

SOUTHERN HOUSE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2002

PricewaterhouseCoopers LLP
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 2002

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SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2002.

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 propose a dividend for the year ended 31 December 2002 (2001: 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 T J Thomson

Mr D M Bäverstam

The directors had no interests in the shares of the company at any time during the year. The interests of the directors, who are also directors in the parent company, 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 2002 (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

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

BY ORDER OF THE BOARD

REGISTERED OFFICE:


Mr T J Thomson
Director

One Citadel Place
Tinworth St
London
SE11 5EF

28 May 2003

INDEPENDENT AUDITORS' REPORT 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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come to save where expressly agreed by our prior consent in writing.

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 audit 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

28 May 2003

SOUTHERN HOUSE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	NOTES	2002 £	2001 £ Re-stated
Turnover	(2)	103,498	101,998
Administrative expenses		(11,906)	(15,464)
Operating profit		91,592	86,534
Profit on sale of Investment Property		-	32,375
Profit before interest and tax		91,592	118,909
Interest receivable and financial income		48,934	51,833
Interest payable and related charges	(3)	(18,286)	(24,508)
Profit on ordinary activities before taxation	(5)	122,240	146,234
Tax on profit on ordinary activities	(6)	-	-
Retained profit for the year	(13)	122,240	146,234

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £	2001 £
Profit for the financial year	122,240	146,234
Unrealised (deficit) / surplus on revaluation of property	(230,000)	5,750
Total recognised (loss) / gains for the year	(107,760)	151,984

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.

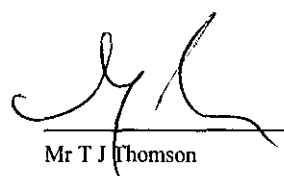
All items included in the above profit and loss account are part of continuing operations.

SOUTHERN HOUSE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2002

	NOTES	2002 £	2001 £
FIXED ASSETS			
Tangible fixed assets	(7)	900,000	1,130,000
CURRENT ASSETS			
Debtors - amounts falling due within one year	(8)	1,037,918	943,014
Cash at bank and in hand		177	140
		1,038,095	943,154
CREDITORS: amounts falling due within one year	(9)	(71,179)	(63,324)
NET CURRENT ASSETS		966,916	879,830
TOTAL ASSETS LESS CURRENT LIABILITIES		1,866,916	2,009,830
CREDITORS: amounts falling due after more than one year	(10)	(275,375)	(310,529)
NET ASSETS		1,591,541	1,699,301
CAPITAL AND RESERVES			
Called up share capital	(12)	100	100
Revaluation reserve	(13)	299,021	529,021
Profit and loss account	(13)	1,292,420	1,170,180
EQUITY SHAREHOLDERS' FUNDS		1,591,541	1,699,301

These financial statements were approved by the Board of Directors on 28 May 2003 and signed on its behalf by:


DIRECTOR
 Mr T J Thomson

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

1 PRINCIPAL ACCOUNTING POLICIES

The company has adopted Financial Reporting Standard 19 'Deferred Taxation' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 19 are given in note 13.

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 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.

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

1.5 Deferred Taxation

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that:

- Provision is not made in respect of property revaluation gains or losses
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

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

	2002	2001
	£	£
Rental income within the United Kingdom	103,498	101,998

3 INTEREST PAYABLE AND RELATED CHARGES

	2002	2001
	£	£
On bank loan	17,334	23,445
Amortisation of refinancing/arrangement fees	952	1,063
	18,286	24,508

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 (2001:nil).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002	2001
	£	£
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 2002 (CONTINUED)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

2002
£

2001
£

UK corporation tax at 30% (2001 - 30%).
Deferred tax charge
Origination and reversal of timing differences

-
-
-

The current tax charge for the period is lower in 2002 and 2001 than the standard rate of UK corporation tax (30%) as explained below:

2002
£

2001
£

Profit on ordinary activities before taxation multiplied by
the standard rate of UK corporation tax of 30% (2001: 30%)
Effect of:
Differences due to expenses non-deductible and items not included
in profit for tax purposes
Losses used or surrendered by group/consortium relief and differences
between capital allowances and depreciation

36,672 43,870
- 9,713
(36,672) (53,583)

Current tax charge in profit and loss account

- -

7 TANGIBLE FIXED ASSETS

2002
£

2001
£

Freehold investment property
Valuation at 1 January
Additions
Disposals
Revaluation (deficit) / surplus
Valuation at 31 December

1,130,000 1,125,000
- 2,949,250
- (2,950,000)
(230,000) 5,750
900,000 1,130,000

At 31 December 2002 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 independent valuers, Allsops & Co. Chartered Surveyors. The historical cost of the investment property included at valuation at 31st Dec 2002 is £601,729.

8 DEBTORS: Amounts falling due within one year

2002
£

2001
£

Trade debtors
Amounts due from group undertaking

832 25,845
1,037,086 917,169
1,037,918 943,014

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

9 CREDITORS: amounts falling due within one year	2002 £	2001 £
Bank loans	36,000	34,500
Unamortised arrangement fees	(844)	(950)
Amounts due to group undertakings	8,348	1,372
Accruals and deferred income	27,675	28,402
	<hr/>	<hr/>
	71,179	63,324
	<hr/>	<hr/>

10 CREDITORS: amounts falling due after more than one year	2002 £	2001 £
Bank loans	277,125	313,125
Unamortised arrangement fees	(1,750)	(2,596)
	<hr/>	<hr/>
	275,375	310,529
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Bank loans are repayable as follows:

	2002 £	2001 £
In one year or less, or on demand	35,156	33,550
In more than one year but not more than two years	37,625	35,156
In more than two years, but not more than five years	237,750	275,373
In more than five years	-	-
	<hr/>	<hr/>
	310,531	344,079
	<hr/>	<hr/>

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 2002 (CONTINUED)

11 DEFERRED TAXATION

Deferred taxation is provided as follows:

	2002 Provision £	Amount unprovided £	2001 Provision £ Re-stated	Amount unprovided £ Re-stated
Capital allowances in excess of depreciation	59,009	-	50,158	-
Losses brought forward	(59,009)	(106,508)	(50,158)	(118,867)
Taxation on revaluation surplus	-	(84,757)	-	148,836
	-	(191,265)	-	29,969

No provision has been included in the financial statements for deferred taxation on revaluation as there are no plans to sell the investment property and therefore no liability is anticipated in the foreseeable future. Such tax would only become payable if the property were sold without it being possible to claim rollover relief.

12 CALLED UP SHARE CAPITAL

	2002 £	2001 £
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 £	2002 Total £	2001 Total £
At 1 January as previously reported	100	529,021	1,170,180	1,699,301	1,547,317
(Deficit) / surplus on revaluation of properties	-	(230,000)	-	(230,000)	5,750
Profit for the year	-	-	122,240	122,240	146,234
Balance at 31 December	100	299,021	1,292,420	1,591,541	1,699,301

The implementation of FRS 19 has had no effect on the results for the year (2001 : nil).

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.