

QUAYSIDE LODGE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2004



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 2004

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QUAYSIDE LODGE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2004.

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.

During the year the Company acquired an investment property for a total cost of £6,049,300. The Company also changed its name from Coombe Hill House Limited to Quayside Lodge Limited.

3 DIVIDENDS

The Directors paid an interim dividend for the year ended 31 December 2004 of £2,500,000 or £1,250.00 per share. No final dividend is proposed (2003:nil).

4 DIRECTORS

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

Mr T J Thomson
Mr D M Bäverstam

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.

QUAYSIDE LODGE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

5 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 at the end of the year and of the profit or loss 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,
- 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 enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have general responsibility for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

6 AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

Mr T J Thomson
Director



31 March 2005

REGISTERED OFFICE:

One Citadel Place
Tinworth St
London
SE11 5EF

QUAYSIDE LODGE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QUAYSIDE LODGE LIMITED

We have audited the financial statements which comprise the profit and loss account, balance sheet, the statement of total recognised gains and losses, note of historical cost and profit and the related notes.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards issued by the Auditing Practices Board. 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 prior consent or 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 transactions is not disclosed.

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards 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 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 of the state of the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

*Chartered Accountants and
Registered Auditors*
LONDON

31 March 2005

QUAYSIDE LODGE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	2004 £	2003 £
Rental Income		216,743	506,878
Service charge expenditure recovered		46,716	-
Turnover	(1)	263,459	506,878
Service charge expenditure		(62,059)	-
		201,400	506,878
Administrative expenses		(129,005)	(75,930)
Operating Profit		72,396	430,948
Profit on sale of investment property	(2)	-	684,992
		72,396	1,115,940
Interest receivable and similar income		64,791	69,875
Interest payable and similar charges	(3)	(157,234)	(117,750)
(Loss) / profit on ordinary activities before taxation	(5)	(20,047)	1,068,065
Tax on profit on ordinary activities - deferred	(6)	-	353,207
(Loss) / profit on ordinary activities after taxation		(20,047)	1,421,272
Dividend Paid		(2,500,000)	
(Deficit) / retained profit for the financial year	(13)	(2,520,047)	1,421,272

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2004 £	2003 £
(Loss) / profit for the financial year	(20,047)	1,421,272
Unrealised surplus / (deficit) on revaluation of property	756,622	(2,100,000)
Total gains and losses recognised since last annual report	<u>736,574</u>	<u>(678,728)</u>

NOTE OF HISTORICAL COSTS PROFITS AND LOSSES

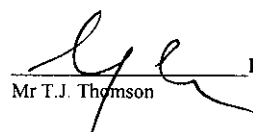
(Loss) / profit on ordinary activities before taxation	(20,047)	1,068,065
Realisation of property revaluation surplus of prior years	-	239,471
Historical costs (loss) / profit on ordinary activities before taxation	<u>(20,047)</u>	<u>1,307,536</u>
Historical cost (deficit) / profits retained for the year after taxation and dividends	<u>(2,520,047)</u>	<u>1,660,743</u>

QUAYSIDE LODGE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	NOTES	2004 £	2003 £
FIXED ASSETS			
Tangible assets	(7)	6,850,000	-
CURRENT ASSETS			
Debtors - amounts falling due within one year	(8)	1,455,816	4,369,875
Cash at bank and at hand		108,182	756
CREDITORS: amounts falling due within one year	(9)	1,563,998 (3,218,540)	4,370,631 (1,628,809)
NET CURRENT (LIABILITIES)/ASSETS		(1,654,542)	2,741,822
TOTAL ASSETS LESS CURRENT LIABILITIES		5,195,458	2,741,822
CREDITORS: amounts falling due after more than one year	(10)	(4,217,061)	-
PROVISIONS FOR LIABILITIES AND CHARGES	(11)	-	-
NET ASSETS		978,397	2,741,822
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Revaluation reserve	(13)	756,622	-
Profit and loss account	(13)	219,775	2,739,822
EQUITY SHAREHOLDERS' FUNDS		978,397	2,741,822

These financial statements were approved by the Board of Directors on 31 March 2005 and signed on its behalf by:


DIRECTOR
 Mr T.J. Thomson

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 these accounts.

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.

1.6 *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.

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

2 PROFIT ON SALE OF INVESTMENT PROPERTY	2004	2003
	£	£
Sale of investment property	-	6,534,717
Cost of investment property sold	-	(4,850,000)
Fees paid	-	(999,725)
	-	684,992

3 INTEREST PAYABLE AND SIMILAR CHARGES	2004	2003
	£	£
Interest payable on bank loans and overdrafts	154,247	-
Amortisation / arrangement fees	2,987	-
On loans from group undertaking	-	117,750
	157,234	117,750

4 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 (2003: none).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2004	2003
	£	£
This is stated after charging:		
Auditors' remuneration	1,000	1,000

6 TAX ON PROFIT ON ORDINARY ACTIVITIES	2004	2003
	£	£
UK corporation tax at 30% (2003 - 30%).	-	-
Deferred tax (credit)/charge	-	(353,207)
Origination and reversal of timing differences	-	(353,207)

	2004	2003
	£	£
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2003: 30%)	(6,014)	320,420
<u>Effect of:</u>		
Differences due to expenses non-deductible and items not included in profit for tax purposes		(183,949)
Amounts taxable as capital gains		-
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	6,014	(136,471)
Current tax charge in profit and loss account	-	-

QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

7 TANGIBLE ASSETS

	2004	2003
	£	£
Freehold Investment		
Valuation at 1 January	-	6,950,000
Additions	6,093,378	
Surplus / Deficit on Revaluation	756,622	(2,100,000)
Disposals	-	(4,850,000)
	<hr/>	<hr/>
Valuation at 31 December	6,850,000	-
	<hr/>	<hr/>

In 2004 the Company acquired a freehold investment property. The total cost of the purchase was £6,093,378.

8 DEBTORS: Amounts falling due within one year

	2004	2003
	£	£
Trade Debtors	85,653	-
Amount due from group undertakings	1,364,747	4,369,875
Prepayments & accrued income	5,417	-
	<hr/>	<hr/>
	1,455,816	4,369,875
	<hr/>	<hr/>

9 CREDITORS: amounts falling due within one year

	2004	2003
	£	£
Bank loans and overdrafts	175,614	-
Unamortised refinancing/arrangement fees	(10,822)	-
Amounts due to group undertakings	2,793,250	609,574
Other taxation & social security	17,677	962,236
Other creditors	95,746	-
Accruals and deferred income	147,074	57,000
	<hr/>	<hr/>
	3,218,540	1,628,809
	<hr/>	<hr/>

10 CREDITORS: amounts falling due after more than one year

	2004	2003
	£	£
Bank loan	4,256,250	-
Unamortised refinancing/arrangement fees	(39,189)	-
	<hr/>	<hr/>
	4,217,061	-
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An analysis of the maturity of the debt is as follows:

	2004	2003
	£	£
In one year or less, or on demand;	104,178	-
In more than one year but not more than two years;	104,326	-
In more than two years but not more than five years; and	4,112,874	-
	<hr/>	<hr/>
	4,321,378	-
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QUAYSIDE LODGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

11 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	2004 Provision £	Amount unprovided £	2003 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	-	-	-	-
Future benefit of tax losses	-	-	-	-
Tax on revaluation surplus	-	197,115	-	-
	-	197,115	-	-
At 1 January			353,207	
Amount (credited)/charged to profit and loss			(353,207)	
At 31 December	-	-	-	-

12 CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	2,000	2,000

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	2004 Total £	2003 Total £
At 1 January	2,000	-	2,739,822	2,741,821	3,420,549
Surplus / (deficit) on revaluation	-	756,622	-	756,622	(2,100,000)
(Deficit) / profit for the year	-	-	(2,520,047)	(2,520,047)	1,421,272
Balance at 31 December	2,000	756,622	219,775	978,396	2,741,821

14 CONTINGENT LIABILITIES

In the opinion of the Directors no contingent liabilities exist.

15 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, One Citadel Place, Tinworth St, London SE11 5EF.