

**CITADEL FINANCE LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**31 DECEMBER 2005**

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



CITADEL FINANCE LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2005

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# **CITADEL FINANCE LIMITED**

## **REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005**

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2005.

### **1 PRINCIPAL ACTIVITIES**

The principal activity of the Company is to act as a financial investment Company within the Citadel Holdings plc Group.

### **2 REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

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 recommend payment of any dividends for the year ended 31 December 2005 (2004: £nil).

### **4 DIRECTORS & THEIR INTERESTS**

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

Mr D M Bäverstam

Mr T J Thomson (resigned 1 January 2006)

Mr P Sjöberg (appointed 1 January 2006)

Mr S F Board (appointed 1 January 2006)

The Directors had no interests in the shares of the Company at any time during the year. The interests of the Directors, who are also directors of the parent company, CLS Holdings plc, are disclosed in that Company's financial statements.

## CITADEL FINANCE LIMITED

### 5 STATEMENT OF DIRECTORS' RESPONSIBILITIES

UK 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 as at the end of the financial year and of the profit or loss of the Company for the year. 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 confirm that the financial statements comply with the above requirements.

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

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

#### BY ORDER OF THE BOARD



**Mr P Sjöberg**  
*Director*

REGISTERED OFFICE  
26th floor, Portland House  
Bressenden Place  
London SW1E 5BG

31 May 2006

# CITADEL FINANCE LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITADEL FINANCE LIMITED

We have audited the financial statements of Citadel Finance Limited for the year ended 31 December 2005 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**

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

  
**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
LONDON

31 May 2006

# CITADEL FINANCE LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	2005 £	2004 £
Turnover	(2)	1,427,170	1,176,250
Administrative expenses		(6,588)	(5,481)
<b>Operating profit</b>	(3)	1,420,582	1,170,769
Interest payable and similar charges	(5)	(184,335)	(2,414,230)
<b>Profit / (loss) on ordinary activities before taxation</b>		1,236,247	(1,243,461)
Tax on profit / (loss) on ordinary activities	(6)	-	-
<b>Retained profit / (deficit) for the financial year</b>	(12)	1,236,247	(1,243,461)

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

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.

The Company has no other recognised gains and losses other than the above and therefore no separate statement of total recognised gains and losses has been presented.

# CITADEL FINANCE LIMITED

## BALANCE SHEET AS AT 31 DECEMBER 2005

	NOTES	2005 £	2004 £
<b>FIXED ASSETS</b>			
Investments	(7)	7,000,294	10,303,709
		<hr/>	<hr/>
		7,000,294	10,303,709
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	(8)	15,317,334	397,652
Cash at bank and in hand		5,757,007	18,383,120
		<hr/>	<hr/>
		21,074,341	18,780,772
<b>CREDITORS</b>			
Amounts falling due within one year	(9)	(488,556)	(5,379,803)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		20,585,785	13,400,969
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		27,586,079	23,704,678
		<hr/>	<hr/>
<b>CREDITORS</b>			
Amounts falling due after more than one year	(10)	(30,494,170)	(27,849,016)
		<hr/>	<hr/>
<b>NET LIABILITIES</b>		(2,908,091)	(4,144,338)
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	(11)	2	2
Other reserves	(12)	(1,315,932)	(1,315,932)
Profit and loss account	(12)	(1,592,161)	(2,828,408)
		<hr/>	<hr/>
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	(13)	(2,908,091)	(4,144,338)
		<hr/>	<hr/>

The financial statements on pages 4 to 10 were approved by the Board of Directors on 31 May 2006 and signed on its behalf by:



Mr P Sjöberg

DIRECTOR

# CITADEL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

### 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 Citadel Holdings plc, which is 100 per cent owned by 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.

The Company has received assurances from Citadel Holdings plc that sufficient funds will be 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 Fixed Asset Investments

Fixed asset investments are held at cost. A provision is made for any permanent diminution in value.

#### 1.3 Foreign currencies

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 sterling at rates of exchange ruling at the end of the financial year. Realised exchange losses arising from redemption of loan balances are taken to other reserves. All other exchange differences are dealt with through the profit and loss account.

#### 1.4 Turnover

Turnover comprises income earned from holding investments and interest receivable from loans provided.

#### 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 and 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.



# CITADEL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

### 2 TURNOVER

Turnover comprises financial income including interest receivable on loans to group undertakings.

	2005 £	2004 £
Interest - bank	217,615	578,250
Intercompany interest	1,209,555	598,000
	<hr/>	<hr/>
	1,427,170	1,176,250
	<hr/>	<hr/>

### 3 OPERATING PROFIT

	2005 £	2004 £
This is stated after charging:		
Auditors' remuneration	1,500	1,500
	<hr/>	<hr/>

### 4 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are directors of CLS Holdings plc, are paid by and 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 (2004: none).

# CITADEL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

5 INTEREST PAYABLE AND SIMILAR CHARGES	2005 £	2004 £
Interest payable on loans from group undertakings	948,934	1,084,417
Foreign exchange (gain) / loss	(764,599)	1,329,813
	<hr/> 184,335	<hr/> 2,414,230
	<hr/> <hr/>	<hr/> <hr/>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES	2005 £	2004 £
UK corporation tax at 30% (2004: 30%)	-	-
	<hr/>	<hr/>
Deferred tax charge:		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

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:

Profit / (loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2004: 30%)	370,874	(373,038)
<u>Effect of:</u>		
Amounts taxable as capital gains	-	-
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	(370,874)	373,038
	<hr/>	<hr/>
Current tax charge in profit and loss account	-	-
	<hr/> <hr/>	<hr/> <hr/>

The Company expects to be able to shelter any future taxable profits by the use of available losses.

# CITADEL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

<b>7</b>	<b>INVESTMENTS</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	<b>Loans to group undertakings</b>		
	At 1 January	10,303,709	6,638,609
	Additional loans	644,286	7,215,035
	Redemptions	(3,947,701)	(3,549,935)
		<hr/>	<hr/>
	At 31 December	7,000,294	10,303,709
		<hr/>	<hr/>
<b>8</b>	<b>DEBTORS: amounts falling due within one year</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	Amounts due from group undertakings	15,316,702	397,652
	Other debtors	632	-
		<hr/>	<hr/>
		15,317,334	397,652
		<hr/>	<hr/>
<b>9</b>	<b>CREDITORS: amounts falling due within one year</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	Amounts due to group undertakings	486,008	5,376,278
	Accruals and deferred income	2,548	3,525
		<hr/>	<hr/>
		488,556	5,379,803
		<hr/>	<hr/>
<b>10</b>	<b>CREDITORS: amounts falling due after more than one year</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	Amounts due to group undertakings	30,494,170	27,849,016
		<hr/>	<hr/>
<b>11</b>	<b>CALLED UP SHARE CAPITAL</b>	<b>2005</b>	<b>2004</b>
		<b>£</b>	<b>£</b>
	Authorised:		
	100 Ordinary shares of £1 each	100	100
		<hr/>	<hr/>
	Allotted, called up and fully paid:		
	2 Ordinary Shares of £1 each	2	2
		<hr/>	<hr/>

# CITADEL FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

### 12 RESERVES

	Other Reserves £	Profit and loss account £
At 1 January 2005	(1,315,932)	(2,828,408)
Retained profit for the financial year	-	1,236,247
	<hr/>	<hr/>
At 31 December 2005	(1,315,932)	(1,592,161)
	<hr/> <hr/>	<hr/> <hr/>

### 13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2005 £	2004 £
Retained profit / (loss) for the year	1,236,247	(1,243,461)
Shareholders' deficit as at 1 January 2005	(4,144,338)	(2,900,877)
	<hr/>	<hr/>
Shareholders' deficit as at 31 December 2005	(2,908,091)	(4,144,338)
	<hr/> <hr/>	<hr/> <hr/>

### 14 CONTINGENT LIABILITIES

In the opinion of the Directors, no contingent liabilities exist.

### 15 ULTIMATE PARENT UNDERTAKING

The Directors consider that the immediate parent undertaking and controlling party is Citadel Holdings plc which is registered in England and Wales and the ultimate parent is CLS Holdings plc. 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.