

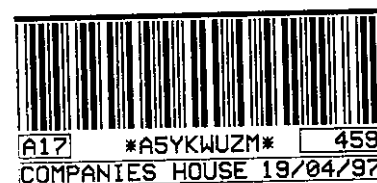
CLSH MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1996

COOPERS & LYBRAND
Chartered Accountants and
Registered Auditors
1 Embankment Place
London
WC2N 6NN



CLSH MANAGEMENT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 1996

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CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 1996

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.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 1996 (1995:£Nil)

4 FIXED ASSETS

Information relating to 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:

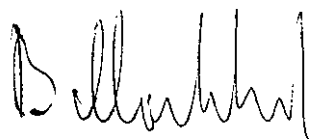
Mr B F Mörtstedt
Mr D M Baverstam
Mr G V Hirsch

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 auditors to the company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD



Mr B F Mörtstedt
Director

27 March 1997

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth Street
London
SE11 5EH

CLSH MANAGEMENT LIMITED

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.

CLSH MANAGEMENT LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF CLSH MANAGEMENT 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 the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

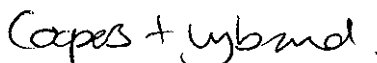
Basis of Opinion

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 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 as at the 31 December 1996 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors*
LONDON

27 March 1997

CLSH MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1996

	NOTES	1996 £	1995 £
Turnover	(2)	854,737	1,299,413
Administrative expenses		(1,121,691)	(1,146,552)
Operating (loss) / profit		(266,954)	152,861
Interest receivable and financial income		111,518	138,402
(Loss) / profit on ordinary activities before taxation (3)		(155,436)	291,263
Tax on (loss)/profit on ordinary activities	(6)	-	1,821,655
Retained (loss) / profit for the year	(13)	(155,436)	2,112,918

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

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

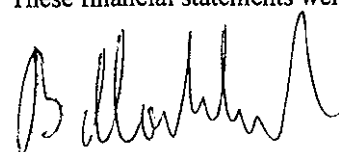
All items included in the above profit and loss account are part of continuing operations.

CLSH MANAGEMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1996

	NOTES	1996 £	1995 £
FIXED ASSETS			
Tangible assets	(7)	173,096	172,556
Investments	(8)	40,877	40,877
		<hr/>	<hr/>
		213,973	213,433
CURRENT ASSETS			
Debtors	(9)	60,700,438	40,300,210
Cash at bank and in hand		7,247,343	10,460,799
		<hr/>	<hr/>
		67,947,781	50,761,009
CREDITORS: amounts falling due within one year	(10)	(66,962,801)	(49,620,053)
		<hr/>	<hr/>
NET CURRENT ASSETS		984,980	1,140,956
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,198,953	1,354,389
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000	2,000
Profit and loss account	(13)	1,196,953	1,352,389
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		1,198,953	1,354,389
		<hr/>	<hr/>
		1,198,953	1,354,389
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These financial statements were approved by the Board of Directors on 27 March 1997 and signed on its behalf by:



DIRECTOR

Mr B F Mörtstedt

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

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 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 *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:

Leasehold premium	25%
Leasehold improvements	20%
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.

2 TURNOVER

	1996 £	1995 £
Property related services	749,595	1,240,068
Other income	102,142	59,345
	<hr/>	<hr/>
	851,737	1,299,413
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CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

3 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1996 £	1995 £
This is stated after charging:		
Depreciation	74,066	81,388
Auditors' remuneration	6,819	9,527
	<hr/>	<hr/>

4 EMPLOYEE INFORMATION

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

	1996	1995
Administration	16	15

4.2 Employment costs of all employees:

	1996 £	1995 £
Wages and salaries	404,491	505,169
Social security costs	41,971	46,797
	<hr/>	<hr/>
	446,462	551,966
	<hr/>	<hr/>

5 DIRECTORS' REMUNERATION

	1996 £	1995 £
Emoluments for management services	66,360	202,071
	<hr/>	<hr/>
	66,360	202,071
	<hr/>	<hr/>
The emoluments (excluding pension contributions) of: The highest paid Director	66,360	78,777
	<hr/>	<hr/>

The emoluments (excluding pension contributions) of the Directors fell within the following ranges:

£50,001 - £55,000	-	1
£55,001 - £60,000	-	1
£65,001 - £70,000	1	-
£75,001 - £80,000	-	1
	<hr/>	<hr/>

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.

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

6 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

1996
£

1995
£

Adjustment to agree group balances in connection with
payment for group relief

- 1,821,655

UK corporation tax at 33% (1995:33%)

No provision for Corporation Tax has been made for the year due to the loss arising.

7 TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Office Equipment £	Motor Vehicles £	Fixture & Fittings £	Total £
Cost					
At 1 January 1996	6,763	195,162	66,640	54,928	323,493
Additions	-	37,226	48,986	1,886	88,098
Disposals	-	(7,375)	(40,620)		(47,995)
At 31 December 1996	6,763	225,013	75,006	56,814	363,596
Depreciation					
At 1 January 1996	4,003	104,742	4,664	37,528	150,937
Charge for the period	2,224	46,156	19,760	5,926	74,066
Disposals	-	(6,122)	(28,381)	-	(34,503)
At 31 December 1996	6,227	144,776	(3,957)	43,454	190,500
Net book value at 31 December 1996	536	80,237	78,963	13,360	173,096
Net book value at 31 December 1995	2,760	90,420	61,976	17,400	172,556

8 INVESTMENTS

1996
£

1995
£

Works of art

40,877 40,877

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

9 DEBTORS

	1996 £	1995 £
Trade debtors	3,553	-
Amounts due from group undertakings	60,625,531	40,188,096
Other debtors	21,074	51,376
Prepayments and accrued income	50,280	60,738
	<hr/>	<hr/>
	60,700,438	40,300,210
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10 CREDITORS: amounts falling due within one year

	1996 £	1995 £
Trade creditors	50,113	36,258
Amounts due to group undertakings	66,803,317	49,475,177
Other taxation and social security	17,651	49,717
Other creditors	7,116	-
Accruals and deferred income	84,604	58,901
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	66,962,801	49,620,053
	<hr/>	<hr/>

11 DEFERRED TAXATION

	1996		1995	
	Provision £	Amount Unprovided £	Provision £	Amount Unprovided £
Capital allowances in excess of depreciation	-	-	(1,915)	-
Other short term timing differences	-	-	1,915	-
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	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

12 CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised, allotted, called up and fully paid: Ordinary shares of £1 each	2,000	2,000
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CLSH MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)****13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	Share Capital £	Profit & Loss Account £	1996 Total £	1995 Total £
At 1 January	2,000	1,352,389	1,354,389	(758,529)
(Loss) / profit for the year	-	(155,436)	(155,436)	2,112,918
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At 31 December	2,000	1,196,953	1,198,953	1,354,389
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14 CONTINGENT LIABILITIES

In the Directors' opinion, no contingent liabilities exist.

15 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 Holdings plc, 6 Spring Gardens, Citadel Place, Tinworth Street, London, SE11 5EH.