

CHARLWORTH LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 1998

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



Company No. 3000681

CHARLWORTH LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 1998**

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CHARLWORTH LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 1998.

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 1998. (1997: 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 23,973 (1997: 23,296). 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

The company's management is addressing the risk arising from the Millenium date change as a matter of proirity. Having taken professional advice, the company's approach to its in house systems is to carry out four essential steps. These are:

- taking an inventory of computer environments, applications and systems;
- testing microprocessor reliant equipment and computer systems and prioritising actions;
- upgrading/replacing equipment and systems where necessary;
- verifying the result.

Additionally, the company is assessing the risk that might be encountered in respect of tenants and suppliers. The cost of this work will be met from existing capital and revenue budgets and is not expected to be significant.

CHARLWORTH LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1998 (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.

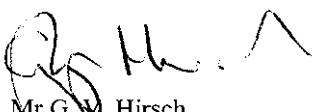
8 AUDITORS

Our auditors, Coopers & Lybrand merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the annual general meeting.

BY ORDER OF THE BOARD

REGISTERED OFFICE:

6 Spring Gardens
Citadel Place
Tinworth Street
London
SE11 5EH


Mr G. M. Hirsch
Director

CHARLWORTH LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF CHARLWORTH LIMITED

We have audited the financial statements on pages 4 to 8, which have been prepared under the historical cost convention and the accounting policies set out in page 6.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 2, the financial statements. Our responsibilities, as independent auditors, are established 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 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers

*Chartered Accountants and
Registered Auditors*
LONDON

19 April 1999

CHARLWORTH LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	NOTES	1998 £	1997 £
Turnover	(2)	222,735	209,876
Administrative expenses		(1,423)	(1,412)
Operating profit		221,312	208,464
Interest payable and similar charges	(5)	(211,564)	(194,070)
Profit on ordinary activities before taxation	(3)	9,748	14,394
Tax on profit on ordinary activities	(6)	(1,655)	-
Retained profit for the year	(13)	8,093	14,394

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.

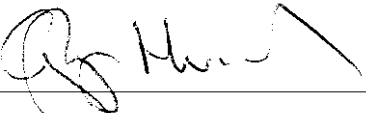
All items included in the above profit and loss account are part of continuing operations.

CHARLWORTH LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	NOTES	1998 £	1997 £
FIXED ASSETS			
Investments	(7)	2,350,383	2,350,383
CURRENT ASSETS			
Debtors: amounts falling due after more than one year	(8)	10,189	18,362
Debtors: amounts falling due within one year	(9)	440,048	451,781
Cash at bank		3,303	2,216
		453,540	472,359
CREDITORS: amounts falling due within one year	(10)	(508,403)	(497,815)
NET CURRENT LIABILITIES		(54,863)	(25,456)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,295,520	2,324,927
CREDITORS: amounts falling due after more than one year	(11)	2,293,125	37,500
CAPITAL AND RESERVES			
Called up share capital	(12)	2	2
Profit and loss account	(13)	2,393	(5,700)
EQUITY SHAREHOLDERS' FUNDS		2,395	(5,698)
		2,295,520	31,802

These financial statements were approved by the Board of Directors on 19 April 1999 and signed on its behalf by:


 _____ DIRECTOR
 Mr G. V. Hirsch

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

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.

1.2 *Turnover*

Turnover comprises the total income receivable from investments held during the year.

1.3 *Fixed Asset Investments*

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

2 TURNOVER

	1998	1997
	£	£
Loan interest receivable	222,735	209,876

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998	1997
	£	£
This is stated after charging:		
Auditors remuneration	806	806

4 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 (1997: none).

5 INTEREST PAYABLE AND RELATED CHARGES

	1998	1997
	£	£
On loans	203,391	185,897
Interest cap amortisation	8,173	8,173
	211,564	194,070

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998	1997
	£	£
UK corporation tax at 31% (1997: 31.5%).	-	-
Tax paid re prior year	1,655	-
	1,655	-

No provision for corporation tax has been made for the year due to group relief surrendered free of charge.

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

7	FIXED ASSET INVESTMENTS	Shares in subsidiary £	Loans to subsidiary £	Gilts £	Total £
	Balance at 1st January and 31 December	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 1998 was £20,087 (1997: £19,756).

8	DEBTORS - Amounts falling due after more than one year	1998 £	1997 £
	Other debtors	10,189	18,362

9	DEBTORS - Amounts falling due within one year	1998 £	1997 £
	Other debtors	8,413	124,864
	Amounts due from group undertakings	431,165	326,447
	Prepayments and accrued income	470	470
		440,048	451,781

10	CREDITORS: amounts falling due within one year	1998 £	1997 £
	Bank Loan	37,500	-
	Amounts due to group undertakings	467,436	497,009
	Accruals and deferred income	3,467	806
		508,403	497,815

11	CREDITORS: amounts falling due after more than one year	1998 £	1997 £
	Bank Loan	2,293,125	2,330,625

The bank loan is repayable as follows:

In one year or less, or on demand;	37,500	-
In more than one year but not more than two years;	50,000	37,500
In more than two years but not more than five years.	2,243,125	2,293,125
	2,330,625	2,330,625

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.

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998 (CONTINUED)

12	CALLED UP SHARE CAPITAL	1998 £	1997 £
	Authorised ordinary Shares of £1 each	100	100
	Allotted, called up and fully paid: Ordinary Shares of £1 each	2	2

13 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	1998 Total £	1997 Total £
Balance at 1 January	2	(5,700)	(5,698)	(20,092)
Profit for the year	-	8,093	8,093	14,394
Balance at 31 December	2	2,393	2,395	(5,698)

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.