

BUSPACE STUDIOS LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2008

Company No. 1964367

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BUSPACE STUDIOS LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2008

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BUSPACE STUDIOS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2008.

This Directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4)(a) of the Companies Act 1985.

1 PRINCIPAL ACTIVITY

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

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.

The accounts have been prepared on a going concern basis as described in note 1.2.

3 DIVIDENDS

The Directors do not propose any dividends for the year ended 31 December 2008 (2007: Nil).

4 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

- Cyclical downturn in property market
- Covenant breaches in downturn
- Changes in tenant demand
- Ability to access finance
- Credit risk - tenants

Mitigation

Long-term investment strategy to mitigate short term unrealised losses
Ability to re-negotiate with lender.
Strategy of securing long leased tenants with strong covenant strength.
Parent debt service cover guarantees given to secure funding.
All potential tenants assessed for credit worthiness. Rental deposits taken as required.
Large institution used with good credit rating.

- Credit risk - lenders

5 DIRECTORS

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

Mr K Chapman (resigned 6 August 2008)
Mr P Sjöberg (resigned 2 May 2008)
Mr S F Board (resigned 8 May 2008)
Mr E H Klotz (appointed 2 May 2008; resigned 12 June 2009; re-appointed 18 September 2009)
Mr T J L Willis (appointed 1 September 2008; resigned 12 June 2009)
Mr A G P Millet (appointed 1 September 2008; resigned 12 June 2009; re-appointed 18 September 2009)
Mr C Sandberg (appointed 12 June 2009)

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 2008.

Each Director has confirmed 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 s234ZA of the Companies Act 1985.

BUSPACE STUDIOS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

6 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the 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). 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 Directors are required to:

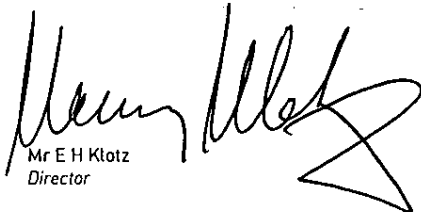
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that 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. 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 reappoint Deloitte LLP as auditors of the Company will be proposed at the annual general meeting.

ON BEHALF OF THE BOARD



Mr E H Klotz
Director

REGISTERED OFFICE:

86 Bondway
London SW8 1SF

9 October 2009

BUSPACE STUDIOS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUSPACE STUDIOS LIMITED

We have audited the financial statements of Buspace Studios Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 13. 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 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 Directors' Report 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 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 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £100,429 during the year ended 31 December 2008 and, as of that date, the company's current liabilities exceeded its total assets by £864,766. Given this position there is uncertainty over the ability of the Company to discharge its liabilities as they fall due if support from the ultimate parent company was not forthcoming. These conditions, along with other matters explained in note 1.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom

9 October 2009

9 October

BUSPACE STUDIOS LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2008**

	NOTES	2008 £	2007 £
Turnover	(2)	164,352	164,352
Administrative expenses		(20,194)	(25,083)
Operating profit		144,158	139,269
Interest payable and similar charges	(3)	(241,585)	(246,039)
Loss on ordinary activities before taxation	(5)	(97,427)	(106,770)
Tax charge on loss on ordinary activities	(6)	(3,002)	(62,500)
Loss for the financial year	(12)	(100,429)	(169,270)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2008 £	2007 £
Loss for the financial year		(100,429)	(169,270)
Unrealised deficit on revaluation of property	(7)	(400,000)	(350,000)
Total recognised losses for the year		(500,429)	(519,270)

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

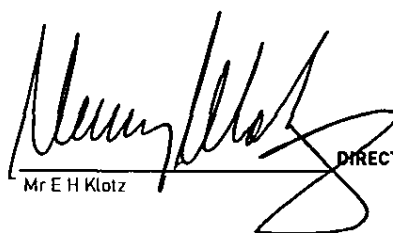
All items included in the above profit and loss account are part of continuing operations.

BUSPACE STUDIOS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2008

	NOTES	2008 £	2007 £
FIXED ASSETS			
Tangible assets	(7)	3,100,000	3,500,000
CURRENT ASSETS			
Cash at bank and in hand		424	424
CREDITORS: amounts falling due within one year	(8)	(3,865,218)	(1,614,761)
NET CURRENT LIABILITIES		(3,864,794)	(1,614,337)
TOTAL ASSETS LESS CURRENT LIABILITIES		(764,794)	1,885,663
CREDITORS: amounts falling due after more than one year	(9)	-	(2,153,030)
PROVISION FOR LIABILITIES	(10)	(99,972)	(96,970)
NET LIABILITIES		(864,766)	(364,337)
CAPITAL AND RESERVES			
Called up share capital	(11)	100	100
Revaluation reserves	(12)	(137,517)	262,483
Profit and loss account	(12)	(727,349)	(626,920)
SHAREHOLDERS' DEFICIT		(864,766)	(364,337)

The financial statements on pages 4 to 9 were approved by the Board of Directors on 9 October 2009 and signed on its behalf by:


 Mr E H Klotz
 DIRECTOR

BUSPACE STUDIOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 PRINCIPAL 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 accounts 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 and on the going concern basis. The Directors consider that the Company is a going concern. 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.

1.2 Going concern

The Company's business activities and review of the business are set out in the directors' report. 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 is subject to the current economic uncertainties and if property values were to deteriorate significantly further over the foreseeable future then there are scenarios in which the financial covenants within its external facilities could fail to be met. The Company is funded by a combination of external and internal interest bearing debt. The external debt was due for repayment on 21 July 2009. In September 2009 the Company successfully managed to re-negotiate its external debt. As part of this arrangement £100,366 will be repaid (financed by a short term intercompany loan) to the external loan provider. The repayment is expected to occur in October 2009. In response to this the loan provider will extend the loan for a period of 2 years until August 2011 and waive the loan to value covenant requirement for a period of one year. In the current market there is some uncertainty as to whether the loan to value covenant will be complied with at the end of the one year waiver period. The company also has significant net current liabilities. These factors represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company has historically received support from its ultimate parent company and there is a reasonable expectation that this will continue going forward. In addition to this a guarantee given by the ultimate parent company remains which covers all interest and amortisation under the facility. As such the directors have a reasonable expectation that there are adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in preparing the financial statements.

1.3 Investment Properties

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.

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 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 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 that have originated but not reversed at the balance sheet date where transactions or events that 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 that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Provision is not made in respect of property revaluation gains and losses

1.6 Issue costs of loans

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.

BUSPACE STUDIOS LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)
2 TURNOVER

2008	2007
£	£

Rental income within the United Kingdom	164,352	164,352
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3 INTEREST PAYABLE AND SIMILAR CHARGES

2008	2007
£	£

On bank loans and overdrafts	150,445	150,146
On amounts due to group undertakings	89,747	95,288
Amortisation of refinancing / arrangement fees	1,393	605
	241,585	246,039

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 (2007: £nil). The Company had no employees during the year (2007: none).

5 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

2008	2007
£	£

This is stated after:

Fees payable to the company's auditor for the audit of the company's annual accounts	2,667	1,000
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6 TAX CHARGE ON LOSS ON ORDINARY ACTIVITIES

2008	2007
£	£

Payments made for losses claimed as group relief in respect of previous periods	-	70,590
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Total current tax charge	-	70,590
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Deferred tax charge/(credit): origination and reversal of timing differences	3,002	(8,090)
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Total tax charge on loss on ordinary activities	3,002	62,500
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The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows;

2008	2007
£	£

Loss on ordinary activities before tax	(97,427)	(106,770)
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Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28.5% (2007: 30%)	(27,767)	(32,031)
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Effect of:

Losses surrendered by group/consortium relief for nil payment and differences between capital allowances and depreciation	27,767	32,031
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Payment for group relief claimed in respect of previous periods	-	70,590
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Current tax charge in profit and loss account	-	70,590
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BUSPACE STUDIOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

7 TANGIBLE ASSETS

Freehold Investment Property £
3,500,000
(400,000)
<u>3,100,000</u>

Valuation at 1 January 2008
Deficit on revaluation
Valuation at 31 December 2008

The investment property was revalued at 31 December 2008 to its fair value. The valuation was based on current prices in an active market. The property valuation was carried out by Allsop & Co who are external, professionally qualified valuers.

The current economic climate and lower transactional volumes in the real estate markets has meant that our valuers have referred to greater use of professional judgement in arriving at the year end valuation. Whilst there is greater volatility in property prices in the short term the company is investing for the longer term and therefore will not be adversely impacted by short term fluctuations in value.

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

The historical cost of investment properties included at valuation was £3,237,517 (2007 £3,237,517).

8 CREDITORS: amounts falling due within one year

	2008 £	2007 £
Bank loans and overdrafts	2,153,366	-
Unamortised refinancing/arrangement fees	-	(1,058)
Amounts due to group undertakings	1,552,914	1,455,010
Other taxation and social security	91,398	92,290
Accruals and deferred income	67,540	68,519
	<u>3,865,218</u>	<u>1,614,761</u>

9 CREDITORS: amounts falling due after more than one year

	2008 £	2007 £
Bank loans	-	2,153,366
Unamortised refinancing/arrangement fees	-	(336)
	<u>-</u>	<u>2,153,030</u>
The loan is repayable as follows:		
In one year or less, or on demand	-	(336)
In more than one year but not more than two years	-	2,153,366
	<u>-</u>	<u>2,153,030</u>

Interest on the bank loan is charged at LIBOR plus a margin of 1.14% and is secured by a legal charge over the property Buspace Studios.

The capitalised arrangement fees for the year are £nil (2007: £1,000).

The external debt was due for repayment on 21 July 2009. In September 2009 the Company successfully managed to re-negotiate its external debt. As part of this arrangement £100,366 will be repaid (financed by short term intercompany loan) to the external loan provider. The repayment is expected to occur in October 2009.

BUSPACE STUDIOS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

10 PROVISION FOR LIABILITIES

Deferred taxation is provided as follows:

	2008 Provision £	Amount unprovided £	2007 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	99,972	-	96,970	-
Future benefit of tax losses	-	-	-	(27,323)
	<u>99,972</u>	<u>-</u>	<u>96,970</u>	<u>(27,323)</u>
At 1 January	96,970		105,060	
Amount charged to profit and loss	3,002		(8,090)	
At 31 December	<u>99,972</u>		<u>96,970</u>	

No tax would arise on the disposal of the property as the current market value is below historic cost.

11 CALLED UP SHARE CAPITAL

	2008 £	2007 £
Authorised, allotted, called up and fully paid: Ordinary shares of £1 each	100	100

12 COMBINED STATEMENT OF RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	Share Capital £	Revaluation Reserves £	Profit and Loss Account £	2008 Total £	2007 Total £
At 1 January	100	262,483	(626,920)	(364,337)	154,933
Loss for the financial year	-	-	(100,429)	(100,429)	(169,270)
Deficit on revaluation	-	(400,000)	-	(400,000)	(350,000)
Balance at 31 December	<u>100</u>	<u>(137,517)</u>	<u>(727,349)</u>	<u>(864,766)</u>	<u>(364,337)</u>

13 PARENT UNDERTAKING

The Directors consider that at the balance sheet date the immediate and ultimate parent undertaking and controlling party was CLS Holdings plc which is incorporated in Great Britain and registered in England and Wales. Copies of the parent's consolidated financial statements may be obtained from The Secretary, CLS Holding 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.