

CLSH MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2000

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



CLSH MANAGEMENT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2000

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CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2000

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

1 PRINCIPAL ACTIVITY

The principal activity of the company is property management.

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 payment of any dividends for the year ended 31 December 2000 (1999:£Nil).

4 FIXED ASSETS

Information relating to 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 D M Baverstam
Mr G V Hirsch

6 DIRECTORS' INTERESTS

DM Baverstam who is a director of CLSH Management Limited holds shares in the parent company, CLS Holdings plc of 36,417 (1999: 24,667). DM Baverstam holds share options in CLS Holdings plc, 60,000 share options at £1.08 in the 1994 scheme (1999: 60,000), 36,000 share options at £0.98 in the 1996 scheme (1999: 36,000) and 69,000 share options at £1.66 in the 2000 scheme (1999 : nil). BF Mortstedt and GV Hirsch are also directors of CLS Holdings plc. Their interests in CLS Holdings plc are disclosed in that company's financial statements.

The Directors had no interests in the shares of this company at any time during the year.

CLSH MANAGEMENT LIMITED

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

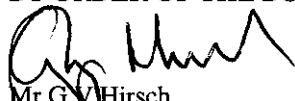
The directors confirm that the financial statements comply with the above requirements.

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 steps to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

8 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 Street
London
SE11 5EF

28 March 2001

CLSH MANAGEMENT LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF CLSH MANAGEMENT LIMITED

We have audited the financial statements on pages 4 to 9.

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 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 loss 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

CLSH MANAGEMENT LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2000**

	NOTES	2000 £	1999 £
Turnover	(2)	2,582,102	1,709,614
Administrative expenses		(3,328,680)	(2,107,561)
Operating loss		(746,578)	(397,947)
Interest receivable and financial income		177,970	214,187
Interest payable and related charges	(4)	0	(220)
Loss on ordinary activities before taxation	(3)	(568,608)	(183,980)
Tax on loss on ordinary activities	(7)	-	-
Retained loss for the year	(14)	(568,608)	(183,980)

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

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

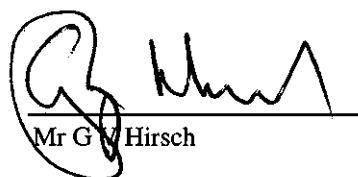
All items included in the above profit and loss account are part of continuing operations.

CLSH MANAGEMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2000

	NOTES	2000 £	1999 £
FIXED ASSETS			
Tangible assets	(8)	318,063	337,825
Investments	(9)	40,877	40,877
		<hr/>	<hr/>
		358,940	378,702
CURRENT ASSETS			
Debtors	(10)	20,366,601	12,143,135
Cash at bank and in hand		8,736,236	11,813,609
		<hr/>	<hr/>
		29,102,837	23,956,744
CREDITORS: amounts falling due within one year	(11)	(29,700,459)	(24,005,520)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(597,622)	(48,776)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		(238,682)	329,926
		<hr/>	<hr/>
CREDITORS: amounts falling due after more than one year			
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Profit and loss account	(14)	(240,682)	327,926
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		(238,682)	329,926
		<hr/>	<hr/>
		(238,682)	329,926
		<hr/>	<hr/>

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


 _____ DIRECTOR
 Mr G. Hirsch

CLSH MANAGEMENT LIMITED

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. 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 which eliminate on consolidation.

The company has received assurances from fellow group companies that sufficient funds will be made available to meet the company's requirements for at least twelve months from the date of these accounts. Accordingly, these financial statements have been prepared on a going concern basis.

1.2 *Turnover*

Turnover comprises the total value of property related services provided during the year and other income, excluding VAT.

1.3 *Depreciation*

Depreciation is provided on fixed tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Office equipment	20%
Motor vehicles	25%
Fixtures and fittings	20%

1.4 *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.

1.5 *Foreign currency*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into pounds sterling at rates of exchange ruling at the end of the financial year. All differences are dealt with through the profit and loss account.

1.6 *Fixed Asset Investments*

Fixed asset investments are held at the lower of cost and net realisable value.

2 TURNOVER

	2000 £	1999 £
Property related services	2,485,886	1,615,927
Other income	96,216	93,687
	<hr/>	<hr/>
	2,582,102	1,709,614
	<hr/>	<hr/>

CLSH MANAGEMENT LIMITED

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

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

2000	1999
£	£
118,566	86,801
15,000	12,401

This is stated after charging:

Depreciation

Auditors' remuneration

4 INTEREST PAYABLE AND RELATED CHARGES

2000	1999
£	£
-	220

Foreign exchange loss

5 EMPLOYEE INFORMATION

5.1 The average number of employees during this period was as follows:

2000	1999
29	25

Administration

5.2 Employment costs of all employees:

2000	1999
£	£
1,236,121	959,828
80,746	107,745
1,316,867	1,067,573

Wages and salaries

Social security costs

6 DIRECTORS' REMUNERATION

2000	1999
£	£
82,160	76,480

Emoluments for management services

The emoluments for the current year of the Directors of CLSH Management Limited who are also board Directors of CLS Holdings plc are disclosed in the financial statements of CLS Holdings plc for their services to the group as a whole.

7 TAX ON LOSS 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.

CLSH MANAGEMENT LIMITED

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

8 TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Office Equipment £	Motor Vehicles £	Fixture & Fittings £	Total £
Cost					
At 1 January 2000	6,763	525,009	55,149	137,272	724,193
Additions	-	74,841	27,000	24,128	125,969
Disposals	-	-	(53,163)	-	(53,163)
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At 31 December 2000	6,763	599,850	28,986	161,400	796,999
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2000	6,763	283,692	19,478	76,435	386,368
Charge for the period	-	89,130	8,548	20,888	118,566
Disposals	-	-	(25,998)	-	(25,998)
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At 31 December 2000	6,763	372,822	2,028	97,323	478,936
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2000	-	227,028	26,958	64,077	318,063
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at 31 December 1999	-	241,317	35,671	60,837	337,825
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

9 INVESTMENTS

	2000 £	1999 £
Works of art	40,877	40,877
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10 DEBTORS

	2000 £	1999 £
Trade debtors	16,600	9,550
Amounts due from group undertakings	19,665,729	11,950,372
Other taxation and social security	61,935	-
Other debtors	176,021	79,373
Prepayments and accrued income	446,316	103,840
	<hr/>	<hr/>
	20,366,601	12,143,135
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CLSH MANAGEMENT LIMITED

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

11 CREDITORS: amounts falling due within one year	2000	1999
	£	£
Trade creditors	55,390	0
Amounts due to group undertakings	28,560,216	22,889,163
Other taxation and social security	-	160,078
Other creditors	708,707	677,586
Accruals and deferred income	376,146	278,693
	<u>29,700,459</u>	<u>24,005,520</u>

12 CALLED UP SHARE CAPITAL	2000	1999
	£	£
Authorised, allotted, called up and fully paid: Ordinary shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

13 DEFERRED TAXATION

No provision has been included in the financial statements for deferred taxation as there are no plans to sell the assets and therefore no liability is anticipated in the foreseeable future.

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital	Profit & Loss Account	2000 Total	1999 Total
	£	£	£	£
At 1 January	2,000	327,926	329,926	513,906
Loss for the year	-	(568,608)	(568,608)	(183,980)
	<u>2,000</u>	<u>(240,682)</u>	<u>(238,682)</u>	<u>329,926</u>
At 31 December	2,000	(240,682)	(238,682)	329,926

15 RELATED PARTY TRANSACTIONS

CLSH Management Limited continued to render management services to Citadel Holdings plc, whilst that company was an associate of CLS Holdings plc. On 31 August 2000 CLS Holdings plc acquired substantially all of the remaining shares in Citadel Holdings plc and the company has been treated as a subsidiary of CLS Holdings plc from 1 September 2000. CLSH Management Limited were paid an amount equal to a fair and reasonable allocation of its central overheads and were reimbursed all third party costs and expenses incurred in providing the services, but did not charge any additional fees. The total value of the fees for 2000 was £947,511 of which £500,000 related to the period when the company was an associate of the group.

16 CONTINGENT LIABILITIES

In the Directors' opinion, 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 Holdings plc, One Citadel Place, Tinworth Street, London, SE11 5EF.