

CITADEL FINANCE 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 3377672

CITADEL FINANCE LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2006

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CITADEL FINANCE 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 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 declared and paid a £500,000 interim dividend for the year ended 31 December 2006 (2005: £nil)

4 DIRECTORS & THEIR INTERESTS

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

Mr D M Baverstam
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.

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.

CITADEL FINANCE LIMITED

5 STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with 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 to 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



Mr S Board
Director

18 May 2007

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

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 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

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 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 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

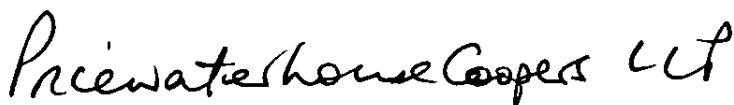
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 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

Chartered Accountants and Registered Auditors
LONDON

18 May 2007

CITADEL FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 £	2005 £
Turnover	(2)	4,017,657	1,427,170
Administrative expenses		(8,321)	(6,588)
		<hr/>	<hr/>
Operating profit	(3)	4,009,336	1,420,582
Interest payable and similar charges	(5)	(600,406)	(184,335)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		3,408,930	1,236,247
Tax on profit on ordinary activities	(6)	-	-
		<hr/>	<hr/>
Profit for the financial year	(14)	3,408,930	1,236,247
		<hr/> <hr/>	<hr/> <hr/>

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 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 2006

	NOTES	2006 £	2005 £
FIXED ASSETS			
Investments	(8)	2,379,928	7,000,294
		<hr/>	<hr/>
		2,379,928	7,000,294
CURRENT ASSETS			
Debtors amounts falling due within one year	(9)	67,405,516	15,317,334
Cash at bank and in hand		3,829,722	5,757,007
		<hr/>	<hr/>
		71,235,238	21,074,341
CREDITORS			
Amounts falling due within one year	(10)	(2,151,403)	(488,556)
		<hr/>	<hr/>
NET CURRENT ASSETS		69,083,835	20,585,785
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		71,463,763	27,586,079
CREDITORS			
Amounts falling due after more than one year	(11)	(71,462,924)	(30,494,170)
		<hr/>	<hr/>
NET ASSETS / (LIABILITIES)		839	(2,908,091)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(12)	2	2
Other reserves	(13)	(1,315,932)	(1,315,932)
Profit and loss account	(13)	1,316,769	(1,592,161)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	(14)	839	(2,908,091)
		<hr/>	<hr/>

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

CITADEL FINANCE 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 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.

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 2006 (CONTINUED)

2 TURNOVER

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

	2006 £	2005 £
Interest - bank	241,756	217,615
Intercompany interest	3,775,901	1,209,555
	<u>4,017,657</u>	<u>1,427,170</u>

3 OPERATING PROFIT

	2006 £	2005 £
This is stated after charging		
Auditors' remuneration	1,500	1,500
	<u>1,500</u>	<u>1,500</u>

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 (2005: none).

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
Interest payable on loans from group undertakings	2,626,906	948,934
Foreign exchange gain	(2,026,500)	(764,599)
	<u>600,406</u>	<u>184,335</u>

CITADEL FINANCE 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	-	-
	-	-

The current tax charge for the period is lower in 2006 and 2005 than the standard rate of UK corporation tax (30%) as explained below

Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2005 30%)	1,022,679	370,874
<u>Effect of</u>		
Amounts taxable as capital gains	-	-
Losses used from group/consortium relief and differences between capital allowances and depreciation	(1,022,679)	(370,874)
Current tax charge in profit and loss account	-	-

7 Dividends

	2006 £	2005 £
Interim paid £250,000 (2005 £nil) per £1 share	500,000	-

CITADEL FINANCE LIMITED

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

8 INVESTMENTS	2006	2005
	£	£
Loans to group undertakings		
At 1 January	7,000,294	10,303,709
Additional loans	1,780,018	644,286
Redemptions	(6,400,384)	(3,947,701)
	<hr/>	<hr/>
At 31 December	2,379,928	7,000,294
	<hr/>	<hr/>
9 DEBTORS: amounts falling due within one year	2006	2005
	£	£
Amounts due from group undertakings	67,404,900	15,316,702
Other debtors	616	632
	<hr/>	<hr/>
	67,405,516	15,317,334
	<hr/>	<hr/>
10 CREDITORS: amounts falling due within one year	2006	2005
	£	£
Amounts due to group undertakings	2,144,794	486,008
Accruals and deferred income	2,351	2,548
Other creditors	4,258	-
	<hr/>	<hr/>
	2,151,403	488,556
	<hr/>	<hr/>
11 CREDITORS amounts falling due after more than one year	2006	2005
	£	£
Amounts due to group undertakings	71,462,924	30,494,170
	<hr/>	<hr/>
12 CALLED UP SHARE CAPITAL	2006	2005
	£	£
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 2006 (CONTINUED)

13 RESERVES

	Other Reserves £	Profit and loss account £
At 1 January 2006	(1,315,932)	(1,592,161)
Profit for the financial year	-	3,408,930
Dividends	-	(500,000)
	<hr/>	<hr/>
At 31 December 2006	(1,315,932)	1,316,769
	<hr/>	<hr/>

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS / (DEFICIT)

	2006 £	2005 £
Retained profit for the year	3,408,930	1,236,247
Shareholders' deficit as at 1 January	(2,908,091)	(4,144,338)
	<hr/>	<hr/>
Shareholders' funds / (deficit) as at 31 December	500,839	(2,908,091)
	<hr/>	<hr/>

15 CONTINGENT LIABILITIES

In the opinion of the Directors, no contingent liabilities exist

16 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.

17 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.