

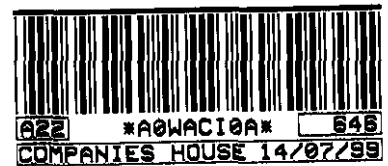
SOUTHERN HOUSE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1998

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 1998

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 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 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. One property was sold during the year and another acquired.

3 DIVIDENDS

A dividend of £26,000 per share was proposed by the Directors for the period ended 31 December 1998 (1997: £nil).

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

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.

SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (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.

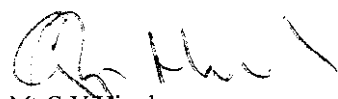
The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

8 AUDITORS

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 G V Hirsch
Director

REGISTERED OFFICE:

6 Spring Gardens
Tinworth St
London
SE11 5EH

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 which have been prepared under the historical cost convention, as modified for revaluation of certain fixed 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 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 1998 and of its loss 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

19 April 1999

SOUTHERN HOUSE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	NOTES	1998 £	1997 £
Turnover	(2)	1,605,699	1,750,000
Administrative expenses		(45,216)	(44,251)
Operating profit		1,560,483	1,705,749
Interest receivable and financial income		88,156	806
Interest payable and related charges	(5)	(1,758,087)	(1,799,664)
Loss on ordinary activities before taxation	(3)	(109,448)	(93,109)
Tax on loss on ordinary activities	(6)	-	-
Loss for the financial year		(109,448)	(93,109)
Dividends proposed	(7)	(2,600,000)	-
Retained loss for the year	(15)	(2,709,448)	(93,109)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1998 £	1997 £
Loss for the financial year	(109,448)	(93,109)
Unrealised surplus on revaluation of property	300,621	1,150,000
Total recognised gains for the year	191,173	1,056,891

NOTE OF HISTORICAL COSTS PROFITS AND LOSSES

	1998 £	1997 £
Loss on ordinary activities before taxation	(109,448)	(93,109)
Realisation of property revaluation surplus of prior years	4,500,000	-
Historical costs profit on ordinary activities before taxation	4,390,552	(93,109)
Historical cost profits retained for the year after taxation and dividends	1,790,552	(93,109)

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

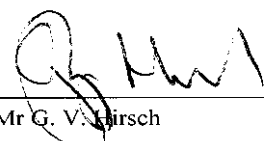
All items included in the above profit and loss account are part of continuing operations.

SOUTHERN HOUSE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	NOTES	1998 £	1997 £
FIXED ASSETS			
Tangible assets	(8)	900,000	24,500,000
CURRENT ASSETS			
Debtors - amounts falling due after more than one year	(9)	278,423	386,305
Debtors - amounts falling due within one year	(10)	362,441	320,382
Cash at bank and in hand		514,712	145,215
CREDITORS: amounts falling due within one year	(11)	1,155,576 (871,234)	851,902 (5,708,733)
NET CURRENT LIABILITIES		284,342	(4,856,831)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,184,342	19,643,169
CREDITORS: amounts falling due after more than one year	(12)	-	16,050,000
CAPITAL AND RESERVES			
Called up share capital	(14)	100	100
Revaluation reserve	(15)	300,621	4,500,000
Profit and loss account	(15)	883,621	(906,931)
EQUITY SHAREHOLDERS' FUNDS		1,184,342	3,593,169
		1,184,342	19,643,169

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


DIRECTOR
 Mr G. V. Mirsch

SOUTHERN HOUSE 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 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 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 during the year, excluding VAT. 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.

2 TURNOVER

	1998	1997
	£	£
Rental income within the United Kingdom	1,605,699	1,750,000

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

SOUTHERN HOUSE LIMITED

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

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 (1997:nil).

5 INTEREST PAYABLE AND RELATED CHARGES

	1998	1997
	£	£
On bank loans and overdrafts	1,399,726	1,587,164
On loans from group undertakings	184,373	212,500
Amortisation of interest caps	107,882	-
Loan arrangement fees	66,106	-
	<u>1,758,087</u>	<u>1,799,664</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	1998	1997
	£	£
UK corporation tax at 31% (1997 - 31.5%).	-	-
There is no charge for corporation tax in the year due to the loss arising.	<u>-</u>	<u>-</u>

7 DIVIDENDS

	1998	1997
	£	£
Ordinary - final proposed £26,000 per share (1997: £Nil)	2,600,000	-
	<u>2,600,000</u>	<u>-</u>

8 TANGIBLE FIXED ASSETS

	1998	1997
	£	£
Freehold investment property		
Valuation at 1 January	24,500,000	23,350,000
Property Disposal	(24,500,000)	-
Additions	599,379	1,150,000
Revaluation	300,621	-
	<u>900,000</u>	<u>24,500,000</u>
Valuation at 31 December	<u>900,000</u>	<u>24,500,000</u>

At 31 December 1998 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 1998 is £599,379. Southern House was sold to Spring Gardens Ltd in July 1998 for £24,500,000.

SOUTHERN HOUSE LIMITED

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

9	DEBTORS: Amounts falling due after more than one year	1998	1997
		£	£
	Other debtors	278,423	386,305
		<hr/>	<hr/>
10	DEBTORS: Amounts falling due within one year	1998	1997
		£	£
	Other debtors	107,882	320,382
	Amounts due from group undertaking	254,559	-
		<hr/>	<hr/>
		362,441	320,382
		<hr/>	<hr/>
11	CREDITORS: amounts falling due within one year	1998	1997
		£	£
	Trade Creditors	34,104	-
	Amounts due to group undertakings	-	4,677,591
	Accruals and deferred income	399,630	1,031,142
	Other Creditors	437,500	-
		<hr/>	<hr/>
		871,234	5,708,733
		<hr/>	<hr/>
12	CREDITORS: amounts falling due after more than one year	1998	1997
		£	£
	Bank loans	-	16,050,000
		<hr/>	<hr/>
	Bank loans are repayable as follows:		
		1998	1997
		£	£
	In less than one year	-	200,000
	Between one and two years	-	225,000
	Between two and five years	-	15,825,000
		<hr/>	<hr/>
		-	16,250,000
		<hr/>	<hr/>

Interest was charged at libor plus a margin of 1% and was secured by way of a legal charge over the property to which it relates.
The loan was fully repaid during the year.

SOUTHERN HOUSE LIMITED

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

13 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	1998 Provision £	Amount unprovided £	1997 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	-	361	-	795,162
Losses brought forward	-	(58,678)	-	(530,477)
Taxation on revaluation surplus	-	58,317	-	469,564
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	734,249
	<hr/>	<hr/>	<hr/>	<hr/>

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

	1998 £	1997 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100
	<hr/>	<hr/>

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	1998 Total £	1997 Total £
Balance at 1 January	100	4,500,000	(906,931)	3,593,169	2,536,278
Surplus on valuation of properties	-	300,621	-	300,621	1,150,000
Loss for the year	-	-	(2,709,448)	(2,709,448)	(93,109)
Transfer to profit and loss	-	(4,500,000)	4,500,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	100	300,621	883,621	1,184,342	3,593,169
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

SOUTHERN HOUSE LIMITED

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

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.