

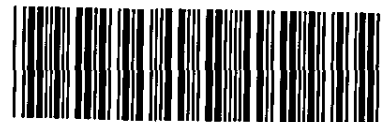
Company Registration No. 2114695

Three Albert Embankment Limited

Report and Financial Statements

31 December 2009

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Three Albert Embankment Limited

Report and Financial Statements 2009

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Three Albert Embankment Limited

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009

This Directors' Report has been prepared in accordance with the special provisions relating to small companies under section 415a of the Companies Act 2006

Principal activity

The principal activity of the Company is to invest in commercial property and to earn income therefrom

Dividends

The Directors paid an interim dividend of £750,000 (2008: £nil). No final dividend was proposed for the year ended 31 December 2009 (2008: £nil).

Review of the business

The results for the year are shown on page 6. The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

The financial statements have been prepared on the going concern basis as described in note 1.2.

Financial risk management

The Company considers there are a number of potential risks and uncertainties which could have a material impact on the Company's performance and could cause the actual results to differ materially from expected and historical results. Management and mitigation of these risks is the responsibility of the Directors of the Company.

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 £16,705 (2008: £19,921) and a year end market value of £510 (2008: £4,875).

Principal risks and uncertainties

Risk	Mitigation
• Cyclical downturn in property market	Long-term investment strategy to mitigate short-term unrealised losses
• Covenant breaches in downturn	Sufficient equity reserves to enable rectifying of any anticipated breaches, ability to re-negotiate terms with lenders
• Changes in tenant demand	Strategy of securing long-leased tenants with strong covenant strength
• Ability to access finance	Parent debt service cover guarantees given to secure funding
• Credit risk – tenants	All potential tenants assessed for credit worthiness. Rental deposits taken as required
• Credit risk – lenders	Large institution used with good credit rating

Three Albert Embankment Limited

Directors' Report

Directors

The Directors of the Company during the year were as follows

Mr E H Klotz
Mr T J L Wills
Mr A G P Millet
Mr J H Whiteley (appointed 22 January 2010)

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the Directors and former Directors who held office in 2009

Auditors

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

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- 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 section 418 of the Companies Act 2006

Pursuant to s386 Companies Act 1985, an Elective Resolution was passed on 9 October 2002 dispensing with the requirement to appoint auditors annually. In accordance with that Elective Resolution and paragraph 45(2), Schedule 3 of the Companies Act 2006 (Commencement No 3 Consequential Amendments, Transitional Provisions and Savings) Order 2007, Deloitte LLP is deemed to continue as auditor of the Company

Approved by the Board of Directors
and signed by order of the Board



Mr D F Fuller

Company Secretary

6 May 2010

Registered office:

86 Bondway
London
SW8 1SF

Three Albert Embankment Limited

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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, 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

As more fully explained in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on matters prescribed in the Companies Act 2006

- In our opinion the information in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Members of Three Albert Embankment Limited (continued)


Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the Directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements which explains that the financial statements have been prepared on a going concern basis. At the Balance Sheet date a material uncertainty exists as to whether the Company can continue as a going concern if external debt totalling £9,425,000 (due for repayment in October 2010) is not refinanced. Furthermore, at the Balance sheet date the Company has net current liabilities of £11,884,825. These conditions, together with other matters as set out in note 1.2 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.



Mark Goddey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
6 May 2010

Three Albert Embankment Limited

Profit and Loss Account Year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	2,273,463	1,856,750
Service charge expense		(891,169)	(541,483)
		<u>1,382,294</u>	<u>1,315,267</u>
Administrative expenses		(181,235)	(188,620)
Operating profit		<u>1,201,059</u>	<u>1,126,647</u>
Interest receivable and similar income		1,585	3,766
Interest payable and similar charges	3	(325,078)	(735,032)
		<u>1,585</u>	<u>3,766</u>
Profit on ordinary activities before taxation	5	877,566	395,381
Tax credit/(charge) on profit on ordinary activities	6	50,099	(173,797)
		<u>50,099</u>	<u>(173,797)</u>
Profit for the financial year	13	<u><u>927,665</u></u>	<u><u>221,584</u></u>

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

All items included in the Profit and Loss Account are part of continuing operations

Three Albert Embankment Limited

Statement of Total Recognised Gains and Losses Year ended 31 December 2009

	Note	2009 £	2008 £
Profit for the year		927,705	221,584
Unrealised surplus/(deficit) on revaluation of property	7	<u>500,000</u>	<u>(3,500,000)</u>
Total recognised gains/(losses) for the year		<u>1,427,705</u>	<u>(3,278,416)</u>

Three Albert Embankment Limited

Balance Sheet 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	18,000,000	17,500,000
Current assets			
Debtors due within one year	8	278,917	398,153
Debtors due after one year	8	-	16,706
Total debtors		278,917	414,859
Cash at bank and in hand		202,073	201,059
		480,990	615,918
Creditors: amounts falling due within one year	9	(12,365,815)	(3,168,990)
Net current liabilities		(11,884,825)	(2,553,072)
Total assets less current liabilities		6,115,175	14,946,928
Creditors: amounts falling due after more than one year	10	-	(9,425,000)
Provision for liabilities	11	(685,102)	(769,520)
Net assets		5,430,073	4,752,408
Capital and reserves			
Called up share capital	12	2,000	2,000
Revaluation reserve	13	5,269,273	4,769,273
Profit and Loss Account	13	158,800	(18,865)
Shareholders' funds		5,430,073	4,752,408

The financial statements of Three Albert Embankment Limited (registered number 2114695) were approved by the Board of Directors on 6 May 2010

Signed on behalf of the Board of Directors



Mr J H Whiteley
Director

Three Albert Embankment Limited

Notes to the Financial Statements

31 December 2009

1. Accounting policies

Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

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 Directors consider that the Company is a going concern. The Company has taken advantage of the exemption in Financial Reporting Standard No. 1 not to prepare a cash flow statement 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 taken advantage of the exemption in Financial Reporting Standard No. 29 as equivalent disclosure is made in the Group accounts of CLS Holdings plc which are publicly available.

1.2 Going concern

The Company's business activities and review of the business are set out in the Directors' Report.

The Company is funded by a combination of external and internal interest bearing debt. The Company is subject to economic uncertainties and if property values were to deteriorate significantly then there are scenarios in which the financial covenants within its external facilities could fail to be complied with. The Directors have reviewed the current and projected financial position of the Company making reasonable assumptions about future rental income and property values and have satisfied themselves that external loan covenants are likely to be complied with for the remainder of the loan term. The Directors have also satisfied themselves that each fellow group undertaking which participates in the external loan facility and is jointly and severally liable (as detailed in note 10) to the external lender will continue to be a going concern for the remainder of the lease term.

The loan facility with the external lender is due for repayment in October 2010. The Directors expect they will be able to negotiate terms agreeable to both the Company and the lender to enable them to refinance the debt. However, at the date of signing these financial statements they are unable to conclude this with absolute certainty as negotiations with the lender are at a preliminary stage. In the unlikely scenario that the external debt could not be refinanced a material uncertainty would exist as to whether the Company would be able to continue as a going concern as the Company does not have sufficient resources to discharge the external loan facility. Whilst the Directors acknowledge that this material uncertainty may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business, they remain confident that the Company will be able to refinance its external debt in due course.

For these reasons, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

Three Albert Embankment Limited

Notes to the Financial Statements

31 December 2009

1.3 Investments properties

Investment properties are revalued 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 unless considered temporary.

In accordance with Statement of Standard Accounting Practice 19, no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 2006 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 Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date where transactions or events which result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on an undiscounted basis, at the average tax rates which are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws which have been enacted or substantively enacted at the balance sheet date.

Provision is not made in respect of property revaluation gains and losses.

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.

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

2 Turnover

	2009 £	2008 £
Rental income	1,485,445	1,328,098
Other income	250	113
Service charge income	787,768	528,539
	<u>2,273,463</u>	<u>1,856,750</u>

Turnover arose wholly within the United Kingdom

3. Interest payable and similar charges

	2009 £	2008 £
Bank loan interest	245,109	606,755
Amortisation of interest rate caps	19,921	-
Amortisation of arrangement fees	1,246	2,631
Due to group undertakings	58,802	125,646
	<u>325,078</u>	<u>735,032</u>

4. Directors' emoluments and employee information

None of the Directors received any remuneration during the year in respect of services as Directors to the Company (2008: Nil). The emoluments of the Directors of the Company, who are also 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 one employee during the year (2008: one).

	2009 £	2008 £
Employment costs of all employees		
Wages and salaries	22,368	25,699
Social security costs	3,283	3,840
	<u>25,651</u>	<u>29,539</u>

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

5 Profit on ordinary activities before taxation

	2009 £	2008 £
This is stated after charging		
Fees payable to the Company's auditors for the audit of the Company's financial statements	3,000	4,000

6 Tax (credit)/charge on profit on ordinary activities

	2009 £	2008 £
Payments made for losses claimed as group relief in respect of previous periods	34,319	-
Total current tax charge	34,319	-
Deferred tax (credit)/charge origination and reversal of timing differences	(84,418)	173,797
Total tax (credit)/charge on profit on ordinary activities	(50,099)	173,797

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows

	2009 £	2008 £
Profit on ordinary activities before tax	877,566	395,381
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28.0% (2008: 28.5%)	245,718	112,684
Effect of		
Losses claimed by group/consortium relief for nil receipt and differences between capital allowances and depreciation	(245,718)	(112,684)
Payment for group relief claimed in respect of previous periods	34,319	-
	34,319	-

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

7 Tangible fixed assets

	Freehold property £
At 1 January 2009	17,500,000
Surplus on revaluation	500,000
	<hr/>
At 31 December 2009	18,000,000
	<hr/> <hr/>

The investment property was revalued at 31 December 2009 to its fair value. The valuation was based on current prices in an active market. The property valuation was carried out by Lambert Smith Hampton (2008: Allsop & Co) who are external, professionally qualified valuers.

In the latter half of 2008 the economic climate and lower transactional volumes in real estate markets meant that the valuers had to refer to greater use of professional judgement in arriving at the valuation at 31 December 2008. The Directors are satisfied that market conditions, whilst still remaining challenging, had returned to a more normal level of transactional activity by 31 December 2009.

The Directors are satisfied that the external valuations supplied are appropriate to adopt for these financial statements without adjustment.

The historical cost of investment properties included at valuation was £12,730,727 (2008: £12,730,727).

8 Debtors

	2009 £	2008 £
Due within one year:		
Trade debtors	258,740	338,693
Due from group undertakings	-	26,384
Other debtors	16,706	20,763
Prepayments and accrued income	3,471	12,313
	<hr/>	<hr/>
	278,917	398,153
	<hr/> <hr/>	<hr/> <hr/>
	2009 £	2008 £
Due after one year:		
Other debtors	-	16,706
	<hr/> <hr/>	<hr/> <hr/>

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

9. Creditors: amounts falling due within one year

	2009 £	2008 £
Bank loans	9,425,000	325,000
Unamortised arrangement fees	-	(1,246)
Trade creditors	1,957	-
Due to group undertakings	2,201,785	1,750,000
Taxation and social security	18,288	59,142
Other creditors	202,070	201,058
Accruals and deferred income	516,715	835,036
	<u>12,365,815</u>	<u>3,168,990</u>

10. Creditors: amounts falling due after more than one year

	2009 £	2008 £
Bank loans	<u>-</u>	<u>9,425,000</u>

The ultimate parent company CLS Holdings Plc has given a guarantee to the loan provider which guarantees all interest and amortisation under the loan facility

An analysis of the maturity of the bank loan is as follows:

	2009 £	2008 £
Less than one year	9,425,000	323,754
In more than one year but not more than two years	<u>-</u>	<u>9,425,000</u>
	<u>9,425,000</u>	<u>9,748,754</u>

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

The loan is the Company's share of a joint facility with two fellow subsidiary undertakings of the ultimate parent company. All participants in the facility are jointly and severally liable. Following negotiation with the lender an amount of £2 million was repaid against the total facility during 2009 which rectified all notified covenant breaches to date. The balance outstanding on the total facility at 31 December 2009 was £43,496,250 (2008: £46,775,000)

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

11. Provisions for liabilities

	Provision 2009 £	Amount unprovided 2009 £	Provision 2008 £	Amount unprovided 2008 £
Capital allowances in excess of depreciation	776,749	-	769,520	-
Future benefit of tax losses	(91,647)	-	-	-
Taxation on revaluation surplus	-	727,744	-	626,112
	<u>685,102</u>	<u>727,744</u>	<u>769,520</u>	<u>626,112</u>
At 1 January	769,520		595,723	
Amount (credited)/charged to profit	(84,418)		173,797	
At 31 December	<u>685,102</u>		<u>769,520</u>	

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 was sold without it being possible to utilise other loss reliefs.

12. Called up share capital

	2009 £	2008 £
Authorised, allotted, called up and fully paid		
Ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

Three Albert Embankment Limited

Notes to the Financial Statements 31 December 2009

13. Combined statement of reserves and reconciliation of movement in shareholders' funds

	Share capital	Revaluation reserve	Profit and loss account	2009	2008
	£	£	£	£	£
Balance at 1 January	2,000	4,769,273	(18,865)	4,752,408	8,030,824
Surplus on revaluation	-	500,000	-	500,000	(3,500,000)
Profit for the year	-	-	927,665	927,665	221,584
Dividends	-	-	(750,000)	(750,000)	-
Balance at 31 December	<u>2,000</u>	<u>5,269,273</u>	<u>158,800</u>	<u>5,430,073</u>	<u>4,752,408</u>

14. Parent undertaking

The Directors consider that the immediate parent undertaking is Central London Securities Limited (previously CLS Propco One Limited). The ultimate parent undertaking is CLS Holdings plc. Both of these companies are incorporated in Great Britain. Copies of the ultimate parent's group financial statements may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF.