

CLSH MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006

PricewaterhouseCoopers LLP

Chartered Accountants and

Registered Auditors

1 Embankment Place

London

WC2N 6RH



Company No 2879688

CLSH MANAGEMENT LIMITED
INDEX TO THE ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

Page No

1 - 2	Directors report
3	Independent Auditors Report
4	Profit and loss account
5	Balance sheet
6 - 10	Notes to the Financial Statements

CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2006

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 2006 (2005 £Nil)

4 DIRECTORS

The Directors of the Company during the year were as follows

- Mr P Sjoberg - appointed 1 January 2006
- Mr S F Board - appointed 1 January 2006
- Mr DM Baverstam
- Mr T J Thomson - resigned 1 January 2006

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

Each Director has confirmed that

- So far as he is aware, there is no relevant audit information of which the Company's auditors are unaware,
- He has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

5 STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the Company and of the profit or loss of the Company 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, and
- 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 they have complied with the above requirements in preparing the financial statements

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. 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

6 AUDITORS

PricewaterhouseCoopers LLP will not seek reappointment as auditors of the Company and a resolution to appoint Deloitte & Touche LLP as auditors will be proposed at the annual general meeting

BY ORDER OF THE BOARD

REGISTERED OFFICE



Mr S Board
Director

26th Floor Portland House
Bressenden Place
London
SW1E 5BG

18 May 2007

CLSH MANAGEMENT LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLSH MANAGEMENT LIMITED

We have audited the financial statements of CLSH Management Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

18 May 2007

CLSH MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 €	2005 €
Turnover	(2)	6 037 489	4 483 476
Administrative expenses		(5,828 130)	(4 050 626)
Operating profit		209 359	432 850
Interest receivable and financial income		1,720 871	20,280
Profit on disposal		36 813	-
Profit on ordinary activities before taxation	(3)	1,967 043	453 130
Tax (charge)/credit on profit on ordinary activities	(6)	(372,137)	37 997
Profit for the financial year	(13)	1 594 906	491 127

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2006 €	2005 €
Profit on ordinary activities after taxation		1,594,906	491 127
Unrealised surplus on revaluation of property	(7)	75,000	-
Total recognised gain for the year		1,669,906	491,127

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

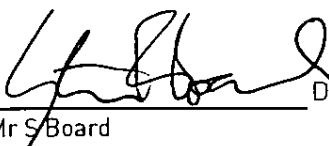
All items included in the above profit and loss account are part of continuing operations

CLSH MANAGEMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	2006 €	2005 €
FIXED ASSETS			
Tangible assets	(7)	855 563	1 718 352
Investments	(8)	132,267	132 267
		987 830	1 850 619
CURRENT ASSETS			
Debtors	(9)	16 815 239	27 665,517
Cash at bank and in hand		-	2 466,569
		16,815,239	30 132 086
CREDITORS amounts falling due within one year	(10)	(14 392,107)	(30,369 694)
PROVISIONS FOR LIABILITIES AND CHARGES	(11)	(164 858)	-
NET CURRENT ASSETS/LIABILITIES		2 258 274	(237,608)
NET ASSETS		3,246 104	1 613,011
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000,000	2 000,000
Revaluation Reserve	(13)	-	(38,187)
Profit and loss account	(13)	1,246 104	(348,802)
EQUITY SHAREHOLDERS' FUNDS		3 246,104	1,613,011

The financial statements on pages 4 to 10 were approved by the Board of Directors on 18 May 2007 and signed on its behalf by


 DIRECTOR
 Mr S Board

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 Tangible fixed assets

Investment properties are revalued bi-annually. Completed investment properties are stated at their open market value. Investment properties in the course of development are stated at open market value in their existing state. Surpluses or deficits arising on revaluation are reflected in the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses are charged to the profit and loss account.

1.4 Depreciation

In accordance with Statement of Standard Accounting Practice 19 no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that, as these properties are not held for consumption but for investment to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation or amortisation is one of many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or quantify this separately.

Depreciation of other tangible fixed assets

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%

1.5 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.

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

1.6 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.

1.7 Fixed Asset Investments

Fixed asset investments are held at the lower of cost and net realisable value.

1.8 Pension costs

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

2 TURNOVER

	2006 £	2005 £
Property related services and trading income	5,920,946	4,370,210
Other income	116,543	113,266
	<hr/>	<hr/>
	6,037,489	4,483,476
	<hr/> <hr/>	<hr/> <hr/>

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2006 £	2005 £
This is stated after charging		
Depreciation	298,679	77,216
Auditors' remuneration	15,000	15,000
	<hr/> <hr/>	<hr/> <hr/>

4 EMPLOYEE INFORMATION

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

	2006	2005
Administration	31	32
	<hr/> <hr/>	<hr/> <hr/>

4.2 Employment costs of all employees

	2006 £	2005 £
Wages and salaries	3,183,936	1,755,021
Social security costs	196,316	353,781
	<hr/>	<hr/>
	3,380,252	2,108,802
	<hr/> <hr/>	<hr/> <hr/>

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.

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

6 TAX ON PROFIT ON ORDINARY ACTIVITIES	2006 £	2005 £
UK corporation tax at 30% (2005 30%)	-	-
Deferred tax charge		
Origination and reversal of timing differences	202 855	(37,997)
Payment for losses received under Group Relief arrangement	169 282	-
	372 137	(37 997)

The current tax charge for the period is lower in 2005 and 2004 than the standard rate of UK corporation tax (30%) as explained below

	2006 £	2005 £
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30%	579 069	453,130
<u>Effect of</u>		
Differences due to expenses non-deductible and items not included in profit for tax purposes	92 787	
Losses used from group/consortium relief and differences between capital allowances and depreciation	(671 856)	(453 130)
Current tax charge in profit and loss account	-	-

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

7 TANGIBLE FIXED ASSETS

	Investment Property	Office Equipment £	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost					
At 1 January 2006	1,070 000	938,971	51 573	719 053	2 779,597
Additions	-	101,644	-	404,244	505,888
Disposals	(1,145,000)	-	-	-	(1,145,000)
Surplus on revaluation	75 000	-	-	-	75,000
	-	1,040,615	51,573	1,123,297	2,215 485
Depreciation					
At 1 January 2006	-	732 845	23,394	305,005	1,061,244
Charge for the period	-	85,899	10,872	201,908	298,679
Disposals	-	-	-	-	-
	-	818,744	34 266	506,913	1,359,923
Net book value at 31 December 2006	-	221 871	17,307	616 384	855,563
Net book value at 31 December 2005	1,070,000	206,126	28,179	414,048	1,718,352

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

8 INVESTMENTS

	2006 £	2005 £
Works of art	40 877	40 877
Shares in group undertakings	91 390	91 390
	<u>132,267</u>	<u>132 267</u>

The shares in group undertakings are Tweedwind Limited incorporated in England & Wales of which CLSH Management Limited owns 148 987 £1 ordinary shares representing 74.4935% 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, 26th Floor Portland House, Bressenden Place London SW1E 5BG.

9 DEBTORS

	2006 £	2005 £
Trade debtors	244,432	113 143
Amounts due from group undertakings	15,910,593	27 228 257
Other taxation and social security	-	37 997
Other debtors	426,350	126 580
Prepayments and accrued income	233,864	159 540
	<u>16,815,239</u>	<u>27,665 517</u>

10 CREDITORS amounts falling due within one year

	2006 £	2005 £
Cash at bank and in hand	865,938	-
Amounts due to group undertakings	10,794,944	28 201,609
Other taxation and social security	233,015	348,182
Other creditors	801,161	816,357
Accruals and deferred income	1,697,049	1,003,546
	<u>14,392,107</u>	<u>30,369,694</u>

11 DEFERRED TAXATION

Deferred taxation is provided as follows

	2006 Provision £	Amount Unrecognised £	2005 Provision £	Amount Unrecognised £
Capital allowances in excess of depreciation	164,858	-	-	-
Other timing differences (deferred tax asset)	-	-	(37,997)	-
	<u>164,858</u>	<u>-</u>	<u>(37,997)</u>	<u>-</u>

CLSH MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

12 CALLED UP SHARE CAPITAL	2006	2005
	£	£
Authorised allotted called up and fully paid Ordinary shares of £1 each	2 000 000	2,000 000

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS/DEFICIT

	Share Capital £	Revaluation Reserve	Profit & Loss Account £	2006 Total £	2005 Total £
At 1 January	2 000 000	(38 187)	(348,802)	1 613,011	1 160,071
Surplus/(deficit) on revaluation	-	75 000	-	75,000	(38,187)
Profit for the year	-	(36 813)	1,594 906	1,558 093	491 127
At 31 December	2 000,000	-	1 246 104	3 246 104	1,613 011

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 26th Floor Portland House Bressenden Place, London SW1E 5BG

16 POST BALANCE SHEET EVENTS

On 21 March 2007 the Chancellor proposed a reduction in the Corporation tax rate in the UK from 30 per cent effective from 1 April 2008. In accordance with UK GAAP provisions the existing rate of 30 per cent is still used as a basis for the calculation of the deferred tax stated. An estimate of the financial effect of this change cannot be made due to the uncertain timing of the reversal or crystallisation of the deferred tax provisions