

CHARLWORTH LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1999

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

Company No. 3000681



CHARLWORTH LIMITED

**INDEX TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999**

Page No.

1 - 2	Directors' Report
3	Auditors' report to the Members
4	Profit and Loss Account
5	Balance Sheet
6 - 9	Notes to the Financial Statements

CHARLWORTH LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 1999

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 1999.

1 PRINCIPAL ACTIVITIES

The principal activity of the company is to carry on investment business.

2 REVIEW OF THE BUSINESS

The results for the period 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 1999. (1998: Nil)

4 DIRECTORS

The Directors of the company during the whole of the year were as follows:-

Mr G V Hirsch

Mr T J Thomson

5 DIRECTORS' INTERESTS

TJ Thomson who is a director of Charlworth Limited holds shares in the parent company, CLS Holdings plc of 32,390 (1998: 23,973). GV Hirsch is also a director of CLS Holdings plc. His interest in CLS Holdings plc is disclosed in that company's financial statements.

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

6 YEAR 2000

During the year ended 31 December 1999 the company made considerable efforts to ensure that neither the systems operating within its properties nor its domestic computer systems would be adversely affected by the millennium date change. The cost of this work was not significant and was met from existing capital. No issues have been noted to date. We continue to monitor our significant customers, vendors and service providers and to date we have no information that indicates that significant vendors may be unable to sell to the entity, or significant customers may be unable to purchase from the company, or significant service providers may be unable to provide services to the company, as a result in each case of year 2000 problems, such that the potential financial effect of which would cause significant uncertainty about the company's going concern status.

CHARLWORTH LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1999 (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 and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

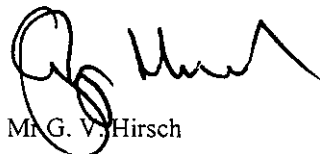
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare 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.

8 AUDITORS

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

BY ORDER OF THE BOARD



Mr G. V. Hirsch
Director

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth Street
London
SE11 5EH

24 March 2000

CHARLWORTH LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF CHARLWORTH 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 of the company at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

*Chartered Accountants and
Registered Auditors*
LONDON

24 March 2000

CHARLWORTH LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1999

	NOTES	1999 £	1998 £
Turnover	(2)	223,084	222,735
Administrative expenses		(2,375)	(1,423)
Operating profit		220,709	221,312
Interest payable and similar charges	(3)	(200,260)	(211,564)
Profit on ordinary activities before taxation	(4)	20,449	9,748
Tax on profit on ordinary activities	(6)	(1,072)	(1,655)
Retained profit for the year	(13)	19,377	8,093

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.

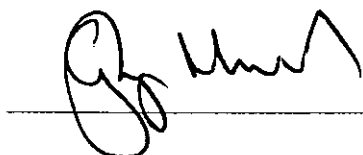
All items included in the above profit and loss account are part of continuing operations.

CHARLWORTH LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1999

	NOTES	1999 £	1998 £
FIXED ASSETS			
Investments	(7)	2,350,383	2,350,383
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	(8)	1,993	10,189
Debtors: amounts falling due within one year	(9)	541,962	440,048
Cash at bank		836	3,303
CREDITORS: amounts falling due within one year	(10)	544,791 (592,777)	453,540 (508,403)
NET CURRENT LIABILITIES		(47,986)	(54,863)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,302,397	2,295,520
CREDITORS: amounts falling due after more than one year	(11)	2,280,625	2,293,125
CAPITAL AND RESERVES			
Called up share capital	(12)	2	2
Profit and loss account	(13)	21,770	2,393
EQUITY SHAREHOLDERS' FUNDS		21,772	2,395
		2,302,397	2,295,520

These financial statements were approved by the Board of Directors on 24 March 2000 and signed on its behalf by:



DIRECTOR

Mr G. V. Hirsch

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

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.

Consolidated financial statements incorporating Charlworth Limited and its subsidiaries are prepared by CLS Holdings plc and therefore consolidated financial statements of the company have not been prepared.

The company has received assurances from CLS Holdings plc 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 rents receivable under operating leases, including reverse premiums paid by tenants on surrender of leases and property-related services provided during the year, excluding VAT. Where there is a material rent free period and the amount is considered to be recoverable, the income is spread evenly over the period to the date of the first break. Rents received in advance are shown as deferred income in the balance sheet.

1.3 *Fixed Asset Investments*

Investments held as fixed assets are stated at cost. A provision is made for any material diminution in value.

2	TURNOVER	1999	1998
		£	£
	Interest receivable	223,084	222,735
		<hr/>	<hr/>
3	INTEREST PAYABLE AND RELATED CHARGES	1999	1998
		£	£
	On bank loans and overdrafts	155,212	203,391
	On loan from group undertaking	36,875	-
	Interest cap amortisation	8,173	8,173
		<hr/>	<hr/>
		200,260	211,564
		<hr/>	<hr/>

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

4	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1999	1998
		£	£
	This is stated after charging:		
	Auditors remuneration	1,545	806

5 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 (1998: none).

6	TAX ON PROFIT ON ORDINARY ACTIVITIES	1999	1998
		£	£
	UK corporation tax at 30.25% (1998: 31%).	-	-
	Adjustments in respect of prior year	1,072	1,655
		<u>1,072</u>	<u>1,655</u>

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.

7	FIXED ASSET INVESTMENTS	Shares in subsidiary	Loans to subsidiary	Gilts	Total
		£	£	£	£
	Balance at 1st January	2	2,330,625	19,756	2,350,383

The shares in subsidiary represents 100% ownership in Spring Gardens II Limited, which is registered and incorporated in England and its principal activity is to invest in commercial property. The nominal value of allotted shares held by the company is £2,000.

Loans to subsidiary represents a loan provided to Spring Gardens II Limited.

The Gilts were purchased at a cost of £19,756. Market value at 31 December 1999 was £ 19,246 (1998: £20,087).

The directors do not consider this diminution to be material, therefore no provision has been made in the accounts.

8	DEBTORS - Amounts falling due after more than one year	1999	1998
		£	£
	Other debtors	1,993	10,189

9	DEBTORS - Amounts falling due within one year	1999	1998
		£	£
	Other debtors	8,676	8,413
	Amounts due from group undertakings	533,286	431,165
	Prepayments and accrued income	-	470
		<u>541,962</u>	<u>440,048</u>

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

10	CREDITORS: amounts falling due within one year	1999 £	1998 £
	Bank Loan	50,000	37,500
	Amounts due to group undertakings	536,875	467,436
	Accruals and deferred income	5,902	3,467
		<u>592,777</u>	<u>508,403</u>

11	CREDITORS: amounts falling due after more than one year	1999 £	1998 £
	Bank Loan	2,280,625	2,293,125
	The bank loan is repayable as follows:		
	In one year or less, or on demand;	50,000	37,500
	In more than one year but not more than two years;	2,280,625	50,000
	In more than two years but not more than five years.	-	2,243,125
		<u>2,330,625</u>	<u>2,330,625</u>

Interest on the loan is charged at Libor plus a margin of 1.25% and is secured by a legal charge over the properties Satellite House and Scriptor Court held by Spring Gardens II Limited.

12	CALLED UP SHARE CAPITAL	1999 £	1998 £
	Authorised ordinary Shares of £1 each	100	100
	Allotted, called up and fully paid: Ordinary Shares of £1 each	<u>2</u>	<u>2</u>

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	1999 Total £	1998 Total £
Balance at 1 January	2	2,393	2,395	(5,698)
Profit for the year	-	19,377	19,377	8,093
Balance at 31 December	<u>2</u>	<u>21,770</u>	<u>21,772</u>	<u>2,395</u>

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999 (CONTINUED)

14 CONTINGENT LIABILITIES

The company has charged all the issued shares in Spring Gardens II Ltd to secure all sums due from the company to Woolwich Building Society under a loan facility, the principle amount of which now outstanding is £2,330,625.

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