

CLSH MANAGEMENT LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2007

Company No. 2879688

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CLSH MANAGEMENT LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2007**

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CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2007.

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 KEY PERFORMANCE INDICATORS ("KPIs")

The following are key performance indicators of the business

- Revenue for the year £4,539,802 (2006: £6,037,489)
- (Loss)/profit before tax (£1,202,707) (2006: profit £1,967,043)
- Admin expenditure as % of revenue 134.1% (2006: 96.5%)

4 DIRECTORS

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

Mr P H Sjöberg (resigned 2 May 2008)
Mr S F Board (resigned 8 May 2008)
Mr D M Bäverstam (resigned 23 November 2007)
Mr E H Klotz (appointed 2 May 2008)
Mr A G P Millet (appointed 23 November 2007)
Mr T J L Wills (appointed 1 September 2008)

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.

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors and former Directors who held office in 2007.

CLSH MANAGEMENT LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

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

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

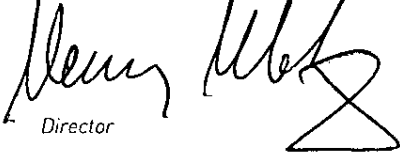
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare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

Pursuant to s386 Companies Act 1985, an elective resolution was passed on 9th October 2002 dispensing with the requirement to appoint auditors annually. Therefore, Deloitte & Touche LLP are deemed to continue as auditors.

ON BEHALF OF THE BOARD



Director

3 December 2008

REGISTERED OFFICE:

86 Bondway
London
SW8 1SF

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 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 -14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

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.

In addition 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.

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2007 and of its loss 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.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

United Kingdom

3 December 2008

CLSH MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 £	2006 £
Turnover	(2)	4,593,802	6,037,489
Administrative expenses		(6,161,926)	(5,828,130)
Operating (loss)/profit		(1,568,124)	209,359
Interest receivable and financial income		365,418	1,720,871
Provisions against investments		(91,390)	
Profit on disposal		-	36,813
(Loss)/Profit on ordinary activities before taxation	(3)	(1,294,097)	1,967,043
Tax charge on (loss)/profit on ordinary activities	(6)	(105,133)	(372,137)
(Loss)/Profit for the financial year	(13)	(1,399,230)	1,594,906

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.

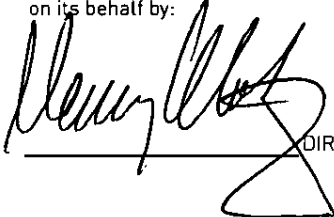
All items included in the above profit and loss account are part of continuing operations.

CLSH MANAGEMENT LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2007

	NOTES	2007 £	2006 £
FIXED ASSETS			
Tangible assets	(7)	605,040	855,563
Investments	(8)	40,877	132,267
		645,917	987,830
CURRENT ASSETS			
Debtors	(9)	20,493,640	16,815,239
Cash at bank and in hand		639,921	-
		21,133,561	16,815,239
CREDITORS: amounts falling due within one year	(10)	(19,932,603)	(14,392,107)
NET CURRENT ASSETS		1,200,958	2,423,132
PROVISIONS FOR LIABILITIES	(11)	-	(164,858)
		1,846,875	3,246,104
NET ASSETS			
		1,846,875	3,246,104
CAPITAL AND RESERVES			
Called up share capital	(12)	2,000,000	2,000,000
Profit and loss account	(13)	(153,125)	1,246,104
		1,846,875	3,246,104
SHAREHOLDERS' FUNDS			
		1,846,875	3,246,104

The financial statements on pages 4 to 10 were approved by the Board of Directors on 3 December 2008 and signed on its behalf by:



 _____ DIRECTOR

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

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.

1.2 *Turnover*

Turnover primarily comprises property related services supplied to group companies and other income primarily comprising of insurance commissions, excluding VAT. Revenue is recognised when the underlying service (or measurable part thereof) has been provided.

1.3 *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 *Taxation*

Corporation tax is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from the reversal of the underlying timing differences can be deducted.

Deferred tax is measured, on an undiscounted basis, at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Provision is not made in respect of property revaluation gains and losses.

CLSH MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (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

	2007	2006
	£	£
Property related services and trading income	4,429,537	5,920,946
Other income	164,265	116,543
	<hr/>	<hr/>
	4,593,802	6,037,489
	<hr/> <hr/>	<hr/> <hr/>

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007	2006
	£	£
This is stated after charging:		
Depreciation	327,269	298,679
Auditors' remuneration - fees for audit of the company's annual accounts	12,500	15,000
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4 EMPLOYEE INFORMATION

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

	2007	2006
Administration	31	31
	<hr/>	<hr/>

4.2 Employment costs of all employees:

	2007	2006
	£	£
Wages and salaries	2,455,491	3,183,936
Social security costs	331,530	196,316
Pension costs	70,973	62,392
	<hr/>	<hr/>
	2,857,994	3,442,644
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CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

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

	2007	2006
	£	£
UK corporation tax at 30% (2006: 30%)	-	-
Deferred tax charge:		
Origination and reversal of timing differences	(197,165)	202,855
Payment for losses received under Group Relief arrangement	302,298	169,282
	<u>105,133</u>	<u>372,137</u>

The current tax charge for the period is lower in 2007 and 2006 than the standard rate of UK corporation tax (30%) as explained below:

	2007	2006
	£	£
(Loss)/ Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30%	(388,229)	579,069
Effect of:		
Differences due to expenses non-deductible and items not included in profit for tax purposes	92,119	92,787
Losses surrendered to/(claimed from) group/consortium relief and differences between capital allowances and depreciation	<u>296,110</u>	<u>(671,856)</u>
Current tax charge in profit and loss account	<u>-</u>	<u>-</u>

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

7 TANGIBLE FIXED ASSETS

	Office Equipment £	Motor Vehicles £	Fixtures & Fittings £	Total £
Cost				
At 1 January 2007	1,040,615	51,573	1,123,298	2,215,486
Additions	39,021	30,000	20,729	89,750
Disposals	-	(30,000)	-	(30,000)
	<u>1,079,636</u>	<u>51,573</u>	<u>1,144,027</u>	<u>2,275,236</u>
Depreciation				
At 1 January 2007	818,744	34,266	506,913	1,359,923
Charge for the period	99,119	10,247	217,903	327,269
Disposals	-	(16,995)	-	(16,995)
	<u>917,863</u>	<u>27,518</u>	<u>724,816</u>	<u>1,670,197</u>
Net book value at 31 December 2007	<u>161,773</u>	<u>24,055</u>	<u>419,211</u>	<u>605,040</u>
Net book value at 31 December 2006	<u>221,871</u>	<u>17,307</u>	<u>616,385</u>	<u>855,562</u>

CLSH MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)

8 INVESTMENTS

	Works of Art £	Investment in Subsidiaries £	Total £
1 January 2007	40,877	91,390	132,267
Provision for impairment	-	(91,390)	(91,390)
31 December 2007	<u>40,877</u>	<u>-</u>	<u>40,877</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, 86 Bondway, London SW8 1SF.

9 DEBTORS

	2007 £	2006 £
Trade debtors	111,454	244,432
Amounts due from group undertakings	19,641,348	15,910,593
Deferred tax (note 11)	32,307	-
Other debtors	461,221	426,350
Prepayments and accrued income	247,311	233,864
	<u>20,493,640</u>	<u>16,815,239</u>

10 CREDITORS: amounts falling due within one year

	2007 £	2006 £
Bank overdraft	-	865,938
Amounts due to group undertakings	18,026,221	10,794,944
Other taxation and social security	607,823	233,015
Amounts due to participating interests	55,927	801,161
Accruals and deferred income	1,242,633	1,697,049
	<u>19,932,603</u>	<u>14,392,107</u>

11 DEFERRED TAXATION

Deferred taxation is provided as follows:

	2007 Provision £	Amount Unrecognised £	2006 Provision £	Amount Unrecognised £
Capital allowances in excess of depreciation	-	-	164,858	-
Other timing differences (deferred tax asset)	(32,307)	-	-	-
	<u>(32,307)</u>	<u>-</u>	<u>164,858</u>	<u>-</u>

CLSH MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (CONTINUED)**

12 CALLED UP SHARE CAPITAL	2007	2006
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

	Share Capital £	Profit & Loss Account £	2007 Total £	2006 Total £
At 1 January	2,000,000	1,246,104	3,246,104	1,651,198
(Loss)/Profit for the year	-	(1,399,230)	(1,399,230)	1,594,906
At 31 December	2,000,000	(153,125)	1,846,875	3,246,104

14 PARENT UNDERTAKING

The Directors consider that the immediate, ultimate parent undertaking and controlling party is CLS Holdings plc which is incorporated in England and Wales. Copies of the parent's consolidated financial statements may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF.