

SPRING GARDENS II LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1996

COOPERS & LYBRAND

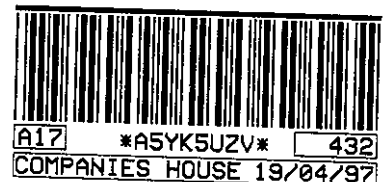
Chartered Accountants and

Registered Auditors

1 Embankment Place

London

WC2N 6NN



SPRING GARDENS II LIMITED
INDEX TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 1996

Page No.

1	Directors' Report
2	Statement of Directors' Responsibilities
3	Auditors' report to the Members
4	Profit and Loss Account
5	Balance Sheet
6 - 9	Notes to the Financial Statements

SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

The Directors are pleased to present their annual report together with the financial statements for the year ended 31 December 1996.

1 PRINCIPAL ACTIVITIES

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 financial statements.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 1996 (1995:Nil).

4 FIXED ASSETS

Information relating to the changes in tangible fixed assets is given in note 7 to the financial statements.

5 DIRECTORS

The Directors of the company during the year were as follows:-

Mr B F Mörtstedt

Mr G V Hirsch

The Directors had no interests in the shares of the company at any time during the year. The interests of the Directors in CLS Holdings plc are disclosed in that company's financial statements.

6 AUDITORS

A resolution to re-appoint Coopers & Lybrand as auditors will be put to the members at the forthcoming annual general meeting.

BY ORDER OF THE BOARD



Mr. B. F. Mörtstedt

Director

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth Street
London
SE11 5EH

27 March 1997

SPRING GARDENS II LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company and of the profit or loss of the Company for that period. In preparing the 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,
- 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 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. 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.

SPRING GARDENS II LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF SPRING GARDENS II LIMITED

We have audited the financial statements on pages 4 to 9.

Respective Responsibilities of Directors and Auditors

As described on page 2, the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the Company's affairs as at the 31 December 1996 and of its loss and total recognised gains for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors*
LONDON

27 March 1997

SPRING GARDENS II LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1996

	NOTES	1996 £	1995 £
Turnover	(2)	309,353	255,858
Administrative expenses		(9,574)	(91,453)
Operating profit		299,779	164,405
Interest receivable and financial income		1	134
Interest payable and related charges	(3)	(354,691)	(629,999)
Loss on ordinary activities before taxation	(4)	(54,911)	(465,460)
Tax on loss on ordinary activities	(6)	-	311,977
Retained loss for the year	(13)	(54,911)	(153,483)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1996 £	1995 £
Loss for the financial year	(54,911)	(153,483)
Unrealised surplus on revaluation of properties	245,264	14,386
Total gains and losses recognised since last annual report	190,353	(139,097)

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

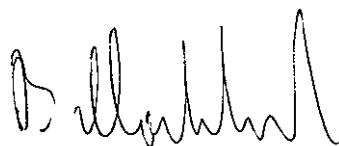
All items included in the above profit and loss account are part of continuing operations.

• **SPRING GARDENS II LIMITED**

BALANCE SHEET AS AT 31 DECEMBER 1996

	NOTES	1996 £	1995 £
FIXED ASSETS			
Tangible assets	(7)	3,375,000	3,200,000
		<hr/>	<hr/>
		3,375,000	3,200,000
CURRENT ASSETS			
Debtors	(8)	13,454	51,238
Cash at bank and in hand		105	134
		<hr/>	<hr/>
		13,559	51,372
CREDITORS: amounts falling due within one year	(9)	(6,362,736)	(8,746,527)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(6,349,177)	(8,695,155)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,974,177)	(5,495,155)
		<hr/>	<hr/>
CREDITORS: amounts falling due after one year	(10)	2,330,625	-
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Revaluation reserve	(13)	245,264	-
Profit and loss account	(13)	(5,552,066)	(5,497,155)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		(5,304,802)	(5,495,155)
		<hr/>	<hr/>
		(2,974,177)	(5,495,155)
		<hr/>	<hr/>

These financial statements were approved by the Board of Directors on 27 March 1997 and signed on its behalf by:



DIRECTOR

Mr. B. F. Mörtstedt

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

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.

1.2 *Tangible fixed assets*

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 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 receivable under operating leases during the year, excluding VAT. Rents received in advance are shown as deferred income in the balance sheet.

1.5 *Deferred Taxation*

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced. It is calculated at the rate at which it is estimated that tax will be payable.

2 TURNOVER

	1996	1995
	£	£
Rental income within the United Kingdom	309,353	255,858
	<hr/> <hr/>	<hr/> <hr/>

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

3 INTEREST PAYABLE AND RELATED CHARGES

	1996 £	1995 £
On loans from group undertakings	354,691	629,999
	<u> </u>	<u> </u>

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1996 £	1995 £
This is stated after charging:		
Auditors' remuneration	2,035	1,839
	<u> </u>	<u> </u>

5 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the company who are Directors of CLS Holdings plc, are disclosed in the financial statements of that company in respect of their services to the group as a whole. The company had no employees during the year (1995: none).

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	1996 £	1995 £
Receipt for group relief for prior years	-	311,977
	<u> </u>	<u> </u>

UK corporation tax at 33% (1995 - 33%).

No provision for corporation tax has been made due to the loss arising in the year.

7 TANGIBLE FIXED ASSETS

	Freehold £	Leasehold £	Total £
Valuation at 1 January 1996	3,200,000	-	3,200,000
Additions	2,133,807	995,929	3,129,736
Surplus on revaluation	216,193	29,071	245,264
Disposals	(3,200,000)	-	(3,200,000)
	<u> </u>	<u> </u>	<u> </u>
Valuation at 31 December 1996	2,350,000	1,025,000	3,375,000
	<u> </u>	<u> </u>	<u> </u>

At 31 December properties were revalued at an estimate of their open market values taking into account their condition and tenancies existing at that date. Property valuations were carried out by professional valuers, Allsop & Co. Chartered Surveyors. The historical cost of investment properties, included at valuation is £3,129,736.

On 1 April 1996, the company transferred the properties previously held to a fellow group undertaking at net book value.

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

8	DEBTORS	1996	1995
		£	£
	Trade debtors	5,295	42,865
	Prepayments and accrued income	8,159	8,373
		<hr/>	<hr/>
		13,454	51,238
		<hr/>	<hr/>
9	CREDITORS: amounts falling due within one year	1996	1995
		£	£
	Trade creditors	5,424	2,717
	Amounts due to group undertakings	6,040,544	8,450,788
	Other taxation and social security	191,056	213,303
	Accruals and deferred income	125,712	79,719
		<hr/>	<hr/>
		6,362,736	8,746,527
		<hr/>	<hr/>
10	CREDITORS: amounts falling due after more than one year	1996	1995
		£	£
	Intercompany loan repayable between two and five years	2,330,625	-
		<hr/>	<hr/>

Interest on this intercompany loan was charged at 9.0% per annum.

11 DEFERRED TAXATION

Deferred taxation is provided as follows:

	1996		1995	
	Provision	Amount Unprovided	Provision	Amount Unprovided
	£	£	£	£
Capital allowances in excess of depreciation	-	14,360	-	122,226
Losses bought forward	-	(71,342)	-	(122,226)
Taxation on revaluation surplus	-	56,982	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-
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No provision has been included in the financial statements for deferred taxation as there are no plans to sell the investment properties and therefore no liability is anticipated in the foreseeable future.

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

12 CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised, allotted, called up and fully paid: Ordinary Shares of £1 each	2,000	2,000

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	1996 Total £	1995 Total £
Balance at 1 January	2,000	-	(5,497,155)	(5,495,155)	(5,356,058)
Loss for the year	-	-	(54,911)	(54,911)	(153,483)
Surplus on revaluation of properties	-	245,264	-	245,264	14,386
Balance at 31 December	2,000	245,264	(5,552,066)	(5,304,802)	(5,495,155)

14 CONTINGENT LIABILITIES

The Company has guaranteed the payment of indebtedness of Charlworth Limited to the Woolwich Building Society of the principal amount of which now outstanding is £2,331,000. This guarantee is secured by a first legal charge over the company's properties at Satellite House and Scriptor Court.

15 ULTIMATE PARENT UNDERTAKING

The Directors consider that the immediate parent undertaking is Charlworth Limited and ultimate parent undertaking is CLS Holdings plc which are both registered in England and Wales. Copies of the ultimate parent's consolidated financial statements may be obtained from The Secretary, CLS Holdings plc, 6 Spring Gardens, Citadel Place, Tinworth Street, London, SE11 5EH.