Company Registration No. 3205302

Quayside Lodge Limited

Report and Financial Statements

31 December 2012

Quayside Lodge Limited

Report and Financial Statements 2012

Contents

Page

Quayside Lodge Limited

Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2012

This Directors Report has been prepared in accordance with the special provisions relating to small companies under section 415a of the Companies Act 2006

Principal activities
The principal activity of the Company is to invest in commercial property

Review of the business
The results for the year are shown on page 6 The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future

The financial statements have been prepared on a going concern basis as explained in note 1 2

Dividends
The Company did not pay any dividends in the year ended 31 December 2012 (2011 £nil)

Financial risk management

The Company s operations expose it to the risk of interest rate fluctuations The Company addresses such risks by purchasing interest rate hedging instruments Such instruments had a year end book value of £19,376 (2011 £24,496) and a year end market value of £3,331 (2011 £19,792)

Principal risks and uncertainties
The Directors consider there are a number of potential risks and uncertainties which could have a material impact on the Company s performance and could cause the actual results to differ materially from expected and historical results Management and mitigation of these risks is the responsibility of the Directors of the Company

Risk	Mitigation
• Cyclical downturn in property market	Long-term investment strategy to mitigate short-term unrealised losses
• Covenant breaches in downturn	Ability to re-negotiate with lender
• Changes in tenant demand	Strategy of securing long-leased tenants with strong covenant strength
• Ability to access finance	Parent debt service cover guarantees given to secure funding
• Credit risk - tenants	All potential tenants assessed for creditworthiness Rental deposits taken as required
• Credit risk - lenders	Large institution used with good credit rating

Directors

The Directors of the Company during the year were as follows

Mr E H Klotz
Mr A G P Millet
Mr J H Whiteley
Mr R J S Tice

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors who held office in 2012

Quayside Lodge Limited

Directors' Report (continued)

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Pursuant to section 386 Companies Act 1985, an Elective Resolution was passed on 9 October 2002 dispensing with the requirement to appoint auditors annually In accordance with that Elective Resolution and paragraph 45(2), Schedule 3 of the Companies Act 2006 (Commencement No 3 Consequential Amendments, Transitional Provisions and Savings) Order 2007, Deloitte LLP is deemed to continue as auditor of the Company

Approved by the Board of Directors
and signed by order of the Board

Mr D P Fuller
Company Secretary
9 May 2013

Registered office
86 Bondway
London
SW8 1SF

Quayside Lodge Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company Law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these 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 UK 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company s transactions and 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 2006 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

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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 14 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company s members those matters we are required to state to them in an auditor s report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As more fully explained in the Directors Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on matters prescribed in the Companies Act 2006

- In our opinion the information in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent Auditor's Report to the members of Quayside Lodge Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the Directors were not entitled to take advantage of the small companies exemption in preparing the Directors Report

Mark Beddy

Mark Beddy FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
9 May 2013

Quayside Lodge Limited

Profit and Loss Account
Year ended 31 December 2012

	Notes	2012 £	2011 £
Turnover	2	759,139	734,694
Service charge expenditure		(218,485)	(219,156)
Net rental income		540,654	515,538
Administrative expenses		(203,926)	(235,498)
Operating profit		336,728	280,040
Interest payable and similar charges	3	(220,585)	(216,251)
Profit on ordinary activities before taxation	5	116,143	63,789
Tax credit on profit on ordinary activities	6	8,921	89,664
Profit the financial year	13	125,064	153,453

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

All items included in the Profit and Loss Account are part of continuing operations

Quayside Lodge Limited

Statement of Total Recognised Gains and Losses
Year ended 31 December 2012

	Notes	2012 £	2011 £
Profit for the financial period		125,064	153,453
Unrealised deficit on revaluation of property	7	(198,805)	(22,634)
Total recognised (losses)/gains for the year		(73,741)	130,819

Quayside Lodge Limited

Balance Sheet
31 December 2012

	Notes	2012 £	2011 £
Fixed assets			
Investment property	7	7,650,000	7,780,000
Current assets			
Debtors due within one year	8	169,773	129,398
Debtors due after one year	8	14,270	19,376
Cash at bank and in hand		121,053	139,471
		305,096	288,245
Creditors: amounts falling due within one year	9	(750,188)	(624,660)
Net current liabilities		(445,092)	(336,415)
Total assets less current liabilities		7,204,908	7,443,585
Creditors. amounts falling due after more than one year	10	(5,826,278)	(5,982,293)
Provisions for liabilities	11	(27,064)	(35,985)
Net assets		1,351,566	1,425,307
Capital and reserves			
Called up share capital	12	2,000	2,000
Revaluation reserve	13	1,132,162	1,330,967
Profit and Loss Account	13	217,404	92,340
Shareholders' funds		1,351,566	1,425,307

The financial statements of Quayside Lodge Limited (registered number 3205302) were approved by the Board of Directors on 9 May 2013

Signed on behalf of the Board of Directors

Mr J H Whiteley
Director

Quayside Lodge Limited

Notes to the Financial Statements
31 December 2012

1 Significant accounting policies

The principal accounting policies are summarised below They have been applied consistently throughout the year and the preceding year

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 Directors consider that the Company is a going concern The Company has taken advantage of the exemption in Financial Reporting Standard No 1 not to prepare a cash flow statement as one 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

The Company has taken advantage of the exemption in Financial Reporting Standard No 29 not to provide disclosures to enable users of the financial statements to evaluate the significance of the Company s financial instruments to financial position and performance of the Company, and the nature and extent of risks arising from the Company s financial instruments, as equivalent disclosure is made in the Group accounts of CLS Holdings plc which are publicly available

1.2 Going concern

The Company s business activities and review of the business are set out in the Directors Report

The Company is funded by a combination of external and internal interest bearing debt The Company is subject to economic uncertainties and if property values were to deteriorate significantly then there are scenarios in which the financial covenants within its external facilities could fail to be complied with The Directors have reviewed the current and projected financial position of the Company making reasonable assumptions about future rental income and property values and have satisfied themselves that external loan covenants are likely to be complied with for the remainder of the loan term

For these reasons, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, the Company continues to adopt the going concern basis in preparing the annual report and financial statements

1 3 Investment properties

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 the profit and loss account unless considered temporary

In accordance with Statement of Standard Accounting Practice 19 no depreciation is provided on completed freehold investment properties The requirement of the Companies Act 2006 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

Quayside Lodge Limited

Notes to the Financial Statements
31 December 2012

1. Significant accounting policies (continued)

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 lease term Rents received in advance are shown as deferred income in the Balance Sheet

1.5 Taxation

Corporation tax is provided on taxable profits at the current rate

Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date where transactions or events which result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company s taxable profits and its results as stated in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted

Deferred tax is measured, on an undiscounted basis, at the average tax rates which are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws which have been enacted or substantively enacted at the balance sheet date

A provision is not made in respect of property revaluation gains or losses

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 sheet and amortised over the period of the cap

2. Turnover

	2012 £	2011 £
Rental income	570,921	541,488
Other income	2,830	13,708
Service charge expenditure recoverable	185,388	179,498
	759,139	734,694

Turnover arose wholly within the United Kingdom

Notes to the Financial Statements
31 December 2012

3. Interest payable and similar charges

	2012 £	2011 £
Interest payable on bank loans	131,801	143,107
Amortisation of arrangement fees	12,218	2,303
Amortisation of interest rate cap	5,120	154
On amounts due to group undertakings	63,548	46,291
Other finance costs	7,898	24,396
	220,585	216,251

Included in other finance costs are £7,898 (2011 £2,646) of guarantee fees payable to the ultimate parent undertaking, CLS Holdings plc The fees are in respect of a guarantee issued to the loan provider covering the interest and amortisation payments due under the loan facility

4. Directors' emoluments and employee information

None of the Directors received any remuneration during the year in respect of services as Directors to the Company (2011 £nil) The emoluments of the Directors of the Company, who are also 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 one employee during the year (2011 one)

	2012 £	2011 £
Employment costs for all employees		
Wages and salaries	8,403	12,188
Social security costs	1,192	1,694
Other pension costs	422	558
	10,017	14,440

5. Profit on ordinary activities before taxation

	2012 £	2011 £
This is stated after		
Fees payable to the Company s auditor for the audit of the Company s financial statements	4,000	4,000

Quayside Lodge Limited

Notes to the Financial Statements
31 December 2012

6. Tax credit on profit on ordinary activities

	2012	2011
	£	£
Current tax	-	-
Over-provision in respect of previous periods	-	(89,978)
Total current tax credit	-	(89,978)
Deferred tax (credit)/charge origination and reversal of timing differences and effect of change in tax rate	(8,921)	314
Total tax credit on profit on ordinary activities	(8,921)	(89,664)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows

	2012	2011
	£	£
Profit on ordinary activities before tax	116,143	63,789
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 24 5% (2011 26 5%)	28,455	16,904
Effect of		
Losses claimed by group/consortium relief for nil payment and differences between capital allowances and depreciation	(28,455)	(16,904)
Over-provision in respect of previous periods	-	(89,978)
Current tax credit in Profit and Loss Account	-	(89,978)

The rate of corporation tax for the financial year 2011 was 26% This fell to 24% on 1 April 2012 and the weighted corporation tax rate for the year ended 31 December 2012 was therefore 24 5% Deferred tax has been calculated at a rate of 23%, being the rate applicable from 1 April 2013 under legislation substantially enacted at the balance sheet date

7. Investment property

	Freehold
	£
At 1 January 2012	7,780,000
Additions	72,467
Revaluation deficit - rent free adjustment	(3,662)
Revaluation deficit for the year	(198,805)
At 31 December 2012	7,650,000

The investment property was revalued at 31 December 2012 to its fair value The valuation was based on current prices in an active market The property valuation was carried out by Lambert Smith Hampton who are external, professionally qualified valuers

The Directors are satisfied that the external valuations are appropriate to adopt for these financial statements without adjustment

The historical cost of the investment properties included at valuation is £6,454,066 (2011 £6,381,599)

8. Debtors: due within one year

	2012	2011
	£	£
Trade debtors	151,948	61,300
Amounts due from group undertakings	-	60,019
Other debtors	5,106	5,120
Prepayments and accrued income	12,719	2,959
	169,773	129,398

Debtors: due after more than one year

	2012	2011
	£	£
Other debtors	14,270	19,376

Debtors due after one year comprise premiums paid for interest rate caps, carried at cost less accumulated amortisation

Notes to the Financial Statements
31 December 2012

9. Creditors: amounts falling due within one year

	2012 £	2011 £
Bank loan	168,200	168,200
Unamortised arrangement fees	(12,185)	(12,218)
Trade creditors	13,324	5,325
Amounts due to group undertakings	162,596	48,937
Taxation and social security	54,059	43,872
Other creditors	132,909	139,473
Accruals and deferred income	231,285	231,071
	750,188	624,660

10. Creditors: amounts falling due after more than one year

	2012 £	2011 £
Bank loan	4,013,600	4,181,800
Unamortised arrangement fees	(34,284)	(46,469)
Amounts due to group undertakings	1,846,962	1,846,962
	5,826,278	5,982,293

An analysis of the maturity of the bank loan is as follows

	2012 £	2011 £
Less than one year	168,200	168,200
In more than one year but not more than two years	168,200	168,200
In more than two years but not more than five years	3,845,400	4,013,600
	4,181,800	4,350,000

Interest on the bank loan is charged at LIBOR plus a margin of 2 25% (2011 LIBOR + 2 25%) and is secured by a legal charge over the shares of the company

Additional security for the bank loan has been given by a fellow group undertaking

The bank loan is the Company s share of a joint facility with a fellow subsidiary undertaking of the parent company Both participators in the facility are jointly and severally liable The balance outstanding on the total facility at 31 December 2012 was £5,768,000 (2011 £6,000,000)

Quayside Lodge Limited

Notes to the Financial Statements
31 December 2012

11. Provisions for liabilities

Deferred taxation is analysed as follows

	Provision 2012 £	Amount unprovided 2012 £	Provision 2011 £	Amount unprovided 2011 £
Capital allowances in excess of depreciation	36,264	-	35,985	-
Future benefit of tax losses	(9,200)	-	-	-
	27,064	-	35,985	-
At 1 January	35,985		35,672	
Effect of decreased tax rate on opening deferred tax liability	(2,879)		(2,642)	
Amount (credited)/charged to profit and loss	(6,042)		2,955	
At 31 December	27,064		35,985	

12. Called up share capital

	2012 £	2011 £
Ordinary shares of £1 each	2,000	2,000

Allotted, called up and fully paid

13. Combined statement of reserves and reconciliation of movement in shareholders' funds

	Share capital £	Revaluation reserve £	Profit and loss account £	2012 Total £	2011 Total £
At 1 January	2,000	1,330,967	92,340	1,425,307	1,294,488
Profit for the financial year	-	-	125,064	125,064	153,453
Deficit on revaluation	-	(198,805)	-	(198,805)	(22,634)
Balance at 31 December	2,000	1,132,162	217,404	1,351,566	1,425,307

Quayside Lodge Limited

Notes to the Financial Statements
31 December 2012

14. Parent undertaking

The Directors consider that the immediate and ultimate parent undertaking and controlling party is CLS Holdings plc, which is incorporated in Great Britain The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2012, these accounts are the largest, and only group into which the Company is consolidated Copies of the these financial statements are publicly available and may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF