

**SOUTHERN HOUSE LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 1999**

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

Company No. 2689539



SOUTHERN HOUSE LIMITED

INDEX TO THE ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 1999

Page No.

1 - 2	Directors' Report
3	Auditors' report to the Members
4	Profit and Loss Account
5	Balance Sheet
6 - 10	Notes to the Financial Statements

# **SOUTHERN HOUSE LIMITED**

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999**

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 1999.

### **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 financial statements.

### **3 DIVIDENDS**

The directors do not recommend the payment of a dividend (1998: £26,000 per share).

### **4 FIXED ASSETS**

Information relating to the changes in tangible fixed assets is given in note 8 to the financial statements.

### **5 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.

### **6 YEAR 2000**

During the year ended 31 December 1999 the company made considerable efforts to ensure that neither the systems operating within its properties nor its domestic computer systems would be adversely affected by the millennium date change. The cost of this work was not significant and was met from existing capital. No issues have been noted to date. We continue to monitor our significant customers, vendors and service providers and to date we have no information that indicates that significant vendors may be unable to sell to the entity, or significant customers may be unable to purchase from the company, or significant service providers may be unable to provide services to the company, as a result in each case of year 2000 problems, such that the potential financial effect of which would cause significant uncertainty about the company's going concern status.

**SOUTHERN HOUSE LIMITED**

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

**7 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:

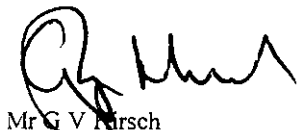
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare 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.

**8 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 G V Morsch  
*Director*

**REGISTERED OFFICE:**

6 Spring Gardens  
Tinworth St  
London  
SE11 5EH

24 March 2000

## SOUTHERN HOUSE LIMITED

### REPORT OF THE AUDITORS TO THE MEMBERS OF SOUTHERN HOUSE LIMITED

We have audited the financial statements on pages 4 to 10.

#### Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom 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 United Kingdom 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 the 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 1999 and of its profit and total recognised gains 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

24 March 2000

**SOUTHERN HOUSE LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 1999**

	NOTES	1999 £	1998 £
Turnover	(2)	73,578	1,605,699
Administrative expenses		(19,877)	(45,216)
<b>Operating profit</b>		<b>53,701</b>	<b>1,560,483</b>
Interest receivable and financial income		19,167	88,156
Interest payable and related charges	(3)	(46,077)	(1,758,087)
<b>Profit/(Loss) on ordinary activities before taxation</b>	(5)	<b>26,791</b>	<b>(109,448)</b>
Tax on loss on ordinary activities	(6)	-	-
<b>Profit/(Loss) for the financial year</b>		<b>26,791</b>	<b>(109,448)</b>
Dividends proposed	(7)	-	(2,600,000)
<b>Retained profit/(loss) for the year</b>	(15)	<b>26,791</b>	<b>(2,709,448)</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	1999 £	1998 £
Profit/(Loss) for the financial year	26,791	(109,448)
Unrealised surplus on revaluation of property	88,500	300,621
<b>Total recognised gains for the year</b>	<b>115,291</b>	<b>191,173</b>

**NOTE OF HISTORICAL COSTS PROFITS AND LOSSES**

	1999 £	1998 £
Profit/(Loss) on ordinary activities before taxation	26,791	(109,448)
Realisation of property revaluation surplus of prior years	-	4,500,000
Historical costs profit on ordinary activities before taxation	26,791	4,390,552
<b>Historical cost profits retained for the year after taxation and dividends</b>	<b>26,791</b>	<b>1,790,552</b>

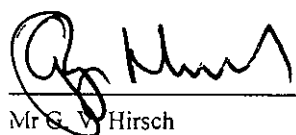
All items included in the above profit and loss account are part of continuing operations.

**SOUTHERN HOUSE LIMITED**

**BALANCE SHEET AS AT 31 DECEMBER 1999**

	NOTES	1999 £	1998 £
<b>FIXED ASSETS</b>			
Tangible assets	(8)	990,000	900,000
<b>CURRENT ASSETS</b>			
Debtors - amounts falling due after more than one year	(9)	-	278,423
Debtors - amounts falling due within one year	(10)	1,051,376	362,441
Cash at bank and in hand		3	514,712
		1,051,379	1,155,576
<b>CREDITORS: amounts falling due within one year</b>	(11)	(368,645)	(871,234)
<b>NET CURRENT ASSETS</b>		682,734	284,342
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,672,734	1,184,342
<b>CREDITORS: amounts falling due after more than one year</b>	(12)	373,101	-
<b>CAPITAL AND RESERVES</b>			
Called up share capital	(14)	100	100
Revaluation reserve	(15)	389,121	300,621
Profit and loss account	(15)	910,412	883,621
<b>EQUITY SHAREHOLDERS' FUNDS</b>		1,299,633	1,184,342
		1,672,734	1,184,342

These financial statements were approved by the Board of Directors on 24 March 2000 and signed on its behalf by:



**DIRECTOR**

Mr G. V. Hirsch

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

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, modified to include the revaluation of land and buildings and in accordance with applicable 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 CLS Holdings plc 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 *Tangible fixed assets*

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 the profit and loss account.

1.3 *Depreciation*

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. 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.

1.4 *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.

1.5 *Deferred Taxation*

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced. It is calculated at the rate at which it is estimated that tax will be payable.



**SOUTHERN HOUSE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.6 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.

**1.6 Interest Rate Caps**

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap.

**2 TURNOVER**

	1999	1998
	£	£
Rental income within the United Kingdom	73,419	1,605,699
Other property related income	159	-
	<hr/>	<hr/>
	73,578	1,605,699
	<hr/>	<hr/>

**3 INTEREST PAYABLE AND RELATED CHARGES**

	1999	1998
	£	£
On bank loans and overdrafts	26,308	1,399,726
On loans from group undertakings	-	184,373
Amortisation of interest caps	17,143	107,882
Loan refinancing/arrangement fees	2,626	66,106
	<hr/>	<hr/>
	46,077	1,758,087
	<hr/>	<hr/>

**4 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 (1998:nil).

**5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**

	1999	1998
	£	£
This is stated after charging:		
Auditors' remuneration	1,545	806
	<hr/>	<hr/>

**SOUTHERN HOUSE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

<b>6</b>	<b>TAX ON LOSS ON ORDINARY ACTIVITIES</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>

UK corporation tax at 30.25%(1998 - 31%).

- -

No provision for corporation tax has been made for the year due to the availability of losses. Losses are available from one or more of the following sources; losses arising in the year, losses brought forward and group relief surrendered free of charge.

<b>7</b>	<b>DIVIDENDS</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>

Ordinary	-	2,600,000
----------	---	-----------

<b>8</b>	<b>TANGIBLE FIXED ASSETS</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>

Freehold investment property

Valuation at 1 January	900,000	24,500,000
------------------------	---------	------------

Property Disposal	-	(24,500,000)
-------------------	---	--------------

Additions	1,500	599,379
-----------	-------	---------

Revaluation	88,500	300,621
-------------	--------	---------

Valuation at 31 December	990,000	900,000
--------------------------	---------	---------

At 31 December 1999 the property was revalued at an estimate of its open market value taking into account the condition and tenancies existing at that date. The property valuation was carried out by Allsops & Co. Chartered Surveyors. The historical cost of the investment property included at valuation at 31st Dec 1999 is £600,879 (1998: £599,379).

<b>9</b>	<b>DEBTORS: Amounts falling due after more than one year</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>

Other debtors	-	278,423
---------------	---	---------

<b>10</b>	<b>DEBTORS: Amounts falling due within one year</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>

Trade debtors	24,725	-
---------------	--------	---

Other debtors	-	107,882
---------------	---	---------

Amounts due from group undertaking	1,000,000	254,559
------------------------------------	-----------	---------

Prepayments and accrued income	26,651	-
--------------------------------	--------	---

1,051,376	362,441
-----------	---------

**SOUTHERN HOUSE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)**

<b>11</b>	<b>CREDITORS: amounts falling due within one year</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>
	Bank loans	30,000	-
	Unamortised arrangement fees	(1,225)	-
	Trade Creditors	-	34,104
	Amounts due to group undertakings	305,116	-
	Accruals and deferred income	34,754	399,630
	Other Creditors	-	437,500
		<hr/>	<hr/>
		368,645	871,234
		<hr/>	<hr/>
<b>12</b>	<b>CREDITORS: amounts falling due after more than one year</b>	<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>
	Bank loans	377,625	-
	Unamortised arrangement fees	(4,524)	-
		<hr/>	<hr/>
	Bank loans	373,101	-
		<hr/>	<hr/>
	Bank loans are repayable as follows:		
		<b>1999</b>	<b>1998</b>
		<b>£</b>	<b>£</b>
	In less than one year	28,775	-
	Between one and two years	28,870	-
	Between two and five years	108,825	-
	After five years	235,408	-
		<hr/>	<hr/>
		401,878	-
		<hr/>	<hr/>

During the year a new loan was drawndown.

Interest was charged at libor plus a margin of 1.125% and was secured by way of a legal charge over the property to which it relates.

# SOUTHERN HOUSE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

### 13 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	1999 Provision £	Amount unprovided £	1998 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	-	4,602	-	361
Losses brought forward	-	(84,867)	-	(58,678)
Taxation on revaluation surplus	-	80,265	-	58,317
	-	-	-	-

No provision has been included in the financial statements for deferred taxation as there are no plans to sell the investment properties and therefore no liability is anticipated in the foreseeable future.

### 14 CALLED UP SHARE CAPITAL

	1999 £	1998 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100

### 15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	1999 Total £	1998 Total £
Balance at 1 January	100	300,621	883,621	1,184,342	3,593,169
Surplus on valuation of properties	-	88,500	-	88,500	300,621
Profit/(Loss) for the year	-	-	26,791	26,791	(2,709,448)
Balance at 31 December	100	389,121	910,412	1,299,633	1,184,342

### 16 CONTINGENT LIABILITIES

In the opinion of the Directors no contingent liabilities exist.

### 17 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.