

DEANERY STREET LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED
31st December 2007**

TUESDAY



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15/07/2008
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Company No 2214890

DEANERY STREET LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2007

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DEANERY STREET LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2007

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.

3 DIVIDENDS

The Directors do not propose any dividends for the year ended 31 December 2007 (2006: Nil)

4 DIRECTORS

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

Mr D M Baverstam (resigned 23 November 2007)
Mr K Chapman (appointed 23 November 2007)
Mr P Sjöberg (resigned 2 May 2008)
Mr S F Board (resigned 8 May 2008)
Mr E H Klotz (appointed 2 May 2008)

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 2007.

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,
- 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.

DEANERY STREET LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

5 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

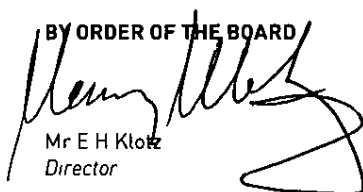
- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

6 AUDITORS

A resolution to reappoint Deloitte & Touche LLP as auditors of the Company will be proposed at the annual general meeting.

BY ORDER OF THE BOARD



Mr E H Klotz
Director

7 July 2008

REGISTERED OFFICE

86 Bondway
London SW8 1SF

DEANERY STREET LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEANERY STREET LIMITED

We have audited the financial statements of Deanery Street Limited for the year ended 31 December 2007 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

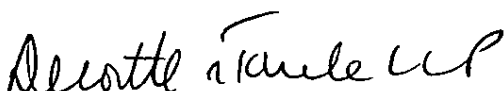
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 and of its profit 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.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

10 July 2008

DEANERY STREET LIMITED
PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 £	2006 £
Turnover	(2)	107,161	81,000
Administrative expenses		(43,285)	(18,513)
Operating profit		63,876	62,487
Interest receivable and similar income		11	7
Interest payable and similar charges	(3)	(97,802)	(66,079)
Exceptional Credit - write back of revaluation surplus		242,313	550,000
Profit on ordinary activities before taxation	(5)	208,398	546,415
Tax on profit on ordinary activities	(6)	(31,577)	(1,539)
Profit for the financial year	(12)	176,821	544,876

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007 £	2006 £
Retained Profit for the financial year	176,821	544,876
Unrealised surplus on revaluation of property	97,687	-
Total recognised gains for the year	274,508	544,876

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

DEANERY STREET LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	NOTES	2007 £	2006 £
FIXED ASSETS			
Tangible assets	(7)	2,240,000	1,900,000
CURRENT ASSETS			
Amounts Due from Group Undertakings		120,471	53,335
Cash at bank and in hand		2,697	853
CREDITORS amounts falling due within one year	(8)	123,168 (69,020)	54,188 (538 805)
NET CURRENT ASSETS / (LIABILITIES)		54,148	(484,617)
TOTAL ASSETS LESS CURRENT LIABILITIES		2 294,148	1,415,383
CREDITORS amounts falling due after more than one year	(9)	(1,400,000)	(794,600)
PROVISION FOR LIABILITIES	(10)	(16,002)	(17 145)
NET ASSETS		878,146	603 637
CAPITAL AND RESERVES			
Called up share capital	(11)	1 000,000	1 000,000
Revaluation reserve	(12)	97 687	-
Profit and loss account	(12)	(219,541)	(396,362)
SHAREHOLDERS' FUNDS		878,146	603,638

These financial statements on pages 4 to 9 were approved by the Board of Directors on 7 July 2008 and signed on its behalf by


 _____ DIRECTOR
 Mr E H Klotz

DEANERY STREET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 financial statements 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. 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 *Investments 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 where these are considered to be permanent. Any such deficits which are subsequently considered to no longer be permanent are written back 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 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.

1.3 *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.

1.4 *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 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 substantially enacted at the balance sheet date.

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

1.5 *Loan Cost*

Issue costs relating to new loans are capitalised and amortised to follow the profile of the loan principle. Unamortised amounts at the balance sheet date are deferred against the loan liability.

DEANERY STREET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

2	2007	2006
	£	£
Rental income within the United Kingdom	107,161	81,000

3	2007	2006
	£	£
On bank loan	57,263	47,960
Amortisation of refinance and arrangement fees	493	273
On loans from group undertaking	40,046	17,847
	97,802	66,079

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 (2006: none).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007	2006
	£	£
This is stated after charging		
Auditors' remuneration - audit	1,176	1,175

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007	2006
	£	£
UK corporation tax at 30% (2006: 30%)	-	-
Deferred tax (credit)/charge: Origination and reversal of timing differences	(1,143)	285
Payment for losses surrendered under Group Relief arrangement	32,720	1,254
	31,577	1,539

The current tax charge for the period is lower in 2007 and 2006 than the standard rate of UK corporation tax (30%) as explained below:

Profit on ordinary activities before taxation multiplied by the standard of UK corporation tax 30% (2006: 30%)	62,519	163,925
<u>Effect of:</u>		
Differences due to expenses non-deductible and items not included in profit for tax purposes	(72,694)	(165,000)
Losses surrendered to group/consortium relief and differences between capital allowances and depreciation	10,175	1,075
Current tax charge in profit and loss account	-	-

DEANERY STREET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

7 TANGIBLE ASSETS

Freehold Investment Property £
Valuation at 1 January 2007
Surplus on revaluation
Valuation at 31 December 2007

Valuation at 1 January 2007	1,900,000
Surplus on revaluation	340,000
Valuation at 31 December 2007	2,240,000

At 31 December properties were revalued to an estimate of their open market values taking into account their condition and tenancies existing at that date. Property valuations were carried out by external valuers. Allsop & Co Chartered Surveyors. The historical cost of the investment properties included at valuation was £2,142,313 (2006 £2,142,313).

8 CREDITORS amounts falling due within one year

2007 £	2006 £
Unamortised refinancing/arrangement fees	-
Amounts due to group undertakings	517,847
Accruals and deferred income	20,958
	538,805

9 CREDITORS amounts falling due after more than one year

2007 £	2006 £
Bank loans	794,600

An analysis of the maturity of the debt is as follows

	2007 £	2006 £
In one year or less, or on demand	-	-
In more than one year but not more than two years	-	(727)
In more than two years but not more than five years	1,400,000	795,328
	1,400,000	794,600

Interest is charged on the bank loan at the rate of LIBOR plus a margin of 1.25% and is secured by a legal charge over the property to which it relates.

10 PROVISION FOR LIABILITIES

Deferred taxation is provided as follows

	2007 Provision £	Amount unrecognised £	2006 Provision £	Amount unrecognised £
Capital allowances in excess of depreciation	16,002	-	17,145	-
Future benefit of tax losses	-	(12,524)	-	(5,412)
	16,002	(12,524)	17,145	(5,412)
At 1 January as previously reported	17,145		16,860	
Amount (credited) / charged to profit and loss	(1,143)		285	
At 31 December	16,002		17,145	

No deferred tax liability is recognized on the revaluation gain due to the benefit of indexation.

DEANERY STREET LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)****11 CALLED UP SHARE CAPITAL**

	2007	2006
	£	£
Authorised allotted, called up and fully paid		
Ordinary shares of £1 each	1,000,000	1,000,000

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

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	2007 Total £	2006 Total £
Balance at 1 January	1 000,000	-	(396,362)	603 638	158,762
Profit for the financial year	-	-	176,821	176,821	544 876
Surplus on revaluation	-	97,687	-	97,687	(100,000)
Balance at 31 December	1 000 000	97,687	(219 541)	878,146	603,638

13 PARENT UNDERTAKING

The Directors consider that the immediate ultimate parent undertaking and controlling party is 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.