

**LUNARSTORM UK LIMITED**

**ANNUAL REPORT**

**FOR THE PERIOD ENDED**

**31 DECEMBER 2006**

**PricewaterhouseCoopers LLP**

*Chartered Accountants and*

*Registered Auditors*

1 Embankment Place

London

WC2N 6RH

Company No 5591799

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18/10/2007

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**LUNARSTORM UK LIMITED**

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FOR THE PERIOD ENDED 31 DECEMBER 2006**

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## **LUNARSTORM UK LIMITED**

### **REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2006**

The Directors are pleased to present their annual report together with the audited financial statements for the period ended 31 December 2006

#### **1 PRINCIPAL ACTIVITY**

The principal activity of the Company is to act as marketing agent for a social networking site and to earn income therefrom

#### **2 REVIEW OF THE BUSINESS**

The company was incorporated on 13 October 2006 and the UK website was launched on 17 November 2005. The results for the period are shown on page 4 of the annual report.

The Company has performed in line with expectations and the Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

#### **3 DIVIDENDS**

The Directors do not recommend the payment of any dividend for the period ended 31st December 2006. No final dividend is proposed.

#### **4 DIRECTORS**

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

Mr M Colebourne (appointed 26th October 2005, resigned 19th September 2006)  
Mr H Eriksson (appointed 3rd February 2006, resigned 12th September 2006)  
Mr A Ljung (appointed 3rd February 2006, resigned 22nd September 2006)  
Mr M Ljungman (appointed 3rd February 2006, resigned 24th May 2006)  
Mr T Wills (appointed 14th March 2006)  
Mr P Sjöberg (appointed 3rd October 2006)  
Mr S Mortstedt (appointed 3rd October 2006)

The Directors had no interests in the shares of the Company at any time during the period. 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.

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.

**LUNARSTORM UK LIMITED**

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (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 and of the profit or loss of the Company for that period. In preparing the 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 to enable them to ensure that the financial statements comply with the Companies Act. 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**

PricewaterhouseCoopers LLP will not seek reappointment as auditors of the Company and a resolution to appoint Deloitte & Touche LLP as auditors will be proposed at the annual general meeting

**BY ORDER OF THE BOARD**



Mr P Sjoberg  
Director

18 May 2007

**REGISTERED OFFICE.**

26th floor, Portland House  
Bressenden Place  
London  
SW1E 5BG

## **LUNARSTORM UK LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LUNARSTORM UK LIMITED**

We have audited the financial statements of Lunarstorm UK Limited for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 our prior consent in 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 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**

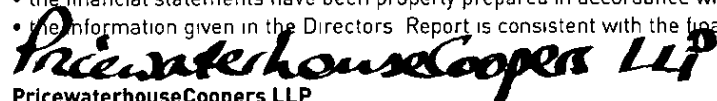
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2006 and of its loss for the period 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.

The logo for PricewaterhouseCoopers LLP, featuring the company name in a stylized, overlapping script font.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London

18 May 2007

**LUNARSTORM UK LIMITED****PROFIT AND LOSS ACCOUNT****FOR THE PERIOD ENDED 31 DECEMBER 2006**

	Notes	2006 £
Turnover	(1)	38,915
Administrative expenses		(226,248)
<b>Operating loss</b>		<u>(187,333)</u>
Interest receivable		2,542
Interest payable and similar charges	(3)	(8,131)
<b>Loss on ordinary activities before taxation</b>	(2)	<u>(192,922)</u>
Tax on loss profit on ordinary activities	(4)	-
<b>Loss for the period</b>	(9)	<u><u>(192,922)</u></u>

The Company has no other recognised gains or losses other than those reported in the above profit and loss account

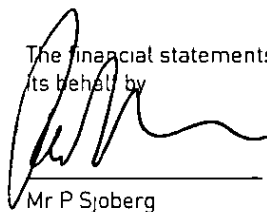
There is no material difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents

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

**LUNARSTORM UK LIMITED****BALANCE SHEET AS AT 31 DECEMBER 2006**

	Notes	2006 £
<b>CURRENT ASSETS</b>		
Stock		7,948
Debtors	(6)	23,032
Cash at bank and in hand		56,444
		87,424
<b>CREDITORS amounts falling due within one year</b>	(7)	(280,345)
<b>NET CURRENT LIABILITIES</b>		(192,921)
<b>NET LIABILITIES</b>		(192,921)
<b>CAPITAL AND RESERVES</b>		
Called up share capital	(8)	1
Profit and loss account	(9)	(192,922)
<b>EQUITY SHAREHOLDERS' DEFICIT</b>		(192,921)

The financial statements on pages 4 to 8 were approved by the Board of Directors on 18 May 2007 and signed on its behalf by

 DIRECTOR  
Mr P Sjöberg

## LUNARSTORM UK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

#### 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 and in accordance with applicable UK 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. Accordingly, these financial statements have been prepared on a going concern basis.

##### 1.2 Fixed Asset Investments

Fixed asset investments are held at cost. A provision is made for any permanent diminution in value.

##### 1.3 Turnover

Turnover comprises income receivable from marketing the UK site, excluding VAT.

##### 1.4 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:

- 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.

#### 2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging

2006  
£

Auditors' remuneration

NIL

#### 3 INTEREST PAYABLE AND SIMILAR CHARGES

2006  
£

On loans from group undertakings

(8,131)



**LUNARSTORM UK LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006 (CONTINUED)****4 TAX ON PROFIT ON ORDINARY ACTIVITIES****2006**  
**£**

UK corporation tax at 30%

-

The current tax charge for the period to 2006 differs to the standard rate of UK corporation tax (30%) as explained below

**2006**  
**£**

(Loss)/profit on ordinary activities before taxation

multiplied by the standard rate of UK corporation tax of 30%

(57,877)

Effect of

Losses surrendered by other group/consortium relief

57,877

Current tax charge in profit and loss account

-

**5 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. One Director who served during the period, who is not a Director of CLS Holdings plc, received £150,500. Four other Directors who are not Directors of CLS Holdings plc received no emoluments in respect of their services to the company. The company had two other employees during the period.

**6 DEBTORS Amounts due in less than one year****2006**  
**£**

Other debtors

4,025

Accrued income

19,007

23,032

**7 CREDITORS amounts falling due within one year****2006**  
**£**

Amounts due to group undertakings

262,569

Accruals and deferred income

16,776

279,345

Amounts due to group undertakings are unsecured and repayable on demand

**8 SHARE CAPITAL****2006**  
**£**

Authorised share capital

1 000 000 Ordinary shares of 10 pence each

100 000

Issued share capital

Allotted, called up and fully paid

10 Ordinary shares of 10 pence each

1

# LUNARSTORM UK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006 (CONTINUED)

### 9 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	2006 Total £
Balance at 26th October 2005	1	-	1
Loss for the period	-	(192,922)	(192,922)
Closing shareholders' deficit	<u>1</u>	<u>(192,922)</u>	<u>(192,921)</u>

### 10 CONTINGENT LIABILITIES

In the Directors' opinion, no contingent liabilities exist.

### 11 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 Holdings plc, 26th Floor, Portland House, Bressenden Place, London SW1E 5BG.

### 12 POST BALANCE SHEET EVENTS

On 21 March 2007 the Chancellor proposed a reduction in the Corporation tax rate in the UK from 30 per cent effective from 1 April 2008. In accordance with UK GAAP provisions, the existing rate of 30 per cent is still used as a basis for the calculation of the deferred tax stated. An estimate of the financial effect of this change cannot be made due to the uncertain timing of the reversal or crystallisation of the deferred tax provisions.