

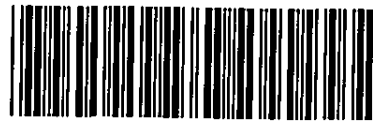
Company Registration No. 3377672

Citadel Finance Limited

Report and Financial Statements

31 December 2012

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Citadel Finance Limited

Report and Financial Statements 2012

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Citadel Finance Limited

Directors' Report

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2012

This Directors Report has been prepared in accordance with the special provisions relating to small companies under section 415a of the Companies Act 2006

Principal activities

The principal activity of the Company is to act as a financial investment company to the CLS Holdings plc Group

Review of business

The results for the year are shown on page 6 The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future

The financial statements have been prepared on the going concern basis as described in note 1.2

Dividends

The Company did not pay a dividend in the year ended 31 December 2012 (2011: £nil)

Directors

The Directors of the Company during the year were as follows

Mr A G P Millet
Mr E H Klotz
Mr J H Whiteley
Mr R J S Tice

Qualifying third-party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the Directors who held office in 2012

Citadel Finance Limited

Directors' Report (continued)

Auditor

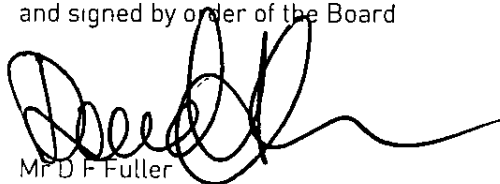
Each of the persons who is a Director at the date of approval of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Pursuant to s386 Companies Act 1985, an Elective Resolution was passed on 9 October 2002 dispensing with the requirement to appoint auditors annually. In accordance with that Elective Resolution and paragraph 45(2), Schedule 3 of the Companies Act 2006 (Commencement No 3 Consequential Amendments, Transitional Provisions and Savings) Order 2007, Deloitte LLP is deemed to continue as auditor of the Company

Approved by the Board of Directors
and signed by order of the Board



MFD F Fuller
Secretary

9 May 2013

Registered office:

86 Bondway
London
SW8 1SF

Citadel Finance Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with 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). Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 judgements 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, 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

Independent Auditor's Report to the Members of Citadel Finance Limited

We have audited the financial statements of Citadel Finance Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As more fully explained in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on matters prescribed in the Companies Act 2006


- In our opinion the information in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of Citadel Finance Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the Directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report



Mark Beddy FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

9 May 2013

Citadel Finance Limited

Profit and Loss Account Year ended 31 December 2012

	Notes	2012 £	2011 £
Turnover	2	1,141,825	788,141
Administrative expenses		(4,254)	(4,228)
Operating profit	3	1,137,571	783,913
Interest receivable		419	2,671
Interest payable and similar charges	5	95,905	72,735
Profit on ordinary activities before taxation		1,233,895	859,319
Tax credit on profit on ordinary activities	6	18,577,382	474,966
Profit for the financial year	12	19,811,277	1,334,285

The Company has no other recognised gains and losses other than those reported in the Profit and Loss Account

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents

All items included in the Profit and Loss Account are part of continuing operations


Citadel Finance Limited

Balance Sheet 31 December 2012

	Notes	2012 £	2011 £
Fixed assets			
Investments	7	-	27,290
Current assets			
Debtors due within one year	8	1,995,166	856,204
Debtors due after one year	8	59,086,832	35,563,279
Cash at bank and in hand		41,279	42,151
		61,123,277	36,461,634
Creditors: amounts falling due within one year	9	(296,894)	(5,126,863)
Net current assets		60,826,383	31,334,771
Total assets less current liabilities		60,826,383	31,362,061
Creditors: amounts falling due after more than one year	10	(50,322,104)	(40,669,059)
Net assets/(liabilities)		10,504,279	(9,306,998)
Capital and reserves			
Called up share capital	11	8,000,000	8,000,000
Profit and Loss Account	12	2,504,279	(17,306,998)
Shareholders' funds/(deficit)		10,504,279	(9,306,998)

The financial statements of Citadel Finance Limited (registered number 3377672) were approved by the Board of Directors on 9 May 2013

Signed on behalf of the Board of Directors



Mr J H Whiteley
Director

Citadel Finance Limited

Notes to the Financial Statements 31 December 2012

1 Significant 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 not to prepare a cash flow statement as one has been prepared for the Group. The Company is a wholly-owned subsidiary of Citadel Holdings plc, which is wholly 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 taken advantage of the exemption in Financial Reporting Standard No. 29 not to provide disclosures to enable users of the financial statements to evaluate the significance of the Company's financial instruments to financial position and performance of the Company, and the nature and extent of risks arising from the Company's financial instruments, as equivalent disclosure is made in the Group accounts of CLS Holdings plc which are publicly available.

1.2 Going concern

The Company's business activities and review of the business are set out in the Directors' report.

At 31 December 2012 the Company had significant net assets. The Directors expect that these assets will generate positive cash flows for the foreseeable future. For these reasons, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the annual report and financial statements.

1.3 Fixed asset investments

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

1.4 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.

1.5 Turnover

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

Citadel Finance Limited

Notes to the Financial Statements 31 December 2012

1 Significant accounting policies (continued)

1.6 Taxation

Corporation tax is provided on taxable profits at the current rate

Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the Balance Sheet date, where transactions or events which 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 which the reversal of the underlying timing differences can be deducted

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

2 Turnover

	2012 £	2011 £
Interest receivable on loans to group undertakings – United Kingdom	1,140,469	788,141
Interest receivable on loans to group undertakings – France	1,356	-
	<u>1,141,825</u>	<u>788,141</u>

3. Profit on ordinary activities before taxation

	2012 £	2011 £
This is stated after charging		
Fees payable to the Company's auditor for the audit of the Company's financial statements	<u>2,400</u>	<u>2,400</u>

4. Directors' emoluments and employee information

None of the Directors received emoluments for their services to the Company during the year (2011: £nil). The emoluments of the Directors of the Company who are also 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 (2011: none)

Citadel Finance Limited

Notes to the Financial Statements 31 December 2012

5. Interest payable and similar charges

	2012 £	2011 £
Interest payable on loans from group undertakings	1,095,209	1,213,319
Foreign exchange gain	(1,191,114)	(1,286,054)
	<u>(95,905)</u>	<u>(72,735)</u>

6 Tax credit on profit on ordinary activities

	2012 £	2011 £
Amounts received for losses surrendered by group relief in respect of previous periods	(18,577,382)	-
Overprovision in respect of previous periods	-	(474,966)
Total current tax credit	<u>(18,577,382)</u>	<u>(474,966)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows

	2012 £	2011 £
Profit on ordinary activities before tax	<u>1,233,895</u>	<u>859,319</u>
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 24.5% (2011: 26.5%)	302,304	227,720
Effect of		
Losses claimed by group/consortium relief for nil payment and differences between capital allowances and depreciation	(302,304)	(227,720)
Amounts received for losses surrendered by group relief in respect of previous periods	(18,577,382)	-
Overprovision in respect of previous periods	-	(474,966)
Current tax credit in Profit and Loss Account	<u>(18,577,382)</u>	<u>(474,966)</u>

The rate of corporation tax for the financial year 2011 was 26%. This fell to 24% on 1 April 2012 and the weighted corporation tax rate for the year ended 31 December 2012 was therefore 24.5%. Deferred tax has been calculated at a rate of 23%, being the rate applicable from 1 April 2013 under legislation substantially enacted at the balance sheet date.

Citadel Finance Limited

Notes to the Financial Statements 31 December 2012

7. Investments

	2012 £	2011 £
Loans to group undertakings		
At 1 January	27,290	27,290
Repaid in year	(27,290)	-
At 31 December	-	27,290

8 Debtors due within one year

	2012 £	2011 £
Amounts due from group undertakings	1,995,166	856,204

8 Debtors due after one year

	2012 £	2011 £
Amounts due from group undertakings	59,086,832	35,563,279

9 Creditors: amounts falling due within one year

	2012 £	2011 £
Amounts due to group undertakings	296,894	5,126,863

10 Creditors: amounts falling due after more than one year

	2012 £	2011 £
Amounts due to group undertakings	50,322,104	40,669,059

Creditors due after more than one year include balances of £31,283,376 due to fellow group undertakings which are due for repayment after more than five years. Of this balance £18,916,944 is due for repayment on 1 March 2021 and £1,623,772 on 9 October 2021. Interest is charged on these balances at a rate of EURIBOR plus a margin of 1.00% (2011: EURIBOR plus 1.00%). A further £1,856,568 is due on 30 March 2018 and interest is charged at EURIBOR plus a margin of 0.50% (2011: EURIBOR plus 0.50%). The remaining balance of £8,886,092 is due for repayment on 31 May 2020 and interest is charged at EURIBOR plus a margin of 3.00% (2011: EURIBOR plus 3.00%).

Citadel Finance Limited

Notes to the Financial Statements 31 December 2012

11. Called up share capital

	2012 £	2011 £
Allotted, called up and fully paid:		
8,000,000 Ordinary shares of £1 each	8,000,000	8,000,000

12. Combined statement of reserves and reconciliation of movement in shareholders' funds/(deficit)

	Share capital £	Profit and loss account £	2012 Total £	2011 Total £
At 1 January	8,000,000	(17,306,998)	(9,306,998)	(10,641,283)
Profit for the year	-	19,811,277	19,811,277	1,334,285
At 31 December	8,000,000	2,504,279	10,504,279	(9,306,998)

13. Parent undertaking

The Directors consider that the immediate and ultimate parent undertaking and controlling party is CLS Holdings plc, which is incorporated in Great Britain. The financial statements of the Company are consolidated into the CLS Holdings plc group accounts for the year ended 31 December 2012, these accounts are the largest, and only group into which the Company is consolidated. Copies of these financial statements are publicly available and may be obtained from The Secretary, CLS Holdings plc, 86 Bondway, London SW8 1SF.