THREE ALBERT EMBANKMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006

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COMPANIES HOUSE

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
1 Embankment Place
London
WC2N 6RH

Company No 2114695

THREE ALBERT EMBANKMENT LIMITED

INDEX TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

THREE ALBERT EMBANKMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2006

1 PRINCIPAL ACTIVITY

The principal activity of the Company is to invest in commercial property

2 REVIEW OF THE BUSINESS

The results for the year are shown on page 4 of the annual report The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future

3 FINANCIAL RISK MANAGEMENT

The Company's operations expose it to the risk of interest rate fluctuations The Company addresses such risks by purchasing interest rate hedging instruments Such instruments have a year end book value of £3,351 (2005 £14,783) and a year end market value of £52,823 (2005 £(200,097))

4 DIVIDENDS

The Directors declared and paid a £1,500,000 dividend for the year ended 31 December 2006 (2005 nil)

5 DIRECTORS

The Directors of the Company during the year were as follows

Mr D M Baverstam
Mr T J Thomson (resigned 1 January 2006)
Mr P Sjoberg (appointed 1 January 2006)
Mr S F Board (appointed 1 January 2006)

The Directors had no interests in the shares of the Company at any time during the year The interests of the Directors, who are also directors of the parent company, in CLS Holdings plc are disclosed in that company s financial statements

Each Director has confirmed that

- So far as he is aware, there is no relevant audit information of which the Company's auditors are unaware,
- He has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

6 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the profit or loss of the Company for the year In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

7 AUDITORS

PricewaterhouseCoopers LLP will not seek reappointment as auditors of the Company and a resolution to appoint Deloitte & Touche LLP as auditors will be proposed at the annual general meeting

BY ORDER OF THE BOARD

Mr S Board
Director

18 May 2007

REGISTERED OFFICE:
26th floor, Portland House
Bressenden Place
London SW1E 5BG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THREE ALBERT EMBANKMENT LIMITED

We have audited the financial statements of Three Albert Embankment Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
As described in the Statement of Directors Responsibilities the Company s directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the Company s members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We report to you whether in our opinion the information given in the Directors Report is consistent with the financial statements We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company s circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company s affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
LONDON

18 May 2007

THREE ALBERT EMBANKMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 £	2005 £
Rental income		1,323,184	1,231,252
Dilapidations		-	25,000
Other income		3,911	818
Service charge income		515,445	522,558
Turnover	(1)	1,842,540	1,779,628
Service charge expense		(531,252)	(477,735)
		1,311,288	1,301,893
Administrative expenses		(84,224)	(173,485)
Operating profit		1,227,064	1,128,408
Interest receivable and similar income		18,743	21,124
Interest payable and similar charges	(2)	(718,140)	(737,041)
Profit on ordinary activities before taxation	(4)	527,667	412,491
Tax (charge) / credit on profit on ordinary activities	(5)	(720,854)	191,530
(Loss) / profit for the financial year	(14)	(193,187)	604,021

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £	2005 £
(Retained loss) / profit on ordinary activities after taxation	(193,187)	604,021
Unrealised surplus on revaluation of property	3,252,115	1,470,832
Total recognised gains for the year	3,058,928	2,074,853

There is no material difference between the profit on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents

All items included in the above profit and loss account are part of continuing operations

THREE ALBERT EMBANKMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	2006 £	2005 £
FIXED ASSETS			
Tangible assets	(7)	21,500,000	18,250,000
CURRENT ASSETS			
Debtors amounts falling due after more than one year	(9)	-	3,351
Debtors amounts falling due within one year	(8)	362,484	532,798
Total debtors		362,484	536,149
Cash at bank and in hand		131,097	147,570
		493,581	683,719
CREDITORS· amounts falling due within one year	(10)	(2,574,851)	(1,121,660)
NET CURRENT LIABILITIES		(2,081,270)	(437,941)
TOTAL ASSETS LESS CURRENT LIABILITIES		19,418,730	17,812,059
CREDITORS: amounts falling due after more than one year	(11)	(10,072,613)	(10,400,000)
PROVISION FOR LIABILITIES AND CHARGES	(12)	(761,650)	(386,520)
NET ASSETS		8,584,467	7,025,539
CAPITAL AND RESERVES			
Called up share capital	(13)	2,000	2,000
Revaluation reserve	(14)	8,769,273	5,517,158
Profit and loss account	(14)	(186,806)	1,506 381
EQUITY SHAREHOLDERS' FUNDS		8,584,467	7,025,539

These financial statements were approved by the Board of Directors on 18 May 2007 and signed on its behalf by

DIRECTOR

Mr S Board

THREE ALBERT EMBANKMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company s financial statements

1 1 *Basis of preparation*

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of land and buildings and in accordance with applicable accounting standards The Company has taken advantage of the exemption in Financial Reporting Standard No 1 as a cash flow statement has been prepared for the Group The Company is a wholly owned subsidiary of CLS Holdings plc and has taken advantage of the exemption in Financial Reporting Standard No 8 not to detail transactions with fellow Group undertakings as the financial statements of CLS Holdings plc are publicly available

The Company has received assurances from CLS Holdings plc that sufficient funds will be available to meet the Company's requirements for at least twelve months from the date of these accounts Accordingly, these financial statements have been prepared on a going concern basis

1 2 *Tangible fixed assets*

Investment properties are revalued bi-annually Completed investment properties are stated at their open market value Investment properties in the course of development are stated at open market value in their existing state Surpluses or deficits arising on revaluation are reflected in the revaluation reserve Revaluation deficits in excess of the amount of prior revaluation surpluses are charged to the profit and loss account

1 3 *Depreciation*

In accordance with Statement of Standard Accounting Practice 19 no depreciation is provided on completed freehold investment properties The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19 The Directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view Depreciation or amortisation is one of many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or quantify this separately

1 4 *Turnover*

Turnover comprises the total value of rents and service charge receivable under operating leases, including reverse premiums paid by tenants on surrender of leases and property-related services provided during the year, excluding VAT Where there is a material rent free period and the amount is considered to be recoverable, the income is spread evenly over the period to the date of the first break Rents received in advance are shown as deferred income in the balance sheet

1 5 *Deferred taxation*

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that

- Provision is not made in respect of property revaluation gains and losses, and
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse

1 6 *Loan costs*

Issue costs relating to new loans are capitalised and amortised to follow the profile of the loan principal Unamortised amounts at the balance sheet date are deferred against the loan liability

1 7 *Interest Rate Caps*

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap

2 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
On bank loan	686,888	715,315
Amortisation of interest rate caps / floors and related charges	11,432	11,463
Amortisation of financing costs	1,338	10,263
Intercompany interest expense	18,482	-
	718,140	737,041

3 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are directors of CLS Holdings plc are disclosed in that Company's financial statements in respect of their services to the group as a whole The Company had 1 employee during the year (2005 none)

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 £	2005 £
This is stated after charging		
Auditors remuneration	1,500	1,500

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £	2005 £
UK corporation tax at 30% (2005 30%)	-	-
Deferred tax charge / (credit)		
Origination and reversal of timing differences	375,130	(191,530)
Payment for losses surrendered under Group Relief arrangement	345,724	-
	720,854	(191,530)

The current tax charge for the period is lower in 2006 and 2005 than the standard rate of UK corporation tax (30%) as explained below

	2006 £	2005 £
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2005 30%)	158,300	123,747
Effect of		
Losses used by group/consortium relief and differences between capital allowances and depreciation	(158,300)	(123,747)
Current tax charge in profit and loss account	-	-

6 DIVIDENDS	2006 £	2005 £
£750 per £1 share (2005 £nil)	1,500,000	-

7 TANGIBLE ASSETS	2006 £	2005 £
Freehold investment property		
Valuation at 1 January	18,250,000	16,750,000
Additions	-	29,168
Disposals	(2,115)	-
Surplus on revaluation	3,252,115	1,470,832
Valuation at 31 December	21,500,000	18,250,000

At 31 December properties were revalued to an estimate of their open market values taking into account their condition and tenancies existing at that date Property valuations were carried out by independent valuers, Allsop & Co Chartered Surveyors The historical cost of investment properties included at valuation was £12,730,727

8 DEBTORS	2006 £	2005 £
Amounts falling due within one year		
Trade debtors	289,327	205,427
Amounts due from group undertakings	37,034	267,032
Other debtors	3,352	11,432
Prepayments and accrued income	32,771	48,907
	362,484	532,798

9 Amounts falling due after more than one year:	2006 £	2005 £
Other debtors	-	3,351

10 CREDITORS. amounts falling due within one year	2006 £	2005 £
Bank loans	325,000	325,000
Unamortised arrangement and finance fees	(1,340)	(5,062)
Trade creditors	(1,649)	263
Amounts due to group undertakings	1,500,000	42,612
Taxation and social security	66,444	46,794
Other creditors	94,318	91,600
Accruals and deferred income	592,078	620,453
	2,574,851	1,121,660

11 CREDITORS: amounts falling due after more than one year

	2006 £	2005 £
Bank loans	10,075,000	10,400,000
Unamortised arrangement and finance fees	(2,387)	-
	10,072,613	10,400,000

An analysis of the maturity of the bank loan is as follows:	2006 £	2005 £
In one year or less, or on demand	323,663	319,938
In more than one year but not more than two years	322,613	10,725,000
In more than two years but not more than five years	9,750,000	-
	10,396,276	11,044,938

Interest is charged on the bank loan at the rate of LIBOR plus a margin of 1 15% and is secured by a legal charge over the property to which it relates

12 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows	2006 Provision £	2006 Amount unprovided £	2005 Provision £	2005 Amount unprovided £
Capital allowances in excess of depreciation	817,564	-	802 295	-
Future benefit of tax losses	(55,914)	-	(415,775)	-
Taxation on revaluation surplus	-	2,153,119	-	1,359,816
	761,650	2,153,119	386,520	1,359,816
At 1 January	386,520		578,050	
Amount charged / (credited) to profit and loss	375 130		(191,530)	
At 31 December	761,650		386,520	

No provision has been included in the financial statements for deferred taxation on revaluation as there are no plans to sell the investment property and therefore no liability is anticipated in the foreseeable future Such tax would only become payable if the property were sold without it being possible to utilise other loss reliefs

13 CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised, allotted, called up and fully paid		
Ordinary shares of £1 each	2,000	2,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

14 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	2006 Total £	2005 Total £
Balance at 1 January	2,000	5,517,158	1,506,381	7,025,539	4,950,686
Dividends	-	-	(1,500,000)	(1,500,000)	-
Revaluation surplus	-	3,252,115	-	3,252,115	1,470,832
(Retained deficit) / profit for the year	-	-	(193,187)	(193,187)	604,021
Balance at 31 December	2,000	8,769,273	(186,806)	8,584,467	7,025,539

15 CONTINGENT LIABILITIES

In the Directors' opinion, no contingent liabilities exist

16 PARENT UNDERTAKING

The Directors consider that the immediate, ultimate parent undertaking and controlling party is CLS Holdings plc which is registered in England and Wales Copies of the parent s consolidated financial statements may be obtained from The Secretary, CLS Holdings plc, 26th floor, Portland House, Bressenden Place, London SW1E 5BG

17 POST BALANCE SHEET EVENTS

On 21 March 2007 the Chancellor proposed a reduction in the Corporation tax rate in the UK from 30 per cent effective from 1 April 2008 In accordance with UK GAAP provisions, the existing rate of 30 per cent is still used as a basis for the calculation of the deferred tax stated An estimate of the financial effect of this change cannot be made due to the uncertain timing of the reversal or crystalisation of the deferred tax provisions