

SOUTHERN HOUSE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2001

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



Company No. 2689539

SOUTHERN HOUSE LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2001

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SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2001.

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. 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 a dividend (2000: Nil).

4 FIXED ASSETS

Information relating to the changes in tangible fixed assets is given in note 7 to the financial statements.

5 DIRECTORS

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

Mr B F Mörtstedt (*resigned 05/10/01*)

Mr G V Hirsch (*resigned 05/10/01*)

Mr D M Bäverstam (*appointed 05/10/01*)

Mr T J Thomson (*appointed 05/10/01*)

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.

SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001 (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 at the end of the year and of the profit or loss for the year. In preparing those 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 enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors also have general responsibility for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

7 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 T J Thomson
Director

REGISTERED OFFICE:

One Citadel Place
Tinworth St
London
SE11 5EF

28 March 2002

SOUTHERN HOUSE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF SOUTHERN HOUSE LIMITED

We have audited the financial statements which comprise the profit and loss account, balance sheet, the statement of total recognised gains and losses and the related notes.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom auditing standards issued by the Auditing Practices Board.

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 transactions is not disclosed.

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 affairs of the company at 31 December 2001 and of its profit 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

28 March 2002

SOUTHERN HOUSE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTES	2001 £	2000 £
Turnover	(2)	101,998	100,358
Administrative expenses		(15,464)	(21,004)
Operating profit		86,534	79,354
Profit on sale of Investment Property		32,375	-
Profit before interest and tax		118,909	79,354
Interest receivable and financial income		51,833	63,436
Interest payable and related charges	(3)	(24,508)	(29,256)
Profit on ordinary activities before taxation	(5)	146,234	113,534
Tax on profit on ordinary activities	(6)	-	-
Retained profit for the year	(13)	146,234	113,534

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £	2000 £
Profit for the financial year	146,234	113,534
Unrealised surplus on revaluation of property	5,750	134,150
Total recognised gains for the year	151,984	247,684

There is no material difference between the profit on ordinary activities before taxation and the retained profit 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.

SOUTHERN HOUSE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2001

	NOTES	2001 £	2000 £
FIXED ASSETS			
Tangible assets	(7)	1,130,000	1,125,000
CURRENT ASSETS			
Debtors - amounts falling due within one year	(8)	943,014	847,494
Cash at bank and in hand		140	3
CREDITORS: amounts falling due within one year	(9)	943,154 (63,324)	847,497 (81,077)
NET CURRENT ASSETS		879,830	766,420
CREDITORS: amounts falling due after more than one year	(10)	(310,529)	(344,103)
NET ASSETS		1,699,301	1,547,317
CAPITAL AND RESERVES			
Called up share capital	(12)	100	100
Revaluation reserve	(13)	529,021	523,271
Profit and loss account	(13)	1,170,180	1,023,946
EQUITY SHAREHOLDERS' FUNDS		1,699,301	1,547,317

These financial statements were approved by the Board of Directors on 28 March 2002 and signed on its behalf by:


DIRECTOR
 Mr T J Thomson

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

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. Financial Reporting Standard 18 - Accounting Policies, effective for accounting periods ending on or after 22 June 2001 has been adopted. The directors have reviewed the company's accounting policies and considers that the accounts are prepared in accordance with FRS 18.

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.

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 and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation or amortisation is one of 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 2001 (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.

2 TURNOVER

	2001	2000
	£	£
Rental income within the United Kingdom	101,998	100,358

3 INTEREST PAYABLE AND RELATED CHARGES

	2001	2000
	£	£
On bank loan	23,445	28,116
Amortisation of refinancing/arrangement fees	1,063	1,140
	24,508	29,256

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 (2000:nil).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001	2000
	£	£
This is stated after charging:		
Auditors' remuneration	1,176	1,176

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
	£	£
UK corporation tax at 30%(2000 - 30%).	-	-

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.

7 TANGIBLE FIXED ASSETS

	2001	2000
	£	£
Freehold investment property		
Valuation at 1 January	1,125,000	990,000
Additions	2,949,250	850
Revaluation	5,750	134,150
Disposals	(2,950,000)	-
Valuation at 31 December	1,130,000	1,125,000

At 31 December 2001 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 2001 is £601,729 .

8 DEBTORS: Amounts falling due within one year

	2001	2000
	£	£
Trade debtors	25,845	25,084
Amounts due from group undertaking	917,169	813,438
Prepayments and accrued income	-	8,972
	943,014	847,494

9 CREDITORS: amounts falling due within one year

	2001	2000
	£	£
Bank loans	34,500	30,000
Unamortised arrangement fees	(950)	(1,087)
Amounts due to group undertakings	1,372	27,206
Accruals and deferred income	28,402	24,958
	63,324	81,077

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

**10 CREDITORS: amounts falling due
after more than one year**

	2001	2000
	£	£
Bank loans	313,125	347,625
Unamortised arrangement fees	(2,596)	(3,522)
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	310,529	344,103
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Bank loans are repayable as follows:

	2001	2000
	£	£
In one year or less, or on demand	33,550	28,913
In more than one year but not more than two years	35,156	33,511
In more than two years, but not more than five years	275,373	117,540
In more than five years	-	193,053
	<hr/>	<hr/>
	344,079	373,017
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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.

11 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	2001	Amount	2000	Amount
	Provision	unprovided	Provision	unprovided
	£	£	£	£
Capital allowances in excess of depreciation	-	50,158	-	38,356
Losses brought forward	-	(163,921)	-	(151,899)
Taxation on revaluation surplus	-	113,763	-	113,543
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	-	-	-	-
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No provision has been included in the financial statements for deferred taxation as there are no plans to sell the investment property and therefore no liability is anticipated in the foreseeable future.

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

12 CALLED UP SHARE CAPITAL

	2001	2000
	£	£
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	2001 Total £	2000 Total £
Balance at 1 January	100	523,271	1,023,946	1,547,317	1,299,633
Surplus on valuation of properties	-	5,750	-	5,750	134,150
Profit for the year	-	-	146,234	146,234	113,534
Balance at 31 December	100	529,021	1,170,180	1,699,301	1,547,317

14 CONTINGENT LIABILITIES

In the opinion of the Directors no contingent liabilities exist.

15 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, One Citadel Place, Tinworth St, London SE11 5EF.