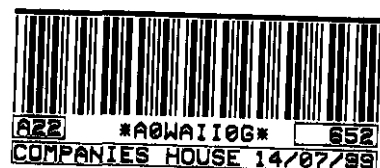


RAYMAN FINANCE LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 1998**

PricewaterhouseCoopers
*Chartered Accountants and
Registered Auditors*
1 Embankment Place
London
WC2N 6NN



Company No. 2130919

RAYMAN FINANCE LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 1998

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RAYMAN FINANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 1998.

1 PRINCIPAL ACTIVITY

The principal activity of the company during the year was stock, share, currency and interest trading together with other related trading.

2 REVIEW OF THE BUSINESS

The results for the year are shown on page 4 of the financial statements.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 1998.
(1997: £Nil)

4 DIRECTORS

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

Mr B F Mörtstedt
Mr G V Hirsch

The Directors had no interests in the shares of the company at any time during the year. The interests of the Directors in CLS Holdings plc are disclosed in that company's financial statements.

5 YEAR 2000

The company's management is addressing the risk arising from the Millenium date change as a matter of proirity. Having taken professional advice, the company's approach to its in house systems is to carry out four essential steps. These are:

- taking an inventory of computer environments, applications and systems;
- testing microprocessor reliant equipment and computer systems and prioritising actions;
- upgrading/replacing equipment and systems where necessary;
- verifying the result.

Additionally, the company is assessing the risk that might be encountered in respect of tenants and suppliers. The cost of this work will be met from existing capital and revenue budgets and is not expected to be significant.

RAYMAN FINANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

6 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:

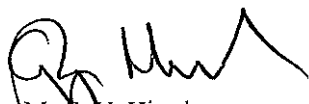
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors 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.

7 AUDITORS

Our auditors, Coopers & Lybrand merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD


Mr C. V. Hirsch
Director

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth St
London
SE11 5EH

19 April 1999

RAYMAN FINANCE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF RAYMAN FINANCE LIMITED

We have audited the financial statements on pages 4 to 8 which have been prepared under the historical cost convention, as modified for the revaluation of certain assets, and the accounting policies set out in page 6.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 2, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

*Chartered Accountants and
Registered Auditors*
LONDON

19 April 1999

RAYMAN FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	NOTES	1998 £	1997 £
Gross loss	(2)	(655,804)	(165,836)
Administrative expenses		(1,577)	(2,843)
Operating loss		(657,381)	(168,679)
Interest receivable and financial income		-	-
Dividends received		4,233	-
Interest payable and similar charges	(4)	(118,000)	-
Loss on ordinary activities before taxati	(3)	(771,148)	(168,679)
Tax on loss on ordinary activities	(6)	(612)	-
Retained loss for the year	(11)	(771,760)	(168,679)

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 retained loss for the year stated above, and their historical cost equivalents.

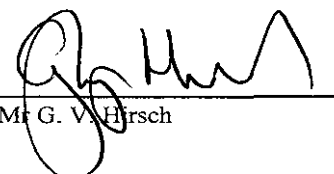
All items included in the above profit and loss account are part of continuing operations.

RAYMAN FINANCE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	NOTES	1998 £	1997 £
CURRENT ASSETS			
Trading stock	(7)	460,220	390,566
Debtors	(8)	895,367	-
		1,355,587	390,566
CREDITORS: amounts falling due within one year	(9)	(2,608,222)	(871,441)
NET CURRENT LIABILITIES AND TOTAL ASSETS LESS CURRENT LIABILITIES		(1,252,635)	(480,875)
CAPITAL AND RESERVES			
Called up share capital	(10)	2,000	2,000
Profit and loss account	(11)	(1,254,635)	(482,875)
EQUITY SHAREHOLDERS' FUNDS		(1,252,635)	(480,875)
		(1,252,635)	(480,875)

These financial statements were approved by the Board of Directors on 19 April 1999 and signed on its behalf by:


DIRECTOR
 Mr G. V. Hirsch

RAYMAN FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

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 in accordance with applicable accounting standards, except that Marketable Securities held by the company as current trading securities are stated at market value, profits and losses arising from this valuation are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value, or if revalued, any revaluation difference be taken to the revaluation reserve. The Directors consider that these requirements would fail to give a true and fair view of the loss for the year, since the marketability of the securities enables decisions to be taken continually about whether to hold or sell then, and hence the economic measure of profit or loss in any period is properly made by reference to market values.

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 *Turnover*

Turnover comprises income received from trading in stocks, shares and share options, and net profits and losses after deducting associated costs arising on trading in financial instruments including forward contracts, foreign exchange and interest rates swap arrangements. The cost of stocks, shares and options purchased is charged to cost of sales. Shares and options held at year end are included in stock.

1.3 *Foreign currency*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Tangible assets denominated in foreign currencies are shown at historical cost. Current assets and all liabilities denominated in foreign currencies are translated at the rate ruling at the end of the financial year. All differences are dealt with through the profit and loss account.

2 GROSS LOSS

	1998 £	1997 £
Turnover	7,060,616	101,250
Cost of sales	(7,716,420)	(267,086)
Gross Loss	(655,804)	(165,836)

RAYMAN FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998 £	1997 £
This is stated after charging:		
Auditors' remuneration	806	806

4 INTEREST PAYABLE AND RELATED CHARGES

	1998 £	1997 £
On loans from group undertakings	118,000	-

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. The company had no employees during the year (1997:none).

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
UK corporation tax at 31% (1997 - 31.5%).	-	-
Overseas taxation	612	-

No provision for corporation tax has been made due to the loss arising in the year.

7 TRADING STOCK

	1998 £	1997 £
Equity investments and other financial instruments	352,913	-
Interest Rate Caps	107,307	390,566

Equity investments and other financial instruments relate to investments listed on the London and Swedish Stock Exchanges.

RAYMAN FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

8 DEBTORS	1998	1997
	£	£
Deposit held at brokers	611,149	-
Amounts due from group undertakings	284,218	-
	<u>895,367</u>	<u>-</u>

9 CREDITORS: amounts falling due within one year	1998	1997
	£	£
Amount due to group undertakings	2,488,610	869,829
Accruals and deferred income	119,612	1,612
	<u>2,608,222</u>	<u>871,441</u>

10 CALLED UP SHARE CAPITAL	1998	1997
	£	£
Authorised, allotted, called up and fully paid: Ordinary shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital	Profit and Loss Account	1998 Total	1997 Total
	£	£	£	£
Balance at 1 January	2,000	(482,875)	(480,875)	(312,196)
Loss for the year	-	(771,760)	(771,760)	(168,679)
Balance at 31 December	<u>2,000</u>	<u>(1,254,635)</u>	<u>(1,252,635)</u>	<u>(480,875)</u>

12 CONTINGENT LIABILITIES

An interest rate cap agreement owned by the company and held by Chancel House Limited (a sister company) as nominee for the company has been charged as security for a borrowing facility of Chancel House Limited of £3,380,000 from Lloyds Bank plc, the principal amount of which now outstanding is £1,660,000.

13 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 Holding plc, 6 Spring Gardens, Citadel Place, Tinworth St, London SE11 5EH.