

SPRING GARDENS II LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2000

PricewaterhouseCoopers
*Chartered Accountants and
Registered Auditors*
1 Embankment Place
London
WC2N 6NN



Company No. 2446925

SPRING GARDENS II LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2000

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2000

The Directors are pleased to present their annual report together with the financial statements for the year ended 31 December 2000.

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 financial statements. The Directors expect the principal activity of the company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 2000 (1999: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.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

6 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 at the end of the year and of the profit or loss 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

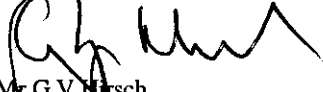
The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have general responsibility for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

7 AUDITORS

A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

BY ORDER OF THE BOARD


Mr G V Hirsch
Director

REGISTERED OFFICE:

One Citadel Place
Tinworth Street
London
SE11 5EF

28 March 2001

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

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

*Chartered Accountants and
Registered Auditors*
LONDON

28 March 2001

SPRING GARDENS II LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2000**

	NOTES	2000 £	1999 £
Turnover	(2)	469,727	480,312
Administrative expenses		(64,300)	(60,623)
		<hr/>	<hr/>
Operating profit		405,427	419,689
Interest receivable and financial income		158	222
Interest payable and related charges	(3)	(631,295)	(612,284)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	(5)	(225,710)	(192,373)
Tax on loss on ordinary activities	(6)	-	-
		<hr/>	<hr/>
Retained loss for the year	(13)	(225,710)	(192,373)
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 £	1999 £
Loss for the financial year	(225,710)	(192,373)
Unrealised surplus on revaluation of properties	1,218,820	649,940
	<hr/>	<hr/>
Total recognised gains for the year	993,110	457,567
	<hr/> <hr/>	<hr/> <hr/>

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

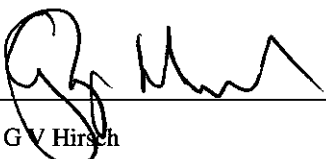
All items included in the above profit and loss account are part of continuing operations.

SPRING GARDENS II LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2000

	NOTES	2000 £	1999 £
FIXED ASSETS			
Tangible assets	(7)	5,715,000	4,475,000
CURRENT ASSETS			
Debtors	(8)	98,629	3,271
Cash at bank and in hand		21,011	325
		119,640	3,596
CREDITORS: amounts falling due within one year	(9)	(6,745,367)	(6,838,761)
NET CURRENT LIABILITIES		(6,625,727)	(6,835,165)
TOTAL ASSETS LESS CURRENT LIABILITIES		(910,727)	(2,360,165)
CREDITORS: amounts falling due after more than one year	(10)	2,786,953	2,330,625
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Revaluation reserve	(13)	2,564,024	1,345,204
Profit and loss account	(13)	(6,263,704)	(6,037,994)
EQUITY SHAREHOLDERS' FUNDS		(3,697,680)	(4,690,790)
		(910,727)	(2,360,165)

These financial statements were approved by the Board of Directors on 28 March 2001 and signed on its behalf by:


 _____ DIRECTOR
 Mr G V Hirsch

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

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 fellow group companies that sufficient funds will be made 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 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.

No depreciation is provided on leasehold investment properties with unexpired terms of more than 50 years. Leasehold properties having unexpired terms of less than 50 years are amortised so as to write off their cost or valuation over the unexpired period of the lease.

1.4 *Turnover*

Turnover comprises the total value of rents 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 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.

1.6 *Loan Costs*

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

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

2	TURNOVER	2000	1999
		£	£
	Rental income within the United Kingdom	466,727	477,844
	Lease Surrender Premium	3,000	-
	Other property related income	-	2,468
		<u>469,727</u>	<u>480,312</u>

3	INTEREST PAYABLE AND RELATED CHARGES	2000	1999
		£	£
	On bank loan	6,197	-
	Other interest	115	-
	On loans from group undertakings	621,504	612,284
	Amortisation of refinancing/arrangement fees	3,479	-
		<u>631,295</u>	<u>612,284</u>

4 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 (1999: none).

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2000	1999
	£	£
This is stated after charging:		
Auditors' remuneration	1,176	3,577
	<u>1,176</u>	<u>3,577</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2000	1999
	£	£
UK corporation tax at 30% (1999 - 30.25%).	-	-
	<u>-</u>	<u>-</u>

No provision for corporation tax has been made in the year due to the availability of losses. Losses are available from one or more of the following sources; losses arising in the year, losses brought forward and group relief surrendered free of charge.

7	TANGIBLE FIXED ASSETS	Investment Properties		
		Freehold	Leasehold	Total
		£	£	£
	Valuation at 1 January 2000	3,000,000	1,475,000	4,475,000
	Additions	-	21,180	21,180
	Surplus on revaluation	160,000	1,058,820	1,218,820
		<u>3,160,000</u>	<u>2,555,000</u>	<u>5,715,000</u>
	Valuation at 31 December 2000	3,160,000	2,555,000	5,715,000

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 £3,150,916.

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

8	DEBTORS	2000	1999
		£	£
	Trade debtors	87,910	-
	Prepayments and accrued income	10,719	3,271
		<u>98,629</u>	<u>3,271</u>
9	CREDITORS: amounts falling due within one year	2000	1999
		£	£
	Bank loan	44,188	-
	Unamortised refinancing/arrangement fees	(13,524)	-
	Trade creditors	560	10,700
	Other creditors	-	3,413
	Amounts due to group undertakings	6,398,187	6,512,119
	Other taxation and social security	191,056	191,056
	Accruals and deferred income	124,900	121,473
		<u>6,745,367</u>	<u>6,838,761</u>
10	CREDITORS: amounts falling due after more than one year	2000	1999
		£	£
	Bank loans	930,812	-
	Unamortised arrangement fees	(44,484)	-
	Due to group undertaking	1,900,625	2,330,625
		<u>2,786,953</u>	<u>2,330,625</u>
Bank loans are repayable as follows :			
	In one year or less, or on demand;	30,664	-
	In more than one year but not more than two years; and	34,304	-
	In more than two years but not more than five years	852,024	-
		<u>916,992</u>	<u>-</u>

A new loan was taken during the year.

Interest on the bank loan is charged at LIBOR plus a margin of 1.25%. The loan is secured by a legal charge over the property Scriptor Court.

11 DEFERRED TAXATION

Deferred taxation is provided as follows:

	2000		1999	
	Provision	Amount Unprovided	Provision	Amount Unprovided
	£	£	£	£
Capital allowances in excess of depreciation	-	106,782	-	77,917
Losses brought forward	-	(377,370)	-	(379,453)
Taxation on revaluation surplus	-	643,048	-	301,536
	<u>-</u>	<u>372,460</u>	<u>-</u>	<u>-</u>

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

12 CALLED UP SHARE CAPITAL

	2000 £	1999 £
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 £	2000 Total £	1999 Total £
Balance at 1. January	2,000	1,345,204	(6,037,994)	(4,690,790)	(5,148,357)
Loss for the year	-	-	(225,710)	(225,710)	(192,373)
Surplus on revaluation of properties	-	1,218,820	-	1,218,820	649,940
Balance at 31. December	2,000	2,564,024	(6,263,704)	(3,697,680)	(4,690,790)

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 £1,900,625. This guarantee is secured by a first legal charge over the company's property at Satellite House.

15 PARENT UNDERTAKING

The Directors consider that the immediate parent undertaking is Charlworth Limited. The ultimate parent undertaking and controlling party 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, One Citadel Place, Tinworth Street, London, SE11 5EF.