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PRESS RELEASE

CLS Holdings plc
("CLS", the "Company" or the "Group")
Interim Management Statement for the period 1 July 2013 to 6 November 2013

The Group announces its Interim Management Statement for the period 1 July 2013 to 6 November 2013.

HIGHLIGHTS

- Successful £118.6 million portfolio acquisition of 34 mostly government-let properties throughout the UK yielding 12.2% net
- Acquisition of a further two properties in London totalling £5.9 million before costs, on a blended net initial yield of 9.4%
- Further improvement of rental income quality through acquisitions: 49% is now generated from governments and 27% from major corporations, and 61% is subject to indexation
- Occupational demand remains firm; vacancy level remains low at 4.4% (30 June 2013: 5.5%)
- New leases, lease renewals and extensions completed on 10,162 sq m
- Weighted average cost of debt remains low at 3.62% (30 June 2013: 3.55%)
- Agreement with InterContinental Hotels Group for a Staybridge Suites hotel at the 20,800 sq m Spring Mews mixed-use development in Vauxhall, and terms agreed to let 210 student rooms to a university; completion of development on schedule for Q3 2014
- Strong pre-letting interest for all of the offices at Clifford's Inn, Fetter Lane, EC4 refurbishment, with completion on schedule for summer 2014
- Advancing plans on 143,000 sq m development at Vauxhall Square, London

OVERVIEW – Since 30 June, the Group has made solid progress in a number of areas, and a major acquisition. Core investment operations have delivered according to plan, financing costs have remained very low, and developments have progressed strongly.

The occupational markets are firm, with the Group's vacancy level of 4.4% by rental income remaining very low. Demand from existing and potential occupiers is steady, with good interest particularly in London and Germany. Of the Group's income, 61% benefits from indexation and 49% is paid by government occupiers.

On 13 September the Group acquired a UK-wide portfolio of 34 primarily UK Government-occupied properties for £118.6 million before costs of £5.3 million, generating a net initial yield of 12.23%. The portfolio, known as the Neo portfolio, was a receivership sale in an open tender process. Since 30 June, we also made two acquisitions, in Chertsey and Staines, for an aggregate of £5.9 million, together producing a net initial yield of 9.4%.

The development in the financial markets continues to be positive but uncertainty remains in the Eurozone, particularly in France. The Group benefited from high corporate bond prices when selling most of the corporate bond portfolio in August to raise part of the consideration for the Neo portfolio acquisition.

In September, Catena AB issued shares which reduced our interest from an associate status to that of an available-for-sale asset to be carried in our balance sheet at fair value by reference to Catena's share price. This, together with a 20.8% gain in the Catena share price, added 35 pence per share to the Company's NAV from the investment in Catena AB.

UK – With the UK enjoying its third consecutive quarterly growth in GDP, London continues to benefit from its status as a global safe haven. Demand remains solid from overseas investors, with increasing interest beyond the prime West End and City locations in search of yield. Even though financing conditions have improved for strong borrowers, banks continue to work through their issues, and have increased the pressure on distressed borrowers who are finding refinancing very challenging to achieve. This is providing attractive opportunities for the Group, and since 1 July we have completed one significant and two smaller acquisitions:

- a UK-wide portfolio of 34 properties for £118.6 million before costs of £5.3 million, with 64% let to the Secretary of State, 14% to Government agencies, and 20% to Trillium (Prime) Property, but occupied by Government sub-tenants; the portfolio has a weighted average unexpired lease term of 7.1 years, or 4.8 years to the first break event, and generates £15.1 million p.a., representing a net initial yield of 12.23% after costs
- a 1,245 sq m office property in Staines, TW18 for £3.15 million, let to Trillium (Prime) Property as a Job Centre for £318,500 p.a. for over 4 years, representing a net initial yield of 9.61%
- a 1,257 sq m office property, in Chertsey, KT16 for £2.67 million, multi-let to four occupiers, generating a rent of £261,000 p.a., and representing a net initial yield of 9.16%

We continue to be successful in leasing space and the vacancy rate is only 2.2%. Excluding the fully-let Neo portfolio, like-for-like vacancies are 2.9% (30 June 2013: 4.4%). New lettings were achieved on 2,805 sq m, lease renewals and extensions were completed on 2,303 sq m, occupiers vacated from 3,623 sq m, and 884 sq m of vacant space was retired to development stock, not available for letting.

Our Spring Mews development of an extended stay hotel and student accommodation is well under way, and completion is targeted for Q3 2014. We have signed an agreement with InterContinental Hotels Group for the hotel to be operated under its Staybridge Suites brand, and have agreed terms to pre-let 210 student rooms (55% of the total) to a university. The remaining student rooms will be operated and marketed on a direct-let basis by Fresh Student Living.

At Clifford's Inn, Fetter Lane, EC4 the refurbishment of 3,433 sq m of new Grade A offices and the development of eight residential apartments are on schedule to complete in the summer of 2014, and we have received strong interest to pre-let the entire office space.

The Vauxhall Nine Elms regeneration area continues to move forward, of which our mixed-use, residential-led Vauxhall Square will be an integral part. We are continuing to develop financing options for the 143,000 sq m scheme, and are in positive discussions with potential hoteliers and student operators for elements of it. The first phase could start in 2015.

FRANCE – The French economy remains slow, with concerns over political direction, weak growth, low confidence and rising unemployment.

The lack of new supply should restrict vacancy levels and available space. Lettings in the Paris region are down some 30% in 2013. Since the end of June, we have let or renewed 4,589 sq m of offices and taken back 5,073 sq m. As previously indicated, based on expected occupier departures, our vacancy levels in France rose in the middle of the year and now stand at 10.6% (30 June 2013: 9.3%). We expect this to fall modestly by the end of the year, though occupiers are cautious about making new commitments in the current economic climate.

GERMANY – The German economy continues to show superior strength to any other major Eurozone country. The IFO business confidence indicator rose for each of the five months to September before falling marginally in October, and employment levels are at an all-time high. Bank debt availability and pricing are noticeably improving, and are the most attractive in all of our regions.

We have seen an increase in activity and enquiries, especially in Berlin and Munich, where prime rents are growing, and our vacancy rate has fallen to 3.8% (30 June 2013: 4.2%). Since 30 June we have let 5,193 sq m and taken back 255 sq m.

SWEDEN – Swedish GDP growth is expected to rise to 1.15% in 2013, with unemployment relatively stable at 7.5%.

Occupancy of the Group's only directly held property in Sweden, Vänerparken, to the north of Gothenburg, has remained unchanged with a vacancy of 1.7% by rental value and negotiations are under way regarding certain lease renewals due in 2015.

FINANCE – Core profit has continued to be resilient, with stable net rental income, high rent collection rates, tightly controlled costs, and a continuing low cost of debt of 3.62% (30 June 2013: 3.55%).

Bank debt has continued to be more available in recent months, with new entrants into the market and lower margins across all our regions. The Group has 57 loans from 23 lenders, and two unsecured corporate bonds; none of the loan covenants is in breach and none of the debt has been securitised. We are exploring a number of options for financing the Neo acquisition, and the Group currently has cash and available undrawn facilities in excess of £75 million.

Most of the corporate bond portfolio, which was valued at £88.9 million at 30 June 2013, was sold in August to raise part of the consideration for Neo portfolio acquisition. The bonds were sold in less than a week without adversely moving market prices. The Group has invested in corporate bonds since late 2008, which has proved to be a successful strategy to increase the return on cash; in the five years since our initial investments, the corporate bond portfolio generated a return on cost of 88.1%, or 13.5% per annum compound.

In September, the Stockholm-listed property company Catena AB, in which the Group held a 29.99% interest, issued shares as payment for a large, earnings-enhancing property portfolio acquisition, reducing the Group's interest to 13.8% of the enlarged share capital. Consequently, Catena ceased to be an associate of the Group, and became an available-for-sale asset to be carried at fair value by reference to Catena's share price. This, together with a 20.8% gain in the Catena share price following the acquisition, added 35 pence per share to the Company's NAV.

After a period of relative weakness in the first half of 2013, sterling strengthened in the third quarter of 2013 by 2.3% against the euro, in which half of our business is conducted, and by 2.1% against the Swedish krona. The effect has been a reduction in EPRA net asset value of some 12 pence per share.

In the latest tender offer, all of the shares available were cancelled by the Company on 25 September resulting in a distribution of £5.0 million to shareholders and leaving 42,353,790 shares in circulation.

Executive Chairman of CLS, Sten Mortstedt, commented:

"Recent signs of improvement in the UK economy together with an encouraging development in the property sector have strengthened our opinion that now is a good time to buy UK property.

"The recent Neo portfolio acquisition is the largest transaction the Group has made in many years and shows our ability and capacity to move quickly and opportunistically when the time is right.

"The Group's core activities are performing well, debt costs remain low and strong progress is being made on pre-letting our development programme.

"With a strong balance sheet and a large part of our rental income secured by government occupiers, we are well positioned to meet future opportunities and challenges with confidence. Our solid financial resources, together with our opportunistic approach, will enable us continuously to seek opportunities to add value for our shareholders."

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