

CITADEL HOLDINGS plc

**ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2002**

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



Company No. 3358043

CITADEL HOLDINGS plc
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FOR THE YEAR ENDED 31 DECEMBER 2002

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CITADEL HOLDINGS plc
For the year ended 31 December 2002

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2002

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2002

1 PRINCIPAL ACTIVITY

The principal activity of the company during the year was to hold investments, earn income therefrom and to provide services to its subsidiaries.

2 REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The results for the year are shown on page 4 of the financial statements. The Directors expect the principal activity of the company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors have not recommended payment of any dividend for the year ended 31 December 2002 (2001: Nil).

4 DIRECTORS AND THEIR INTERESTS

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

Mr S A Mortstedt
Mr T J Thomson
Mr D M Bäverstam

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.

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.

CITADEL HOLDINGS plc
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6 SUPPLIER PAYMENT POLICY

The company agrees payment terms with its suppliers when it enters into binding purchase contracts. The company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the end of the year trade creditors were owed the equivalent of nil days (2001: nil days) total invoices received for the year as a whole.

7 AUDITORS

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 February and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

BY ORDER OF THE BOARD


M. T. J. THOMSON
Director
28 May 2003

REGISTERED OFFICE
One Citadel Place
Tinworth Street
London SE11 5EF

CITADEL HOLDINGS plc
For the year ended 31 December 2002

REPORT OF THE AUDITORS TO THE MEMBERS OF CITADEL HOLDINGS PLC

We have audited the financial statements which comprise the profit and loss account, balance sheet and the related notes.

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. 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 director's 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 transactions is not disclosed.

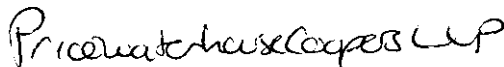
Basis of Opinion

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 give a true and fair view of the state of the affairs of the company as at 31 December 2002 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

28 May 2003

CITADEL HOLDINGS plc
For the year ended 31 December 2002

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	NOTES	2002 £000	2001 £000
Turnover	(2)	1,992	2,533
Administrative expenses		(1,105)	(1,210)
Operating profit	(3)	887	1,323
Interest receivable and financial income	(4)	5	10
Interest payable and similar charges	(5)	-	(1)
Profit on ordinary activities before taxation		892	1,332
Tax on profit on ordinary activities	(6)	-	-
Retained profit for the financial year	(13)	892	1,332

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 loss for the year stated above, and their historical cost equivalents.

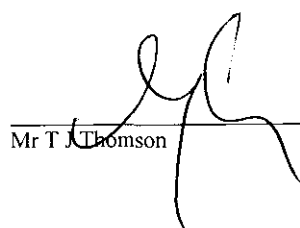
The company has no recognised gains and losses other than the above and therefore no separate statement of total recognised gains and losses has been presented.

CITADEL HOLDINGS plc
For the year ended 31 December 2002

BALANCE SHEET AS AT 31 DECEMBER 2002

	NOTES	2002 £000	2001 £000
FIXED ASSETS			
Tangible assets	(8)	-	-
Investments	(9)	9,941	9,941
		<hr/>	<hr/>
		9,941	9,941
CURRENT ASSETS			
Debtors: amounts falling after more than one year	(10)	10,011	10,711
Debtors: amounts falling due within one year	(10)	15,292	14,276
Cash at bank and in hand		1,476	103
		<hr/>	<hr/>
		26,779	25,090
CREDITORS			
Amounts falling due within one year	(11)	(1,457)	(660)
		<hr/>	<hr/>
NET CURRENT ASSETS		25,322	24,430
		<hr/>	<hr/>
NET ASSETS		35,263	34,371
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(12)	8,379	8,379
Share premium account	(13)	24,013	24,013
Profit and loss account	(13)	2,871	1,979
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	(13)	35,263	34,371
		<hr/>	<hr/>

The financial statements on pages 4 to 10 were approved by the Board of Directors on 28 May 2003 and signed on its behalf by:



 _____ DIRECTOR
 Mr T J Thomson

CITADEL HOLDINGS plc
For the year ended 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

1 PRINCIPAL ACCOUNTING POLICIES

The company has adopted Financial Reporting Standard 19 'Deferred Taxation' in these financial statements. The adoption of this standard represents a change in accounting policy. FRS 19 has had no effect on the results for the year (2001: nil).

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 cashflow statement has been prepared for the Group. The company is a wholly owned subsidiary of CLS Holdings plc (CLS) and it 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 are publicly available. The company has taken advantage of the exemption in the Companies Act 1985 (Sec 228(1)(b)) as it has not prepared consolidated financial statements.

1.2 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 date of transaction.

1.3 Depreciation of tangible fixed assets

Depreciation is provided on all fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Plant and Machinery 25%

1.4 Investments

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

1.5 Turnover

Turnover comprises income earned from funds provided to subsidiaries, together with fees charged to recover costs for services provided to subsidiaries.

1.6 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,
- 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 HOLDINGS plc
For the year ended 31 December 2002

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002
(CONTINUED)**

2 TURNOVER

	2002	2001
	£000	£000
Fees	486	918
On loans to group undertakings	1,506	1,615
	<hr/>	<hr/>
	1,992	2,533
	<hr/>	<hr/>

3 OPERATING PROFIT

Auditors remuneration of £20,000 has been paid or is payable by the company (2001: £20,000). Fees paid or payable to the auditors in respect of other services were £nil (2001: £nil).

4 INTEREST RECEIVABLE AND FINANCIAL INCOME

	2002	2001
	£000	£000
Bank interest	2	10
Foreign exchange gain	3	-
	<hr/>	<hr/>
	5	10
	<hr/>	<hr/>

5 INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	£000	£000
Foreign exchange loss	-	(1)
	<hr/>	<hr/>

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	2001
	£000	£000
		Re-stated
UK corporation tax at 30% (2001: 30%)	-	-
Deferred tax charge:		
Origination and renewal of timing differences	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

The current tax charge for the period is lower in 2002 and 2001 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% (2001: 30%)	268	400
<u>Effect of:</u>		
Differences due to expenses non-deductible and items not included in profit for tax purposes	58	-
Amounts taxable as capital gains	-	-
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	(326)	(400)
	<hr/>	<hr/>
Current tax charge in profit and loss account	-	-
	<hr/>	<hr/>

7 DIRECTORS' EMOLUMENTS AND EMPLOYEES 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.

CITADEL HOLDINGS plc
For the year ended 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002
(CONTINUED)

8 TANGIBLE FIXED ASSETS	2002	2001
	£000	£000
Plant and Machinery		
Cost:		
At 1 January	7	7
	<hr/>	<hr/>
At 31 December	7	7
	<hr/>	<hr/>
Depreciation:		
Opening Balance	(7)	(6)
Depreciation charge for the year	-	(1)
	<hr/>	<hr/>
At 31 December	(7)	(7)
	<hr/>	<hr/>
Net book value at 31 December	-	-
	<hr/>	<hr/>
9 INVESTMENTS	2002	2001
	£000	£000
Subsidiary undertakings		
At 1 January	9,941	9,383
Additions	-	558
	<hr/>	<hr/>
Cost at 31 December	9,941	9,941
	<hr/>	<hr/>
A list of subsidiary undertakings is shown in note 16.		
10 DEBTORS:	2002	2001
	£000	£000
Amounts falling due within one year		
Amounts due from group undertakings	15,292	14,180
Other tax and social security	-	50
Prepayments and accrued income	-	46
	<hr/>	<hr/>
	15,292	14,276
	<hr/>	<hr/>
Amounts falling due after more than one year		
Amounts due from group undertakings	10,000	10,700
Other debtors	11	11
	<hr/>	<hr/>
	10,011	10,711
	<hr/>	<hr/>
11 CREDITORS: amounts falling due within one year	2002	2001
	£000	£000
Amounts due to group undertakings	1,239	557
UK Corporation tax payable	52	52
Other tax and social security	12	-
Accruals and deferred income	154	51
	<hr/>	<hr/>
	1,457	660
	<hr/>	<hr/>

CITADEL HOLDINGS plc
For the year ended 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002
(CONTINUED)

12 CALLED UP SHARE CAPITAL

	2002	2001
	£000	£000
Authorised: 52,000,000 Ordinary shares of 25p each	13,000	13,000
Allotted, called up and fully paid: 33,516,037 Ordinary Shares of 25p each	8,379	8,379

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital £000	Share premium account £000	Profit and loss account £000	2002 Total £000	2001 Total £000
Balance at 1 January	8,379	24,013	1,979	34,371	33,039
Profit for the year	-	-	892	892	1,332
Balance at 31 December	8,379	24,013	2,871	35,263	34,371

The implementation of FRS 19 has had no effect on the results for the year (2001: nil).

14 CONTINGENT LIABILITIES

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

15 ULTIMATE 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, One Citadel Place, Tinworth Street, London, SE11 5EF.

16 INVESTMENT IN GROUP UNDERTAKINGS

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those wholly owned subsidiary companies whose results or financial position, in the opinion of the Directors, principally affected the figures of the Group. To comply with the Companies Act 1985, a full list of subsidiaries will be filed with the Company's next annual return.

The principal subsidiary undertakings (which are wholly owned by the Company) are Citadel Finance Limited (incorporated in England and Wales) and Hermalux SARL (incorporated in Luxembourg). The principal activities of these subsidiaries are financing and holding companies respectively. The principal activity of each of the other subsidiaries is property investment, except for Sarl Citadel Services which is a management company.

CITADEL HOLDINGS plc
For the year ended 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002
(CONTINUED)

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held by :	
			Company	Group
Citadel Finance Limited	England and Wales	Ordinary Shares of £1	100%	
SARL Hermalux	Luxembourg	Ordinary Shares of Euro 0.30	100%	
SARL Citadel Services	France	Ordinary Shares of Euro 15.24		100%
SARL Sego	France	Ordinary Shares of Euro 15.24		100%
SA Columbus	France	Ordinary Shares of Euro 15.24		100%
SA Mission Marchand	France	Ordinary Shares of Euro 15.24		100%
SA Equinox	France	Ordinary Shares of Euro 15.24		100%
SA Capitaine Guynemer	France	Ordinary Shares of Euro 15.24		100%
SA Philippe Auguste	France	Ordinary Shares of Euro 15.24		100%
SA Rhone Alpes	France	Ordinary Shares of Euro 15.24		100%
SA Sigma	France	Ordinary Shares of Euro 15.24		100%
SA Petits Champs	France	Ordinary Shares of Euro 15.24		100%
SA Velizy	France	Ordinary Shares of Euro 15.24		100%
SA Solabel	France	Ordinary Shares of Euro 15.24		100%
SA Rue de l'Est	France	Ordinary Shares of Euro 15.24		100%
SA Pascal	France	Ordinary Shares of Euro 15.24		100%
SA Bld de Iles	France	Ordinary Shares of Euro 15.24		100%
SA Immobiliere V	France	Ordinary Shares of Euro 15.24		100%
SA Victor Hugo	France	Ordinary Shares of Euro 15.24		100%
SA Immobiliere 6	France	Ordinary Shares of Euro 15.24		100%
SA Chorus	France	Ordinary Shares of Euro 15.24		100%
SA Immobiliere 8	France	Ordinary Shares of Euro 15.24		100%
SA Marcel Pourtout	France	Ordinary Shares of Euro 15.24		100%
SCI Forum	France	Ordinary Shares of Euro 15.24		100%
SCI Park Avenue	France	Ordinary Shares of Euro 15.24		100%
SCI Parc	France	Ordinary Shares of Euro 15.24		100%
SCI Columbus	France	Ordinary Shares of Euro 15.24		100%
SCI D'Aubigny	France	Ordinary Shares of Euro 15.24		100%
SCI Velizy C	France	Ordinary Shares of Euro 15.24		100%
SCI Velizy D	France	Ordinary Shares of Euro 15.24		100%
SA Charenton Bercy	France	Ordinary Shares of Euro 15.24		100%
SA Angelica	France	Ordinary Shares of Euro 15.24		100%
SARL Scala	France	Ordinary Shares of Euro 15.24		100%
SCI Abbé Hazard	France	Ordinary Shares of Euro 15.24		100%
SCI Debussy	France	Ordinary Shares of Euro 15.24		100%
SCI Foch	France	Ordinary Shares of Euro 15.24		100%
SCI Fontainebleau	France	Ordinary Shares of Euro 15.24		100%
SCI La Ferme	France	Ordinary Shares of Euro 15.24		100%
SCI Leclerc	France	Ordinary Shares of Euro 15.24		100%
SCI Quatuor	France	Ordinary Shares of Euro 15.24		100%
SCI Rochefoucault	France	Ordinary Shares of Euro 15.24		100%
SCI Solférino	France	Ordinary Shares of Euro 15.24		100%
SCI Urania	France	Ordinary Shares of Euro 15.24		100%