

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS 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. 3930770

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

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FOR THE YEAR ENDED 31 DECEMBER 2005**

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DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS 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 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 Company has performed in line with expectations and the Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31st December 2005 (2004: Nil).

4 CHANGE OF COMPANY NAME

On 14 June 2005 the company changed its name from CLS Capital Partners Limited to Dawegrove Limited.

5 DIRECTORS

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

Mr P Sjöberg (appointed 1 January 2006)
Mr S F Board (appointed 1 January 2006)
Mr D Baverstam
Mr T J Thomson (resigned 1 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.

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

6 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 and of the profit or loss of the Company for that period. In preparing the 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 to enable them to ensure that the financial statements comply with the Companies Act. 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.

7 AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD



Mr P Sjöberg
Director

11 December 2006

REGISTERED OFFICE:

26th floor, Portland House
Bressenden Place
London
SW1E 5BG

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DAWEGROVE LIMITED

We have audited the financial statements of Dawegrove Limited (formerly CLS Capital Partners Limited) for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet 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

11 December 2006

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Turnover	(2)	560,181	296,185
Administrative expenses		(22,565)	(79,226)
Operating profit		<u>537,616</u>	<u>216,959</u>
Exceptional profit	(3)	-	251,149
Interest payable and similar charges	(5)	(605,491)	(202,464)
(Loss)/profit on ordinary activities before taxation	(4)	<u>(67,875)</u>	<u>265,644</u>
Tax on (loss)/profit on ordinary activities	(6)	-	-
(Deficit)/retained profit for the year	(12)	<u><u>(67,875)</u></u>	<u><u>265,644</u></u>

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 loss on ordinary activities before taxation and the deficit for the year stated above, and their historical cost equivalents.

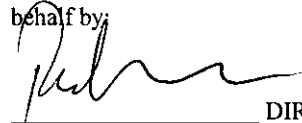
All items included in the above profit and loss account are part of continuing operations.

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Investments	(8)	258,293	255,115
CURRENT ASSETS			
Debtors amounts falling due after more than one year	(9)	13,158,593	8,940,365
Cash at bank and in hand		-	1
		13,158,593	8,940,366
CREDITORS: amounts falling due within one year	(10)	(13,095,068)	(8,805,788)
NET CURRENT LIABILITIES		63,525	134,578
NET ASSETS		321,818	389,693
CAPITAL AND RESERVES			
Called up share capital	(11)	1	1
Profit and loss account	(12)	321,817	389,692
EQUITY SHAREHOLDERS' FUNDS		321,818	389,693

The financial statements on pages 4 to 8 were approved by the Board of Directors on 11 December 2006 and signed on its behalf by:


 _____ DIRECTOR
 Mr P Sjöberg

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS 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 and in accordance with applicable UK 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. Accordingly, these financial statements have been prepared on a going concern basis.

1.2 Fixed Asset Investments

Fixed asset investments are held at cost. A provision is made for any permanent diminution in value.

1.3 Turnover

Turnover comprises income receivable from investments, excluding VAT.

1.4 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 , and
- 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.

2 TURNOVER

	2005 £	2004 £
Interest receivable on investments	775	613
Interest receivable on loans	559,406	295,572
	<u>560,181</u>	<u>296,185</u>

3 EXCEPTIONAL PROFIT

In the previous year, debts due to the Company were repaid at more than the amounts at which those debts were purchased. This profit was shown as an exceptional item.

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2005 £	2004 £
Auditors' remuneration	1,175	1,176
	<u>1,175</u>	<u>1,176</u>

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

5 INTEREST PAYABLE AND SIMILAR CHARGES	2005	2004
	£	£
On loans from group undertakings	605,391	202,464
Other interest	100	-
	<u>605,491</u>	<u>202,464</u>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES	2005	2004
	£	£
UK corporation tax at 30%	-	-
	<u>-</u>	<u>-</u>

The current tax charge for the period in 2005 and 2004 differs to the standard rate of UK corporation tax (30%) as explained below:

	2005	2004
	£	£
(Loss)/profit on ordinary activities before taxation		
multiplied by the standard rate of UK corporation tax of 30%	(20,363)	65,088
Effect of:		
Losses used or surrendered by other group companies	<u>20,363</u>	<u>(65,088)</u>
Current tax charge in profit and loss account	<u>-</u>	<u>-</u>

The Company expects to be able to shelter any future taxable profits in a similar manner.

7 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 other employees during the year (2004: nil).

8 FIXED ASSET INVESTMENTS	2005	2004
	£	£
Gilts	10,000	10,000
Investment in subsidiary	<u>248,293</u>	<u>245,115</u>
Balance at 31 December	<u>258,293</u>	<u>255,115</u>

The investments include gilts which were purchased at a cost of £10,000. Market value at 31 December 2005 was £8,934 (2004: £9,096). The directors do not consider this impairment to be permanent, therefore no provision has been made in the accounts.

The shares in group undertakings is Tweedwind Three Ltd (formerly Wightcable North Ltd), incorporated in Scotland of which Dawegrove Limited owns 228,799,703 ordinary shares with a total nominal value of £2, representing 100% of the ordinary share capital.

The company is exempt from preparing consolidated accounts, by virtue of S228 of The Companies Act 1985, as its results and the results of its subsidiary undertaking are included in the consolidated accounts of CLS Holdings plc, 26th Floor, Portland House, Bressenden Place, London SW1E 5BG.

DAWEGROVE LIMITED (formerly CLS CAPITAL PARTNERS LIMITED)

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

9 DEBTORS: Amounts due after more than one year	2005 £	2004 £
Loans to group undertakings	12,178,660	8,520,000
Accrued income	979,933	420,365
	<u>13,158,593</u>	<u>8,940,365</u>

10 CREDITORS: amounts falling due within one year	2005 £	2004 £
Amounts due to group undertakings	13,094,882	8,800,938
Accruals and deferred income	186	4,850
	<u>13,095,068</u>	<u>8,805,788</u>

Amounts due to group undertakings are unsecured and repayable on demand.

11 SHARE CAPITAL	2005 £	2004 £
Authorised share capital: 100 Ordinary shares of £1 each	100	100
Issued share capital: Allotted, called up and fully paid 1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	2005 Total £	2004 Total £
Balance at 1 January	1	389,692	389,693	124,049
(Deficit)/profit for the financial year	-	(67,875)	(67,875)	265,644
Closing shareholders' funds	<u>1</u>	<u>321,817</u>	<u>321,818</u>	<u>389,693</u>

13 CONTINGENT LIABILITIES

In the Directors' opinion, 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 Holdings plc, 26th Floor, Portland House, Bressenden Place, London SW1E 5BG.