

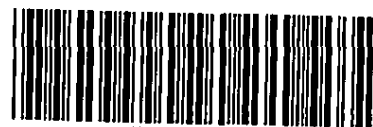
QUAYSIDE LODGE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006

THURSDAY



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18/10/2007
COMPANIES HOUSE

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 2006

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QUAYSIDE LODGE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2006

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 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 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 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 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.

QUAYSIDE LODGE 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

QUAYSIDE LODGE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUAYSIDE LODGE LIMITED

We have audited the financial statements of Ingrove 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

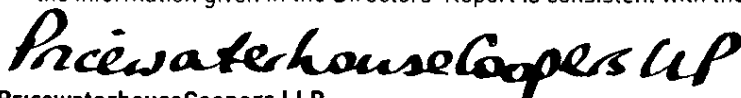
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

18 May 2007

QUAYSIDE LODGE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

| | NOTES | 2006 £ | 2005 £ |
|--|--------------|-------------------|-------------------|
| Rental Income | | 459,733 | 480,800 |
| Other Income | | 661 | 26,430 |
| Service charge expenditure recovered | | 202,184 | 110,164 |
| Turnover | (1) | 662,578 | 617,394 |
| Service charge expenditure | | (235,288) | (138,502) |
| | | 427,290 | 478,892 |
| Administrative expenses | | (209,027) | (216,585) |
| Operating Profit | | 218,263 | 262,307 |
| Interest receivable and similar income | | 1 072 | 6,095 |
| Interest payable and similar charges | (2) | (402,005) | (361,049) |
| Loss on ordinary activities before taxation | (4) | (182 670) | (92,647) |
| Tax charge on loss on ordinary activities | (5) | (90 123) | - |
| Losses for the financial year | (12) | (272,793) | (92,647) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| Loss for the financial year | (272,793) | (92,647) |
| Unrealised surplus on revaluation of property | 790 282 | 106,697 |
| Total recognised gains for the year | 517,488 | 14,050 |

There is no material difference between the loss on ordinary activities before taxation and the loss for the year stated 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 2006

| | NOTES | 2006 £ | 2005 £ |
|--|-------|-------------|-------------|
| FIXED ASSETS | | | |
| Tangible assets | (6) | 8,000,000 | 7,200,000 |
| CURRENT ASSETS | | | |
| Debtors - amounts falling due within one year | (7) | 158,793 | 334,632 |
| Cash at bank and at hand | | 155,147 | 122,032 |
| | | 313,940 | 456,664 |
| CREDITORS: amounts falling due within one year | (8) | (1,483,820) | (1,374,743) |
| NET CURRENT LIABILITIES | | (1,169,881) | (918,079) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 6,830,119 | 6,281,921 |
| CREDITORS: amounts falling due after more than one year | (9) | (5,304,013) | (5,289,475) |
| PROVISIONS FOR LIABILITIES AND CHARGES | (10) | (16,170) | - |
| NET ASSETS | | 1,509,936 | 992,446 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | (11) | 2,000 | 2,000 |
| Revaluation reserve | (12) | 1,653,601 | 863,319 |
| Profit and loss account | (12) | (145,666) | 127,127 |
| EQUITY SHAREHOLDERS' FUNDS | | 1,509,936 | 992,446 |

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


DIRECTOR
 Mr S Board

QUAYSIDE LODGE 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 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

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 quantify this separately.

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 amounts at the balance sheet date are deferred against the loan liability.

1.7 *Interest Rate Caps*

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance

QUAYSIDE LODGE LIMITED

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

2 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2006 £ | 2005 £ |
|--|-----------|-----------|
| Interest payable on bank loans and overdrafts | 319,643 | 265,444 |
| Amortisation of refinance and arrangement fees | 67,818 | 11,479 |
| On loans from group undertaking | 14,544 | 84,126 |
| | <hr/> | <hr/> |
| | 402,005 | 361,049 |
| | <hr/> | <hr/> |

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 (2005: none).

4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2006 £ | 2005 £ |
|-------------------------------|-----------|-----------|
| This is stated after charging | | |
| Auditors' remuneration | 1,000 | 1,000 |
| | <hr/> | <hr/> |

5 TAX ON LOSS ON ORDINARY ACTIVITIES

| | 2006 £ | 2005 £ |
|---|-----------|-----------|
| UK corporation tax at 30% (2005 - 30%) | - | - |
| Deferred tax charge: Origination and reversal of timing differences | 16,170 | |
| Payment for losses received under Group Relief arrangement | 73,953 | |
| | <hr/> | <hr/> |
| | 90,123 | - |
| | <hr/> | <hr/> |

| | 2006 £ | 2005 £ |
|---|--------------|--------------|
| Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2005: 30%) | (54,801) | (27,794) |
| <u>Effect of:</u> | | |
| Losses surrendered by group/consortium relief and differences between capital allowances and depreciation | <hr/> 54,801 | <hr/> 27,794 |
| | <hr/> | <hr/> |
| Current tax charge in profit and loss account | - | - |
| | <hr/> | <hr/> |

QUAYSIDE LODGE LIMITED

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

6 TANGIBLE ASSETS

| | 2006 | 2005 |
|--------------------------|-------------|-------------|
| | £ | £ |
| Freehold Investment | | |
| Valuation at 1 January | 7,200,000 | 6,850,000 |
| Additions | 9,718 | 243,303 |
| Surplus on Revaluation | 790,282 | 106,697 |
| | <hr/> | <hr/> |
| Valuation at 31 December | 8,000,000 | 7,200,000 |
| | <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 £6,103,096.

7 DEBTORS Amounts falling due within one year

| | 2006 | 2005 |
|------------------------------------|-------------|-------------|
| | £ | £ |
| Trade debtors | 157,269 | 103,002 |
| Other debtors | 395 | 2,478 |
| Amount due from group undertakings | - | 227,597 |
| Prepayments & accrued income | 1,129 | 1,555 |
| | <hr/> | <hr/> |
| | 158,793 | 334,632 |
| | <hr/> | <hr/> |

8 CREDITORS amounts falling due within one year

| | 2006 | 2005 |
|--|-------------|-------------|
| | £ | £ |
| Unamortised refinancing and arrangement fees | (14,535) | (14,540) |
| Trade Creditors | 564 | - |
| Amounts due to group undertakings | 1,056,236 | 1,048,687 |
| Other taxation & social security | 50,028 | 30,000 |
| Other creditors | 154,687 | 109,596 |
| Accruals and deferred income | 236,841 | 201,000 |
| | <hr/> | <hr/> |
| | 1,483,820 | 1,374,743 |
| | <hr/> | <hr/> |

QUAYSIDE LODGE LIMITED

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

| 9 CREDITORS amounts falling due after more than one year | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| Bank loan | 5,325,000 | 5 325,000 |
| Unamortised refinancing and arrangement fees | (20,987) | (35 525) |
| | <u>5,304,013</u> | <u>5,289 475</u> |

An analysis of the maturity of the debt is as follows

| | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| In one year or less, or on demand, | (14,535) | (14 540) |
| In more than one year but not more than two years, | (14,575) | (14 535) |
| In more than two years but not more than five years | 5,318,588 | 5,304,010 |
| | <u>5,289,478</u> | <u>5,274,935</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 to which it relates

10 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows

| | 2006 Provision £ | Amount unprovided £ | 2005 Provision £ | Amount unprovided £ |
|--|---------------------------------|------------------------------------|---------------------------------|------------------------------------|
| Capital allowances in excess of depreciation | 16 170 | - | - | - |
| Tax on revaluation surplus | - | 368,999 | - | 217,972 |
| Unrelieved Losses | - | (78,965) | - | (130,486) |
| | <u>16,170</u> | <u>290,034</u> | <u>-</u> | <u>87,486</u> |
| At 1 January | - | - | - | - |
| Amount charged to profit and loss | 16,170 | - | - | - |
| At 31 December | <u>16,170</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| 11 CALLED UP SHARE CAPITAL | 2006 £ | 2005 £ |
|---|-------------------|-------------------|
| Authorised, allotted called up and fully paid | | |
| Ordinary shares of £1 each | 2,000 | 2 000 |

QUAYSIDE LODGE LIMITED

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

12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

| | Share Capital | Revaluation Reserve | Profit and Loss Account | 2006 Total | 2005 Total |
|------------------------|------------------|------------------------|----------------------------|---------------|---------------|
| | £ | £ | £ | £ | £ |
| At 1 January | 2,000 | 863,319 | 127,127 | 992,446 | 978,397 |
| Surplus on revaluation | - | 790,282 | - | 790,282 | 106,697 |
| Loss for the year | - | - | (272,793) | (272,793) | (92,648) |
| Balance at 31 December | 2,000 | 1,653,601 | (145,666) | 1,509,935 | 992,446 |

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.

15 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.