

QUAYSIDE LODGE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2005

PricewaterhouseCoopers LLP

Chartered Accountants and

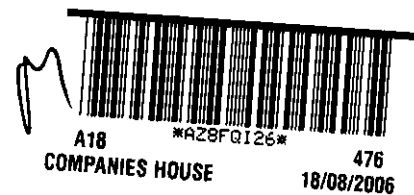
Registered Auditors

1 Embankment Place

London

WC2N 6RH

Company No. 3205302



QUAYSIDE LODGE LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2005

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QUAYSIDE LODGE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2005.

1 PRINCIPAL ACTIVITY

The principal activity of the Company is to invest in commercial property and other forms of investments 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

No dividend was proposed by the Directors for the period ended 31 December 2005 (2004:£2,500,000).

4 DIRECTORS

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

Mr P Sjöberg (appointed 1st January 2006)
Mr D M Bäverstam
Mr S 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.

QUAYSIDE LODGE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005 (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.

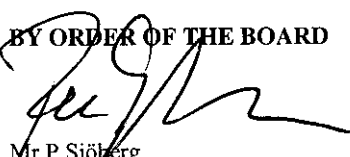
The Directors confirm that the financial statements comply with the above requirements.

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

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


Mr P Sjöberg
Director

31 May 2006

REGISTERED OFFICE:

26th Floor Portland House
Bressenden Place
London
SW1E 5BG

QUAYSIDE LODGE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QUAYSIDE LODGE LIMITED

We have audited the financial statements of Quayside Lodge Limited for the year ended 31 December 2005 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 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 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

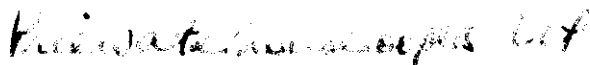
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2005 and of its loss 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 May 2006

QUAYSIDE LODGE LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 £	2004 £
Rental Income		480,800	216,743
Other Income		26,430	-
Service charge expenditure recovered		110,164	46,716
Turnover	(1)	617,394	263,459
Service charge expenditure		(138,502)	(62,059)
		478,892	201,400
Administrative expenses		(216,585)	(129,005)
Operating Profit		262,307	72,396
Interest receivable and similar income		6,095	64,791
Interest payable and similar charges	(2)	(361,049)	(157,234)
Loss on ordinary activities before taxation	(4)	(92,647)	(20,047)
Tax on profit on ordinary activities - deferred	(5)	-	-
Loss on ordinary activities after taxation		(92,647)	(20,047)
Dividend Paid		-	(2,500,000)
Deficit for the financial year	(12)	(92,647)	(2,520,047)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 £	2004 £
Loss for the financial year	(92,647)	(20,047)
Unrealised surplus on revaluation of property	106,697	756,622
Total gains and losses recognised since last annual report	14,050	736,574

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.

QUAYSIDE LODGE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2005

	NOTES	2005 £	2004 £
FIXED ASSETS			
Tangible assets	(6)	7,200,000	6,850,000
CURRENT ASSETS			
Debtors - amounts falling due within one year	(7)	334,632	1,455,816
Cash at bank and at hand		122,032	108,182
		456,664	1,563,998
CREDITORS: amounts falling due within one year	(8)	(1,374,743)	(3,218,540)
NET CURRENT LIABILITIES		(918,079)	(1,654,542)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,281,921	5,195,458
CREDITORS: amounts falling due after more than one year	(9)	(5,289,475)	(4,217,061)
PROVISIONS FOR LIABILITIES AND CHARGES	(10)	-	-
NET ASSETS		992,446	978,397
CAPITAL AND RESERVES			
Called up share capital	(11)	2,000	2,000
Revaluation reserve	(12)	863,319	756,622
Profit and loss account	(12)	127,127	219,775
EQUITY SHAREHOLDERS' FUNDS		992,446	978,397

These financial statements were approved by the Board of Directors on 31 May 2006 and signed on its behalf by:



 _____ DIRECTOR

 Mr P Sjöberg

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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.

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 the 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 the many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or

1.4 *Turnover*

Turnover comprises the total value of investment income and 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 and intra-group trading. 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 and 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 amount the balance sheet date are deferred against the loan liability.

1.6 *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.

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

2 INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Interest payable on bank loans and overdrafts	265,444	154,247
Amortisation / arrangement fees	11,479	2,987
On loans from group undertaking	84,126	-
	<u>361,049</u>	<u>157,234</u>

3 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. The Company had no employees during the year (2004: none).

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £	2004 £
This is stated after charging:		
Auditors' remuneration	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2005 £	2004 £
UK corporation tax at 30% (2004 - 30%).	-	-
Deferred tax (credit)/charge	-	-
Origination and reversal of timing differences	-	-
	<u>-</u>	<u>-</u>
	<u>2005</u> £	<u>2004</u> £
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	(27,794)	(6,014)
Effect of:		
Differences due to expenses non-deductible and items not included in profit for tax purposes	-	-
Amounts taxable as capital gains	-	-
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	27,794	6,014
	<u>27,794</u>	<u>6,014</u>
Current tax charge in profit and loss account	-	-
	<u>-</u>	<u>-</u>

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

6 TANGIBLE ASSETS

	2005	2004
	£	£
Freehold Investment		
Valuation at 1 January	6,850,000	-
Additions	243,303	6,093,378
Surplus / Deficit on Revaluation	106,697	756,622
	<hr/>	<hr/>
Valuation at 31 December	7,200,000	6,850,000
	<hr/>	<hr/>

At 31 December the property was revalued to an estimate of its open market value taking into account its condition and tenancies existing at that date. The property valuation was carried out by independent valuers, Allsop & Co. Chartered Surveyors. The historical cost of the investment property included at valuation is £6,093,378.

7 DEBTORS: Amounts falling due within one year

	2005	2004
	£	£
Trade debtors	103,002	85,653
Other debtors	2,478	-
Amount due from group undertakings	227,597	1,364,747
Prepayments & accrued income	1,555	5,417
	<hr/>	<hr/>
	334,632	1,455,816
	<hr/>	<hr/>

8 CREDITORS: amounts falling due within one year

	2005	2004
	£	£
Bank loans and overdrafts	-	175,614
Unamortised refinancing/arrangement fees	(14,540)	(10,822)
Amounts due to group undertakings	1,048,687	2,793,250
Other taxation & social security	30,000	17,677
Other creditors	109,596	95,746
Accruals and deferred income	201,000	147,074
	<hr/>	<hr/>
	1,374,743	3,218,540
	<hr/>	<hr/>

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

9 CREDITORS: amounts falling due after more than one year	2005 £	2004 £
Bank loan	5,325,000	4,256,250
Unamortised refinancing/arrangement fees	(35,525)	(39,189)
	<u>5,289,475</u>	<u>4,217,061</u>

An analysis of the maturity of the debt is as follows:

	2005 £	2004 £
In one year or less, or on demand;	(14,540)	104,178
In more than one year but not more than two years;	(14,535)	104,326
In more than two years but not more than five years;	5,304,010	4,112,874
	<u>5,274,935</u>	<u>4,321,378</u>

Interest on the loan is charged at LIBOR plus a margin of 1.29% and is secured by a legal charge over the property to which it relates.

10 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	2005 Provision £	Amount unprovided £	2004 Provision £	Amount unprovided £
Tax on revaluation surplus	-	217,972	-	197,115
Other available losses	-	(130,486)	-	-
	<u>-</u>	<u>87,486</u>	<u>-</u>	<u>197,115</u>
At 1 January	-	-	-	-
Amount (credited)/charged to profit and loss	-	-	-	-
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

11 CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

QUAYSIDE LODGE LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)****12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

	Share Capital	Revaluation Reserve	Profit and Loss Account	2005 Total	2004 Total
	£	£	£	£	£
At 1 January	2,000	756,622	219,775	978,397	2,741,821
Surplus / (deficit) on revaluation	-	106,697	-	106,697	756,622
(Deficit) / profit for the year	-	-	(92,647)	(92,647)	(2,520,047)
Rounding	-	-	(1)	(1)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	2,000	863,319	127,127	992,446	978,396
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

13 CONTINGENT LIABILITIES

In the opinion of the Directors no contingent liabilities exist.

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 Holding plc, 26th Floor, Bressenden Place, London SW1E 5BG.