

Company Registration No. 3205302

Quayside Lodge Limited

Report and Financial Statements

31 December 2009

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Quayside Lodge Limited

Report and Financial Statements 2009

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Quayside Lodge Limited

Directors' Report

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2009

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 and to earn income therefrom

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 the going concern basis as described in note 1.2

Dividends

No dividend was proposed by the Directors in the year ended 31 December 2009 (2008: £nil)

Principal risks and uncertainties

The Company considers 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 credit worthiness. Rental deposits taken as required
• Credit risk – lenders	Large institution used with good credit rating

Quayside Lodge Limited

Directors' Report

Directors

The Directors of the Company during the year and subsequent changes were as follows

Mr E H Klotz (resigned 12 June 2009, re-appointed 18 September 2009)
Mr T J L Wills (resigned 12 June 2009, re-appointed 22 January 2010)
Mr A G P Millet (resigned 12 June 2009, re-appointed 18 September 2009)
Mr C Sandberg (appointed 12 June 2009, resigned 2 February 2010)
Mr J H Whiteley (appointed 22 January 2010)

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors and former Directors who held office in 2009

Auditors

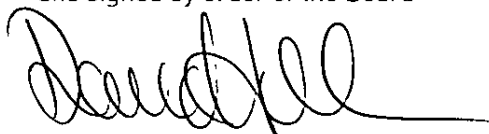
Each of the persons who is a Director at the date of approval of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are 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 s386 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 F Fuller

Company Secretary

6 May 2010

Registered office:

86 Bondway
London
SW8 1SF

Quayside Lodge Limited

Statement of Directors' Responsibilities

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, 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 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 Auditors' Report to the Members of Quayside Lodge Limited

We have audited the financial statements of Quayside Lodge Limited for the year ended 31 December 2009 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, 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 auditors' 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 auditors

As more fully explained in the Statement of Directors Responsibilities, 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 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 Practice Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of 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.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 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.

Independent Auditors' Report to the Members of Quayside Lodge Limited (continued)

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

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 Goodey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
6 May 2010

Quayside Lodge Limited

Profit and Loss Account Year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	827,032	820,390
Service charge expenditure		(232,003)	(228,792)
		<u>595,029</u>	<u>591,598</u>
Administrative expenses		(216,247)	(187,641)
Operating profit		<u>378,782</u>	<u>403,957</u>
Interest receivable and similar income		118	1,241
Interest payable and similar charges	3	(201,772)	(474,316)
		<u>177,128</u>	<u>(69,118)</u>
Profit/(loss) on ordinary activities before taxation	5	177,128	(69,118)
Tax charge on profit/(loss) on ordinary activities	6	(7,216)	(8,063)
		<u>169,912</u>	<u>(77,181)</u>
Profit/(loss) for the financial year	13	<u>169,912</u>	<u>(77,181)</u>

There is no material difference between the profit on ordinary activities before taxation and the profit for the 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 2009

	Note	2009 £	2008 £
Profit/(loss) on ordinary activities after taxation		169,912	(77,181)
Unrealised surplus/(deficit) on revaluation	7	<u>1,100,000</u>	<u>(1,450,000)</u>
Total recognised gains/(losses) for the year		<u><u>1,269,912</u></u>	<u><u>(1,527,181)</u></u>


Quayside Lodge Limited

Balance Sheet 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	7,500,000	6,400,000
Current assets			
Debtors due within one year	8	167,367	143,477
Cash at bank and in hand		178,492	210,456
		345,859	353,933
Creditors: amounts falling due within one year	9	(2,221,853)	(7,144,563)
Net current liabilities		(1,875,994)	(6,790,630)
Total assets less current liabilities		5,624,006	(390,630)
Creditors: amounts falling due after more than one year	10	(4,740,000)	-
Provision for liabilities	11	(32,854)	(28,130)
Net assets/(liabilities)		851,152	(418,760)
Capital and reserves			
Called up share capital	12	2,000	2,000
Revaluation reserve	13	1,153,601	53,601
Profit and Loss Account	13	(304,449)	(474,361)
Shareholder funds/(deficit)		851,152	(418,760)

The financial statements of Quayside Lodge Limited (registered number 3205302) were approved by the Board of Directors on 6 May 2010

Signed on behalf of the Board of Directors



Mr J H Whiteley

Director

Quayside Lodge Limited

Notes to the Financial Statements

31 December 2009

1. 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 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 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. The Company has taken advantage of the exemption in Financial Reporting Standard No. 29 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 Directors have reviewed the current and projected financial position of the Company making reasonable assumptions about future rental income and property values. The Company refinanced its external borrowings in September 2009 (note 10). The Directors expect that the Company will generate positive cash flows for the foreseeable future and will therefore be able to meet its liabilities as they fall due. The Company has net current liabilities which largely comprise short-term inter-company borrowing put in place by the ultimate parent company to allow the Company to fund the acquisition of its investment property. Although the loan is, and has for many years been, technically short-term, the investment in the associated investment property is seen as long term by the Company and the ultimate parent company. As a result the Directors do not anticipate that there is a likelihood of repayment of this debt in the foreseeable future. It is serviced from the free cash flow of the Company and is expected to remain so. Although the Company does not have sufficient cash to repay the debt the Directors do not consider that this gives rise to an uncertainty that the Company cannot continue as a going concern for the reasons stated above.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Quayside Lodge Limited

Notes to the Financial Statements

31 December 2009

1 Accounting policies (continued)

1.3 Investments 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.

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 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 and 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.

Quayside Lodge Limited

Notes to the Financial Statements 31 December 2009

2 Turnover

	2009 £	2008 £
Rental income	610,495	602,939
Other income	10,500	(277)
Service charge expenditure recovered	206,037	217,728
	<u>827,032</u>	<u>820,390</u>

Turnover arose wholly within the United Kingdom

3 Interest payable and similar charges

	2009 £	2008 £
Interest payable on bank loans and overdrafts	157,610	383,193
On amounts due to group undertakings	37,750	76,547
Amortisation of arrangement fees	6,412	14,576
	<u>201,772</u>	<u>474,316</u>

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 (2008: 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 no employees during the year (2008: none).

5 Profit/(loss) on ordinary activities before taxation

	2009 £	2008 £
This is stated after charging		
Fees payable to the Company's auditors for the audit of the Company's financial statements	<u>3,000</u>	<u>4,000</u>

Quayside Lodge Limited

Notes to the Financial Statements

31 December 2009

6 Tax charge/(credit) on profit/(loss) on ordinary activities

	2009 £	2008 £
Payments made/(received) for losses claimed/(surrendered) as group relief in respect of previous periods	2,492	(3,000)
Total current tax charge/(credit)	2,492	(3,000)
Deferred tax charge origination and reversal of timing differences	4,724	11,063
Total tax charge on profit/(loss) on ordinary activities	7,216	8,063

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/(loss) on ordinary activities before tax is as follows

	2009 £	2008 £
Profit/(loss) on ordinary activities before tax	177,128	(69,118)
Profit/(loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28.0% (2008 28.5%)	49,596	(19,699)
Effect of		
Losses (claimed)/surrendered by group/consortium relief for nil payment and differences between capital allowances and depreciation	(49,596)	19,699
Payment/(receipt) for group relief claimed/(surrendered) in respect of previous periods	2,492	(3,000)
Current tax charge/(credit)	2,492	(3,000)

Quayside Lodge Limited

Notes to the Financial Statements 31 December 2009

7 Tangible fixed assets

	Freehold investment property £
At 1 January 2009	6,400,000
Surplus on revaluation	1,100,000
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At 31 December 2009	7,500,000
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The investment property was revalued at 31 December 2009 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 (2008 Allsop & Co) who are external, professionally qualified valuers.

In the latter half of 2008 the economic climate and lower transactional volumes in real estate markets meant that the valuers had to refer to greater use of professional judgement in arriving at the valuation at 31 December 2008. The Directors are satisfied that market conditions, whilst still remaining challenging, had returned to a more normal level of transactional activity by 31 December 2009.

The historical cost of the investment properties included at valuation was £6,346,399 (2008 £6,346,399).

8. Debtors: due within one year

	2009 £	2008 £
Trade debtors	159,297	146,911
Provision for bad debts	-	(58,639)
Due from group undertakings	-	55,139
Prepayments and accrued income	8,070	66
	<hr/>	<hr/>
	167,367	143,477
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Quayside Lodge Limited

Notes to the Financial Statements 31 December 2009

9 Creditors: amounts falling due within one year

	2009 £	2008 £
Bank loans and overdrafts	60,000	5,325,000
Unamortised arrangement fees	-	(6,412)
Due to group undertakings	1,653,380	1,276,547
Other taxation and social security	45,398	54,043
Other creditors	178,453	206,309
Accruals and deferred income	284,622	289,076
	<u>2,221,853</u>	<u>7,144,563</u>

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

	2009 £	2008 £
Bank loan	<u>4,740,000</u>	<u>-</u>

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

	2009 £	2008 £
Less than one year	60,000	-
In more than one year but not more than two years	<u>4,740,000</u>	<u>-</u>
	<u>4,800,000</u>	<u>-</u>

On 24 September 2009, the Company re-negotiated its external debt. As part of this arrangement, £525,000 was repaid (financed by an intercompany loan) to the external loan provider. In response to this, the loan provider extended the loan until August 2011 and waived the loan to value covenant requirement for a period of one year.

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.

Quayside Lodge Limited

Notes to the Financial Statements 31 December 2009

11 Provisions for liabilities

Deferred taxation is provided as follows

	Provision 2009 £	Amount unprovided 2009 £	Provision 2008 £	Amount unprovided 2008 £
Capital allowances in excess of depreciation	32,854	-	28,130	-
Tax on revaluation surplus	-	61,287	-	-
	<u>32,854</u>	<u>61,287</u>	<u>28,130</u>	<u>-</u>
At 1 January	28,130		17,067	
Amount charged to profit and loss	4,724		11,063	
	<u>32,854</u>		<u>28,130</u>	
At 31 December	<u>32,854</u>		<u>28,130</u>	

No provision has been included in the financial statements for deferred taxation on revaluation as there are no plans to sell the investment property and therefore no liability is anticipated in the foreseeable future. Such tax would only become payable if the property was sold without it being possible to utilise other loss reliefs.

12. Called up share capital

	2009 £	2008 £
Authorised, allotted, called up and fully paid		
Ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

Quayside Lodge Limited

Notes to the Financial Statements

31 December 2009

13. Combined statement of reserves and reconciliation of movement in shareholders' funds/(deficit)

	Share capital £	Revaluation reserve £	Profit and loss account £	Total 2009 £	Total 2008 £
At 1 January	2,000	53,601	(474,361)	(418,760)	1,108,421
Surplus/(deficit) on revaluation	-	1,100,000	-	1,100,000	(1,450,000)
Profit/(loss) for the year	-	-	169,912	169,912	(77,181)
Balance at 31 December	<u>2,000</u>	<u>1,153,601</u>	<u>(304,449)</u>	<u>851,152</u>	<u>(418,760)</u>

14. Parent undertaking

The Directors consider that the ultimate parent undertaking and controlling party was CLS Holdings plc which is incorporated in Great Britain. Copies of the parent's group financial statements may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF.

On 11 June 2009, the immediate parent undertaking became Pantheon Securities Limited (a company registered in the British Virgin Islands) following the transfer of the shares of the Company. The ultimate parent company and controlling party remained unchanged.