

CHARLWORTH LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2001

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 2001**

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CHARLWORTH LIMITED

REPORT OF THE DIRECTORS' FOR THE YEAR ENDED 31 DECEMBER 2001

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2000.

1 PRINCIPAL ACTIVITY

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

2 REVIEW OF THE BUSINESS

The results for the year are shown on page 4 of the financial statements. The Directors expect the principal activity of the company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 2001 (2000: Nil).

4 DIRECTORS

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

Mr G V Hirsch (*resigned 05/10/01*)

Mr D M Bäverstam (*appointed 05/10/01*)

Mr T J Thomson

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.

CHARLWORTH LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001 (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 reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

6 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:

One Citadel Place
Tinworth Street
London
SE11 5EF



Mr T J Thomson
Director

28 March 2002

CHARLWORTH LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF CHARLWORTH LIMITED

We have audited the financial statements which comprise the profit and loss account, balance sheet, the statement of total recognised gains and losses 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, United Kingdom auditing standards issued by the Auditing Practices Board.

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 and transactions is not disclosed.

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 affairs of the company at 31 December 2001 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

28 March 2002

CHARLWORTH LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2001

| | NOTES | 2001 £ | 2000 £ |
|--|-------|----------------|----------------|
| Turnover | (2) | 163,441 | 223,023 |
| Administrative expenses | | (2,745) | (2,137) |
| Operating profit | | 160,696 | 220,886 |
| Interest payable and related charges | (3) | (160,040) | (213,983) |
| Profit on ordinary activities before taxation | (5) | 656 | 6,903 |
| Tax on profit on ordinary activities | (6) | (240) | 238 |
| Profit on ordinary activities after taxation | | 416 | 7,141 |
| Dividends paid and proposed | | - | - |
| Retained profit for the year | (12) | 416 | 7,141 |

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 2001

| | NOTES | 2001 £ | 2000 £ |
|--|-------|-------------|-------------|
| FIXED ASSETS | | | |
| Investments | (7) | 1,920,627 | 1,920,627 |
| CURRENT ASSETS | | | |
| Debtors: amounts falling due within one year | (8) | 260,814 | 322,986 |
| Cash at bank and in hand | | 225,898 | 223,974 |
| CREDITORS: amounts falling due within one year | (9) | 486,712 | 546,960 |
| | | (582,343) | (2,438,674) |
| NET CURRENT LIABILITIES | | (95,631) | (1,891,714) |
| CREDITORS: amounts falling due after more than one year | (10) | (1,795,667) | - |
| NET ASSETS | | 29,329 | 28,913 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | (11) | 2 | 2 |
| Profit and loss account | (12) | 29,327 | 28,911 |
| EQUITY SHAREHOLDERS' FUNDS | | 29,329 | 28,913 |

These financial statements were approved by the Board of Directors on 28 March 2002 and signed on its behalf by:

 DIRECTOR

Mr T J Thomson

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

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. Financial Reporting Standard 18 - Accounting Policies, effective for accounting periods ending on or after 22 June 2001 has been adopted. The directors have reviewed the company's accounting policies and consider that the accounts are prepared in accordance with FRS 18.

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 subsidiary are prepared by CLS Holdings plc and therefore consolidated financial statements of the company have not been prepared.

1.2 *Turnover*

Turnover comprises income receivable from investments.

1.3 *Fixed Asset Investments*

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

1.4 *Interest Rate Caps*

The premium paid for interest rate caps used to hedge borrowings is held within debtors on the balance sheet and amortised over the period of the cap.

1.5 *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.

2 TURNOVER

| | 2001 | 2000 |
|---------------------|---------|---------|
| | £ | £ |
| Interest receivable | 163,441 | 223,023 |

3 INTEREST PAYABLE AND RELATED CHARGES

| | 2001 | 2000 |
|---|---------|---------|
| | £ | £ |
| On bank loans | 123,638 | 168,911 |
| On loan from group undertaking | 33,752 | 36,876 |
| Interest cap amortisation | 1,993 | 8,196 |
| Unamortised arrangement fees and finance fees | 657 | - |
| | 160,040 | 213,983 |

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)

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. None of the other Directors received emoluments for their services during the year (2000:nil). The Company had no employees during the year (2000: none).

| 5 | PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 2001 £ | 2000 £ |
|---|---|-----------|-----------|
| | This is stated after charging: | | |
| | Auditors remuneration | 1,176 | 1,176 |

| 6 | TAX ON PROFIT ON ORDINARY ACTIVITIES | 2001 £ | 2000 £ |
|---|--|-----------|-----------|
| | UK corporation tax at 30% (2000: 30%). | - | - |
| | Adjustments in respect of prior years | 240 | (238) |
| | | 240 | (238) |

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 & 31st December | 2 | 1,900,625 | 20,000 | 1,920,627 |

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 £20,000. Market value at 31 December 2001 was £19,686 (2000: £19,555).

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

| 8 | DEBTORS - Amounts falling due within one year | 2001 £ | 2000 £ |
|---|---|-----------|-----------|
| | Other debtors | - | 2,233 |
| | Amounts due from group undertakings | 260,736 | 320,642 |
| | Prepayments and accrued income | 78 | 111 |
| | | 260,814 | 322,986 |

CHARLWORTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000 (CONTINUED)

| 9 | CREDITORS: amounts falling due within one year | 2001 £ | 2000 £ |
|---|--|----------------|------------------|
| | Bank Loan | 50,000 | 1,900,625 |
| | Unamortised arrangement fees and finance fees | (2,585) | - |
| | Amounts due to group undertakings | 533,752 | 538,049 |
| | Accruals and deferred income | 1,176 | - |
| | | <u>582,343</u> | <u>2,438,674</u> |

| 10 | CREDITORS: amounts falling due after more than one year | 2001 £ | 2000 £ |
|----|---|------------------|-----------|
| | Bank Loan | 1,800,625 | - |
| | Unamortised arrangement fees and finance fees | (4,958) | - |
| | | <u>1,795,667</u> | |

The bank loan is repayable as follows:

| | | |
|--|------------------|------------------|
| In one year or less, or on demand; | 47,415 | 1,900,625 |
| In more than one year but not more than two years; | 47,486 | - |
| In more than two years but not more than five years. | 1,748,182 | - |
| | <u>1,843,083</u> | <u>1,900,625</u> |

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

| 11 | CALLED UP SHARE CAPITAL | 2001 £ | 2000 £ |
|----|---|-----------|-----------|
| | 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> |

CHARLWORTH LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001 (CONTINUED)****12 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS**

| | Share Capital £ | Profit & Loss Account £ | 2001 Total £ | 2000 Total £ |
|------------------------|-----------------------|-------------------------------|--------------------|--------------------|
| Balance at 1 January | 2 | 28,911 | 28,913 | 21,772 |
| Profit for the year | - | 416 | 416 | 7,141 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December | 2 | 29,327 | 29,329 | 28,913 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

13 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 £1,850,625.

14 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.