

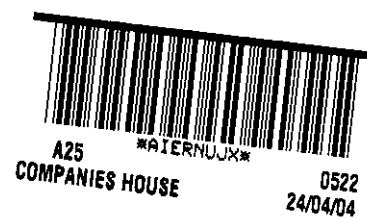
**CHARLWORTH LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 2003**

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



Company No. 3000681

**CHARLWORTH LIMITED**

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FOR THE YEAR ENDED 31 DECEMBER 2003**

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## **CHARLWORTH LIMITED**

### **REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2003**

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2003.

#### **1 PRINCIPAL ACTIVITY**

The principal activity of the company is to carry on investment business and to earn income therefrom.

#### **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 2003 (2002: Nil).

#### **4 DIRECTORS**

The directors of the company during the whole of 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 of the parent company, in CLS Holdings plc are disclosed in that company's financial statements.

**CHARLWORTH LIMITED**

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)**

**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.

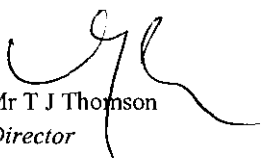
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have general responsibility for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

**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

31 March 2004

One Citadel Place  
Tinworth Street  
London  
SE11 5EF

## **CHARLWORTH LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHARLWORTH LIMITED**

We have audited the financial statements which comprise the profit and loss account, balance sheet, 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, 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London

31 March 2004

**CHARLWORTH LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

	NOTES	2003 £	2002 £
<b>Turnover</b>	(2)	163,583	163,453
Administrative expenses		(3,607)	(2,497)
		<hr/>	<hr/>
<b>Operating profit</b>		159,976	160,956
Interest payable and similar charges	(3)	(122,514)	(138,638)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	(5)	37,462	22,318
Tax on profit on ordinary activities	(6)	-	-
		<hr/>	<hr/>
<b>Retained profit for the financial year</b>	(12)	37,462	22,318
		<hr/>	<hr/>

The company has no other recognised gains or losses other than those reported in the above profit and loss account.

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.

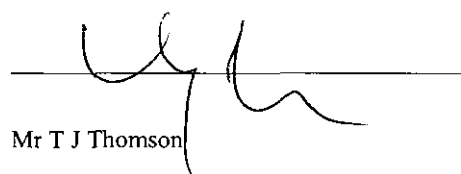
All items included in the above profit and loss account are part of continuing operations.

**CHARLWORTH LIMITED**

**BALANCE SHEET AS AT 31 DECEMBER 2003**

	NOTES	2003 £	2002 £
<b>FIXED ASSETS</b>			
Fixed Asset Investments	(7)	1,910,627	1,930,627
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	(8)	445,582	292,163
Cash at bank and in hand		20,670	163,610
<b>CREDITORS: amounts falling due within one year</b>	(9)	466,252	455,773
		(587,145)	(586,571)
<b>NET CURRENT LIABILITIES</b>		(120,893)	(130,798)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,789,734	1,799,829
<b>CREDITORS: amounts falling due after more than one year</b>	(10)	(1,700,625)	(1,748,182)
<b>NET ASSETS</b>		89,109	51,647
<b>CAPITAL AND RESERVES</b>			
Called up share capital	(11)	2	2
Profit and loss account	(12)	89,107	51,645
<b>EQUITY SHAREHOLDERS' FUNDS</b>		89,109	51,647

These financial statements were approved by the Board of Directors on 31 March 2004 and signed on its behalf by:


 \_\_\_\_\_ DIRECTOR  
 Mr T J Thomson

## CHARLWORTH LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

#### 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 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.

Consolidated financial statements incorporating Charlworth Limited and its subsidiary are prepared by CLS Holdings plc and therefore consolidated financial statements of the company have not been prepared.

##### 1.2 *Turnover*

Turnover comprises income receivable from investments, excluding VAT.

##### 1.3 *Fixed Asset Investments*

Investments held as fixed assets are stated at cost. A provision is made for any material permanent diminution in value.

##### 1.4 *Interest Rate Caps*

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap.

##### 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.



# CHARLWORTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

2	TURNOVER	2003 £	2002 £
	Interest receivable	163,583	163,453

3	INTEREST PAYABLE AND SIMILAR CHARGES	2003 £	2002 £
	On bank loans	90,000	106,052
	Amortised arrangement fees and finance fees	2,514	2,586
	On loan from group undertaking	30,000	30,000
		122,514	138,638

## 4 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are Directors of CLS Holdings plc, are disclosed in that company's financial statements in respect of their services to the group as a whole. None of the other Directors received emoluments for their services during the year (2002:nil). The Company had no employees during the year (2002: none).

5	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2003 £	2002 £
	This is stated after charging:		
	Auditors remuneration	1,176	1,176
	Loss on sale of fixed assets	922	-

6	TAX ON PROFIT ON ORDINARY ACTIVITIES	2003 £	2002 £
	UK corporation tax at 30% (2001: 30%).	-	-

The current tax charge for the period is lower in 2003 and 2002 than the standard rate of UK corporation tax (30%) as explained below:

	2003 £	2002 £
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2002: 30%)	11,238	6,695
<u>Effect of:</u>		
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	(11,238)	(6,695)
Current tax charge in profit and loss account	-	-

# CHARLWORTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)

7	FIXED ASSET INVESTMENTS	Shares in subsidiary £	Loans to subsidiary £	Gilts £	Total 2003 £
	Balance at 1st January	2	1,900,625	30,000	1,930,627
	Disposals	-	-	(20,000)	(20,000)
	Balance at 31st December	<u>2</u>	<u>1,900,625</u>	<u>10,000</u>	<u>1,910,627</u>

The shares in subsidiary represents 100% ownership in Spring Gardens II Limited, which is registered and incorporated in England and its principal activity is to invest in commercial property. The nominal value of allotted shares held by the company is £2,000.

Loans to subsidiary represents a loan provided to Spring Gardens II Limited.

The Gilts were purchased at a cost of £10,000. Market value at 31 December 2003 was £9,684 (2002 : £29,616). The directors do not consider this diminution to be material, therefore no provision has been made in the accounts.

8	DEBTORS - Amounts falling due within one year	2003 £	2002 £
	Amounts due from group undertakings	445,582	292,163
		<u>445,582</u>	<u>292,163</u>

9	CREDITORS: amounts falling due within one year	2003 £	2002 £
	Bank Loan	50,000	50,000
	Unamortised arrangement fees and finance fees	(2,443)	(2,514)
	Amounts due to group undertakings	531,176	531,176
	Accruals and deferred income	8,412	7,909
		<u>587,145</u>	<u>586,571</u>

10	CREDITORS: amounts falling due after more than one year	2003 £	2002 £
	Bank Loan	1,700,625	1,750,625
	Unamortised arrangement fees and finance fees	-	(2,443)
		<u>1,700,625</u>	<u>1,748,182</u>
	<b>The bank loan is repayable as follows:</b>		
	In one year or less, or on demand;	47,557	47,486
	In more than one year but not more than two years;	1,700,625	47,557
	In more than two years but not more than five years.	-	1,700,625
		<u>1,748,182</u>	<u>1,795,668</u>

Interest on the loan is charged at LIBOR plus a margin of 1.25% and is secured by a legal charge over the property Satellite House held by Spring Gardens II Limited.

**CHARLWORTH LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)****11 CALLED UP SHARE CAPITAL**

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Authorised ordinary Shares of £1 each	100	100
Allotted, called up and fully paid: Ordinary Shares of £1 each	2	2

**12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	<b>Share Capital £</b>	<b>Profit &amp; Loss Account £</b>	<b>2003 Total £</b>	<b>2002 Total £</b>
Balance at 1 January	2	51,645	51,647	29,329
Profit for the year	-	37,462	37,462	22,318
Balance at 31 December	2	89,107	89,109	51,647

**13 CONTINGENT LIABILITIES**

The company has charged all the issued shares in Spring Gardens II Ltd to secure all sums due from the company to Woolwich Building Society under a loan facility, the principle amount of which now outstanding is £1,750,625.

**14 PARENT UNDERTAKING**

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