

SPRING GARDENS II LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2004



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

Company No. 2446925

SPRING GARDENS II LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2004

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors are pleased to present their annual report together with the financial statements for the year ended 31 December 2004.

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 DIVIDENDS

The Directors do not propose a dividend for the year ended 31 December 2004 (2003:Nil).

4 DIRECTORS

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

Mr T J Thomson

Mr D M Bäverstam

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 in the parent company, in CLS Holdings plc are disclosed in that company's financial statements.

5 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.

SPRING GARDENS II LIMITED

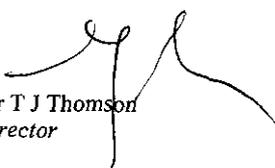
REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

6 AUDITORS

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

BY ORDER OF THE BOARD

REGISTERED OFFICE:


Mr T J Thomson
Director

One Citadel Place
Tinworth Street
London
SE11 5EF

31 March 2005

SPRING GARDENS II LIMITED

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

We have audited the financial statements which comprise the profit and loss account, balance sheet, the statement of total recognised gains and losses and the related notes.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. 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 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.

Basis of audit 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

31 March 2005

SPRING GARDENS II LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2004**

	NOTES	2004 £	2003 £
Turnover	(2)	161,727	280,573
Administrative expenses		(16,345)	(21,541)
Operating profit		145,382	259,032
Interest receivable and similar income		357	37
Interest payable and similar charges	(3)	(450,746)	(404,553)
Loss on ordinary activities before taxation	(5)	(305,007)	(145,484)
Tax on loss on ordinary activities - deferred	(6)	-	17,023
Deficit for the financial year	(13)	(305,007)	(128,461)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004 £	2003 £
Deficit for the financial year	(305,007)	(128,461)
Unrealised surplus/(deficit) on revaluation of property	555,000	(305,000)
Total recognised gains/(losses) for the year	249,993	(433,461)

There is no material difference between the loss on ordinary activities before taxation and the deficit 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 2004

	NOTES	2004 £	2003 £
FIXED ASSETS			
Tangible fixed assets	(7)	2,800,000	2,245,000
CURRENT ASSETS			
Debtors	(8)	100,735	70,000
Cash at bank and in hand		7,938	3,696
		108,673	73,696
CREDITORS: amounts falling due within one year	(9)	(7,388,774)	(5,148,165)
NET CURRENT LIABILITIES		(7,280,101)	(5,074,469)
TOTAL ASSETS LESS CURRENT LIABILITIES		(4,480,101)	(2,829,469)
CREDITORS: amounts falling due after more than one year	(10)	-	(1,900,625)
NET LIABILITIES		(4,480,101)	(4,730,094)
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Revaluation reserve	(13)	666,193	111,193
Profit and loss account	(13)	(5,148,294)	(4,843,287)
EQUITY SHAREHOLDERS' DEFICIT		(4,480,101)	(4,730,094)

The financial statements were approved by the Board of Directors on 31 March 2005 and signed on its behalf by:



 _____ DIRECTOR
 Mr T J Thomson

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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.

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 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 or losses
- 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.

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

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.

2	TURNOVER	2004 £	2003 £
	Rental income within the United Kingdom	161,727	279,940
	Other property related income	-	633
		<u>161,727</u>	<u>280,573</u>
3	INTEREST PAYABLE AND SIMILAR CHARGES	2004 £	2003 £
	On loans from group undertakings	450,746	404,553
		<u>450,746</u>	<u>404,553</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 (2003: none).		
5	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2004 £	2003 £
	This is stated after charging:		
	Auditors' remuneration	1,764	1,176
		<u>1,764</u>	<u>1,176</u>
6	TAX ON LOSS ON ORDINARY ACTIVITIES	2004 £	2003 £
	UK corporation tax at 30% (2003 - 30%).	-	-
	Deferred tax credit		
	Origination and reversal of timing differences	-	(17,023)
		<u>-</u>	<u>(17,023)</u>

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

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

7 TANGIBLE FIXED ASSETS	2004	2003
	£	£
Freehold investment property		
Valuation at 1 January	2,245,000	2,550,000
Surplus/(Deficit) on revaluation	555,000	(305,000)
	<hr/>	<hr/>
Valuation at 31 December	2,800,000	2,245,000
	<hr/> <hr/>	<hr/> <hr/>

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 independent valuers, Allsop & Co. Chartered Surveyors. The historical cost of investment property, included at valuation is £2,133,807.

8 DEBTORS	2004	2003
	£	£
Trade debtors	1	70,000
Prepayments and accrued income	100,734	-
	<hr/>	<hr/>
	100,735	70,000
	<hr/> <hr/>	<hr/> <hr/>

9 CREDITORS: amounts falling due within one year	2004	2003
	£	£
Amounts due to group undertakings	7,148,824	4,892,494
Other taxation and social security	191,056	191,056
Accruals and deferred income	48,894	64,615
	<hr/>	<hr/>
	7,388,774	5,148,165
	<hr/> <hr/>	<hr/> <hr/>

10 CREDITORS: amounts falling due after more than one year	2004	2003
	£	£
Amounts due to group undertaking	-	1,900,625
	<hr/>	<hr/>
	-	1,900,625
	<hr/> <hr/>	<hr/> <hr/>

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

11 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	2004	Amount	2003	Amount
	Provision	unprovided	Provision	unprovided
	£	£	£	£
Capital allowances in excess of depreciation	136,066	-	132,047	-
Future benefit of tax losses	(136,066)	-	(132,047)	-
Taxation on revaluation surplus	-	34,414	-	-
Unrelieved losses	-	(34,414)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1 January	-		17,023	
Amount credited to profit and loss	<u>-</u>		<u>(17,023)</u>	
At 31 December	<u>-</u>		<u>-</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 were sold without it being possible to claim other loss reliefs.

12 CALLED UP SHARE CAPITAL

	2004	2003
	£	£
Authorised, allotted, called up and fully paid: Ordinary Shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' DEFICIT

	Share	Revaluation	Profit &	2004	2003
	Capital	Reserve	Loss Account	Total	Total
	£	£	£	£	£
At 1 January	2,000	111,193	(4,843,287)	(4,730,094)	(4,296,633)
Deficit for the year	-	-	(305,007)	(305,007)	(128,461)
Surplus/(Deficit) on revaluation on property	-	555,000	-	555,000	(305,000)
	<u>2,000</u>	<u>666,193</u>	<u>(5,148,294)</u>	<u>(4,480,101)</u>	<u>(4,730,094)</u>
Balance at 31 December	<u>2,000</u>	<u>666,193</u>	<u>(5,148,294)</u>	<u>(4,480,101)</u>	<u>(4,730,094)</u>

14 CONTINGENT LIABILITIES

In the Directors' opinion no contingent liabilities exist.

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.