

CLS CAPITAL PARTNERS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2006

PricewaterhouseCoopers

Chartered Accountants and

Registered Auditors

1 Embankment Place

London

WC2N 6RH

Company No 5251597

TUESDAY



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CLS CAPITAL PARTNERS LIMITED

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31 DECEMBER 2006

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CLS CAPITAL PARTNERS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2006

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

1 PRINCIPAL ACTIVITY

The principal activity of the Company is to act as a holding company

2 REVIEW OF THE BUSINESS

The results for the period 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 the payment of any dividend for the year ended 31st December 2006 (2005 Nil) No final dividend is proposed (2005 Nil)

4 ACCOUNTING PERIOD

The Company was incorporated on 6 October 2004 and therefore the prior period accounts of the Company cover the period from 6 October 2004 to 31 December 2005

5 DIRECTORS

The Directors during the period and their interests in the share capital of the Company were as follows

Christen Ager-Hanssen
Steven Francis Board
Ulf Ulrich Brasen
Oliver Patrick Hopkes
Mattias Lennart Seve Ljungman (resigned 3 April 2006)
Hans Otto Thomas Lundqvist
Sten Åke Mortstedt

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

CLS CAPITAL PARTNERS LIMITED

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

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

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

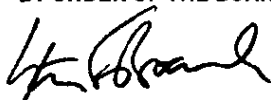
The Directors confirm that they have complied with the above requirements in preparing the financial statements

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

7 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

CLS CAPITAL PARTNERS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLS CAPITAL PARTNERS LIMITED

We have audited the financial statements of CLS Capital Partners 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

CLS CAPITAL PARTNERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	Year ended 31 Dec 2006 £	Period ended 31 Dec 2005 £
Turnover	(1 3)	335,000	-
Administrative expenses	(2)	(269,018)	(384,906)
Operating profit/(loss)		65,982	(384,906)
Interest payable and similar charges		-	-
Profit/(loss) on ordinary activities before taxation		65,982	(384,906)
Tax on loss on ordinary activities - deferred	(3)	-	-
Profit/(loss) for the financial period	(7)	65,982	(384,906)

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 profit for the period stated above and their historical cost equivalents


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

CLS CAPITAL PARTNERS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	31 Dec 2006 £	31 Dec 2005 £
FIXED ASSETS			
Investments	(4)	8,311,651	26,400
CREDITORS: amounts falling due within one year	(5)	(8,130,575)	(411,305)
NET CURRENT LIABILITIES		(8,130,575)	(411,305)
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET LIABILITIES		181,076	(384,905)
CAPITAL AND RESERVES			
Called up share capital	(6)	500,000	1
Profit and loss account	(7)	(318,924)	(384,906)
EQUITY SHAREHOLDERS' DEFICIT		181,076	(384,905)

The financial statements on pages 4 to 8 were approved by the Board of Directors on 18 May 2007 and signed on its behalf by


 Mr S. Board

CLS CAPITAL PARTNERS 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 UK 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 as the financial statements of CLS Holdings plc are publicly available. 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 *Fixed Asset Investments*

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

1.3 *Turnover*

Turnover comprises income receivable from investments, excluding VAT.

1.4 *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.

CLS CAPITAL PARTNERS LIMITED

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

2 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

None of the Directors received emoluments for their services during the year (2005 nil). The emoluments of the Directors of the Company, who are Directors of CLS Holdings plc, are disclosed in that Company's financial statements in respect of their services to the Group as a whole. The Company had three employees during the year (2005 none).

3 TAX ON LOSS ON ORDINARY ACTIVITIES

	31 Dec 2006 £	31 Dec 2005 £
UK corporation tax at 30%	-	-
Deferred tax charge origination and reversal of timing differences	-	-
	-	-

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

	31 Dec 2006 £	31 Dec 2005 £
Profit/(loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30%	19,795	(115,472)
<u>Effect of</u> Losses used from group/consortium relief and differences between capital allowances and depreciation	(19,795)	115,472
	-	-
Current tax charge in profit and loss account	-	-

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

4 INVESTMENTS

	31 Dec 2006 £	31 Dec 2005 £
At 1 January	26,400	-
Additions	8,285,251	26,400
	8,311,651	26,400

CLS CAPITAL PARTNERS LIMITED

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

5 CREDITORS amounts falling due within one year	31 Dec 2006 £	31 Dec 2005 £
Amounts due to Group Undertakings	8,107,595	179,979
Accruals and deferred income	152,980	231,326
	<u>8,260,575</u>	<u>411,305</u>
6 CALLED UP SHARE CAPITAL	31 Dec 2006 £	31 Dec 2005 £
Authorised share capital 1,000 000 Ordinary shares of £1 each	1,000,000	100
Issued share capital Allotted, called up and fully paid 500,000 Ordinary shares of £1 each	<u>500,000</u>	<u>1</u>

During the year the authorised share capital was increased from 100 to 1,000,000 and 499,999 shares of £1 each were issued at nominal value. The consideration was satisfied by cash.

7 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account £	31 Dec 2006 Total £	31 Dec 2005 Total £
Balance brought forward	1	(384,906)	(384,905)	-
Issue of new share capital	499,999	-	499,999	1
Profit/(loss) for the period	-	65,982	65,982	(384,906)
Balance at 31 December	<u>500,000</u>	<u>(318,924)</u>	<u>181,076</u>	<u>(384,905)</u>

8 CONTINGENT LIABILITIES

In the Directors opinion, no contingent liabilities exist.

9 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.

10 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.