

SOUTHERN HOUSE LIMITED

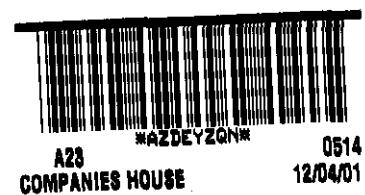
ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2000

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 2000

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 2000

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2000.

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 (1999: 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

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.

SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2000 (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.

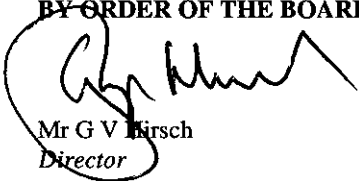
The Directors confirm that the financial statements comply with the above requirements.

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

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 G V Hirsch
Director

REGISTERED OFFICE:

One Citadel Place
Tinworth St
London
SE11 5EF

28 March 2001

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.

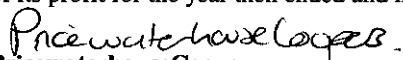
Basis of Opinion

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 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

*Chartered Accountants and
Registered Auditors*
LONDON

28 March 2001

SOUTHERN HOUSE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2000

	NOTES	2000 £	1999 £
Turnover	(2)	100,358	73,578
Administrative expenses		(21,004)	(19,877)
Operating profit		79,354	53,701
Interest receivable and financial income		63,436	19,167
Interest payable and related charges	(3)	(29,256)	(46,077)
Profit on ordinary activities before taxation	(5)	113,534	26,791
Tax on profit on ordinary activities	(6)	-	-
Retained profit for the year	(13)	113,534	26,791

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 £	1999 £
Profit for the financial year	113,534	26,791
Unrealised surplus on revaluation of property	134,150	88,500
Total recognised gains for the year	247,684	115,291

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.

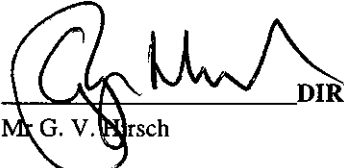
All items included in the above profit and loss account are part of continuing operations.

SOUTHERN HOUSE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2000

	NOTES	2000 £	1999 £
FIXED ASSETS			
Tangible assets	(7)	1,125,000	990,000
CURRENT ASSETS			
Debtors - amounts falling due within one year	(8)	847,494	1,051,376
Cash at bank and in hand		3	3
CREDITORS: amounts falling due within one year	(9)	847,497 (81,077)	1,051,379 (368,645)
NET CURRENT ASSETS		766,420	682,734
TOTAL ASSETS LESS CURRENT LIABILITIES		1,891,420	1,672,734
CREDITORS: amounts falling due after more than one year	(10)	344,103	373,101
CAPITAL AND RESERVES			
Called up share capital	(12)	100	100
Revaluation reserve	(13)	523,271	389,121
Profit and loss account	(13)	1,023,946	910,412
EQUITY SHAREHOLDERS' FUNDS		1,547,317	1,299,633
		1,891,420	1,672,734

These financial statements were approved by the Board of Directors on 28 March 2001 and signed on its behalf by:


 DIRECTOR
 Mr G. V. Porsch

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

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 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 2000 (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

	2000	1999
	£	£
Rental income within the United Kingdom	100,358	73,419
Other property related income	-	159
	<hr/>	<hr/>
	100,358	73,578
	<hr/>	<hr/>

3 INTEREST PAYABLE AND RELATED CHARGES

	2000	1999
	£	£
On bank loan	28,116	26,308
Amortisation of interest caps	-	17,143
Amortisation of refinancing/arrangement fees	1,140	2,626
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	29,256	46,077
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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 (1999:nil).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2000	1999
	£	£
This is stated after charging:		
Auditors' remuneration	1,176	1,545
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SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

6	TAX ON PROFIT ON ORDINARY ACTIVITIES	2000	1999
		£	£

UK corporation tax at 30%(1999 - 30.25%).

-

-

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	2000	1999
		£	£

Freehold investment property

Valuation at 1 January

990,000

900,000

Additions

850

1,500

Revaluation

134,150

88,500

Valuation at 31 December

1,125,000

990,000

At 31 December 2000 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 2000 is £601,729 .

8	DEBTORS: Amounts falling due within one year	2000	1999
		£	£

Trade debtors

25,084

24,725

Amounts due from group undertaking

813,438

1,000,000

Prepayments and accrued income

8,972

26,651

847,494

1,051,376

9	CREDITORS: amounts falling due within one year	2000	1999
		£	£

Bank loans

30,000

30,000

Unamortised arrangement fees

(1,087)

(1,225)

Amounts due to group undertakings

27,206

309,213

Accruals and deferred income

24,958

30,657

81,077

368,645

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

10 CREDITORS: amounts falling due after more than one year

	2000	1999
	£	£
Bank loans	347,625	377,625
Unamortised arrangement fees	(3,522)	(4,524)
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	344,103	373,101
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Bank loans are repayable as follows:

	2000	1999
	£	£
In one year or less, or on demand	28,913	28,775
In more than one year but not more than two years	33,511	28,870
In more than two years, but not more than five years	117,540	108,825
In more than five years	193,053	235,408
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	373,017	401,878
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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:

	2000	Amount	1999	Amount
	Provision	unprovided	Provision	unprovided
	£	£	£	£
Capital allowances in excess of depreciation	-	38,356	-	4,602
Losses brought forward	-	(151,899)	-	(84,867)
Taxation on revaluation surplus	-	113,543	-	80,265
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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 properties and therefore no liability is anticipated in the foreseeable future.

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

12 CALLED UP SHARE CAPITAL	2000	1999
	£	£
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 £	2000 Total £	1999 Total £
Balance at 1 January	100	389,121	910,412	1,299,633	1,184,342
Surplus on valuation of properties	-	134,150	-	134,150	88,500
Profit for the year	-	-	113,534	113,534	26,791
Balance at 31 December	100	523,271	1,023,946	1,547,317	1,299,633

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.