

SPRING GARDENS II LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006

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 2006

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors are pleased to present their annual report together with the 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 DIVIDENDS

The Directors do not propose a dividend for the year ended 31 December 2006 (2005 Nil)

4 DIRECTORS

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

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

SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

5 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

6 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
England

SPRING GARDENS II LIMITED

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

We have audited the financial statements of Spring Gardens II 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 profit 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.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, cursive script font.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
18 May 2007

SPRING GARDENS II LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2006**

	NOTES	2006 £	2005 £
Turnover	(2)	185,210	185,210
Administrative expenses		(21,290)	(17,170)
Operating profit		163,920	168,040
Interest receivable and similar income		22	44
Interest payable and similar charges	(3)	(99,377)	(482,849)
Profit/(loss) on ordinary activities before taxation	(5)	64,565	(314,765)
Tax charge on Profit/(loss) on ordinary activities	(6)	(2,260)	(139,080)
Profit/(Loss) for the financial year	(13)	62,305	(453,845)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £	2005 £
Profit/(Loss) for the financial year	62,305	(453,845)
Unrealised surplus on revaluation of property	193,380	50,000
Total recognised gains/(losses) for the year	255,685	(403,845)

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

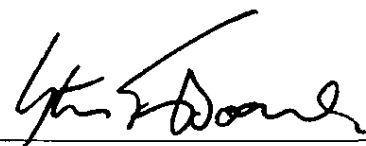
All items included in the above profit and loss account are part of continuing operations

SPRING GARDENS II LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	2006 £	2005 £
FIXED ASSETS			
Tangible fixed assets	(7)	3,050,000	2,850,000
CURRENT ASSETS			
Debtors	(8)	101,493	222,287
Cash at bank and in hand		1,416	1,394
		102,909	223,681
CREDITORS amounts falling due within one year	(9)	(1,093,926)	(1,272,398)
NET CURRENT LIABILITIES		(991,017)	(1,048,717)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,058,983	1,801,283
CREDITORS amounts falling due after more than one year	(10)	(1,047,904)	(1,048,149)
PROVISIONS FOR LIABILITIES AND CHARGES	(11)	(141,340)	(139,080)
NET ASSETS		869,739	614,054
CAPITAL AND RESERVES			
Called up share capital	(12)	5,500,000	5,500,000
Revaluation reserve	(13)	909,573	716,193
Profit and loss account	(13)	(5,539,834)	(5,602,139)
EQUITY SHAREHOLDERS' FUNDS		869,739	614,054

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


 _____ DIRECTOR
 Mr S Board

SPRING GARDENS II 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 United Kingdom 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.

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.

SPRING GARDENS II LIMITED

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

2 TURNOVER

	2006	2005
	£	£
Rental income within the United Kingdom	185,210	185,210
	<u>185,210</u>	<u>185,210</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£	£
On bank loans and overdrafts	63,269	3,855
Amortisation of refinancing/arrangement fees	1,465	24
On loans from group undertakings	34,643	478,970
	<u>99,377</u>	<u>482,849</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 (2005: none).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006	2005
	£	£
This is stated after charging		
Auditors' remuneration	1,175	1,760

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006	2005
	£	£
UK corporation tax at 30% (2005: 30%)	-	-
Deferred tax charge		
Origination and reversal of timing differences	2,260	139,080
	<u>2,260</u>	<u>139,080</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 brought forward. Losses arising in the period have been surrendered free of charge.

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%)	19,370	(94,430)
Effect of:		
Losses used by group/consortium relief and differences between capital allowances and depreciation	(19,370)	94,430
Current tax charge in profit and loss account	<u>-</u>	<u>-</u>

The Company expects to be able to shelter future taxable profits in a similar manner.

SPRING GARDENS II LIMITED

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

7 TANGIBLE FIXED ASSETS	2006 £	2005 £
Freehold investment property		
Valuation at 1 January	2,850,000	2,800,000
Additions	6,620	-
Surplus on revaluation	193,380	50,000
	<hr/>	<hr/>
Valuation at 31 December	3,050,000	2,850,000
	<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 £2,140,427.

8 DEBTORS	2006 £	2005 £
Trade debtors	1	1
Amounts due from group undertakings	54,482	148,414
Prepayments and accrued income	47,010	73,872
	<hr/>	<hr/>
	101,493	222,287
	<hr/>	<hr/>

9 CREDITORS: amounts falling due within one year	2006 £	2005 £
Amounts due to group undertakings	834,643	1,028,969
Unamortised refinancing/arrangement fees	(1,519)	(377)
Other taxation and social security	191,056	191,056
Accruals and deferred income	69,746	52,750
	<hr/>	<hr/>
	1,093,926	1,272,398
	<hr/>	<hr/>

10 CREDITORS: amounts falling due after more than one year	2006 £	2005 £
Bank Loan	1,053,849	1,050,000
Unamortised refinancing/arrangement fees	(5,945)	(1,851)
	<hr/>	<hr/>
	1,047,904	1,048,149
	<hr/>	<hr/>

The bank loan is repayable as follows

In one year or less, or on demand,	(1,519)	(377)
In more than one year but not more than two years	(1,523)	(377)
In more than two years but not more than five years	1,049,426	(1,131)
In more than five years	-	1,049,656
	<hr/>	<hr/>
	1,046,384	1,047,771
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Interest is charged on the bank loan at the rate of LIBOR plus a margin of 1% and is secured by a legal charge over the property to which it relates.

The capitalised arrangement fees for the year are £6,708.

SPRING GARDENS II LIMITED

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

11 PROVISIONS FOR LIABILITIES AND CHARGES

	2006 Provision £	Amount unprovided £	2005 Provision £	Amount unprovided £
Deferred taxation is provided as follows				
Capital allowances in excess of depreciation	141,340	-	139,080	-
Taxation on revaluation surplus	-	64,930	-	31,597
Unrelieved losses	-	(261,376)	-	(31,597)
	<u>141,340</u>	<u>(196,446)</u>	<u>139,080</u>	<u>-</u>
At 1 January	139,080		-	
Amount charged to profit and loss	<u>2,260</u>		<u>139,080</u>	
At 31 December	<u>141,340</u>		<u>139,080</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

	2006 £	2005 £
Authorised, allotted, called up and fully paid Ordinary Shares of £1 each	5,500,000	5,500,000

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	2006 Total £	2005 Total £
At 1 January	5,500,000	716,193	(5,602,139)	614,054	(4,480,101)
Issue of share capital	-	-	-	-	5,498,000
Profit/(Loss) for the financial year	-	-	62,305	62,305	(453,845)
Surplus on revaluation on property	-	193,380	-	193,380	50,000
Balance at 31 December	<u>5,500,000</u>	<u>909,573</u>	<u>(5,539,834)</u>	<u>869,739</u>	<u>614,054</u>

SPRING GARDENS II LIMITED

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

14 CONTINGENT LIABILITIES

In the Directors' opinion no contingent liabilities exist

15 PARENT UNDERTAKING

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

16 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 crystallisation of the deferred tax provisions.