

CLSH MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2004

PricewaterhouseCoopers LLP

Chartered Accountants and

Registered Auditors

1 Embankment Place

London

WC2N 6RH

Company No. 2879688



CLSH MANAGEMENT LIMITED
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FOR THE YEAR ENDED 31 DECEMBER 2004

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CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2004.

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 annual report. The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors do not propose any dividends for the year ended 31 December 2004 (2003:£Nil).

4 DIRECTORS

The Directors of the Company during the year were as follows:

Mr T J Thomson
Mr DM Bäverstam

The Directors had no interests in the shares of the Company at any time during the period. The interests of the Directors, who are also Directors of the parent Company, in CLS Holdings plc are disclosed in that Company's financial statements.

CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

5 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.

6 AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD


Mr T J Thomson
Director

31 March 2005

REGISTERED OFFICE:

One Citadel Place
Tinworth Street
London
SE11 5EF

CLSH MANAGEMENT LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLSH MANAGEMENT LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Companies Act 1985. 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 is not disclosed.

Basis of audit 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

31 March 2005

CLSH MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	2004 £	2003 £
Turnover	(2)	3,113,131	2,680,014
Administrative expenses		(3,411,548)	(3,133,954)
Operating loss		(298,417)	(453,940)
Interest receivable and financial income		425,826	637,664
Profit on ordinary activities before taxation	(3)	127,409	183,724
Tax on profit on ordinary activities	(6)	-	-
Retained profit for the financial year	(13)	127,409	183,724

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 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.

CLSH MANAGEMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	NOTES	2004 £	2003 £
FIXED ASSETS			
Tangible assets	(7)	129,660	134,702
Investments	(8)	3,256,373	4,710,090
		<hr/>	<hr/>
		3,386,033	4,844,792
CURRENT ASSETS			
Debtors	(9)	44,234,612	26,601,696
Cash at bank and in hand		3,242,108	1,339,741
		<hr/>	<hr/>
		47,476,720	27,941,438
CREDITORS: amounts falling due within one year	(10)	(49,702,681)	(33,751,567)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(2,225,961)	(5,810,130)
		<hr/>	<hr/>
NET ASSETS/(LIABILITIES)		1,160,071	(965,338)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000,000	2,000
Profit and loss account	(13)	(839,929)	(967,338)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)		1,160,071	(965,338)
		<hr/>	<hr/>

The financial statements on pages 4 to 9 were approved by the Board of Directors on 31 March 2005 and signed on its behalf by:


 DIRECTOR
 Mr T J Thomson

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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 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 and trading income 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 recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that:

- Provision is not made in respect of property revaluation gains or losses, and
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

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.

1.7 *Pension costs*

The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged represent the contributions payable.

2 TURNOVER

	2004 £	2003 £
Property related services and trading income	3,012,956	2,590,747
Other income	100,175	89,267
	<u>3,113,131</u>	<u>2,680,014</u>

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £	2003 £
This is stated after charging:		
Depreciation	90,213	133,650
Auditors' remuneration	15,000	15,000
Profit on disposal of fixed assets	-	4,161

4 EMPLOYEE INFORMATION

4.1 The average number of employees during the year was as follows:

	2004	2003
Administration	32	31

4.2 Employment costs of all employees:

	2004 £	2003 £
Wages and salaries	1,579,350	1,213,753
Social security costs	156,150	132,476
	1,735,500	1,346,229

5 DIRECTORS' REMUNERATION

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

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
UK corporation tax at 30% (2002: 30%)	-	-
Deferred tax charge:		
Origination and reversal of timing differences	-	-

The current tax charge for the period is lower in 2004 and 2003 than the standard rate of UK corporation tax (30%) as explained below:

	2004 £	2003 £
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30%	38,223	55,117
<u>Effect of:</u>		
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	(38,223)	(55,117)
Current tax charge in profit and loss account	-	-

The Company expects to be able to shelter any future profits in a similar manner.

CLSH MANAGEMENT LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)
7 TANGIBLE FIXED ASSETS

	Office Equipment £	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost				
At 1 January 2004	720,077	9,259	299,178	1,028,514
Additions	49,876	30,000	5,294	85,170
Disposals	-	-	-	-
At 31 December 2004	769,953	39,259	304,472	1,113,684
Depreciation				
At 1 January 2004	647,456	5,925	240,431	893,812
Charge for the period	44,434	6,819	38,960	90,213
Disposals	-	-	-	-
At 31 December 2004	691,890	12,744	279,391	984,025
Net book value at 31 December 2004	78,063	26,515	25,081	129,660
Net book value at 31 December 2003	72,621	3,334	58,747	134,702

8 INVESTMENTS

	2004 £	2003 £
Works of art	40,877	40,877
Shares in group undertakings	91,390	91,390
Loan to joint venture undertaking	3,124,106	4,577,823
	3,256,373	4,710,090

The shares in group undertakings is Tweedwind Limited, incorporated in England & Wales, of which CLSH Management Limited owns 91,390 £1 ordinary shares, representing 45.69% of the ordinary share capital. The company is exempt from preparing consolidated accounts, by virtue of S228 of The Companies Act 1985, as its results and the results of its subsidiary undertaking are included in the consolidated accounts of CLS Holdings plc, Citadel Place, Tinworth Street, London SE11.

9 DEBTORS

	2004 £	2003 £
Trade debtors	2,500	2,500
Amounts due from group undertakings	41,817,308	25,565,883
Other debtors	341,246	197,617
Prepayments and accrued income	2,073,558	835,696
	44,234,612	26,601,696

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

10 CREDITORS: amounts falling due within one year	2004 £	2003 £
Trade Creditors	21,279	-
Amounts due to group undertakings	48,217,124	32,555,452
Other taxation and social security	137,989	12,936
Other creditors	802,898	782,564
Accruals and deferred income	523,391	400,616
	<u>49,702,681</u>	<u>33,751,567</u>

11 DEFERRED TAXATION

Deferred taxation is provided as follows:

	2004 Provision £	Amount Unrecognised £	2003 Provision £	Amount Unrecognised £
Capital allowances in excess of depreciation	-	-	-	-
Other timing differences (deferred tax asset)	-	303,618	-	33,157
	<u>-</u>	<u>303,618</u>	<u>-</u>	<u>33,157</u>

12 CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	2,000,000	2,000
	<u>2,000,000</u>	<u>2,000</u>

During the year 1,998,000 shares of £1 each were issued at nominal value. Consideration was satisfied by cash.

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS/DEFICIT

	Share Capital £	Profit & Loss Account £	2004 Total £	2003 Total £
At 1 January	2,000	(967,338)	(965,338)	(1,149,062)
Issue of share capital	1,998,000	-	1,998,000	-
Profit for the year	-	127,409	127,409	183,724
	<u>2,000,000</u>	<u>(839,929)</u>	<u>1,160,071</u>	<u>(965,338)</u>

14 CONTINGENT LIABILITIES

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