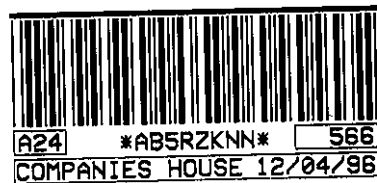


SPRING GARDENS II LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 1995**

COOPERS & LYBRAND
*Chartered Accountants and
Registered Auditors*
1 Embankment Place
London
WC2N 6NN



SPRING GARDENS II LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 1995

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1995

The directors are please to present their annual report together with the audited accounts for the year ended 31 December 1995.

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 accounts.

3 DIVIDENDS

The directors do not recommend payment of any dividends for the year ended 31 December 1995 (1994:Nil).

4 FIXED ASSETS

Information relating to the changes in tangible fixed assets is given in note 8 to the accounts.

5 DIRECTORS

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

Mr B F Mörtstedt

Mr H O T Lundqvist

Mr G.V. Hirsch

(resigned 30 September 1995)

(appointed 28 June 1995)

The directors had no interests in the shares of the company at any time during the year.

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



T J THOMSON
Secretary

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth Street
London
SE11 5EH

4 April 1996

SPRING GARDENS II LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts 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 those accounts, 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 accounts,
- prepare the accounts 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 accounts 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 accounts set out on pages 4 to 10.

Respective Responsibilities of Directors and Auditors

As described on Page 2, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to inform an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 preparation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 December 1995 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors*
LONDON

4 April 1996

SPRING GARDENS II LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1995

	NOTES	1995 £	1994 £
Turnover	(2)	255,858	258,041
Administrative expenses		(91,453)	(40,822)
Operating profit		164,405	217,219
Interest receivable and financial income		134	1
Exceptional interest and financial income	(3)	-	3,357,919
Interest payable and related charges	(4)	(629,999)	(489,863)
(Loss)/profit on ordinary activities before taxation	(5)	(465,460)	3,085,276
Tax on profit on ordinary activities	(7)	311,977	-
Retained (loss)/profit for the year	(14)	(153,483)	3,085,276

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1995 £	1994 £
(Loss)/profit for the financial year	(153,483)	3,085,276
Unrealised surplus on revaluation of properties	14,386	35,000
Total gains and losses recognised since last annual report	(139,097)	3,120,276

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.

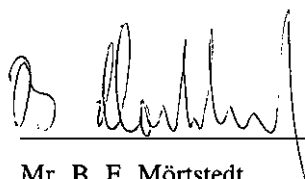
All items included in the above profit and loss account are part of continuing operations.

SPRING GARDENS II LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1995

	NOTES	1995 £	1994 £
FIXED ASSETS			
Tangible assets	(8)	3,200,000	3,150,000
		<hr/>	<hr/>
		3,200,000	3,150,000
CURRENT ASSETS			
Debtors	(9)	51,238	49,868
Cash at bank and in hand		134	-
		<hr/>	<hr/>
		51,372	49,868
CREDITORS: amounts falling due within one year	(10)	(8,746,527)	(2,555,926)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(8,695,155)	(2,506,058)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(5,495,155)	643,942
		<hr/>	<hr/>
CREDITORS: amounts falling due after more than one year	(11)	-	6,000,000
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(13)	2,000	2,000
Profit and loss account	(14)	(5,497,155)	(5,358,058)
		<hr/>	<hr/>
TOTAL SHAREHOLDERS' FUNDS		(5,495,155)	(5,356,058)
		<hr/>	<hr/>
		(5,495,155)	643,942
		<hr/>	<hr/>

These accounts were approved by the Board of Directors on 4 April 1996 and signed on its behalf by:



DIRECTOR

Mr. B. F. Mörtstedt

SPRING GARDENS II LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1995

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 accounts.

1.1 *Basis of preparation*

The accounts 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.

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 Practice No. 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 during the year, excluding VAT. Rents received in advance are shown as deferred income in the balance sheet.

1.5 *Foreign Currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date. All differences are taken to the profit and loss account.

1.6 *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

	1995	1994
	£	£
Rental income within the United Kingdom	255,858	257,598
Other	-	443
	<hr/>	<hr/>
	255,858	258,041
	<hr/>	<hr/>

SPRING GARDENS II LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

3	EXCEPTIONAL INTEREST AND FINANCIAL INCOME	1995	1994
		£	£
	Gain on loan forgiven	-	3,357,919
		<hr/>	<hr/>
4	INTEREST PAYABLE AND RELATED CHARGES	1995	1994
		£	£
	On bank loans, overdrafts and other loans :		
	Repayable within 5 years, not by instalments	-	83,014
	From group undertakings repayable within 1 year	629,999	-
	From group undertakings repayable within 5 years	-	390,082
	On loan stock from group undertaking repayable after 5 years	-	16,767
		<hr/>	<hr/>
		629,999	489,863
		<hr/>	<hr/>
5	(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1995	1994
		£	£
	This is stated after charging:		
	Auditors' remuneration	1,839	3,000
		<hr/>	<hr/>
6	DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION		
	The emoluments of the directors of the company are disclosed in the financial statements of CLS Holdings plc for their services to the group as a whole. The company had no employees during the year (1994: none).		
7	CORPORATION TAX	1995	1994
		£	£
	Receipt for group relief for prior years	311,977	-
		<hr/>	<hr/>
	UK corporation tax at 33% (1994 - 33%).		
	No provision for corporation tax has been made due to the loss arising in the year.		

SPRING GARDENS II LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

8 TANGIBLE FIXED ASSETS	1995	1994
	£	£
Freehold investment properties		
Valuation at 1 January	3,150,000	3,000,000
Additions	35,614	115,000
Surplus on revaluation	14,386	35,000
	<hr/>	<hr/>
Valuation at 31 December	3,200,000	3,150,000
	<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 professional valuers, Allsop & Co. Chartered Surveyors. The historical cost of investment properties, included at valuation is £7,888,466.

9 DEBTORS	1995	1994
	£	£
Trade debtors	42,865	40,910
Prepayments and accrued income	8,373	8,958
	<hr/>	<hr/>
	51,238	49,868
	<hr/> <hr/>	<hr/> <hr/>

10 CREDITORS: amounts falling due within one year	1995	1994
	£	£
Trade creditors	2,717	13,136
Amounts due to group undertakings	8,450,788	2,268,558
Other taxation and social security	213,303	202,516
Accruals and deferred income	79,719	71,716
	<hr/>	<hr/>
	8,746,527	2,555,926
	<hr/> <hr/>	<hr/> <hr/>

SPRING GARDENS II LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

11 CREDITORS: amounts falling due after more than one year	1995 £	1994 £
Loan stock issued by group undertaking	-	6,000,000

Loan arrangements between group undertakings changed on 22 December 1995. These amounts are now non interest bearing and included in amounts due within one year.

12 DEFERRED TAXATION

Deferred taxation is provided as follows:

	1995		1994	
	Provision £	Amount Unprovided £	Provision £	Amount Unprovided £
Capital allowances in excess of depreciation	-	122,226	-	107,768
Other short term timing differences	-	-	-	(107,768)
Losses bought forward	-	(122,226)	-	-
	-	-	-	-

13 CALLED UP SHARE CAPITAL	1995 £	1994 £
Authorised, allotted, called up and fully paid: Ordinary Shares of £1 each	2,000	2,000

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	1995 Total £	1994 Total £
Balance at 1 January	2,000	(5,358,058)	(5,356,058)	(8,476,334)
(Loss)/profit for the year	-	(153,483)	(153,483)	3,085,276
Surplus on revaluation of properties	-	14,386	14,386	35,000
Balance at 31 December	2,000	(5,497,155)	(5,495,155)	(5,356,058)

15 POST BALANCE SHEET EVENTS

Since the year end, the company has transferred it's existing freehold properties to a fellow subsidiary at book value. The company also acquired two properties for a combined consideration of £3.135M, which has been financed by a new five year loan facility and funds from the group.

SPRING GARDENS II LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1995 (CONTINUED)

16 CONTINGENT LIABILITIES

In the directors opinion, no contingent liabilities exist.

17 ULTIMATE PARENT UNDERTAKING

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