

SPRING GARDENS II LIMITED

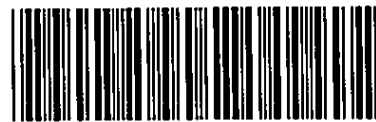
ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2008

Company No. 2446925

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SPRING GARDENS II LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2008

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SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors are pleased to present their annual report together with the 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. During the year to 31 December 2008, the Company disposed of its investment property but is continuing to explore opportunities for similar investments in the future.

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 a dividend for the year ended 31 December 2008 (2007:Nil).

4 DIRECTORS

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

Mr P H Sjöberg (resigned 2 May 2008)
Mr S F Board (resigned 8 May 2008)
Mr K E Chapman (resigned 6 August 2008)
Mr E H Klotz (appointed 2 May 2008)
Mr T J L Wills (appointed 1 September 2008)
Mr A G P Millet (appointed 1 September 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 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.

SPRING GARDENS II LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2008 (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; 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.

6 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 T J L Wills
Director

19 October 2009

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 2008 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 2008 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 LLP

Deloitte LLP

Chartered Accountants and Registered Auditors
London
United Kingdom
19 October 2009

SPRING GARDENS II LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | NOTES | 2008 £ | 2007 £ |
|--|-------|-----------|-----------|
| Turnover | (2) | 18,869 | 185,210 |
| Net rental income | | 18,869 | 185,210 |
| Profit on sale of investment properties | (7) | 39,425 | - |
| Administrative expenses | | (29,670) | (45,726) |
| Operating profit | | 28,624 | 139,484 |
| Interest receivable and similar income | | 78,401 | 68,476 |
| Interest payable and similar charges | (3) | (64,656) | (186,374) |
| Profit on ordinary activities before taxation | (5) | 42,369 | 21,586 |
| Tax credit/(charge) on Profit on ordinary activities | (6) | 161,390 | (40,462) |
| Profit/(loss) for the financial year | (14) | 203,759 | (18,876) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | 2008 £ | 2007 £ |
|---|-----------|-----------|
| Profit/(loss) for the financial year | 203,759 | (18,876) |
| Unrealised (deficit) on revaluation of property | - | (200,000) |
| Total recognised gains/(losses) for the year | 203,759 | (218,876) |

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

NOTE OF HISTORICAL COSTS PROFITS AND LOSSES

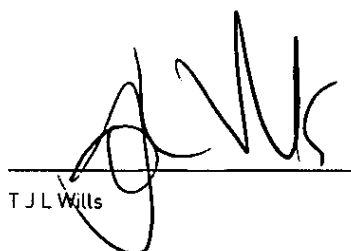
| | | |
|--|---------|----------|
| Profit on ordinary activities before taxation | 42,369 | 21,586 |
| Realisation of property revaluation surplus | 709,573 | - |
| Historical costs profit on ordinary activities before taxation | 751,942 | 21,586 |
| Historical cost profits/(losses) retained after taxation and dividends | 913,332 | (18,876) |

SPRING GARDENS II LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2008

| | NOTES | 2008 £ | 2007 £ |
|--|-------|-------------|-------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | (7) | - | 2,850,000 |
| Investments | (8) | 10,000 | - |
| CURRENT ASSETS | | | |
| Debtors | (9) | 1,036,531 | 1,341,610 |
| Cash at bank and in hand | | 491 | 379 |
| | | 1,037,022 | 1,341,989 |
| CREDITORS: amounts falling due within one year | (10) | (192,400) | (370,758) |
| NET CURRENT ASSETS | | 844,622 | 971,231 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 854,622 | 3,821,231 |
| CREDITORS: amounts falling due after more than one year | (11) | - | (3,038,978) |
| PROVISIONS FOR LIABILITIES | (12) | - | (131,390) |
| NET ASSETS | | 854,622 | 650,863 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | (13) | 5,500,000 | 5,500,000 |
| Revaluation reserve | (14) | - | 709,573 |
| Profit and loss account | (14) | (4,645,378) | (5,558,710) |
| SHAREHOLDERS' FUNDS | | 854,622 | 650,863 |

The financial statements were approved by the Board of Directors on 19 October 2009 and signed on its behalf by:


 _____ DIRECTOR
 T J L Wills

SPRING GARDENS II LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 *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 income streams and cost base, and in particular taking into account the sale of the company's property in the period and the resulting repayment of the financing provided by third party lenders in respect of the property.

On the basis of this review the directors have concluded that the company has the ability to meet all external liabilities as they fall due over the course of the twelve months from the date of these financial statements. Accordingly the directors continue to adopt the going concern basis in the presentation of these financial statements.

1.3 *Investment properties*

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 income streams and cost base. It is anticipated that the company will continue to have net current assets and net assets for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in the presentation of these financial statements.

1.4 *Fixed Asset Investments*

Investments held as fixed assets are stated at cost. A provision is made for any permanent diminution in value.

1.5 *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.

1.6 *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.

1.7 *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 2008 (CONTINUED)

2 TURNOVER

| | 2008 £ | 2007 £ |
|---|---------------|----------------|
| Rental income within the United Kingdom | 18,869 | 185,210 |
| | <u>18,869</u> | <u>185,210</u> |

Turnover arose wholly within the United Kingdom.

3 INTEREST PAYABLE AND SIMILAR CHARGES

| | 2008 £ | 2007 £ |
|--|---------------|----------------|
| On bank loans and overdrafts | 57,307 | 167,364 |
| Amortisation of refinancing/arrangement fees | 7,349 | 3,566 |
| On loans from group undertakings | - | 15,444 |
| | <u>64,656</u> | <u>186,374</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 (2007: none).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

| | | |
|--|-------|-------|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 3,068 | 1,176 |
|--|-------|-------|

6 TAX (CREDIT)/CHARGE ON PROFIT ON ORDINARY ACTIVITIES

| | 2008 | 2007 |
|--|------------------|---------------|
| Payments (received)/made for losses (surrendered)/claimed as group relief in respect of previous periods | (30,000) | 50,412 |
| Total current tax (credit)/charge | (30,000) | 50,412 |
| Deferred tax credit: origination and reversal of timing differences | (131,390) | (9,950) |
| Total tax (credit)/charge on profit on ordinary activities | <u>(161,390)</u> | <u>40,462</u> |

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows;

| | 2008 £ | 2007 £ |
|--|-----------------|---------------|
| Profit on ordinary activities before tax | 42,369 | 21,586 |
| Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28.5% (2007: 30%) | 12,075 | 6,476 |
| Effect of: | | |
| Estimated differences between the accounting profit and taxable profit on capital disposals | (11,236) | - |
| Losses claimed by group/consortium relief for nil payment and differences between capital allowances and depreciation | (839) | (6,476) |
| Payment/(receipt) for group relief (surrendered)/claimed in respect of previous periods | (30,000) | 50,412 |
| Current tax (credit)/charge in profit and loss account | <u>(30,000)</u> | <u>50,412</u> |

SPRING GARDENS II LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)
7 TANGIBLE FIXED ASSETS

| | 2008 |
|-------------------------------|-------------|
| | £ |
| Valuation at 1 January 2008 | 2,850,000 |
| Disposals | (2,850,000) |
| | <hr/> |
| Valuation at 31 December 2008 | - |
| | <hr/> |

The historical cost of the investment property included at valuation was £nil (2007 £2,140,427)

The investment property was sold on the 7th March 2008 for the sales price of £2,975,000. Including costs of sale a profit on disposal of £39,425 was realised in the profit and loss account for the year 31 December 2008 (2007: Nil)

8 FIXED ASSET INVESTMENTS

| | 2008 |
|---------------------|-------------|
| | £ |
| At 1 January 2008 | - |
| Additions | 10,000 |
| | <hr/> |
| At 31 December 2008 | 10,000 |
| | <hr/> |

The Gilts were purchased at a cost of £10,000. Market value at 31 December was £10,060.

9 DEBTORS

| | 2008 | 2007 |
|-------------------------------------|-------------|-------------|
| | £ | £ |
| Trade debtors | - | 53,018 |
| Amounts due from group undertakings | 1,036,549 | 1,268,444 |
| Prepayments and accrued income | (18) | 20,148 |
| | <hr/> | <hr/> |
| | 1,036,531 | 1,341,610 |
| | <hr/> | <hr/> |

10 CREDITORS: amounts falling due within one year

| | 2008 | 2007 |
|--|-------------|-------------|
| | £ | £ |
| Amounts due to group undertakings | - | 83,474 |
| Unamortised refinancing/arrangement fees | - | (1,268) |
| Other taxation and social security | 190,899 | 191,056 |
| Accruals and deferred income | 1,501 | 97,496 |
| | <hr/> | <hr/> |
| | 192,400 | 370,758 |
| | <hr/> | <hr/> |

11 CREDITORS: amounts falling due after more than one year

| | 2008 | 2007 |
|--|-------------|-------------|
| | £ | £ |
| Bank Loan | - | 3,045,059 |
| Unamortised refinancing/arrangement fees | - | (6,081) |
| | <hr/> | <hr/> |
| | - | 3,038,978 |
| | <hr/> | <hr/> |

SPRING GARDENS II LIMITED

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

| | 2008 £ | 2007 £ |
|--|-----------|-----------|
| The bank loan is repayable as follows: | | |
| In one year or less, or on demand; | - | (1,268) |
| In more than one year but not more than two years. | - | (1,217) |
| In more than two years but not more than five years. | - | (3,635) |
| In more than five years | - | 3,043,830 |
| | - | 3,037,710 |

The bank loan was repaid during the year. (Interest was charged on the bank loan at the rate of LIBOR plus a margin of 0.95% and was secured by a legal charge over the property to which it related.)

The capitalised arrangement fees for the year were £nil (2007: £7,349).

12 PROVISIONS FOR LIABILITIES

Deferred taxation is provided as follows:

| | 2008 Provision £ | Amount unprovided £ | 2007 Provision £ | Amount unprovided £ |
|--|------------------------|---------------------------|------------------------|---------------------------|
| Capital allowances in excess of depreciation | - | - | 131,390 | - |
| Unrelieved losses | - | (47,213) | - | (238,484) |
| | - | (47,213) | 131,390 | (238,484) |
| At 1 January | 131,390 | | 141,340 | |
| Amount credited to profit and loss | (131,390) | | (9,950) | |
| At 31 December | - | | 131,390 | |

13 CALLED UP SHARE CAPITAL

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

| 2008 £ | 2007 £ |
|-----------|-----------|
| 5,500,000 | 5,500,000 |

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

| | Share Capital £ | Revaluation Reserve £ | Profit & Loss Account £ | 2008 Total £ | 2007 Total £ |
|--------------------------------------|-----------------------|-----------------------------|-------------------------------|--------------------|--------------------|
| At 1 January | 5,500,000 | 709,573 | (5,558,710) | 650,863 | 869,739 |
| Profit/(loss) for the financial year | - | - | 203,759 | 203,759 | (18,876) |
| Deficit on revaluation of property | - | - | - | - | (200,000) |
| Transfer to profit & loss | - | (709,573) | - | (709,573) | - |
| Transfer from revaluation reserve | - | - | 709,573 | 709,573 | - |
| Balance at 31 December | 5,500,000 | - | (4,645,378) | 854,622 | 650,863 |

SPRING GARDENS II LIMITED

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

15 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.