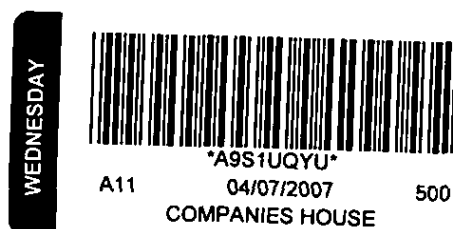


# **Tweedwind Limited**

Financial statements

For the year ended 30 June 2006

Grant Thornton 



**Company No. 4380682**

## Index

<b>Report of the director</b>	1 - 2
<b>Report of the independent auditor</b>	3 - 4
<b>Principal accounting policies</b>	5
<b>Profit and loss account</b>	6
<b>Balance sheet</b>	7
<b>Cash flow statement</b>	8
<b>Notes to the financial statements</b>	9 - 13

## Report of the director

The director presents his report and the financial statements of the company for the year ended 30 June 2006

### **Principal activities and business review**

The principal activity of the company during the year was that of a holding company

### **Results and dividends**

The loss for the year amounted to £843,983. The director has not recommended a dividend

### **Financial risk management objectives and policies**

Information on financial risk management objectives and policies is not presented as it is not material for the assessment of the assets, liabilities, financial position and profit or loss of the company

### **Director**

The director who served the company during the year was as follows

S F Board	
D J M Kerr	(Resigned 15 July 2005)

Neither of the directors had any interests in the shares of the company at 30 June 2006 or 1 July 2005

### **Director's responsibilities**

The director is responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 director is 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The director is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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.

In so far as the director is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Auditor**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

**Small company provisions**

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

BY ORDER OF THE BOARD



S Ghinn  
Secretary  
26 June 2007

## Report of the independent auditor to the members of Tweedwind Limited

We have audited the financial statements of Tweedwind Limited for the year ended 30 June 2006 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 director and auditor**

The director's responsibilities for preparing the Report of the Director and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Report of the Director is consistent with the financial statements.

In addition we 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 director's remuneration and other transactions is not disclosed.

We read the Report of the Director and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of 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 judgements made by the director 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.

## Report of the independent auditor to the members of Tweedwind Limited (continued)

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.

*Grant Thornton UK LLP*

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS

London  
28 June 2007

## Principal accounting policies

### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The accounts are also prepared on a going concern basis.

The lenders have agreed to defer repayment of any principal amounts of the loans until after 30 November 2008, as referred to in note 12 to these accounts.

The directors therefore believe that the going concern basis for the accounts is appropriate.

Discussions continue with the lenders to explore the options available regarding the future capital structure and funding requirements of the company.

### **Consolidation**

The company was, at the end of the year, a subsidiary of another company incorporated in the EEA and in accordance with Section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts.

### **Turnover**

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

### **Amortisation**

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Licences and agreements	-	20 years
-------------------------	---	----------

### **Investments**

Investments are included at cost.

## Profit and loss account

	Note	2006 £	2005 £
Turnover	1	48,204	590,534
Cost of sales		(43,856)	(569,087)
Gross profit		4,348	21,447
Other operating charges	2	(40,200)	(5,448)
<b>Operating (loss)/profit</b>	3	<b>(35,852)</b>	15,999
Amounts written off investments	5	(758,047)	—
Interest payable and similar charges	6	(50,084)	(52,788)
<b>Loss on ordinary activities before taxation</b>		<b>(843,983)</b>	(36,789)
Tax on loss on ordinary activities	7	—	—
<b>Loss for the financial year</b>	14	<b>(843,983)</b>	(36,789)

The company has no recognised gains or losses other than the results for the year as set out above

**The accompanying accounting policies and notes form part of these financial statements.**

## Balance sheet

	<b>Note</b>	<b>2006 £</b>	<b>2005 £</b>
<b>Fixed assets</b>			
Intangible assets	8	–	39,150
Investments	9	<b>5,000</b>	758,047
		<u><b>5,000</b></u>	<u>797,197</u>
<b>Current assets</b>			
Debtors	10	–	64,759
Cash at bank		<b>76,193</b>	5,436
		<u><b>76,193</b></u>	<u>70,195</u>
<b>Creditors: amounts falling due within one year</b>	11	<b>58,784</b>	1,000
<b>Net current assets</b>		<u><b>17,409</b></u>	<u>69,195</u>
<b>Total assets less current liabilities</b>		<u><b>22,409</b></u>	<u>866,392</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<b>775,886</b>	775,886
		<u><b>(753,477)</b></u>	<u>90,506</u>
<b>Capital and reserves</b>			
Called-up equity share capital	13	<b>200,000</b>	200,000
Profit and loss account	14	<b>(953,477)</b>	(109,494)
<b>(Deficit)/shareholders' funds</b>	15	<u><b>(753,477)</b></u>	<u>90,506</u>

These financial statements were approved and signed by the director on 26 June 2007



SF Board  
Director

## Cash flow statement

	<b>Note</b>	<b>2006 £</b>	<b>2005 £</b>
<b>Net cash inflow/(outflow) from operating activities</b>	16	<b>75,757</b>	<b>(25)</b>
<b>Capital expenditure and financial investment</b>			
Acquisition of investments		<b>(5,000)</b>	<b>—</b>
<b>Increase/(decrease) in cash</b>	17	<b><u>70,757</u></b>	<b><u>(25)</u></b>

**The accompanying accounting policies and notes form part of these financial statements.**

## Notes to the financial statements

### **1 Turnover**

The amount shown as turnover represents costs that are all directly recharged to other companies in the CLS Holdings plc group

### **2 Other operating charges**

	2006 £	2005 £
Administrative expenses	<u>40,200</u>	<u>5,448</u>

### **3 Operating (loss)/profit**

Operating (loss)/profit is stated after charging:

	2006 £	2005 £
Amortisation	39,150	5,323
Auditor's remuneration		
Audit fees	<u>1,025</u>	<u>1,000</u>

### **4 Directors and employees**

No salaries or wages have been paid to employees, including the director, during the year

### **5 Amounts written off investments**

	2006 £	2005 £
Amount written off investments	<u>758,047</u>	<u>—</u>

### **6 Interest payable and similar charges**

	2006 £	2005 £
Interest on debenture loans	<u>50,084</u>	<u>52,788</u>

**7      Taxation on ordinary activities**

Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006 £	2005 £
Loss on ordinary activities before taxation	<u>(843,983)</u>	<u>(36,789)</u>
Loss on ordinary activities by rate of tax	<u>(253,195)</u>	(11,037)
Expenses not deductible for tax purposes	<u>227,414</u>	-
Unrelieved tax losses	<u>25,781</u>	11,037
Total current tax	<u>-</u>	<u>-</u>

**8      Intangible fixed assets**

**Licences and agreements**

	£
Cost	
At 1 July 2005 and 30 June 2006	<u>45,000</u>
Amortisation	
At 1 July 2005	5,850
Charge for the year	<u>39,150</u>
At 30 June 2006	<u>45,000</u>
Net book value	
At 30 June 2006	<u>-</u>
At 30 June 2005	<u>39,150</u>

**9 Investments**

	Shares in subsidiary £	Other investments £	Total £
Cost			
At 1 July 2005	758,047	-	758,047
Additions	-	5,000	5,000
At 30 June 2006	<u>758,047</u>	<u>5,000</u>	<u>763,047</u>
Amounts written off			
Written off in year	<u>758,047</u>	<u>-</u>	<u>758,047</u>
Net book value			
At 30 June 2006	<u>-</u>	<u>5,000</u>	<u>5,000</u>
At 30 June 2005	<u>758,047</u>	<u>-</u>	<u>758,047</u>

The company owns 100% of the issued share capital of the following company

	Nature of business	Capital and reserves £	Loss for the financial year £
Tweedwind (Two) Limited	Operation of a cable communications network	(3,179,866)	(962,985)

Listed investments

Listed investments having a net book value of £5,000 (2005 - £Nil) are held by the company and had a market value of £4,957 at the end of the year (2005 - £Nil)

**10 Debtors**

	2006 £	2005 £
Amounts owed by group undertakings	<u>-</u>	<u>64,759</u>

**11 Creditors: amounts falling due within one year**

	2006 £	2005 £
Other taxation	7,675	-
Other creditors	50,084	-
Accruals and deferred income	1,025	1,000
	<u>58,784</u>	<u>1,000</u>

Other creditors comprise unpaid interest on debenture loans

**12 Creditors: amounts falling due after more than one year**

	2006 £	2005 £
Debenture loans	<u>775,886</u>	<u>775,886</u>

These loans are part of a total funding commitment of £3,865,000, which was receivable over the period to 30 June 2005

The loans provided all bear interest, which is not repayable within 1 year £918,130 of accrued interest is included in the number above These loans are secured by a fixed and floating charge over all of the assets of the company

The loan providers have signed an agreement to postpone repayment of the principal amounts under any of the loan facilities until after 30 November 2008

**13 Share capital**

Authorised share capital			2006 £	2005 £
200,000 Ordinary shares of £1 each			<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid				
	2006 No	£	2005 No	£
Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

**14 Profit and loss account**

	2006 £	2005 £
Balance brought forward	(109,494)	(72,705)
Loss for the financial year	<u>(843,983)</u>	<u>(36,789)</u>
Balance carried forward	<u>(953,477)</u>	<u>(109,494)</u>

**15 Reconciliation of movements in shareholders' funds**

	2006 £	2005 £
Loss for the financial year	(843,983)	(36,789)
Opening shareholders' funds	<u>90,506</u>	<u>127,295</u>
Closing shareholders' (deficit)/funds	<u>(753,477)</u>	<u>90,506</u>

**16 Reconciliation of operating (Loss)/profit to net cash inflow/(outflow) from operating activities**

	2006 £	2005 £
Operating (loss)/profit	(35,852)	15,999
Amortisation	39,150	5,323
Decrease/(increase) in debtors	64,759	(11,814)
Increase/(decrease) in creditors	7,700	(9,533)
Net cash inflow/(outflow) from operating activities	<u>75,757</u>	<u>(25)</u>

**17 Reconciliation of net cash flow to movement in net debt**

	2006 £	2005 £
Increase/(decrease) in cash in the period	70,757	(25)
Interest rolled up into debentures	-	(52,788)
Change in net debt	<u>70,757</u>	<u>(52,813)</u>
Net debt at 1 July 2005	<u>(770,450)</u>	<u>(717,637)</u>
Net debt at 30 June 2006	<u>(699,693)</u>	<u>(770,450)</u>

**18 Analysis of changes in net debt**

	At 1 Jul 2005 £	Cash flows £	At 30 Jun 2006 £
Net cash			
Cash in hand and at bank	5,436	70,757	76,193
Debt			
Debt due after 1 year	(775,886)	-	(775,886)
Net debt	<u>(770,450)</u>	<u>70,757</u>	<u>(699,693)</u>

**19 Ultimate parent company**

The directors consider that the 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 5BTG.