

CLSH MANAGEMENT LIMITED

ANNUAL REPORT

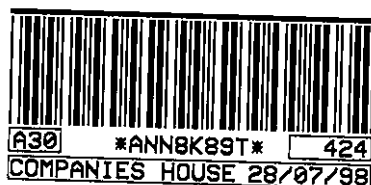
FOR THE YEAR ENDED

31 DECEMBER 1997

COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors*

1 Embankment Place
London
WC2N 6NN



Company No. 2879688

CLSH MANAGEMENT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 1997

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CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1997

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

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 1997 (1996:£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

6 DIRECTORS' INTERESTS


DM Baverstam who is a director of CLSH Management Limited holds shares in the parent company, CLS Holdings plc of 23,296(1996: 22,324). BF Mörtstedt 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.

7 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 1998

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 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.

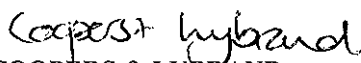
Basis of Opinion

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 affairs of the company at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


COOPERS & LYBRAND

*Chartered Accountants and
Registered Auditors*
LONDON

27 March 1998

CLSH MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

	NOTES	1997 £	1996 £
Turnover	(2)	1,090,804	854,737
Administrative expenses		(1,489,894)	(1,121,691)
Operating loss		(399,090)	(266,954)
Interest receivable and financial income		138,539	111,518
Loss on ordinary activities before taxation	(3)	(260,551)	(155,436)
Tax on loss on ordinary activities	(6)	-	-
Retained loss for the year	(12)	(260,551)	(155,436)

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 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 1997

	NOTES	1997 £	1996 £
FIXED ASSETS			
Tangible assets	(7)	165,556	173,096
Investments	(8)	40,877	40,877
		<hr/>	<hr/>
		206,433	213,973
CURRENT ASSETS			
Debtors	(9)	54,487,059	60,700,438
Cash at bank and in hand		9,373,539	7,247,343
		<hr/>	<hr/>
		63,860,598	67,947,781
CREDITORS: amounts falling due within one year	(10)	(63,128,629)	(66,962,801)
		<hr/>	<hr/>
NET CURRENT ASSETS		731,969	984,980
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		938,402	1,198,953
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(11)	2,000	2,000
Profit and loss account	(12)	936,402	1,196,953
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		938,402	1,198,953
		<hr/>	<hr/>
		938,402	1,198,953
		<hr/>	<hr/>

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


 _____ DIRECTOR
 Mr B F Mortstedt

CLSH MANAGEMENT LIMITED

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 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

	1997 £	1996 £
Property related services	986,823	749,595
Other income	103,981	102,142
	<hr/>	<hr/>
	1,090,804	851,737
	<hr/>	<hr/>

CLSH MANAGEMENT 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:		
Depreciation	69,803	74,066
Auditors' remuneration	8,579	6,819
	<u> </u>	<u> </u>

4 EMPLOYEE INFORMATION

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

	1997	1996
Administration	19	16
	<u> </u>	<u> </u>

4.2 Employment costs of all employees:

	1997 £	1996 £
Wages and salaries	503,972	404,491
Social security costs	51,217	41,971
	<u> </u>	<u> </u>
	555,189	446,462
	<u> </u>	<u> </u>

5 DIRECTORS' REMUNERATION

	1997 £	1996 £
Emoluments for management services	67,200	66,360
	<u> </u>	<u> </u>

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 1997 (CONTINUED)

6 TAX ON LOSS ON ORDINARY ACTIVITIES

1997
£

1996
£

UK corporation tax at 31.5% (1996:33%)

-

-

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 1997	6,763	225,013	75,006	56,814	363,596
Additions	-	48,166	-	14,097	62,263
Disposals	-	-	-	-	-
At 31 December 1997	6,763	273,179	75,006	70,911	425,859
Depreciation					
At 1 January 1997	6,227	144,776	(3,957)	43,454	190,500
Charge for the period	534	39,412	23,245	6,612	69,803
Disposals	-	-	-	-	-
At 31 December 1997	6,761	184,188	19,288	50,066	260,303
Net book value at 31 December 1997	2	88,991	55,718	20,845	165,556
Net book value at 31 December 1996	536	80,237	78,963	13,360	173,096

8 INVESTMENTS

1997
£

1996
£

Works of art

40,877

40,877

CLSH MANAGEMENT LIMITED

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

9 DEBTORS	1997 £	1996 £
Trade debtors	11,312	3,553
Amounts due from group undertakings	54,380,822	60,625,531
Other debtors	21,316	21,074
Prepayments and accrued income	73,609	50,280
	<hr/>	<hr/>
	54,487,059	60,700,438
	<hr/>	<hr/>
 10 CREDITORS: amounts falling due within one year	 1997 £	 1996 £
Trade creditors	111,003	50,113
Amounts due to group undertakings	61,184,405	66,803,317
Other taxation and social security	49,311	17,651
Other creditors	1,490,553	7,116
Accruals and deferred income	293,357	84,604
	<hr/>	<hr/>
	63,128,629	66,962,801
	<hr/>	<hr/>
 11 CALLED UP SHARE CAPITAL	 1997 £	 1996 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	2,000	2,000
	<hr/>	<hr/>

CLSH MANAGEMENT LIMITED

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

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	1997 Total £	1996 Total £
At 1 January	2,000	1,196,953	1,198,953	1,354,389
Loss for the year	-	(260,551)	(260,551)	(155,436)
At 31 December	2,000	936,402	938,402	1,198,953

13 CONTINGENT LIABILITIES

In the Directors' opinion, no contingent liabilities exist.

14 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.

15 RELATED PARTY TRANSACTIONS

During the year CLS Holdings plc ("CLS"), the parent company, entered into a number of transactions and agreements with Citadel Holdings plc ("Citadel") including a subscription to 12.3% of Citadel share capital, on 23 July 1997.

CLSH Management limited has entered into a management agreement dated 25 June 1997 with Citadel.

CLSH Management Limited will be paid an amount equal to a fair and reasonable allocation of its central overheads and will be reimbursed all third party costs and expenses incurred in providing the services but will not charge any additional fees. It is not intended that the executive directors of Citadel will be paid a salary by Citadel but they will be granted share options under the Citadel Share Options Scheme. The total value of fees for 1997 was £275,000.

CLSH Management limited also has a current account balance with Citadel, whereby the former was owed £102,643 as at 31 December 1997. This has since been repaid.