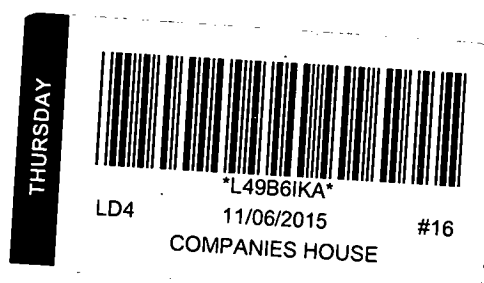


**Company Registration No. 2907641**

**Chancel House Limited**

**Report and Financial Statements**

**31 December 2014**



# **Chancel House Limited**

## **Report and Financial Statements 2014**

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# Chancel House Limited

## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

This Directors' Report has been prepared in accordance with the special provisions relating to small companies under section 415a of the Companies Act 2006.

The Company has also taken advantage of the small companies' exemption from preparing a Strategic Report.

### Principal activities

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

### Review of the business

The results for the year are shown on page 6. The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

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

### Dividends

The Company did not pay any dividends in the year ended 31 December 2014 (2013: £nil).

### Principal risks and uncertainties

The Directors consider 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	Mitigation
Cyclical downturn in property market	Long-term investment strategy to mitigate short-term unrealised losses.
Changes in tenant demand	Strategy of securing long-leased tenants with strong covenants.
Credit risk – tenants	All potential tenants assessed for credit worthiness. Rental deposits taken as required.

# Chancel House Limited

## Directors' Report (continued)

### Directors

The Directors of the Company during the year and subsequent changes were as follows:

Mr E H Klotz  
Mr A G P Millet  
Mr J H Whiteley  
Mr R J S Tice (resigned 14 February 2014)  
Mr S L Wigzell (appointed 14 February 2014)  
Mr F Widlund (appointed 6 November 2014)

Qualifying third-party indemnity provisions (as defined in section 234 of the companies Act 2006) are in force for the benefit of the Directors who held office in 2014.

### Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Pursuant to section 386 Companies Act 1985, an Elective Resolution was passed on 9 October 2002 dispensing with the requirement to appoint an auditor annually. In accordance with that Elective Resolution and paragraph 45(2), Schedule 3 of the Companies Act 2006 (Commencement No. 3 Consequential Amendments, Transitional Provisions and Savings) Order 2007, Deloitte LLP is deemed to continue as auditor of the Company.

Approved by the Board of Directors  
and signed by order of the Board



Mr D F Fuller  
Company Secretary

10 June 2015

**Registered office:**  
86 Bondway  
London  
SW8 1SF

## **Chancel House Limited**

### **Directors' Responsibilities Statement**

The Directors are responsible for preparing the annual report and the financial statements in accordance with 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). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 judgements 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

## **Independent Auditor's Report to the Members of Chancel House Limited**

We have audited the financial statements of Chancel House Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with chapter 3, part 16 of the Companies Act 2006. 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 auditor**

As more fully explained in Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Independent Auditor's Report to the Members of Chancel House Limited (continued)**

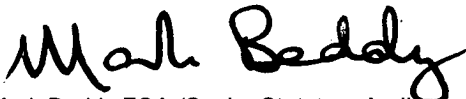
### **Opinion on matters prescribed in the Companies Act 2006**

In our opinion the information in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from preparing a Strategic Report or in preparing the Directors' Report.



Mark Beddy FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
10 June 2015

## Chancel House Limited

### Profit and Loss Account Year ended 31 December 2014

	Notes	2014 £	2013 £
Turnover	2	1,446,600	1,319,967
Service charge expenditure		(437,638)	(426,012)
<b>Net rental income</b>		<b>1,008,962</b>	<b>893,955</b>
Administrative expenses		(139,451)	(107,397)
<b>Operating profit</b>		<b>869,511</b>	<b>786,558</b>
Interest receivable and similar income	3	6	9,745
Interest payable and similar charges	4	(330,784)	(343,079)
Exceptional finance cost	5	-	(1,993,113)
<b>Profit/(loss) on ordinary activities before taxation</b>	7	<b>538,733</b>	<b>(1,539,889)</b>
Tax on profit/(loss) on ordinary activities	8	(115,231)	511,640
<b>Profit/(loss) for the financial year</b>	15	<b>423,502</b>	<b>(1,028,249)</b>

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

All items included in the Profit and Loss Account are part of continuing operations.



## Chancel House Limited

### Statement of Total Recognised Gains and Losses Year ended 31 December 2014

	Note	2014 £	2013 £
Profit/(loss) for the financial year		423,502	(1,028,049)
Unrealised surplus/(deficit) on revaluation of property	9	3,750,927	(321,648)
<b>Total recognised gains/(losses) for the year</b>		<u>4,174,429</u>	<u>(1,349,897)</u>

# Chancel House Limited

## Balance Sheet 31 December 2014

	Notes	2014 £	2013 £
<b>Fixed assets</b>			
Investment property	9	13,500,000	9,750,000
<b>Current assets</b>			
Debtors: due within one year	10	845,676	520,856
Cash at bank and in hand		1,787	269
		847,463	521,125
<b>Creditors: amounts falling due within one year</b>	11	(483,006)	(431,550)
<b>Net current assets</b>		364,457	89,575
<b>Total assets less current liabilities</b>		13,864,457	9,839,575
<b>Creditors: amounts falling due after more than one year</b>	12	(8,451,309)	(8,608,822)
<b>Provisions for liabilities</b>	13	(501,150)	(493,184)
<b>Net assets</b>		4,911,998	737,569
<b>Capital and reserves</b>			
Called up share capital	14	301,000	301,000
Share premium account	15	1,399,000	1,399,000
Revaluation reserve	15	3,677,277	(73,650)
Profit and loss account	15	(465,279)	(888,781)
<b>Shareholders' funds</b>		4,911,998	737,569

The financial statements of Chancel House Limited (registered number 2907641) were approved by the Board of Directors on 10 June 2015

Signed on behalf of the Board of Directors



Mr J H Whiteley  
Director

# **Chancel House Limited**

## **Notes to the Financial Statements 31 December 2014**

### **1. Significant 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 are 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 not to prepare a cash flow statement as one 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.

The Company has taken advantage of the exemption in Financial Reporting Standard No. 29 not to provide disclosures to enable users of the financial statements to evaluate the significance of the Company's financial instruments to the financial position and performance of the Company, and the nature and extent of risks arising from the Company's financial instruments, as equivalent disclosure is made in the Group accounts of CLS Holdings plc which 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. At the Balance Sheet date, the Company has net assets which are expected to generate positive cash flows.

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 preparing of the annual report and financial statements.

#### **1.3 Investment properties**

Investment properties are revalued 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, unless considered temporary.

In accordance with Statement of Standard Accounting Practice 19 no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 2006 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.

# **Chancel House Limited**

## **Notes to the Financial Statements 31 December 2014**

### **1. Significant accounting policies (continued)**

#### **1.4 Turnover**

Turnover comprises the total value of investment income and 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 lease term. 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 which have originated but not reversed at the balance sheet date where transactions or events which 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 which are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws which 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.

#### **1.7 Derivative financial instruments**

The Company uses derivative financial instruments, including interest rate swaps and caps to help it manage its interest rate risk. For an interest rate swap to be treated as a hedge the instrument must be related to an underlying liability. If the underlying liability is eliminated, the swap ceases to be treated as a hedge and is marked to market, with any gains and losses recognised through the profit and loss account.

# Chancel House Limited

## Notes to the Financial Statements 31 December 2014

### 2. Turnover

	2014 £	2013 £
Rental income	948,771	847,371
Other income	-	8,228
Service charge expenditure recoverable	497,829	464,368
	<u>1,446,600</u>	<u>1,319,967</u>

Turnover arose wholly within the United Kingdom.

### 3. Interest receivable and similar income

	2014 £	2013 £
Bank interest	6	516
Other interest income	-	1,654
Intercompany interest income	-	7,575
	<u>6</u>	<u>9,745</u>

### 4. Interest payable and similar charges

	2014 £	2013 £
On bank loan	-	281,021
Amortisation of arrangement fees	-	2,753
On loans from group undertaking	330,174	59,305
Other finance costs	610	-
	<u>330,784</u>	<u>343,079</u>

Included in other finance costs are £610 (2013: £nil) of guarantee fees payable to the ultimate parent company CLS Holdings plc. The fees are in respect of a guarantee issued to an energy provider covering obligations under energy supply contracts.

## Chancel House Limited

### Notes to the Financial Statements 31 December 2014

#### 5. Exceptional finance cost

	2014	2013
	£	£
Loss on recognition of interest rate swap	-	1,993,113

At 1 January 2013 the Company had in place an interest rate swap in order to hedge interest rate risk on its external borrowings.

Following the repayment of the external loan on 30 October 2013, the swap was considered an ineffective hedge and was therefore recognised as a liability of the Company. Subsequent to its recognition the swap was then sold to a fellow group-undertaking at its fair value as at 14 November 2013. The total loss resulting from the recognition and sale of the swap for 31 December 2013 was £1,993,113.

In the absence of this exceptional cost, the estimated current tax credit in the year ended 31 December 2013 would have been reduced by £0.5 million.

#### 6. Directors' emoluments and employee information

None of the Directors received any remuneration during the year in respect of services as Directors to the Company (2013: £nil). The emoluments of the Directors of the Company, who are also 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 one employee during the year (2013: one).

	2014	2013
	£	£
<b>Employment costs for all employees</b>		
Wages and salaries	5,702	17,070
Pension costs	334	770
Social security costs	787	2,108
	<u>6,823</u>	<u>19,948</u>

# Chancel House Limited

## Notes to the Financial Statements 31 December 2014

### 7. Profit/(loss) on ordinary activities before taxation

	2014 £	2013 £
This is stated after charging:		
Fees payable to the Company's auditor for the audit of the Company's financial statements	4,000	4,000

There were no fees payable in the year to Deloitte and its associates in respect of non-audit services.

### 8. Tax on profit/(loss) on ordinary activities

	2014 £	2013 £
Current tax	107,265	(458,034)
Deferred tax	7,966	(53,606)
Total tax charge/(credit) on profit/(loss) on ordinary activities	115,231	(511,640)

The rate of corporation tax for the financial year beginning 1 April 2013 was 23%. This fell to 21% on 1 April 2014 and the weighted corporation tax rate for the year ended 31 December 2014 was therefore 21.50%. Deferred tax has been calculated at a rate of 20%, being the rate applicable from 1 April 2015 under legislation substantially enacted at the balance sheet date.

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/(loss) on ordinary activities before tax is as follows:

	2014 £	2013 £
Profit/(loss) on ordinary activities before tax	538,733	(1,539,889)
Profit/(loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 23.25% (2013: 24.5%)	115,828	(358,023)
Factors affecting charge:		
Differences between capital allowances and depreciation	(8,563)	(11,293)
Utilisation of brought forward losses	-	(88,718)
Current tax charge/(credit) for the year	107,265	(458,034)

# Chancel House Limited

## Notes to the Financial Statements 31 December 2014

### 9. Investment property

	Freehold £
At 1 January 2014	9,750,000
Additions	3,690
Rent free adjustment	(4,617)
Revaluation surplus for the year	3,750,927
At 31 December 2014	<u>13,500,000</u>

The investment property was revalued at 31 December 2014 to its fair value. The valuation was based on current prices in an active market. The property valuation was carried out by DTZ (2013: Lambert Smith Hampton) who are external, professionally qualified valuers.

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

The historical cost of investment property included at valuation was £9,807,824 (2013: £9,804,134).

### 10. Debtors: due within one year

	2014 £	2013 £
Trade debtors	482,165	-
Amounts due from group undertakings	-	42,968
Prepayments and accrued income	12,742	19,854
Corporation tax	350,769	458,034
	<u>845,676</u>	<u>520,856</u>



## Chancel House Limited

### Notes to the Financial Statements 31 December 2014

#### 11. Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	707	6,276
Amounts due to group undertakings	213,939	59,305
Other taxation and social security	40,461	15,467
Accruals and deferred income	227,899	175,698
Other creditors	-	174,804
	<u>483,006</u>	<u>431,550</u>

#### 12. Creditors: amounts falling due after more than one year

	2014 £	2013 £
Amounts due to group undertakings	<u>8,451,309</u>	<u>8,608,822</u>

Creditors due after more than one year include a balance of £8,451,309 due to a fellow group undertaking. The loan is due for repayment on 15 February 2021. Interest is charged on the loan at a rate of LIBOR plus a margin of 2.65%.

At 31 December 2013, two loans were due to a different fellow group undertaking; one amount of £6,024,845 on which interest was charged at a fixed rate of 4.3%, and an amount of £2,583,977 on which interest was charged at a rate of LIBOR plus a margin of 2.65%.

# Chancel House Limited

## Notes to the Financial Statements 31 December 2014

### 13. Provision for liabilities

Deferred taxation is analysed as follows:

	Provision 2014 £	Amount unprovided 2014 £	Provision 2013 £	Amount unprovided 2013 £
Capital allowances in excess of depreciation	501,150	-	493,184	-
Deferred tax on revaluation surplus	-	24,026	-	-
	<u>501,150</u>	<u>24,026</u>	<u>493,184</u>	<u>-</u>
At 1 January	493,184		546,790	
Amount charged to profit and loss	7,966		17,714	
Effect of decreased tax rate on opening deferred tax	-		(71,320)	
At 31 December	<u>501,150</u>		<u>493,184</u>	

### 14. Called up share capital

	2014 £	2013 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>301,000</u>	<u>301,000</u>

### 15. Combined statement of reserves and reconciliation of movement in shareholders' funds

	Share capital £	Share premium £	Revaluation reserve £	Profit and Loss Account £	2014 Total £	2013 Total £
At 1 January	301,000	1,399,000	(73,650)	(888,781)	737,569	2,087,466
Profit/(loss) for the year	-	-	-	423,502	423,502	(1,028,249)
Surplus on revaluation	-	-	3,750,927	-	3,750,927	(321,648)
Balance at 31 December	<u>301,000</u>	<u>1,399,000</u>	<u>3,677,277</u>	<u>(465,279)</u>	<u>4,911,998</u>	<u>737,569</u>

## **Chancel House Limited**

### **Notes to the Financial Statements 31 December 2014**

#### **16. Parent undertaking**

The Directors consider that the immediate and ultimate parent undertaking and controlling party is CLS Holdings plc, which is incorporated in Great Britain. The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2014, being the largest and only group into which the Company is consolidated. Copies of the group financial statements are publicly available and may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF.