

SOUTHERN HOUSE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1997

COOPERS & LYBRAND

*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 1997

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SOUTHERN HOUSE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1997

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 1997.

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 payment of any dividends for the year ended 31 December 1997 (1996: 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:-

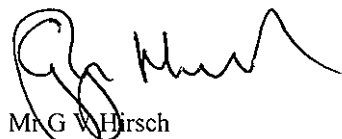
Mr B F Mörtstedt
Mr G V Hirsch

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.

6 AUDITORS

A resolution to reappoint Coopers & Lybrand as auditors to the company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD


Mr G V Hirsch
Director

27 March 1998

REGISTERED OFFICE:

6 Spring Gardens
Tinworth St
London
SE11 5EH

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 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.

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

As described on Page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report on our opinion to you.

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 affairs of the company at 31 December 1997 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.

Coopers & Lybrand.

COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors
LONDON*

27 March 1998

SOUTHERN HOUSE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	NOTES	1997 £	1996 £
Turnover	(2)	1,750,000	1,750,374
Administrative expenses		(44,251)	(57,572)
Operating profit		1,705,749	1,692,802
Interest receivable and financial income		806	1,284
Interest payable and related charges	(5)	(1,799,664)	(1,898,239)
Loss on ordinary activities before taxation	(3)	(93,109)	(204,153)
Tax on loss on ordinary activities	(6)	-	-
Retained loss for the year	(14)	(93,109)	(204,153)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £	1996 £
Loss for the financial year	(93,109)	(204,153)
Unrealised surplus on revaluation of property	1,150,000	-
Total gains / (losses) recognised since last annual report	1,056,891	(204,153)

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

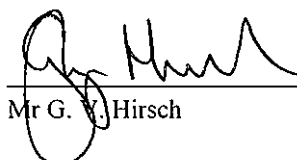
All items included in the above profit and loss account are part of continuing operations.

SOUTHERN HOUSE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1997

	NOTES	1997 £	1996 £
FIXED ASSETS			
Tangible assets	(7)	24,500,000	23,350,000
CURRENT ASSETS			
Debtors - amounts falling due after more than one year	(8)	386,305	494,186
Debtors - amounts falling due within one year	(9)	320,382	70,173
Cash at bank and in hand		145,215	35,658
CREDITORS: amounts falling due within one year	(10)	851,902 (5,708,733)	600,017 (5,163,739)
NET CURRENT LIABILITIES		(4,856,831)	(4,563,722)
TOTAL ASSETS LESS CURRENT LIABILITIES		19,643,169	18,786,278
CREDITORS: amounts falling due after more than one year	(11)	16,050,000	16,250,000
CAPITAL AND RESERVES			
Called up share capital	(13)	100	100
Revaluation reserve	(14)	4,500,000	3,350,000
Profit and loss account	(14)	(906,931)	(813,822)
EQUITY SHAREHOLDERS' FUNDS		3,593,169	2,536,278
		19,643,169	18,786,278

These financial statements were approved by the Board of Directors on 27 March 1998 and signed on its behalf by:


DIRECTOR
 Mr G. V. Hirsch

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

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

	1997	1996
	£	£
Rental income within the United Kingdom	1,750,000	1,750,374

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

1997 1996

£ £

This is stated after charging:

Auditors' remuneration

806

804

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 (1996:nil).

5 INTEREST PAYABLE AND RELATED CHARGES

1997

1996

£ £

On bank loans and overdrafts

1,587,164

1,685,739

On loans from group undertakings

212,500

212,500

1,799,664

1,898,239

6 TAX ON LOSS ON ORDINARY ACTIVITIES

1997

1996

£ £

UK corporation tax at 31.5% (1996 - 33%).

-

-

There is no charge for corporation tax in the year due to the loss arising.

7 TANGIBLE FIXED ASSETS

1997

1996

£ £

Freehold investment property

Valuation at 1 January

23,350,000

23,350,000

Surplus on revaluation

1,150,000

-

Valuation at 31 December

24,500,000

23,350,000

At 31 December 1997 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 is £20,000,000.

SOUTHERN HOUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

8	DEBTORS: Amounts falling due after more than one year	1997	1996
		£	£
	Other debtors	386,305	494,186
		<hr/>	<hr/>
9	DEBTORS: Amounts falling due within one year	1997	1996
		£	£
	Other debtors	320,382	45,813
	Prepayments and accrued income		24,360
		<hr/>	<hr/>
		320,382	70,173
		<hr/>	<hr/>
10	CREDITORS: amounts falling due within one year	1997	1996
		£	£
	Amounts due to group undertakings	4,677,591	4,485,819
	Accruals and deferred income	1,031,142	677,920
		<hr/>	<hr/>
		5,708,733	5,163,739
		<hr/>	<hr/>
11	CREDITORS: amounts falling due after more than one year	1997	1996
		£	£
	Bank loans are repayable as follows:		
	Between one and two years	225,000	200,000
	Between two and five years	15,825,000	775,000
	In five years or more	-	15,275,000
		<hr/>	<hr/>
		16,050,000	16,250,000
		<hr/>	<hr/>

Interest is charged at labor plus a margin of 1% and is secured by way of a legal charge over the property to which it relates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

12 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation is provided as follows:

	1997 Provision £	Amount unprovided £	1996 Provision £	Amount unprovided £
Capital allowances in excess of depreciation	-	795,162	-	742,700
Other short term timing differences	-	-	-	-
Losses available	-	(530,477)	-	(762,947)
Taxation on revaluation surplus	-	469,564	-	362,893
	-	734,249	-	342,646

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.

13 CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	100	100

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	1997 Total £	1996 Total £
Balance at 1 January	100	3,350,000	(813,822)	2,536,278	2,740,431
Surplus on valuation of properties	-	1,150,000	-	1,150,000	-
Loss for the year	-	-	(93,109)	(93,109)	(204,153)
Balance at 31 December	100	4,500,000	(906,931)	3,593,169	2,536,278

15 CONTINGENT LIABILITIES

In the opinion of the Directors no contingent liabilities exist.

16 PARENT UNDERTAKING

The Directors consider that the immediate and ultimate parent undertaking 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.