

SPRING GARDENS II LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2007

Company No 2446925

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SPRING GARDENS II LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2007

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors are pleased to present their annual report together with the 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 a dividend for the year ended 31 December 2007 (2006 Nil)

4 DIRECTORS

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

Mr P Sjöberg (resigned 2 May 2008)
Mr S F Board (resigned 8 May 2008)
Mr K Chapman (appointed 23 November 2007)
Mr D Bavestam (resigned 23 November 2007)
Mr 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

SPRING GARDENS II 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
England

SPRING GARDENS II LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPRING GARDENS II LIMITED

We have audited the financial statements of Spring Gardens II Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 15. 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

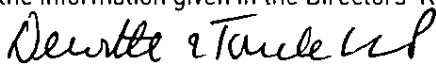
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

United Kingdom

10 July 2008

SPRING GARDENS II LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 £	2006 £
Turnover	(2)	185,210	185,210
Administrative expenses		(45,726)	(21,290)
Operating profit		139,484	163,920
Interest receivable and similar income		68,476	22
Interest payable and similar charges	(3)	(186,374)	(99,377)
Profit on ordinary activities before taxation	(5)	21,586	64,565
Tax charge on Profit on ordinary activities	(6)	(40,462)	(2,260)
(Loss)/Profit for the financial year	(13)	(18,876)	62,305

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007 £	2006 £
(Loss)/Profit for the financial year	(18,876)	62,305
Unrealised (deficit)/surplus on revaluation of property	(200,000)	3,050,000
Total recognised (losses)/gains for the year	(218,876)	3,112,305

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

SPRING GARDENS II LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	NOTES	2007 £	2006 £
FIXED ASSETS			
Tangible fixed assets	(7)	2,850,000	3,050,000
CURRENT ASSETS			
Debtors	(8)	1,341,610	101,493
Cash at bank and in hand		379	1,416
		1,341,989	102,909
CREDITORS: amounts falling due within one year	(9)	(370,758)	(1,093,926)
NET CURRENT ASSETS / (LIABILITIES)		971,231	(991,017)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,821,231	2,058,983
CREDITORS amounts falling due after more than one year	(10)	(3,038,978)	(1,047,904)
PROVISIONS FOR LIABILITIES	(11)	(131,390)	(141,340)
NET ASSETS		650,863	869,739
CAPITAL AND RESERVES			
Called up share capital	(12)	5,500,000	5,500,000
Revaluation reserve	(13)	709,573	909,573
Profit and loss account	(13)	(5,558,710)	(5,539,834)
SHAREHOLDERS' FUNDS		650,863	869,739

The financial statements were approved by the Board of Directors on 7 July 2008 and signed on its behalf by



DIRECTOR

Mr E H Klotz

SPRING GARDENS II 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 *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 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 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.

SPRING GARDENS II LIMITED

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

2 TURNOVER

	2007	2006
	£	£
Rental income within the United Kingdom	185,210	185,210
	<u>185,210</u>	<u>185,210</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£	£
On bank loans and overdrafts	167,364	63,269
Amortisation of refinancing/arrangement fees	3,566	1,465
On loans from group undertakings	15,444	34,643
	<u>186,374</u>	<u>99,377</u>

4 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are Directors of CLS Holdings plc, are disclosed in the financial statements of that Company 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	1,176	1,175

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007	2006
	£	£
UK corporation tax at 30% (2006 - 30%)	-	-
Origination and reversal of timing differences	(9,950)	2,260
Payment for losses surrendered under Group Relief arrangement	50,412	-
	<u>40,462</u>	<u>2,260</u>

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:

	2007	2006
	£	£
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2006: 30%)	6,476	19,370
Effect of:		
Losses claimed from group/consortium relief and differences between capital allowances and depreciation	(6,476)	(19,370)
Current tax charge in profit and loss account	<u>-</u>	<u>-</u>

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

SPRING GARDENS II LIMITED

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

7 TANGIBLE FIXED ASSETS

	2007 £
Freehold investment property	
Valuation at 1 January 2007	3,050,000
Deficit on revaluation	(200,000)
	<hr/>
Valuation at 31 December 2007	2,850,000
	<hr/>

At 31 December properties were revalued at 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 investment property, included at valuation is £2,140,427 (2006 £2,140,427)

8 DEBTORS

	2007 £	2006 £
Trade debtors	53,018	1
Amounts due from group undertakings	1,268,444	54,482
Prepayments and accrued income	20,148	47,010
	<hr/>	<hr/>
	1,341,610	101,493
	<hr/>	<hr/>

9 CREDITORS: amounts falling due within one year

	2007 £	2006 £
Amounts due to group undertakings	83,474	834,643
Unamortised refinancing/arrangement fees	(1,268)	(1,519)
Other taxation and social security	191,056	191,056
Accruals and deferred income	97,496	69,746
	<hr/>	<hr/>
	370,758	1,093,926
	<hr/>	<hr/>

10 CREDITORS: amounts falling due after more than one year

	2007 £	2006 £
Bank Loan	3,045,059	1,053,849
Unamortised refinancing/arrangement fees	(6,081)	(5,945)
	<hr/>	<hr/>
	3,038,978	1,047,904
	<hr/>	<hr/>
The bank loan is repayable as follows:		
In one year or less, or on demand,	(1,268)	(1,519)
In more than one year but not more than two years	(1,217)	(1,523)
In more than two years but not more than five years	(3,635)	1,049,426
In more than five years	3,043,830	-
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	3,037,710	1,046,384
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Interest is charged on the bank loan at the rate of LIBOR plus a margin of 0.95% and is secured by a legal charge over the property to which it relates.

The capitalised arrangement fees for the year are £8,620.10

SPRING GARDENS II LIMITED

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

11 PROVISIONS FOR LIABILITIES

Deferred taxation is provided as follows

	2007 Provision £	Amount unprovided £	2006 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	131,390	-	141,340	-
Taxation on revaluation surplus	-	-	-	64,930
Unrelieved losses	-	(238,484)	-	(261,376)
	<u>131,390</u>	<u>(238,484)</u>	<u>141,340</u>	<u>(196,446)</u>
At 1 January	141,340		139,080	
Amount (credited)/charged to profit and loss	(9,950)		2,260	
At 31 December	<u>131,390</u>		<u>141,340</u>	

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

12 CALLED UP SHARE CAPITAL

Authorised, allotted, called up and fully paid
Ordinary Shares of £1 each

2007 £	2006 £
5,500,000	5,500,000

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

	Share Capital £	Revaluation Reserve £	Profit & Loss Account £	2007 Total £	2006 Total £
At 1 January	5,500,000	909,573	(5,539,834)	869,739	614,054
Issue of share capital	-	-	-	-	-
(Loss)/Profit for the financial year	-	-	(18,876)	(18,876)	62,305
(Deficit)/Surplus on revaluation on property	-	(200,000)	-	(200,000)	193,380
	<u>5,500,000</u>	<u>709,573</u>	<u>(5,558,710)</u>	<u>650,863</u>	<u>869,739</u>

14 PARENT UNDERTAKING

The Directors consider that the immediate parent undertaking is Ingrove Limited and the ultimate parent undertaking and controlling party is CLS Holdings plc which are both 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.

15 POST BALANCE SHEET EVENTS

On 7 March 2008, the company sold its property Satellite House for a consideration of £2,900,000. The historical cost at 31 December 2007 was £2,140,427.