of each investment. The Group may only have minority interests in other property investment funds or companies and may be unable to exercise control over the operations of such companies.

The Group has also invested in a corporate bond portfolio. As at 30 June 2012, the corporate bond portfolio was valued at £76.1 million and comprised 34 bonds from 30 issuers. The value of investments in this portfolio may fluctuate and the Group may be exposed to the risk of issuer default under these investments, which may affect the Issuer's ability to fulfil its commitments under the Bonds.

Bank facilities and gearing

The Group's strategy is to acquire and develop properties using a combination of equity and debt financing. There is no certainty that the Group will be able to put in place and retain debt facilities or refinance existing debt facilities on acceptable terms or indeed at all (particularly in the current market and in light of recent economic conditions). There is also no certainty that the Group will be able to retain existing debt facilities if the value of its property portfolio should fall beyond a certain level.

Should any member of the Group breach the financial covenants contained in any loan agreement, the relevant member of the Group may be required to repay such borrowings in whole or in part together with any attendant costs. Most of the Group's bank facilities are secured by way of charges over the relevant assets of the Group. If a member of the Group is required to repay all or part of its borrowings (together with any

attendant costs), if there is insufficient cash to meet the repayment obligations and the debt cannot be refinanced, that company may be required to sell its assets at less than their market value or at a time or in circumstances where the realisation proceeds are reduced because of a downturn in property values generally or because there is limited time to market the property.

A breach by certain members of the Group of certain borrowings may result in a cross-default in respect of certain of the Group's other borrowings, including under the SEK300,000,000 senior unsecured bonds 2016 issued by the Company, and result in further requirements to make repayments.

Any increase in interest rates may increase the costs of the Group's borrowings and may have an adverse effect on the returns on investments. To manage its exposure to interest rate risk, the Group uses variable to fixed interest rate swaps, interest rate caps and also natural or passive hedging from cash held on deposit: however the success of any such interest rate risk management procedures cannot be guaranteed.

These factors may have an adverse effect on the Issuer's returns on investment and thereby its ability to fulfil its obligations under the Bonds.

Credit risk

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

For credit exposure other than exposure to tenants, the Directors believe that counterparty risk is managed as the banks and institutions used by the Group are well known and considered reputable. There can be no guarantee however of the continued financial stability of such counterparties.

If the Group suffers financial loss as a result of counterparty default, the Issuer's ability to fulfil its obligations under the Bonds may be adversely affected.

Exchange rate risks relating to the business

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and SEK. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations which are denominated in a currency other than Sterling, being the Group's functional currency. If the value of the Euro or SEK against Sterling goes down, the value of the Group's investments in the Eurozone or Sweden when measured in Sterling will decrease.

The Group's Treasury department has policies in place to seek to manage foreign exchange risk exposure. The general policy of the Group is to match the currency of investments acquired with that of the related borrowing which eliminates foreign exchange risk on property investments to a certain extent. A portion of the remaining operations, equating to the net assets of the foreign property operations, is un-hedged.

Changes in the exchange rate between Sterling and the currency of assets acquired may lead to a depreciation of the value of the Group's assets as expressed in Sterling and have an adverse effect on the post-conversion income and realisation proceeds from the Group's non-Sterling denominated investments, each of which may have an adverse effect on the Issuer's ability to fulfil its obligations under the Bonds.

Taxation

The levels of, and reliefs from, taxation in the countries in which the Group operates may change. Any change in the rates of tax or determination of the taxable amounts, particularly in Luxembourg, the UK, France, Germany, Sweden and the Netherlands, in respect of property and investment income and/or disposals of property and investments or otherwise could adversely affect the Group's ability to realise income and return on disposal of investments. Reduced income and capital returns on investments may have an adverse effect on the Issuer's ability to fulfil its commitments under the Bonds.

Environmental liabilities

Under various environmental laws, a current or previous owner or operator of real estate property may be liable for the cost of removing or remediating hazardous or toxic substances on or under that property. Environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws may also impose restrictions on the manner in which property may be used or businesses may be operated. A property owner (or operator) who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, by private parties. The Group acquires, owns, develops and manages properties, in connection with which it may be exposed to remedial costs or restrictions on the usage of the property. The Group's strategy is to incorporate subsidiary companies to acquire and develop specific properties with a view to ringfencing liabilities relating to its properties to the extent permitted by current law. The cost of defending environmental claims or complying with environmental regulatory requirements or of remediating any contaminated property could materially adversely affect the Group's business, assets or results of operations and, consequently, the ability of the Issuer to fulfil its obligations under the Bonds.

Law and regulation

Government authorities are actively involved in the application and enforcement of laws and regulations relating to taxation, land use and zoning and planning restrictions, environmental protection and safety and other matters, all of which are relevant to the operations of the Group. The institution and enforcement of those laws and regulations could have the effect of increasing the expense and lowering the income or rate of return from, as well as adversely affecting the value of, the Group's property assets. Any change to the laws and regulations relating to the property markets in the countries in which the Group operates may have an adverse effect on the capital value of the Group's property assets and/or the rental income derived from them. Reduced income and capital returns on investments may have an adverse effect on the Issuer's ability to fulfil its commitments under the Bonds.

Loss of business continuity

The business operations, information systems and processes on which the Group depends are vulnerable to damage or interruption from fires, floods, chemical spillage, power loss, telecommunication failures, bomb threats, explosions or other forms of terrorist activity and other natural, biological and man-made disasters. These systems may also be subject to sabotage, vandalism, theft and similar misconduct. If the disaster recovery plans relating to such operations, services and processes are found to be inadequate, there could be an adverse impact on the Issuer's ability to fulfil its obligations under the Bonds.

Dependence on key personnel

The Group's future success may be adversely affected by the loss of the services and continuing contribution of its Directors, senior managers and other key personnel. The loss of the services of any such persons could have a material adverse effect on the Group's business. The Group has not taken out key man insurance for any of its Directors, senior managers or key personnel. Loss of certain key personnel may have an adverse effect on the Group's success and its ability to generate returns on investments, which may adversely affect the Issuer's ability to fulfil its commitments under the Bonds.

Uninsured losses

The Issuer believes that the Group's property assets are adequately insured to cover all appropriate losses. However, changes in the cost or availability of insurance could expose the Group to uninsured losses. In the event that any of the properties incurs a loss that is not fully covered by insurance, the value of the relevant property assets will be reduced by that uninsured loss. In addition, the Group may have no source of funding to repair or reconstruct the damaged property, and it cannot be certain that any sources of funding will be available to it for such purposes in the future. There may be additional risks associated with investments in real property including certain types of loss and destruction which may not be insurable. A reduction in the value of the Group's assets may have an adverse effect on the market value of the Bonds. It may also result in a breach of financial covenants under the Bonds and/or certain of the Group's other debt facilities, which could cause a cross-default under other banking facilities of the Group and further requirements to make repayments, and may result in the Group disposing of assets in order to meet liabilities at an inopportune time and at a lower value than anticipated. These factors may adversely affect the Issuer's ability to fulfil its commitments under the Bonds.

Risks relating to the Bonds

The obligations of the Issuer under the Bonds are structurally subordinated to any liabilities of the Issuer's subsidiaries

It is the Group's strategy to incorporate subsidiary companies to acquire and develop specific properties through debt and equity finance at the subsidiary level. The Issuer is dependent upon receipt of funds from its subsidiaries in order to fulfil its obligations under the Bonds. The Bonds are (subject to Condition 3(a) (Negative Pledge) of the terms and conditions of the Bonds) unsecured obligations of the Issuer. The obligations of the Issuer under the Bonds are therefore structurally subordinated to any liabilities of the Issuer's subsidiaries.

Modification, waivers and substitution

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not vote on the relevant resolution and Bondholders who voted in a manner contrary to the majority.

Change of law

The conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to (or for the benefit of) certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. A

number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Holding CREST Depository Interests

Investors may hold interests in the Bonds through CREST through the issuance of dematerialised depository interests (“**CREST Depository Interests**” or “**CDIs**”) issued, held, settled and transferred through CREST, representing interests in the Bonds underlying the CDIs. CDI Holders will hold or have an interest in a separate legal instrument and not be the legal owners of the Underlying Bonds. The rights of CDI Holders to the Underlying Bonds are represented by the relevant entitlements against the CREST Depository which (through the CREST Nominee (as defined below)) holds interests in the Underlying Bonds. Accordingly, rights under the Underlying Bonds cannot be enforced by CDI Holders except indirectly through the intermediary depositories and custodians. The enforcement of rights under the Underlying Bonds will be subject to the local law of the relevant intermediaries. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Bonds in the event of any insolvency or liquidation of any of the relevant intermediaries, in particular where the Underlying Bonds held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.

The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the Issuer, including the CREST Deed Poll. Potential investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the CREST Depository. CDI Holders are bound by such provisions and may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the amounts originally invested by them. As a result, the rights of and returns received by CDI Holders may differ from those of holders of Bonds which are not represented by CDIs.

In addition, CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the Bonds through the CREST International Settlement Links Service.

Potential investors should note that none of the Issuer, the Manager, the Trustee or any Paying Agents have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations. For further information on the issue and holding of CDIs see the section “*Clearing and Settlement*”.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Absence of prior public markets

The Bonds constitute a new issue of securities by the Issuer. Prior to such issue, there will have been no public market for the Bonds. Although applications have been made for the Bonds to be listed, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, neither the Manager nor any other person is under any obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Group generally and other factors that generally influence the market prices of securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Sterling as the value of the principal cash interest may, when converted to the investor's functional currency, fluctuate in line with movements in exchange rates, affecting the value of the Bonds as reported by the investor. There is a risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Bonds bear interest at a fixed rate. Potential investors should note that if interest rates rise, then the income payable on the Bonds might become less attractive and the price that investors could realise on a sale of the Bonds may fall. However, the market price of the Bonds from time to time has no effect on the total income investors receive on maturity of the Bonds if the investor holds the Bonds until the maturity date. Further, inflation will reduce the real value of the Bonds over time, which may affect what investors could buy with their investment in the future and may make the fixed rate payable on the Bonds less attractive in the future, again affecting the price that investors could realise on a sale of the Bonds.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. The words “believe”, “anticipate”, “expect”, “intend”, “plan”, “predict”, “continue”, “assume”, “positioned”, “may”, “will”, “should”, “shall”, “risk” and other similar expressions that are predictions of or indicate future events and future trends identify forward looking statements. These forward-looking statements include all matters that are not historical facts. In particular, the statements under the headings “*Summary*”, “*Risk Factors*” and “*Description of CLS Holdings plc (the Company)*” and regarding the Group’s strategy and other future events or prospects are forward-looking statements. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Issuer’s control. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Recipients of this document are cautioned that forward-looking statements are not guarantees of future performance and that the Group’s actual results of operations, financial condition and liquidity, and the development of the industry in which the Group operates may differ materially from those made in or suggested by the forward-looking statements contained in this document. The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer, or persons acting on their behalf, may issue. Factors that may cause the Group’s actual results to differ materially from those expressed or implied by the forward-looking statements in this document include but are not limited to the risks described under “*Risk Factors*”.

These forward-looking statements reflect the Issuer’s judgement at the date of this document and are not intended to give any assurances as to future results. Save as required by the rules of the UK Listing Authority, the Issuer undertakes no obligation to update these forward-looking statements, and will not publicly release any revisions they may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. The Issuer will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information.

DOCUMENTS INCORPORATED BY REFERENCE

The specified information in the following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus:

Reference document and place of publication	Information incorporated by reference ¹	Page number in the reference document where information begins
CLS Holdings plc Annual Report and Accounts for the 12 months ended 31 December 2011 published on the Issuer's website on 5 March 2012	Independent Auditors' Report	45
	Group Statement of Comprehensive Income	46
	Group Balance Sheet	47
	Group Statement of Changes in Equity	48
	Group Cash Flow Statement	49
	Notes to the Group Financial Statements	50
	Significant accounting policies	50
CLS Holdings plc Annual Report and Accounts for the 12 months ended 31 December 2010 published on the Issuer's website on 18 March 2011	Independent Auditors' Report	38
	Group Statement of Comprehensive Income	39
	Group Balance Sheet	40
	Group Statement of Changes in Equity	41
	Group Cash Flow Statement	42
	Notes to the Group Financial Statements	43
	Significant accounting policies	43
CLS Holdings plc unaudited but reviewed Half-Yearly Financial Report for the six months ended 30 June 2012 published on the Issuer's website on 15 August 2012	Independent Review Report	11
	Condensed Group Statement of Comprehensive Income	12
	Condensed Group Balance Sheet	13
	Condensed Group Statement of Changes in Equity	14
	Condensed Group Cash Flow Statement	15
	Notes to the Condensed Group Financial Statements (including basis of preparation)	16

¹ The full section of each of the named sections in this table is incorporated by reference into this Prospectus.

CLS Holdings plc unaudited but reviewed Half-Yearly Financial Report for the six months ended 30 June 2011 published on the Issuer's website on 11 August 2011	Independent Review Report	11
	Condensed Group Statement of Comprehensive Income	12
	Condensed Group Balance Sheet	13
	Condensed Group Statement of Changes in Equity	14
	Condensed Group Cash Flow Statement	15
	Notes to the Condensed Group Financial Statements (including basis of preparation)	16

Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Bonds or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus are available for inspection during usual business hours at the registered office of the Issuer and can also be obtained from the website of the Issuer at www.clsholdings.com/cls/en/ir/reports. The contents of the Issuer's website shall not form part of this Prospectus.

USE OF PROCEEDS

The offer of the Bonds is being made in order to raise funds for general corporate purposes and to diversify the funding base of the Issuer. The net proceeds of the issue of the Bonds, to be determined following completion of the Offer Period and set forth in the Sizing Announcement, will all be used for the general corporate purposes of the Group.

The expenses incurred in connection with the transaction will be determined following completion of the Offer Period. However, at the date of this Prospectus the estimated total expense to be incurred in connection with the offer and issue of Bonds is £302,000. This figure is calculated on the basis of the following estimates: (i) £222,000 of legal expenses, (ii) £22,000 of marketing expenses, (iii) £12,000 of auditor expenses, (iv) £3,000 of regulatory fees (including those related to listing and admission to trading) and (v) £43,000 of other administrative expenses.

DESCRIPTION OF CLS HOLDINGS PLC (THE COMPANY)

Information on the Company

CLS Holdings plc was incorporated on 14 May 1992 under the laws of England and Wales as a private limited company (registration number 02714781) under the name of Hardmarn Limited. The Company changed its name from Hardmarn Limited to CLS Holdings Limited on 19 June 1992. On 18 April 1994, the Company re-registered as a public company and changed its name to CLS Holdings plc. The Company's objects and purposes are unrestricted.

The principal legislation under which the Company operates is the Companies Act 2006. In 1994, the Company's ordinary shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange, and continue to be so traded.

The Company's registered office and principal place of business is at 86 Bondway, London SW8 1SF. The Company's telephone number is +44 (0) 20 7582 7766.

Share capital and ownership structure

The Company has one class of shares. Each share entitles one vote at shareholders' meetings and carries equal rights to the Company's assets and profits. As of the date of this Prospectus, the share capital of the Company amounts to £12,171,597.50 divided into 48,686,390 ordinary shares, of which 4,803,103 are currently held by the Company as treasury shares. The total number of shares in issue excluding treasury shares and therefore the total number of voting rights in the Company is 43,883,287. The Directors hold 54.5 per cent. of the issued share capital of the Company and therefore their interests are aligned with the performance of the business.

The table below sets out the principal shareholders of the Company to the best of the Company's knowledge:

Principal shareholders	Number of shares	Percentage holding
Sten Mortstedt's Family & Charity Trust	23,432,794	53.40
Bengt Mortstedt	3,221,867	7.34
F&C Asset Management plc	2,462,021	5.61
AVI Focused European Value Fund	1,846,986	4.21

To the best of the Company's knowledge, no shareholders' agreements or equivalent agreements exist between shareholders in the Company with the objective of creating a joint influence over the Company. To the best of the Company's knowledge, there are no agreements or equivalent arrangements that may lead to a change in control over the Company.

Overview

The Company is the parent company of a group of companies whose main activity is the investment, management and development of commercial real estate across four European regions: London, France, Germany and Sweden. There is a particular focus on providing well-managed, cost-effective offices for cost-conscious companies in key European cities.

The CLS Group's total property interests were valued at £920.4 million as at 30 June 2012, comprising a wholly-owned investment property portfolio valued at £904.4 million, and a 29.9 per cent. investment in Swedish listed property company Catena AB, which had a market value of £16.0 million. At 30 June 2012, the property portfolio comprised 76 buildings, providing floor space of 412,200 square meters, let to over 400 tenants. The Group's other investments comprise a corporate bond portfolio and a smaller equity portfolio valued as at 30 June 2012 at £76.1 million and £2.3 million respectively. The Group and its various portfolios are internally managed. The majority of the Group's internal treasury operations (including most of its intra-group lending) is conducted through the Company's wholly-owned subsidiary NYK Investments Limited.

History and development

During the late 1980s, Sten and Bengt Mortstedt acquired a substantial UK property portfolio, all located within the M25 motorway and also began to manage properties for other owners in return for management fees. In 1989, Sten and Bengt Mortstedt decided to look elsewhere for reasonably priced investment opportunities. Rather than expand into the provincial UK property market, they looked elsewhere within Western Europe for potential investment opportunities and began to invest in France and Germany.

In 1992, the Company was incorporated and subsequently acquired certain property interests of Sten and Bengt Mortstedt. In 1994, the Company's shares were admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange, with a market capitalisation of £109.8 million on admission.

In various tranches between 1997 and 2000, the Company acquired Citadel Holdings plc, a property company which invested in office properties in Paris and Lyon, of which Sten Mortstedt and Glyn Hirsch (who at that time was a Director of the Company) were Directors. Since 2000, the Group has continued to acquire properties in the UK, France, Germany, Sweden and Luxembourg and has extended its investments to listed and unlisted equity securities in companies with property investments predominantly in Sweden and Bulgaria. These investments are selected where they present the Group with opportunities for return through dividends, interest income and gains. In several cases the investments are considered to be strategic non-controlling interests.

The Group has historically entered into a small number of joint ventures. In particular, in 2003, planning permission was granted for the construction of the Shard of Glass, a project in which the Group acquired an interest. The Group disposed of its one-third investment in this project and New London Bridge House in 2008.

Investment strategy and objectives

The CLS Group's investment objectives are as follows:

- to make high cash-on-cash returns through the investment in properties which yield well in excess of the Group's weighted average cost of debt (as at 30 June 2012 the net initial yield of the properties was 7.0 per cent. and the cost of debt 3.74 per cent.);
- to invest predominantly in modern, high quality, well-let office properties in selected European cities;
- to hold, refurbish, and develop its property investments to obtain long-term returns, through active in-house property and asset management;
- to maintain a diversified tenant base, underpinned by a strong core income stream;

- to put in place long-term leases in order to achieve stable cash flows (the average lease period calculated as at 30 June 2012 was 7.4 years, or 6.3 years to the first break);
- to meet the requirements of its tenants by providing high quality premises at competitive rates with efficient and proactive management services incorporating up to date technical and IT facilities;
- to minimise vacant space within the property portfolio (as at 30 June 2012 the occupancy rate was 96.5 per cent. and occupancy has remained about 95.5 per cent. consistently over the last five years);
- to develop long-term relationships with tenants which enables the CLS Group to plan effectively and meet its tenants' requirements for space;
- to maintain strong links with a wide variety of banks and other sources of finance;
- to respond quickly to new opportunities; and
- to make strategic non-controlling equity investments in listed and unlisted property companies.

It is the Group's strategy to incorporate subsidiary companies to acquire and develop specific properties. Properties are acquired using a combination of equity and debt financing. Third party loans are principally secured on the properties to which they relate.

The Group typically invests in properties for the long term, and usually disposes of properties only when it anticipates a fall in property values at the macro level. One such disposal programme was carried out during the period 2006-2008 when, in advance of the significant fall in property values across Europe, £746 million, or around 40 per cent. of the Group's property portfolio, was sold. Consequently, in early 2009 CLS returned cash to shareholders at a time when many of UK listed property companies had to conduct rights issues to refinance their balance sheets. In the period from 1 January 2008 to 30 June 2012, CLS's total shareholder return of 106.2 per cent. was the best performance amongst its peer group of 29 property investment and development companies with a primary listing on the Official List and a market capitalisation of over £50 million.

The Group's principal investments

Property investments

The Group's principal property investments are in London, France, Germany and Sweden. The table below shows the net rental income generated from each property portfolio (by region) for the year ended 31 December 2011 and the six months ended 30 June 2012 and the value of each portfolio as at 30 June 2012.

	London (£'million)	France⁽¹⁾ (£'million)	Germany (£'million)	Sweden (£'million)	Total (£'million)
Net rental income for the year ended 31 December 2011	24.8	18.8	13.6	4.9	62.1
Net rental income for the six months ended 30 June 2012	13.1	9.3	6.7	2.5	31.6
Property portfolio value as at 30 June 2012	412.7	239.5	194.8	57.4	904.4

Note:

- (1) For the purpose of this Prospectus and as reported in the Group's Annual Report and Accounts for the year ended 31 December 2011 and in the Group's Half-Yearly Financial Report for the six months ended 30 June 2012, the French property portfolio also includes a single property located in Luxembourg.

London

As at 30 June 2012, the London portfolio represented 46 per cent. of the Group's property interests with a value of £412.7 million divided between 30 properties with an aggregate lettable area of 130,800 square metres. As at 30 June 2012, the London portfolio had a strong tenant profile with 52 per cent. by rental value let to government tenants and 28 per cent. to major corporations, with a vacancy rate of 2.9 per cent. The income had a weighted average lease term of 8.8 years, or 8.1 years to the first break.

In December 2011, after public consultation, the Group submitted a planning application for a 20,801 sq m mixed use scheme called Spring Mews, situated just off Albert Embankment in Vauxhall, SE11. The development comprises: student accommodation of 402 rooms; a 120 bed mid-market hotel; a new 561 sq m community centre and cafe; 469 sq m of office space; a 245 sq m convenience retail unit; and a new pedestrian mews. Planning consent was obtained on 15 May 2012, and the development is due to start before the end of 2012, with completion scheduled for 2014. The total cost of development is expected to be in excess of £50 million, which is proposed to be funded from liquid resources.

Also in December 2011, the Group submitted a planning application for a 154,000 sq m mixed-use development scheme called Vauxhall Square, adjacent to Vauxhall's rail, underground and bus stations. The proposed scheme comprises: two residential towers of approximately 50 stories containing 510 homes; 15,231 sq m of office space; 3,500 sq m of retail, restaurant and cafe space; 416 student units; a 438 bed hotel; a 4 screen cinema; 94 affordable housing units; a new homeless hostel; and a major new public square and public realm developments. Subject to receipt of planning consent, which is expected in early 2013, the aim is to start on site in 2015, with phases being completed from 2017. The total cost of development is expected to be in excess of £400 million, which is proposed to be funded from existing cash resources and external borrowings to be secured on the property.

France

As at 30 June 2012, the French portfolio was valued at £239.5 million, which represented 26 per cent. of the Group's property interests. As at 30 June 2012, the French portfolio contained 26 properties, 17 of which are in and around Paris, of a total of 96,500 square metres and had 175 tenants. 21 per cent. of the French portfolio was let to government tenants, most tenancies were of the traditional French 3:6:9 year duration, and the weighted average lease length at 30 June 2012 was 5.3 years, or 2.7 years to the first break. The French portfolio had a vacancy rate of 3.8 per cent. as at 30 June 2012. All of the lease rents in the French portfolio were subject to indexation.

Germany

As at 30 June 2012, the German portfolio was valued at £194.8 million, being 22 per cent. of the Group's property interests. At that date, the German portfolio contained 18 properties and comprised 139,600 square metres of lettable space with 83 tenants on a weighted average lease term of 8.7 years, and 8.6 years to the first break. 18 per cent. of the contracted rent was from government tenants, and all lease rents were subject to indexation.

A 1,642 sq m pre-let development extension at Gräfelfing was completed in February 2012, and the Group's 5,400 sq m E.ON building at Landshut was completed on 31 July 2012.

Sweden

The Group's Swedish property interests comprise two elements which together represented 8 per cent. of the Group's property interests as at 30 June 2012.

The first is the wholly-owned 45,400 square metres of offices called Vanerparken in Vanersborg, near Gothenburg, which was valued at £57.4 million as at 30 June 2012, representing 6 per cent. of the Group's property interests. Two local municipalities have leased 97 per cent. of this space between 2015 and 2019, respectively, subject to annual indexation.

The other element of CLS's Swedish property interests is a 29.9 per cent stake in the Swedish property company Catena AB, listed on NASDAQ OMX Stockholm (Ticker: CATE). As at 30 June 2012 this was valued at £16.0 million. The total cost of this stake was SEK 390 million, and was acquired predominantly in 2007. Henry Klotz, Executive Vice Chairman of CLS is Non-Executive Chairman of Catena. Catena owns and manages a site in Stockholm on which a planning application has been submitted for 800 apartments and 70,000 sq m of commercial space; a decision on the application is expected before the end of 2012.

Other investments

Corporate bond portfolio

The Group has a corporate bond portfolio, which the Group treats as liquid resources designed to earn better returns than cash. As at 30 June 2012, the portfolio was valued at £76.1 million and comprised 34 different bonds from 30 different issuers. This portfolio is actively managed by the Company's in-house team and between late 2008, when the first investments were made, and 30 June 2012, the bond portfolio generated a return of 46.1 per cent. on average cost, being an annualised compound return of 10.6 per cent.

Bulgarian Land Development plc

The Group owns 48.3 per cent. of an unquoted property company, Bulgarian Land Development plc, which predominantly holds residential property assets in Bulgaria. Henry Klotz, Executive Vice Chairman of CLS, is Non-Executive Chairman of Bulgarian Land Development. As at 30 June 2012, this investment was valued at £8.1 million.

Other

The Group has other small corporate investments valued at £7.0 million in aggregate as at 30 June 2012.

Current trading, trends and prospects

The global financial crisis continues to have an adverse effect on the lending environment in Europe. Banks' caution over new lending in the non-prime London markets has led to many proposed investment transactions, including some on which the CLS Group was underbidder, being delayed or abandoned, which, coupled with a reluctance from the banks to put too many financially distressed properties on the market too quickly, implies that the window for new acquisition opportunities could remain open for some considerable time. In France, the run up to the presidential election led to a pause in activity in investment markets. Bank debt, however, continues to be more prevalent than in London and there are very few signs of distress amongst property owners in France. Whilst there was a decline in investment transaction volumes in Germany of some 15 per cent. in the first quarter, there were significant positive net inflows into German open-ended funds in the same period, suggesting that private investors were increasingly enthusiastic about the sector. This may have marked a positive turning point for an important part of the German domestic investment market, and vacancy levels have continued to fall overall. The Swedish economy is not immune from the issues in the Eurozone, as evidenced by the falling availability of bank debt to the property sector, particularly on non-prime real estate. The gap in value between prime property and non-prime has grown, driven by the

demand for prime assets, the increasingly higher cost of borrowing on non-prime assets, and the increased supply of non-prime assets for sale by closed-ended funds.

In all markets, availability of debt remains restricted, leading to fewer buyers for the high yielding property preferred by the Group. This situation is expected to continue for a considerable period and the Group intends to be highly selective about its purchases. The depth of CLS's banking contacts and relationships means that the Group has been able to continue to access bank debt. During the year to 31 December 2011, the Group refinanced £113.2 million of existing debt and raised an additional £33 million. In May 2011, CLS issued a SEK300 million unsecured corporate bond in Sweden, which is listed on the NASDAQ OMX in Stockholm and has a coupon of 375 basis points above three months' STIBOR. In 2012 to date, the Group has refinanced £117.6 million of debt which expired in the normal course of business. As at 30 June 2012, the Group's balance sheet included £123.2 million of cash and liquid resources available for investment.

Notwithstanding the adverse economic conditions, in the six months ended 30 June 2012, the Group's directly held investment portfolio rose to £904.4 million in value, a like-for-like increase of 1.1 per cent. in local currencies or a fall of 0.6 per cent. when translated into Sterling. In local currencies, the French portfolio fell by 0.4 per cent., Germany by 0.2 per cent. and Sweden by 1.5 per cent. The London portfolio rose by 3.1 per cent. like-for-like in the six months. The capital value of £2,194 per sq m at 30 June 2012 was close to replacement cost, meaning that the value of the land element of the Group's properties in key European cities was minimal; this highlights how competitive the Group can be in attracting tenants with cost-effective rents.

The contracted rent at 30 June 2012 was £66.5 million, representing an aggregate net initial yield of 7.0 per cent. on value and an average rent of just £168 per sq m. The Group's income stream was strongly secured as 41 per cent. was from government tenants, 28 per cent. from major corporations and 66 per cent. of rents were subject to indexation. The weighted average lease length was 7.4 years, or 6.3 years to the first break. At 30 June 2012, the overall vacancy rate had been further reduced to 3.5 per cent. (from 3.9 per cent. as at 31 December 2011), reflecting the benefits of active, in-house asset and property management together with maintaining strong relationships with tenants, working to understand their needs.

As at 30 June 2012, the difference between the net initial yield of the property portfolio (7.0 per cent.) and the cost of debt (3.74 per cent.) was the main driver behind the cash generative nature of the Group's business, and was one of the largest such differentials within the UK listed property sector.

As at 30 June 2012, the Group had gross borrowings of £589.8 million, of which £545.2 million (92 per cent.) were property-specific, representing a weighted average loan-to-value on the investment property portfolio of 60.3 per cent. and net loan-to-value of 56 per cent. All of the property loans were non-recourse and none was cross-collateralised amongst the Group's property-owning subsidiaries.

Across the portfolio, the Group is increasing its focus on the sustainability of its properties and ways to make them more energy efficient. There is a wide range of short and medium-term measures that can and will be taken. The employment of a full-time Sustainability Manager in 2011 has helped the Group to promote this aspect of its business.

During 2012, the Group continues to focus on its core property operations and the reduction of vacancy levels. The Directors believe the Group is well placed to take advantages of property opportunities as they arise.

BOARD OF DIRECTORS AND MANAGEMENT

The Board of Directors

Sten A Mortstedt

Sten Mortstedt is Executive Chairman of the Board of Directors and established CLS in 1987. Mr. Mortstedt has been Executive Chairman since the Company was listed on the London Stock Exchange in 1994.

In 1968, Mr. Mortstedt was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was listed on NASDAQ OMX Stockholm (previously the Stockholm Stock Exchange) in 1981. Mr. Mortstedt has been involved in establishing and running property interests in the UK, Sweden and France since 1977 and has also been active in a number of other investment areas.

E Henry Klotz

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

On behalf of CLS, Mr. Klotz is also Non-Executive Chairman of Catena AB, Non-Executive Chairman of Bulgarian Land Development Plc, a Non-Executive Director of 24 Media Network AB, and a Non-Executive Director of Note AB.

Richard J S Tice

Richard Tice was appointed Chief Executive Officer on 1 January 2011, having joined the Company in 2010 as Deputy Chief Executive Officer. He has over 25 years' experience in the property sector. From 2007 to 2010 he was Managing Partner of Tisun Capital Partners LLP, a boutique firm specialising in real estate debt. From 1991 to 2006 he was joint CEO of the Sunley Holdings plc, prior to which he spent four years with a listed property developer, London Metropolitan plc. For three years until October 2009, he was also a Non-Executive director and ultimately Chairman of AIM-listed South African Property Opportunities Plc.

John H Whiteley

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

Malcolm C Cooper

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

Joseph A Crawley

Joseph Crawley is a non-Executive Director and joined the Board of Directors in 2008. Mr. Crawley is Director of Kitewood Estates Limited, a property investment and development company active in London and

south-east England, and has over 20 years' experience of the central London property market. He was previously employed by CLS for a number of years and was involved in the development of the Spring Gardens site.

Christopher P Jarvis

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

H O Thomas Lundqvist

Thomas Lundqvist is a non-Executive Director and joined the Board of Directors in 1990. Between 1990 and 1995, Mr. Lundqvist was Finance Director of CLS, after which he became a non-Executive Director. He was Vice Chairman from 24 November 2009 until 1 January 2011. Prior to joining CLS, Mr. Lundqvist worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group, where he was a member of the Board of Directors.

Jennica Mortstedt

Jennica Mortstedt is a non-Executive Director and joined the Board in May 2010. Ms. Mortstedt is the daughter of Bengt Mortstedt, a founding member and major shareholder in CLS. Ms. Mortstedt has eight years' experience in the hotel industry and has a degree in International Business and Hospitality from Ecole Hôtelière de Lausanne, Switzerland.

Brigith Terry

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

Thomas J Thomson

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

Conflicts of interest

At the date of this document, there are no potential conflicts of interest between any duties owed to the Issuer by the Directors and their private interests and/or other duties. Many members of the Board of Directors and management are, however, likely to have financial interests in the Company through their holdings of shares in it.

Corporate governance

The principal corporate governance rules applicable to the Company are the UK Corporate Governance Code (the “**Code**”), the UK FSA Listing Rules and the UK FSA’s Disclosure and Transparency Rules (the “**Disclosure and Transparency Rules**”).

During 2011, the Company did not completely comply with the Code and did make the following deviation. As the Company did not set up a separate Nomination Committee, it did not comply with provision B.2.1 of the Code. Due to the size and nature of the Company, the Board decided that this function was better carried out by the Executive Chairman and other Directors, non-Executive and Executive, as appropriate for each appointment.

Committees of the Board of Directors

The Audit Committee

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

- recommend the appointment, re-appointment and removal of the external auditor;
- ensure the objectivity and independence of the auditor including occasions when, in accordance with the specific policy, non-audit services are provided, by monitoring fees and letters of engagement; and
- ensure appropriate “whistle-blowing” arrangements are in place.

The Audit Committee consists of two board members, Malcolm Cooper as Chairman and Christopher Jarvis.

The Remuneration Committee

The Remuneration Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration in the context of business and personal performance. It also has authority to grant options under the Company’s Executive Share Options Scheme and Company Share Option Plan. The composition of the Committee is kept under annual review by the Board.

The Remuneration Committee consists of two board members Christopher Jarvis as Chairman and Malcolm Cooper.

Office address for the Board of Directors and management

The business address for all Directors and management is:

CLS Holdings plc
86 Bondway
London
SW8 1SF
United Kingdom

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form (if issued):

The issue of the Bonds (as defined in the Trust Deed) was authorised by a resolution of the Board of Directors of CLS Holdings plc (the “**Issuer**”) passed on 14 August 2012 and a resolution of a committee of the Board of Directors of the Issuer dated 20 August 2012. The Bonds are constituted by a Trust Deed (the “**Trust Deed**”) dated 11 September 2012 (the “**Issue Date**”) between the Issuer and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “**Bondholders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the “**Coupons**”). Copies of the Trust Deed and of the Paying Agency Agreement dated on or around the Issue Date relating to the Bonds between the Issuer, the Trustee and the initial principal paying agent named in it (the “**Paying Agency Agreement**”), are available for inspection during usual business hours at the principal office of the Trustee (presently at Winchester House, 1 Great Winchester Street, London EC2N 2DB) and at the specified offices of the principal paying agent for the time being (the “**Principal Paying Agent**”) and the other paying agents for the time being (the “**Paying Agents**”, which expression shall include the Principal Paying Agent). The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1 Form, Denomination and Title

(a) Form and denomination

The Bonds are serially numbered and in bearer form in the denomination of £100 each with Coupons attached on issue.

(b) Title

Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status of the Bonds and Coupons

The Bonds and Coupons constitute (subject to Condition 3(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Covenants

(a) Negative Pledge

So long as any Bond or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not, and it will ensure that NYK Investments Limited (for the period for which it remains a Subsidiary of the Issuer) will not, create or have outstanding, any mortgage, charge, lien, pledge or other security interest (a “**Security Interest**”) other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Issuer’s obligations under the Bonds, the Coupons and the Trust Deed the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution of the Bondholders (and, for the avoidance of doubt, this negative pledge shall not apply to the undertaking, assets or revenues of any Subsidiary of the Issuer other than NYK Investments Limited (for the period for which it remains a Subsidiary of the Issuer)).

(b) Interest Coverage Ratio

The Issuer shall procure that, for each one year period to which the Annual Accounts relate and for each six-month period to which the Half-Year Accounts relate, the Group maintains an Interest Coverage Ratio of a minimum of 1.4:1, measured by reference to the relevant Annual Accounts or Half-Year Accounts, respectively.

(c) Equity Ratio

The Issuer shall procure that on each Half-Year Date the Group maintains an Equity Ratio of a minimum of 22.5 per cent., such ratio to be measured as at 31 December by reference to the Annual Accounts prepared to that date and to be measured as at 30 June by reference to the Half-year Accounts prepared to that date.

(d) Distributions

The Issuer undertakes not to (i) pay any dividend on shares, (ii) repurchase shares, (iii) redeem share capital or other restricted equity with repayment to shareholders, or (iv) make other similar distributions to shareholders, if such dividend or distribution to shareholders results in the Group having less than £250,000,000 of Equity.

(e) Calculation adjustment

In the event that IFRS change, and no longer recognise or require market value adjustments when calculating the book value of property, Equity and Total Assets shall (for the purposes of the calculation set out in Condition 3(c) above) nevertheless be adjusted to take into account such market values as if IFRS were still applicable as per the Issue Date.

(f) Financial Information

- (i) The Issuer shall deliver to the Trustee or make available on its website as soon as they become available, but in any event within four months after the end of its financial year, copies of the Annual Accounts for such financial year.
- (ii) The Issuer shall as soon as the same become available, but in any event within two months after the end of each first half-year of its financial year deliver to the Trustee or make available on its website the Half-Year Accounts for such period.
- (iii) The Issuer shall as soon as the same become available, but in any event no later than six weeks before 30 June and 31 December respectively in each year in respect of the period beginning on

the immediately preceding 1 January or 1 July respectively, deliver to the Trustee or make available on its website the Issuer's Interim Management Statement for such period (to the extent that the Issuer is required under the Disclosure and Transparency Rules issued by the FSA to produce the same).

- (iv) The Issuer shall ensure that each set of consolidated financial statements, delivered by it pursuant to this Condition 3(f)(i) and (ii) is:

(1) prepared generally on the same basis as was used in the preparation of its audited financial statements in respect of the financial year ended 31 December 2011 (including with respect to presentation of prior periods) and in accordance with IFRS and consistently applied, subject to any changes required by law or market practice; and (2) in the case of the statements provided pursuant to Condition 3(f)(i), accompanied by a report thereon of the Auditors referred to in Condition 3(f)(i) (including opinions of such Auditors with accompanying notes and annexes).

- (v) The Issuer undertakes to furnish such information to the London Stock Exchange or any stock exchange or stock exchanges or any relevant authority or authorities on which the Bonds may, from time to time, be listed or admitted to trading (with a copy to the Trustee) as such stock exchange may require as necessary in connection with the listing or admission to trading on such stock exchange of the Bonds.

- (vi) As more particularly described in the Trust Deed, the Issuer will at the same time as or within seven days after publishing or delivering its relevant financial statements pursuant to Conditions 3(f)(i) or 3(f)(ii), as the case may be, and in addition within 14 days of any request by the Trustee deliver to the Trustee a Directors' Certificate stating (1) whether as at the Certification Date (as defined in the Trust Deed) no Event of Default or other breach of the Trust Deed had occurred since the Certification Date of the last such certificate (or, if none, from the date of the Trust Deed), or if such event has occurred giving details of it and (2) whether, at the relevant dates referred to in Condition 3(c) (and, in the case of Condition 3(b), in respect of the period referred to therein) the Issuer was in compliance with its obligations under Conditions 3(b) and 3(c). In the event of non-compliance, the Directors' Certificate shall set out details of such non-compliance, the reasons therefor and the steps taken and contemplated to be taken by the Issuer in order to rectify such non-compliance. The Trustee shall be entitled to rely (without liability to any person) on any such certificate and shall not be obliged to independently monitor compliance by the Issuer with any of the covenants contained in this Condition 3, nor be liable to any person for not so doing and need not enquire further as regards the circumstances existing on the date of such certificate.

- (vii) The Issuer will at the same time as or within seven days after the publication or delivery of its relevant financial statements pursuant to Conditions 3(f)(i) or 3(f)(ii) and in addition within 14 days of a request from the Trustee deliver to the Trustee a Directors' Certificate specifying those Subsidiaries of the Issuer which were, as at the expiry of the period to which such financial statements relate or on the date specified in the request (as applicable), Material Subsidiaries.

4 Interest

The Bonds bear interest from and including the Issue Date at the rate of 5.50 per cent. per annum, payable semi-annually in arrear in equal instalments of £2.75 per £100 in principal amount of the Bonds on 30 June and 31 December in each year (each an "**Interest Payment Date**"), except that the first payment of interest, to be made on 31 December 2012, will be in respect of the period from and including the Issue Date to but excluding 31 December 2012 and will amount to £1.67 per £100 in principal amount of the Bonds.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below) the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year. The period beginning on 31 December 2012 and ending on the second Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per £100 in principal amount of the Bonds. The amount of interest payable per £100 for any period shall, save as provided above in relation to equal instalments, be equal to the product of 5.50 per cent., £100 and the day-count fraction for the relevant period, rounding the resulting figure to the nearest penny (half a penny being rounded upwards).

5 Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 31 December 2019 (the “**Maturity Date**”).

(b) Redemption for taxation reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders in accordance with Condition 15 (which notice shall be irrevocable), at their principal amount (together with interest accrued to but excluding the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee a Directors’ Certificate stating that the obligation referred to in (i) above has arisen and cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept and rely upon (without liability to any person) such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Trustee, the Bondholders and the Couponholders.

(c) Redemption at the option of the Issuer

The Issuer may at any time, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption (the “**Optional Redemption Date**”)) redeem all, but not some only, of the Bonds at a redemption price per Bond equal to the greater of the following, in each case together with interest accrued to but excluding the Optional Redemption Date:

- (i) 100 per cent. of the principal amount of the Bonds; and
- (ii) the price (as reported in writing to the Issuer by a financial adviser (the “**Financial Adviser**”) appointed by the Issuer at the Issuer's expense) expressed as a percentage at which the Gross Redemption Yield on the Bonds on the Calculation Date is equal to the sum of the Gross Redemption Yield at 11.00 a.m. (London time) on the Calculation Date of the 4.75 per cent. United Kingdom Government Treasury Stock 7 March 2020 (or, where the Financial Adviser advises the Issuer that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such Financial Adviser may recommend for such purpose) plus 1.00 per cent.

(d) Notice of redemption

All Bonds in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(e) Purchase

The Issuer and its Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price (provided that, if they should be cancelled under Condition 5(f) below, they are purchased together with all unmatured Coupons relating to them). Such Bonds may be held, reissued, resold or, at the option of the Issuer or the relevant Subsidiary of the Issuer, surrendered to the Principal Paying Agent for cancellation. The Bonds so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11.

(f) Cancellation

All Bonds which are (i) redeemed, or (ii) purchased by or on behalf of the Issuer or any Subsidiary of the Issuer and surrendered to the Principal Paying Agent for cancellation pursuant to Condition 5(e), shall forthwith be cancelled together with all unmatured Coupons attached thereto or surrendered therewith, and accordingly all such Bonds shall be forwarded to the Principal Paying Agent and cannot be held, reissued or sold.

6 Payments

(a) Method of Payment

Payments of principal and interest will be made against presentation and surrender of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in the United Kingdom. Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and surrender of the relevant Bond.

(b) Payments subject to laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(c) Surrender of unmatured Coupons

Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) Payments on business days

A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a sterling account, in London). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition, “**business day**” means a day on which commercial banks and foreign exchange markets are open for the conduct of general business (including dealing in foreign exchange and foreign currency deposits) in the relevant city.

(e) Paying Agents

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that the Issuer will maintain (i) a Principal Paying Agent, (ii) a Paying Agent having a specified office in London and/or any other major European city approved by the Trustee and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and/or the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(a) Other connection

by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(b) Presentation more than 30 days after the Relevant Date

more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or

(c) Payment to individuals

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) Payment by another Paying Agent

by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a member state of the European Union.

8 Events of Default

If any of the following events occurs the Trustee at its discretion may, and if so requested by holders of at least one-fifth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) Non-Payment

any default is made in the payment of any principal of or any interest on any of the Bonds and such default continues for a period of seven days; or

(b) Breach of Other Obligations

the Issuer does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed, as the case may be, which default is incapable of remedy or, if in the opinion of the Trustee such failure to perform or comply is capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

(c) Cross-Acceleration

(i) any other present or future indebtedness of the Issuer or any of the Material Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any Material Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 8(c) have occurred equals or exceeds such amount in sterling as is equal to three per cent. of the consolidated net assets of the Group as calculated in accordance with IFRS, measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (whichever is the most recent); or

(d) Enforcement Proceedings

a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any Material Subsidiary and, in any such case, is not discharged or stayed within 14 days; or

(e) Security Enforced

any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person) and, in any such case, is not discharged or stayed within 14 days; or

(f) Insolvency

the Issuer or any Material Subsidiary is (or is deemed (other than where a demand is made for less than £1,000,000 under section 123(1)(a) of the Insolvency Act 1986) by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any Material Subsidiary; or

(g) Winding-up

an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Material Subsidiary, or the Issuer or any Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary; or

(h) Authorisation and Consents

any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed, as the case may be, admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) Illegality

it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed, as the case may be,

provided that, in the case of Condition 8(b), 8(h) and 8(i) and, in respect of any Material Subsidiary only, Condition 8(d), the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the Bondholders.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent in London subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 15 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66⅔ per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present or voted at the meeting at which such resolution was passed) and on all Couponholders.

- (b)** The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(c) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed or the Paying Agency Agreement that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed or the Paying Agency

Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and the Couponholders and, if the Trustee so requires, such modification, authorisation or waiver shall be notified to the Bondholders as soon as practicable in accordance with Condition 15.

(d) Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders or the Couponholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor or obligor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders or Couponholders.

(e) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

12 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Bonds and the Coupons, but it need not take any such actions, steps or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Trustee and the Bondholders.

14 Further Issues

The Issuer may from time to time, without the consent of the Bondholders or Couponholders create and issue further securities having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such other terms as the Issuer may determine at the time of their issue.

References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 14 and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in the United Kingdom. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

The Trust Deed, the Bonds and the Coupons, and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with English law.

18 Definitions

“**Annual Accounts**” means the annual audited consolidated year end financial statements of the Issuer prepared in accordance with IFRS.

“**Associates Profit**” means Group share of profit of associates after tax calculated in accordance with IFRS, measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

“**Auditors**” means Deloitte LLP or, if they are unable or unwilling to carry out any action requested of them pursuant to these Conditions, such other internationally recognised firm of accountants as may be nominated by the Issuer and notified in writing to the Trustee for this purpose.

“**Calculation Date**” means the date that is the second business day in London prior to the Optional Redemption Date.

“**Costs**” means the Group’s costs from continuing operations calculated in accordance with IFRS, measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

“**Directors’ Certificate**” means a certificate signed on behalf of the Issuer by any two directors of the Issuer.

“**Equity**” means the aggregate book value of the Group’s total equity calculated in accordance with IFRS, including retained earnings and measured by reference to the line item “Total Equity” set out in the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

“**Equity Ratio**” means Equity in relation to Total Assets.

“**Event of Default**” has the meaning given to it in the Trust Deed.

“**Extraordinary Resolution**” has the meaning given to it in the Trust Deed.

“**Gross Profit**” means Group Revenues plus Associates Profit less Costs, each measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

“**Gross Redemption Yield**” means the yield calculated by the Financial Adviser (as defined in 5(c) above), expressed as a percentage, on the basis set out by the United Kingdom Debt Management Office in the paper “*Formulae for Calculating Gilt Prices from Yields*” page 5, Section One: Price/Yield Formulae (Conventional Gilts: Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8th June, 1998 and updated on 15th January, 2002 and 16th March, 2005) (as amended or supplemented from time to time).

“**Group**” means the Issuer and its consolidated Subsidiaries taken as a whole.

“**Group Revenues**” means Group revenues from continuing operations calculated in accordance with IFRS, measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

“**Half-Year Accounts**” means the audited consolidated half-yearly financial statements of the Issuer prepared in accordance with IFRS.

“**Half-Year Date**” means 30 June and 31 December of each year.

“**IFRS**” means the generally accepted accounting practice and principles applicable to the business the Issuer conducts, currently International Financial Reporting Standards.

“**Interest Coverage Ratio**” means Gross Profit in relation to Net Finance Costs.

“**Interim Management Statements**” means the interim management statements of the Issuer prepared for the first and the third quarter of each financial year of the Issuer.

“**Material Subsidiary**” shall, at any time, mean any Subsidiary of the Issuer:

- (a) whose:
 - (i) aggregate interest, fee and rental income (excluding intra-group items) represent not less than 10 per cent. of the aggregate interest and dividend income and fee, rental and other operating income of the consolidated financial position of the Group; or
 - (ii) total assets (excluding intra-group items) represent not less than 10 per cent. of the Total Assets of the Group,

calculated respectively by reference to the most recent annual audited financial statements (consolidated or, as the case may be, unconsolidated) of the relevant Subsidiary of the Issuer and the then latest audited consolidated financial statements of the Issuer,

provided that, in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, for the purpose of applying each of the foregoing tests, the reference to the Issuer's latest audited consolidated financial statements shall, until consolidated financial statements for the financial period in which the acquisition is made have been published, be deemed to be a reference to such financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant financial statements, adjusted as deemed appropriate by the Issuer; or

- (b) to which is transferred the whole or substantially all of the business, undertaking and assets of another Subsidiary of the Issuer which, immediately prior to such transfer, is a Material Subsidiary, whereupon (A) the transferor Material Subsidiary shall immediately upon such transfer cease to be a Material Subsidiary and (B) the transferee Subsidiary of the Issuer shall immediately upon such transfer become a Material Subsidiary, provided that such transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated financial statements of the Group for the financial period in which such transfer is made are published, but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after such date by virtue of the provisions of subparagraph (a) above.

The Trustee shall be entitled to rely upon a Directors' Certificate stating that a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary without liability to any person and without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

"Maturity Date" has the meaning given in Condition 5.

"Net Finance Costs" means the aggregate of interest expense payable on bank, debenture or other loans, plus the amortisation of issue costs of loans, less interest income, for the Group calculated in accordance with IFRS, and shall, for the avoidance of doubt, exclude any foreign exchange variances and movement in fair value of derivative financial instruments, measured by reference to the latest Annual Accounts or the latest Half-Year Accounts published by the Issuer (as applicable).

"Permitted Security Interest" means:

- (a) any Security Interest that is granted over the whole or any part of the share capital of a Subsidiary of the Issuer, other than NYK Investments Limited, pursuant to an agreement (or other applicable terms and conditions) for the purposes of raising secured funds by such Subsidiary of the Issuer and where the granting of such Security Interest is a condition to such agreement;
- (b) any Security Interest mandatorily imposed by law which has not been foreclosed or otherwise enforced against the assets to which it applies;
- (c) any Security Interest existing on assets at the time of their acquisition or securing Relevant Indebtedness of a person existing at the time that such person is merged into or consolidated with the Issuer or NYK Investments Limited, provided that such Security Interest (i) was not created in contemplation of such acquisition, merger or consolidation or event and (ii) in the case of a merger or consolidation, does not extend to any assets or property of the Issuer or NYK Investments Limited, as the case may be (other than those of the person acquired and its subsidiaries (if any)); or
- (d) any Security Interest which is in existence prior to the Issue Date.

“Relevant Date” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders.

“Relevant Indebtedness” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

“Subsidiary” means a subsidiary or a subsidiary undertaking within the respective meanings of sections 1159 and 1162 of the Companies Act 2006.

“Total Assets” means the aggregate book value of the Group’s total assets calculated in accordance with IFRS, measured by reference to the latest Annual Accounts or the last Half-Year Accounts published by the Issuer (as applicable).

Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under these Conditions or any undertaking given in addition to or substitution for it under the Trust Deed.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BOND

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Bonds and in the Global Bond which will apply to, and in some cases modify, the Conditions of the Bonds while the Bonds are represented by the Global Bond.

1 Exchange

The Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds described below if the Global Bond is held on behalf of a Clearing System and (i) such Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or (ii) announces an intention permanently to cease business or does in fact do so.

Thereupon, the holder of the Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) may exchange the Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying Agent. In exchange for the Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

For these purposes, “**Exchange Date**” means a day s falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for the conduct of general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the specified office of the Principal Paying Agent is located and in the place in which the relevant Clearing System is located.

2 Payments

Payments of principal and interest in respect of Bonds represented by the Global Bond will, subject as set out below, be made to the bearer of the Global Bond against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, against surrender of the Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds. For the purpose of any payments made in respect of the Global Bond, Condition 6(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Bonds.

3 Notices

For so long as all of the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 15. Any such notice shall be deemed to

have been given to the Bondholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Bonds held by a Bondholder are represented by the Global Bond, notices to be given by such Bondholder may be given by such Bondholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4 Accountholders

For so long as all of the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the Global Bond.

5 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by the Global Bond will become void after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in the Conditions of the Bonds).

6 Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by reduction in the principal amount of the Global Bond.

7 Meetings

The holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at such meeting, as having one vote in respect of each £1 in principal amount of the Bonds.

8 Trustee’s Powers

In considering the interests of Bondholders while the Global Bond is held on behalf of the relevant Clearing System the Trustee may have regard to any information provided to it by such relevant Clearing System or its operator as to the identity (either individually or by category) of its Accountholders with entitlements to the Global Bond and may consider such interests as if such Accountholders were the holder of the Global Bond.

9 Euroclear and Clearstream, Luxembourg

References in the Global Bond and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

CLEARING AND SETTLEMENT

CREST Depository Interests

Following their delivery into a clearing system, interests in Bonds may be delivered, held and settled in CREST by means of the creation of CDIs representing the interests in the relevant Underlying Bonds. The CDIs will be issued by the CREST Depository to CDI Holders and will be governed by English law.

The CDIs will represent indirect interests in the interest of CREST International Nominees Limited (the “**CREST Nominee**”) in the Underlying Bonds. Pursuant to the CREST Manual (as defined below), Bonds held in global form by the Common Depository may be settled through CREST, and the CREST Depository will issue CDIs. The CDIs will be independent securities, constituted under English law which may be held and transferred through CREST.

Interests in the Underlying Bonds will be credited to the CREST Nominee’s account with Euroclear and the CREST Nominee will hold such interests as nominee for the CREST Depository which will issue CDIs to the relevant CREST participants.

Each CDI will be treated by the CREST Depository as if it were one Underlying Bond, for the purposes of determining all rights and obligations and all amounts payable in respect thereof. The CREST Depository will pass on to CDI Holders any interest or other amounts received by it as holder of the Underlying Bonds on trust for such CDI Holder. CDI Holders will also be able to receive from the CREST Depository notices of meetings of holders of Underlying Bonds and other relevant notices issued by the Issuer.

Transfers of interests in Underlying Bonds by a CREST participant to a participant of Euroclear or Clearstream, Luxembourg will be effected by cancellation of the CDIs and transfer of an interest in such Underlying Bonds to the account of the relevant participant with Euroclear or Clearstream, Luxembourg.

The CDIs will have the same ISIN as the ISIN of the Underlying Bonds and will not require a separate listing on the Official List.

Prospective subscribers for Bonds represented by CDIs are referred to Chapter 3 of the CREST Manual which contains the form of the CREST Deed Poll to be entered into by the CREST Depository. The rights of the CDI Holders will be governed by the arrangements between CREST, Euroclear, Clearstream, Luxembourg and the Issuer including the CREST Deed Poll (in the form contained in Chapter 3 of the CREST International Manual (which forms part of the CREST Manual)) executed by the CREST Depository. These rights may be different from those of holders of Bonds which are not represented by CDIs.

If issued, CDIs will be delivered, held and settled in CREST, by means of the CREST International Settlement Links Service. The settlement of the CDIs by means of the CREST International Settlement Links Service has the following consequences for CDI Holders:

- (i) CDI Holders will not be the legal owners of the Underlying Bonds. The CDIs are separate legal Bonds from the Underlying Bonds to which they relate and represent an indirect interest in such Underlying Bonds.
- (ii) The Underlying Bonds themselves (as distinct from the CDIs representing indirect interests in such Underlying Bonds) will be held in an account with a custodian. The custodian will hold the Underlying Bonds through a clearing system. Rights in the Underlying Bonds will be held through custodial and depository links through the appropriate clearing systems. The legal title to the Underlying Bonds or to interests in the Underlying Bonds will depend on the rules of the clearing system in or through which the Underlying Bonds are held.

- (iii) Rights under the Underlying Bonds cannot be enforced by CDI Holders except indirectly through the intermediary depositaries and custodians described above. The enforcement of rights under the Underlying Bonds will therefore be subject to the local law of the relevant intermediary. The rights of CDI Holders to the Underlying Bonds are represented by the entitlements against the CREST Depository which (through the CREST Nominee) holds interests in the Underlying Bonds. This could result in an elimination or reduction in the payments that otherwise would have been made in respect of the Underlying Bonds in the event of any insolvency or liquidation of the relevant intermediary, in particular where the Underlying Bonds held in clearing systems are not held in special purpose accounts and are fungible with other securities held in the same accounts on behalf of other customers of the relevant intermediaries.
- (iv) The CDIs issued to CDI Holders will be constituted and issued pursuant to the CREST Deed Poll. CDI Holders will be bound by all provisions of the CREST Deed Poll and by all provisions of or prescribed pursuant to, the CREST International Manual dated 14 April 2008 as amended, modified, varied or supplemented from time to time (the “**CREST Manual**”) and the CREST Rules (the “**CREST Rules**”) (contained in the CREST Manual) applicable to the CREST International Settlement Links Service and CDI Holders must comply in full with all obligations imposed on them by such provisions.
- (v) Potential Investors should note that the provisions of the CREST Deed Poll, the CREST Manual and the CREST Rules contain indemnities, warranties, representations and undertakings to be given by CDI Holders and limitations on the liability of the issuer of the CDIs, the CREST Depository.
- (vi) CDI Holders may incur liabilities resulting from a breach of any such indemnities, warranties, representations and undertakings in excess of the money invested by them. The attention of potential investors is drawn to the terms of the CREST Deed Poll, the CREST Manual and the CREST Rules, copies of which are available from CREST at 33 Cannon Street, London EC4M 5SB or by calling +44 (0) 207 849 0000 or from the CREST website at www.euroclear.com/site/public/EUI. The contents of the CREST website shall not form part of this Prospectus.
- (vii) Potential Investors should note that CDI Holders may be required to pay fees, charges, costs and expenses to the CREST Depository in connection with the use of the CREST International Settlement Links Service. These will include the fees and expenses charged by the CREST Depository in respect of the provision of services by it under the CREST Deed Poll and any taxes, duties, charges, costs or expenses which may be or become payable in connection with the holding of the CDI's through the CREST International Settlement Links Service.
- (viii) Potential Investors should note that none of the Issuer, the Manager, the Trustee or any Paying Agents will have any responsibility for the performance by any intermediaries or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

TERMS AND CONDITIONS OF THE OFFER

The Bonds may be offered to the public on a retail basis in accordance with the following terms and conditions. The Bonds are expected to be admitted to trading through the ORB market of the London Stock Exchange on or about 11 September 2012.

Offer Price:

The Bonds will be issued at the Issue Price. Any Investor intending to acquire any Bonds from a bank, financial intermediary or other entity (including an Authorised Offeror) will do so in accordance with any terms and other arrangements in place between the seller or distributor and such Investor, including as to price, allocations and settlement arrangements. None of the Issuer, the Manager or the Trustee are party to such arrangements with Investors and accordingly Investors must obtain such information from the relevant seller or distributor. The Issuer, the Manager and the Trustee have no responsibility to an Investor for such information.

Total amount of the Offer:

The aggregate principal amount of the Bonds to be issued will depend partly on the amount of Bonds for which indicative offers to subscribe are received during the Offer Period and will be specified in the Sizing Announcement.

Offer Period:

An offer of the Bonds may be made by the Manager and the Authorised Offerors in the Public Offer Jurisdictions (as defined below) during the period from 22 August 2012 until 5.00 p.m. (London time) on 4 September 2012, or such earlier time and date as agreed between the Issuer, and the Manager and announced via a Regulatory Information Service.

Conditions to which the offer is subject:

The issue of the Bonds will be conditional upon the Subscription Agreement being signed by the Issuer and the Manager and will be made further to the terms of the Subscription Agreement which will in certain circumstances entitle the Manager to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the Bonds. The Subscription Agreement will include certain customary conditions precedent for transactions of this type (including the delivery of legal opinions and audit letters satisfactory to the Manager).

Description of the application process:

Investors will be notified by the Manager or Authorised Offeror, as the case may be, of their allocations of Bonds and the settlement arrangements in respect thereof as soon as practicable after the Sizing Announcement is made which may be after the Offer Period has ended.

After the closing time and date of the Offer Period no

	<p>Bonds will be offered for sale (i) by or on behalf of the Issuer or (ii) by the Manager and/or any Authorised Offeror (in their respective capacities as Manager or Authorised Offerors) except with the consent of the Issuer.</p> <p>Investors may not be allocated all of the Bonds for which they apply.</p>
Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:	There will be no refund as investors will not be required to pay for any Bonds until any application for Bonds has been accepted and the Bonds allotted.
Details of the minimum and/or maximum amount of application:	The minimum subscription per Investor is GBP 2,000 in principal amount of the Bonds. There is no maximum amount of application.
Details of the method and time limits for paying up and delivering the Bonds:	The Bonds will be issued on the Issue Date against payment to the Issuer by the Manager of the subscription moneys. Investors will be notified by the Manager or their relevant Authorised Offeror (as applicable) of their allocations of Bonds (if any) and the settlement arrangements in respect thereof.
Manner in and date on which results of the offer are to be made public:	The Sizing Announcement will be published on a Regulatory Information Service (expected to be the Regulatory News Service operated by the London Stock Exchange plc) prior to the Issue Date; such announcement is currently expected to be made on or around 5 September 2012.
Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised:	Not Applicable.
Categories of potential investors to which the Bonds are offered and whether tranche(s) have been reserved for certain countries:	Bonds will be offered by the Authorised Offerors to the public in the United Kingdom, Jersey, Guernsey and the Isle of Man (the “ Public Offer Jurisdictions ”) during the Offer Period. The Bonds will not be offered to the public in any Member State other than in the United Kingdom. There is no reserve amount of Bonds applicable to any jurisdiction.
Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:	Investors will be notified by the Manager or their relevant Authorised Offeror (as applicable) of their allocations of Bonds (if any) in accordance with the arrangements in place between the relevant Investor and the Manager or Authorised Offeror. No steps have been taken to allow dealings in the Bonds prior to notification of the amount allotted.
Amount of any expenses and taxes	No such expenses or taxes upon issue will be allocated by

specifically charged to the subscriber or purchaser:

the Issuer to any Investor. Any Investor intending to acquire any Bonds from a bank, financial intermediary or other entity (including an Authorised Offeror) other than the Manager in their capacity as such will do so in accordance with any terms and other arrangements in place between the seller or distributor and such Investor, including as to price, allocations and settlement arrangements. Neither the Issuer nor the Manager are party to such arrangements with Investors and accordingly Investors must obtain such information from the relevant seller or distributor. Neither the Issuer, nor the Manager have any responsibility to an Investor for such information.

Name(s) and address(es), to the extent known to the Issuer, of the placers in the various countries where the offer takes place:

NCL Investments Limited (trading as Smith & Williamson Securities)
26 Moorgate
London EC2R 6AY

Talos Securities Limited (trading as Selftrade)
Boatman's House
2 Selsdon Way
London E14 9LA

Brewin Dolphin Ltd
12 Smithfield Street
London EC1A 9BD

WH Ireland Ltd
11 St. James's Square
Manchester M2 6WH

Redmayne-Bentley LLP
9 Bond Court
Leeds LS1 2JZ

Barclays Stockbrokers Limited
1 Church Place
London E14 5HP

Collins Stewart Wealth Management
88 Wood Street
London EC2V 7QR

who, as at the date of this Prospectus, are Authorised Offerors who have each been appointed by the Issuer and the Manager to offer and distribute the Bonds purchased from the Manager to the public in the Public Offer Jurisdictions in accordance with all prevailing regulatory requirements during the Offer Period.

The Issuer has also granted a general consent to the use of this Prospectus in the United Kingdom during the Offer

Period on the basis of the conditions described in the third and fourth paragraphs on page ii of this Prospectus.

Neither the Issuer nor the Manager has authorised, nor will they authorise, the making of any other offer of the Bonds in any other circumstances.

Entities which have a firm commitment to act as intermediaries in secondary market trading, providing liquidity through bid and offer rates and description of the main terms of their commitment:

Canaccord Genuity Limited will be appointed as registered market maker through the electronic order book for retail bonds (ORB) in respect of the Bonds from the date of admission of the Bonds to trading.

TAXATION

United Kingdom

The following summary of certain United Kingdom tax issues applies only to persons who are the beneficial owners of Bonds. It is based on a summary of the Issuer's understanding of current law and practice in the United Kingdom. Some aspects do not apply to certain classes of person (such as dealers, certain professional investors and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may therefore differ to that set out below or may be subject to change in the future. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice. This summary only deals with the matters expressly set out below.

A. Interest on the Bonds

1 Withholding tax on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**"). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Where the Bonds cease to be listed, interest on the Bonds may be paid without withholding or deduction on account of United Kingdom tax where (i) interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the person beneficially entitled to the interest is: (a) a company resident in the United Kingdom; or (b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or (c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of companies referred to in (a) or (b) above, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that one of the above exemptions is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax, or (ii) the Issuer has received a direction permitting payment without withholding or deduction from HMRC in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.). If interest were paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable tax treaty.

2 Provision of information and Savings Directive

Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the payee or beneficial owner of the interest) from any person in the

United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder who is an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

Under the Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to (or for the benefit of) certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

3 Further United Kingdom Income Tax Issues

Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding, irrespective of the residence of the Bondholder.

However, interest with a United Kingdom source properly received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable (and where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

B. United Kingdom Corporation Tax Payers

- 4** In general, Bondholders which are within the charge to United Kingdom corporation tax (including non-resident bondholders whose Bonds are used, held or acquired for the purposes of trade carried on in the United Kingdom through a permanent establishment) will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

Paragraphs 5 to 8 below do not apply to Bondholders who are subject to United Kingdom corporation tax.

5 Interest

Bondholders who are either individuals or trustees and are resident or ordinarily resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Bonds.

6 Transfer (including redemption)

The Bonds will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

7 Accrued Income Scheme

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

8 Individual Savings Accounts

The Bonds will be qualifying investments for the stocks and shares component of an account (an “**ISA**”) under the Individual Savings Account Regulations 1998 (the “**ISA Regulations**”) provided that at the date the Bonds are first held under the account, the Bonds are not required to be re-purchased or redeemed within the period of five years from that date. Bondholders who acquire or hold their Bonds through an ISA and who satisfy the requirements for tax exemption in the ISA Regulations will not be subject to United Kingdom tax on interest or other amounts received in respect of the Bonds.

The opportunity to invest in Bonds through an ISA is restricted to individuals. Individuals wishing to purchase the Bonds through an ISA should contact their professional advisers regarding their eligibility.

D. Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

- 9** No United Kingdom stamp duty or SDRT is payable on the issue or transfer by delivery of the Bonds or on their redemption.

SUBSCRIPTION AND SALE

Pursuant to a Subscription Agreement expected to be dated on or about 5 September 2012, Canaccord Genuity Limited (the “**Manager**”) is expected to agree with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Bonds on the Issue Date (as defined below) and to deliver the Bonds to the Financial Intermediaries (as defined below) who have paid for them. The Issuer will pay to the Manager a management fee of 0.45 per cent. of the total principal amount of the Bonds subscribed and paid for and a distribution fee of 0.50 per cent. of such total principal amount. In addition, the Issuer will reimburse the Manager for certain of its expenses in connection with the issue of the Bonds. The distribution fee may be shared between the Manager, the authorised distributors and any other financial intermediaries that are appointed by the Manager to procure placees for and/or to distribute the Bonds (together, the “**Financial Intermediaries**” and each, a “**Financial Intermediary**”). The Subscription Agreement will entitle the Manager to terminate it in certain circumstances prior to payment being made to the Issuer. The issue of Bonds shall not be underwritten by the Manager or any other person.

The Issuer and the Manager have entered into a Prospectus Confirmation Agreement dated the date hereof, pursuant to which the parties have agreed to comply with the selling restrictions set out below.

United States

The Bonds have not been and will not be registered under the Securities Act and the Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons. The Manager has agreed that it will not offer, sell or deliver any Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

Public Offer Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), the Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than the offers contemplated in the Prospectus in the United Kingdom from the time the Prospectus has been approved

by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive until the Issue Date, and provided that the Issuer has consented in writing to use of the Prospectus for any such offers, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100, or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Manager; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Bonds to the public**” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

Guernsey

The Manager has represented, warranted and agreed that:

- (a) the Bonds cannot be marketed, offered or sold in or to persons resident in Guernsey other than in compliance with the licensing requirements of the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended, and the regulations enacted thereunder, or any exemption therefrom; and
- (b) the Prospectus has not been approved or authorised by the Guernsey Financial Services Commission for circulation in Guernsey. The Prospectus may not be distributed or circulated directly or indirectly to any persons in the Bailiwick of Guernsey other than (i) by a person licensed to do so under the terms of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, or (ii) to those persons regulated by the Guernsey Financial Services Commission as licensees under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, the Banking Supervision (Bailiwick of Guernsey) Law, 1994, the Insurance Business (Bailiwick of Guernsey) Law, 2002 or the Regulation of Fiduciaries, Administration Business and Company Directors etc. (Bailiwick of Guernsey) Law, 2000.

Isle of Man

The Manager has represented, warranted and agreed that the Bonds cannot be marketed, offered or sold in, or to persons resident in, the Isle of Man, other than in compliance with the licensing requirements of the Isle of Man Financial Services Act 2008 and the Regulated Activities Order 2011 or any exemption therefrom.

General

No action has been taken by the Issuer or the Manager that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with applicable laws and regulations and all offers of Bonds by it will be made on the same terms.

GENERAL INFORMATION

1 Authorisations

The issue of the Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 14 August 2012 and a resolution of a committee of the Board of Directors of the Issuer dated 20 August 2012.

The Issuer has obtained all necessary consents, approvals and authorisations in England and Wales in connection with the issue and performance of the Bonds.

2 Listing and Admission to Trading

It is expected that official listing will be granted on or about 11 September 2012, after the publication of the Sizing Announcement subject only to the issue of the Global Bond. Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the London Stock Exchange's regulated market and through the ORB. Admission of the Bonds to trading is expected to occur on 11 September 2012.

The amount of expenses related to the admission to trading of the Bonds will be specified in the Sizing Announcement.

3 Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In addition, the Bonds will be accepted for settlement in Euroclear UK & Ireland (CREST) via the CREST Depositary Interest (CDI) mechanism. Interests in the Bonds may be held through CREST through the issuance of CDIs representing the Underlying Bonds. The ISIN for the Bonds is XS0820711215 and the Common Code is 082071121.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L 1855 Luxembourg and the address of CREST is Euroclear UK & Ireland, 33 Cannon Street, London EC4M 5SB.

4 No significant change

There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2012 and there has been no material adverse change in the prospects of the Issuer or of the Group since 31 December 2011.

5 Litigation

None of the Issuer or any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is/are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer and/or the Group.

6 Auditors of the Issuer

The auditors of the Issuer are Deloitte LLP, a member firm of the Institute of Chartered Accountants of England, who have audited the Issuer accounts, without qualification, in accordance with IFRS for the three financial years ended 31 December 2011. Deloitte LLP have conducted a review in accordance with

International Standards on Review Engagements (UK and Ireland) 2410 in respect of the Half-Yearly Financial Report of the Issuer for the six months ended 30 June 2012.

7 U.S. tax

The Bonds and Coupons will contain the following legend:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

8 Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London:

- (a) the articles of association of the Issuer for the time being;
- (b) the most recently published audited consolidated annual financial statements of the Issuer and the most recently published interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith;
- (c) the Trust Deed and the Paying Agency Agreement;
- (d) any documents incorporated by reference into this Prospectus; and
- (e) a copy of this Prospectus together with any supplement to this Prospectus or any further prospectus.

9 Yield

The yield of the Bonds is 5.50 per cent. per annum calculated on the basis of the Issue Price and as at the date of this Prospectus. It is not an indication of future yield.

10 Manager transacting with the Issuer

The Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may provide services to, the Issuer and their affiliates in the ordinary course of business.

11 Material Contracts

There are no material contracts entered into other than in the ordinary course of the Issuer's business which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Bondholders in respect of the Bonds being issued.

12 Third Party Information

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced, and as far as the Issuer is aware and are able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

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