

ANNUAL REPORT & ACCOUNTS

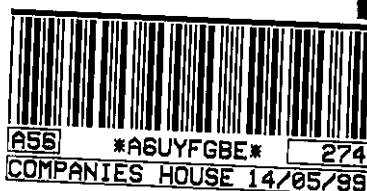
CITADEL HOLDINGS PLC



YEAR

I 9

PROPERTY INVESTMENT COMPANY





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 *Property Portfolio*

CITADEL HOLDINGS PLC

IS A PROPERTY INVESTMENT COMPANY

SPECIALISING IN THE

FRENCH COMMERCIAL PROPERTY MARKET

WITH A **FOCUS** ON THE PARIS AREA AND LYON.

CITADEL HOLDINGS PLC

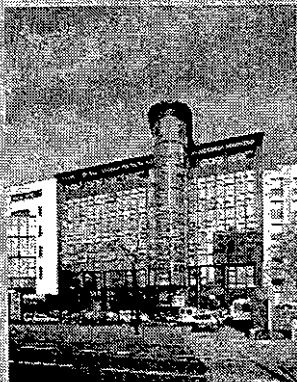
EST UNE SOCIÉTÉ D'INVESTISSEMENT IMMOBILIER

SPÉCIALISÉE SUR LE

MARCHÉ DE L'IMMOBILIER D'ENTREPRISE FRANÇAIS

ET TOUT **PARTICULIÈREMENT**

EN RÉGION PARISIENNE ET À LYON.



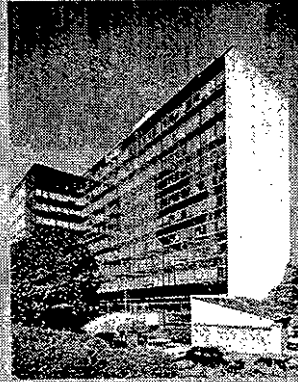
MISSION MARCHAND

56 BOULEVARD DE LA
MISSION MARCHAND
92400 COURBEVOIE, PARIS
ACQUIRED: JULY '97
NET ANNUAL RENT: £3.38M
SQ. M: 2,625
SQ. FT: 28,363



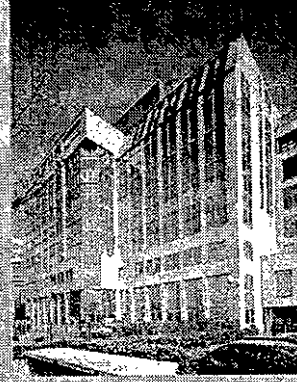
PETITS HOTELS

20-22 RUE DES PETITS HOTELS
PARIS
ACQUIRED: MAY '98
NET ANNUAL RENT: £2.77M
SQ. M: 2,001
SQ. FT: 21,538



LOTUS BUILDING

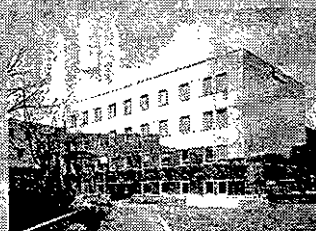
41 RUE DU CAPITAINE GUYMETER
92400 COURBEVOIE, PARIS
ACQUIRED: JULY '98
NET ANNUAL RENT: £7.07M
SQ. M: 6,026
SQ. FT: 64,863



CHARENTON

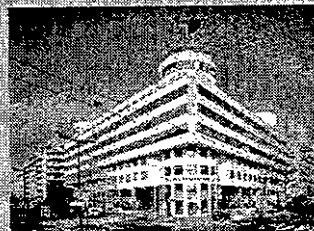
2 RUE DU NOUVEAU SERCY
94220 CHARENTON, PARIS
ACQUIRED: JULY '98
NET ANNUAL RENT: £5.82M
SQ. M: 5,207
SQ. FT: 56,045

PROPERTY PORTFOLIO



EQUINOXE II

1 BIS AVENUE DU 3 MAI 1945
ST QUENTIN EN YVELINES, PARIS
ACQUIRED: OCTOBER '97
NET ANNUAL RENT: £4.77M
SQ. M: 4,235
SQ. FT: 45,585



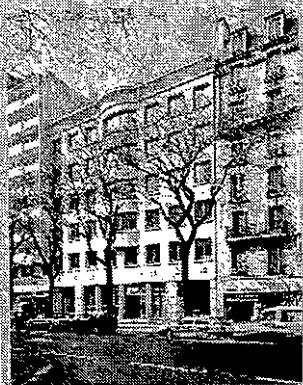
RHONE ALPES

COURS LAFAYETTE
69006 LYON
ACQUIRED: DECEMBER '97
NET ANNUAL RENT: £3.71
SQ. M: 3,657
SQ. FT: 39,363



PARK AVENUE

81 BOULEVARD DE STALINGRAD
VILLEURBANNE 69100 LYON
ACQUIRED: JULY '97
NET ANNUAL RENT: £3.30
SQ. M: 3,909
SQ. FT: 42,076



PHILIPPE AUGUSTE

53/55 AVENUE PHILIPPE AUGUSTE
75014 PARIS
ACQUIRED: DECEMBER '97
NET ANNUAL RENT: £3.03M
SQ. M: 1,610
SQ. FT: 17,330



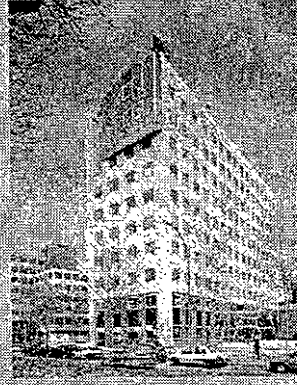
LEVALLOIS-PERRET

50, RUE EDOUARD VAILLANT
LEVALLOIS-PERRET 92300, PARIS
ACQUIRED: DECEMBER '99
NET ANNUAL RENT: £2.4M
SQ. M: 1,706
SQ. FT: 18,363



PETITS CHAMPS

48, RUE CROIX DES PETITS CHAMPS
75001 PARIS
ACQUIRED: APRIL '98
NET ANNUAL RENT: £4.77M
SQ. M: 1,800
SQ. FT: 19,375



FRONT DE PARC

109, BOULEVARD DE STALINGRAD
69100 LYON
ACQUIRED: JULY '97
NET ANNUAL RENT: £1.95M
SQ. M: 5,223
SQ. FT: 56,270

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TEOLIO



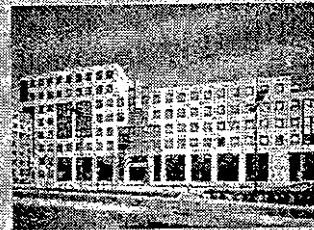
COLUMBUS

1, Rond Point de l'Europe
92250 LA GARENNE COLOMBES, PARIS
ACQUIRED: JULY '97
NET ANNUAL RENT: £3.06M
SQ. M: 3,102
SQ. FT: 34,036



RUEIL 2000

15/21 AVENUE EDOUARD BERLIN
92500 RUEIL-MALMAISON
ACQUIRED: DECEMBER '98
NET ANNUAL RENT: £10.25M
SQ. M: 7,408
SQ. FT: 79,729



DAUBIGNY

27, RUE DE LA VILETTE
69003 LYON
ACQUIRED: JULY '97
NET ANNUAL RENT: £3.26M
SQ. M: 4,037
SQ. FT: 43,454



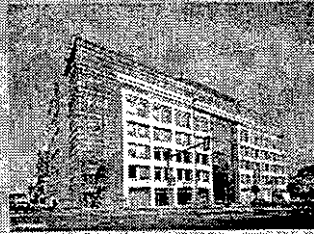
CAPITAINE GUYNEMER

53/55, RUE DU CAPITAINE GUYNEMER
COURBEVOIE 92400, PARIS
ACQUIRED: NOVEMBER '97
NET ANNUAL RENT: 2.59M
SQ. M: 1,893
SQ. FT: 20,376



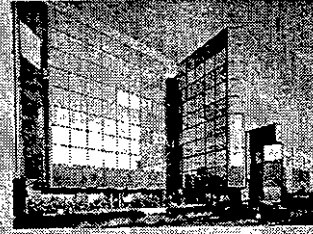
FORUM

27/23, RUE MAURICE FLANDIN
69003 LYON
ACQUIRED: JULY '97
NET ANNUAL RENT: £6.50M
SQ. M: 6,911
SQ. FT: 74,390



LE SIGMA

PLACE DE BELGIQUE
92250 LA GARENNE COLOMBES, PARIS
ACQUIRED: DECEMBER '97
NET ANNUAL RENT: £6.60M
SQ. M: 6,576
SQ. FT: 70,764



SANTOS DUMONT

23 AVENUE LOUIS BRÉGUIT 78140 VILLEJY
PARIS
ACQUIRED: MAY '98
NET ANNUAL RENT: £2.25M
SQ. M: 2,885
SQ. FT: 31,054

KEY EVENTS IN 1998

• FIRST FULL YEAR'S RESULTS SINCE FLOTATION

• NAV PER SHARE **142.1p** UP 33% FROM 106.8P (1997)

• ACQUISITION PROGRAMME CONTINUES WITH SEVEN PROPERTIES
ACQUIRED IN THE YEAR

• PORTFOLIO **98%** LET

• OVERALL YIELD OF **8.14%** BASED ON ANNUALISED INCOME

• PORTFOLIO VALUED AT **£106.7** MILLION UP 111% FROM £50.6 MILLION (1997)

• SHAREHOLDERS' FUNDS **£47.0** MILLION UP 33% FROM £35.2 MILLION (1997)

• FULL YEAR NET DIVIDEND **3.0p**

FOR FURTHER INFORMATION CONTACT THE COMPANY SECRETARY

DIRECTORS

STEN MÖRTSTEDT (EXECUTIVE CHAIRMAN)
GLYN HIRSCH LLB ACA (EXECUTIVE DIRECTOR)
DAN BAVERSTAM MBA MCT (EXECUTIVE DIRECTOR)
MARK TOWNSEND MSC FRICS * (SENIOR NON-EXECUTIVE DIRECTOR)
RICHARD LOCKWOOD † (NON-EXECUTIVE DIRECTOR)
GAVIN KELLY LLB * (NON-EXECUTIVE DIRECTOR)

* = member of Remuneration Committee
† = member of Audit Committee

COMPANY SECRETARY

THOMAS J THOMSON BA (SOLICITOR)

REGISTERED OFFICE

CITADEL PLACE
SPRING GARDENS
TINWORTH STREET
LONDON SE11 5EH

REGISTERED NUMBER

3358043

REGISTERED AUDITORS

PRICEWATERHOUSECOOPERS
CHARTERED ACCOUNTANTS
1 EMBANKMENT PLACE
LONDON WC2N 6NN

REGISTRARS AND TRANSFER OFFICE

COMPUTERSHARE SERVICES PLC
P O BOX 435
OWEN HOUSE
8 BANKHEAD CROSSWAY NORTH
EDINBURGH EH11 4BR

CLEARING BANK

ROYAL BANK OF SCOTLAND PLC
24 GROSVENOR PLACE
LONDON SW1X 7HP

SOLICITORS

BERWIN LEIGHTON
ADELAIDE HOUSE, LONDON BRIDGE
LONDON EC4A 3HA

STOCKBROKERS

SUTHERLANDS
DASHWOOD HOUSE
69 OLD BROAD STREET
LONDON EC2M 1NX

FINANCIAL HIGHLIGHTS

	1998	1998	1997	1997
NET RENTAL INCOME	£5.8M	FF57.5M	£1.4M	FF13.4M
OPERATING PROFIT	£4.4M	FF42.8M	£0.7M	FF6.8M
PROFIT/(LOSS) BEFORE TAXATION	£3.1M	FF30.0M	£(0.1)M	FF(1.0)M
PROFIT BEFORE TAXATION (EXCLUDING FOREIGN EXCHANGE PROFIT/(LOSS))	£2.6M	FF26.0M	£0.6M	FF6.1M
PROFIT/(LOSS) AFTER TAXATION	£2.6M	FF25.4M	£(0.1)M	FF(1.0)M
EARNINGS PER SHARE	7.81P	FF0.77	(0.33)P	FF(0.03)
NET DIVIDEND PER SHARE	3.0P	FF0.29	0.5P	FF0.05
NET ASSET VALUE PER SHARE	142.1P	FF13.21	106.8P	FF10.57
ANNUALISED RENTAL INCOME AT 31 DECEMBER 1998	£8.2M	FF80.8M	£4.4M	FF43.5M
VALUE OF PROPERTY INVESTMENT PORTFOLIO	£106.7M	FF992.0M	£50.6M	FF500.6M
CASH & SHORT TERM DEPOSITS LESS OVERDRAFTS	£11.9M	FF110.7M	£17.8M	FF176.1M
GEARING	120.5%		54.9%	

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THE YIELD ON OUR PORTFOLIO AT 31 DECEMBER 1998 WAS 8.14 PER CENT - OUR AVERAGE COST OF BORROWING WAS 4.4 PER CENT.

100 PER CENT OF THE GROUP'S DEBT IS EITHER FIXED OR HEDGED WITH INTEREST RATE CAPS.



OUR STRATEGY OF ACQUIRING MODERN WELL-LOCATED

WELL-LET BUILDINGS IN THE PRIME AREAS OF LYON AND

THE PARIS AREA HAS BEEN SUCCESSFUL.

OUR MAIN AIM FOR 1999 IS TO COMPLETE

OUR INVESTMENT PROGRAMME AND MANAGE

OUR EXISTING BUILDINGS TO THEIR FULL POTENTIAL.

CHAIRMAN'S

INTRODUCTION

This is Citadel's first full year's trading since flotation. We have continued our strategy of acquiring modern well-located, well-let buildings in the Paris area and prime locations in Lyon and now have a portfolio with a value in excess of £100 million. The French property market has continued to improve and we have benefited from this in terms of upward valuations and rental increases. Our main aim for 1999 is to complete our investment programme and manage our existing buildings to their full potential. We are continuing to find attractive investment opportunities.

RESULTS FOR THE YEAR

For the year ended 31 December 1998 the Group achieved a profit of £3.05 million (FF29.98 million) before taxation.

At 31 December 1998 the FF/£ exchange rate was 9.294 and this has resulted in a profit of £0.4 million (FF4.0 million) included in the profit and loss account and an addition of £1.9 million (FF17.4 million) to balance sheet reserves.

Net rental income for the period was £5.8 million (FF52.5 million). At the year end the portfolio was valued by DTZ Debenham Thorpe at £106.7 million (FF992 million) and as at that date was producing an annualised net rental income of £8.22 million (FF80.8 million) which equates to a yield of 8.14 per cent.

The French property market has been improving both in terms of rental growth and yield movements and this is reflected in the year end valuations above cost. Net assets were 142.1 pence per share at 31 December 1998 (1997: 106.8 pence).

With the advent of the Euro we have taken the opportunity to show our results in that currency and this is set out on pages 18 and 19.

At the time of flotation we stated that our aim was to achieve a gross dividend yield of 4 per cent on initial equity when fully invested. We are well on the way to being fully invested and to mark our continuing achievements the Board has decided to declare a final dividend of 1.7 pence per share, amounting to 3.0 pence for the full year. A scrip dividend alternative will be offered.

PROPERTY ACTIVITIES

During 1998 we made 7 acquisitions for a total consideration of £44.6 million (FF414.5 million) with an average yield on purchase costs of 8.5 per cent.

At the year end our portfolio consisted of 18 properties, 15 in Paris and 3 in Lyon. In total they comprised 70,881 square metres (762,957 square feet) and 1,585 car parking spaces producing an annualised net rental income of £8.22 million (FF80.8 million). We have a number of offers outstanding and hope to announce further details shortly.

FINANCING

Our acquisitions have been financed with equity and loans denominated in French Francs. Gross indebtedness at the year end was £68.7 million (FF638.9 million) whilst our cash resources comprised £10.7 million in French Francs (FF99.2 million) and £1.2 million (FF11.5 million) in Sterling. Interest rates have remained low and all borrowings are fully hedged, through floating rate borrowings combined with interest rate caps and one loan of FF22.4 million fixed at 5.67 per cent interest, including margin until 21 July 2002. French interest rates have declined during the year which has benefited the Group.

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STATEMENT

STRATEGY

We will continue to concentrate on acquiring modern, well-let, well located office investments in the Paris area and Lyon. So far this objective has been met. We now have an established portfolio and resident management strengths. We are prepared to consider investments with some vacant space if we are confident of the prospects for re-letting. Our preferred locations have not changed although we believe that some attractive opportunities are starting to emerge in locations closer to the centre of Paris.

As the Group is continuing to grow rapidly we intend to have the portfolio independently revalued again at 30 June 1999 so that shareholders can see this progress clearly.

PROSPECTS

Although prices are strengthening we believe that there are significant opportunities for further acquisitions. The fundamentals of high gearing in combination with high property yields and low financing costs are unchanged and are at the core of our approach.

I take this opportunity to thank my fellow Directors, our staff, professional advisers and shareholders for their support during the period.

STEN MORTSTEDT, EXECUTIVE CHAIRMAN

PROPERTY REVIEW

INTRODUCTION

1998 has been an active year for us and we have made a further seven acquisitions, all in Paris. We are almost fully invested and have a substantial portfolio, which is producing very healthy returns.

At the year end the portfolio comprised 18 high quality modern properties, 5 in Lyon and 13 in Paris. We had 70,881 square metres (762,957 square feet) of which 69,584 square metres (749,002 square feet) or 98%, was fully let. Our annualised net rental income was £8.22 million (FF80.8 million) and on the basis of our year-end portfolio valuation of £106.7 million (FF992 million) the overall yield was 8.14%.

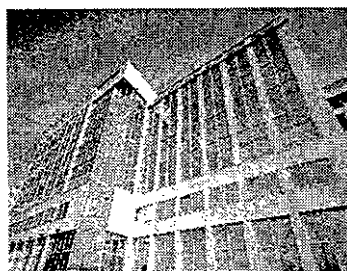
Set out below is a summary of the portfolio:

Property	Area (sq.m)	Car Parking Spaces	Valuation 31 Dec 1998 FF million	Current Annual Rent 31 Dec 1998 FF million	Date of Construction	Date of Refurbishment/ Upgrading
D'Aubigny - Lyon	4,037	89	37.8	3.26	1989	1996
Park Avenue - Lyon	3,909	96	40.8	3.30	1988/89	1997
Front de Parc - Lyon	5,223	128	58.3	4.95	1989	1991
Forum - Lyon	6,911	166	79.4	6.50	1989	
Mission Marchand - Paris	2,635	51	42.3	3.38	1967	1993
Columbus - Paris	3,162	80	40.3	3.36	1990	
Rue Capitaine Guynemer - Paris	1,893	53	28.5	2.59	1993	
Le Sigma - Paris	6,576	127	78.3	6.60	1993	
Equinoxe II - Paris	4,235	180	55.0	4.77	1995	
Philippe Auguste - Paris	1,610	36	37.4	3.05	1995	
Santos Dumont - Paris	2,885	109	25.5	2.25	1991	
Petits Hotels - Paris	2,001	64	33.0	2.77	1994	
Charenton - Paris	5,207	106	73.0	5.82	1994	
Le Rhone Alpes - Lyon	3,657	75	46.0	3.71	1993	
Lotus Building - Paris	6,026	93	98.6	7.07	1977	1998
Croix des Petits Champs - Paris	1,800	-	63.2	4.77	1972	1998
Rueil 2000 - Paris	7,408	97	128.0	10.25	1991	
Levallois-Perret - Paris	1,706	35	26.6	2.40	1996	
Totals	70,881	1,585	992.0	80.8		

GROUP PROPERTY STRATEGY

During 1998 we have not altered our strategy of acquiring office buildings in the centre and western suburbs of Paris and the Part Dieu area of Lyon, preferably recently built and let to a number of tenants.

Our objectives are to continue with this acquisition strategy and maintain our income streams and manage our investments to maximise their value. This is achieved through close contact with tenants by our management team in France and external Property Managers.



PROPERTY MANAGEMENT

Our systems are now fully in place and working well. We have built on a number of existing relationships and established numerous new contacts in both Paris and Lyon. This has enabled us to maintain a very high level of occupancy in our buildings, which is demonstrated by the fact that at year end less than 2% of the portfolio was vacant. Since the year end we have agreed to let 1,470 square metres (15,823 square feet) of space which becomes vacant in July 1999 at Forum in Lyon, to another tenant. Elsewhere in the portfolio we have maintained high levels of occupancy by meeting regularly with our tenants and understanding their business needs. This is particularly important in France where the classic lease has breaks every 3 years operable only by the tenant.

At a number of Paris properties we are investing money to make improvements where there has been neglect by previous owners. We believe this will enable us to maintain or enhance our rental income streams.

PROSPECTS FOR 1999

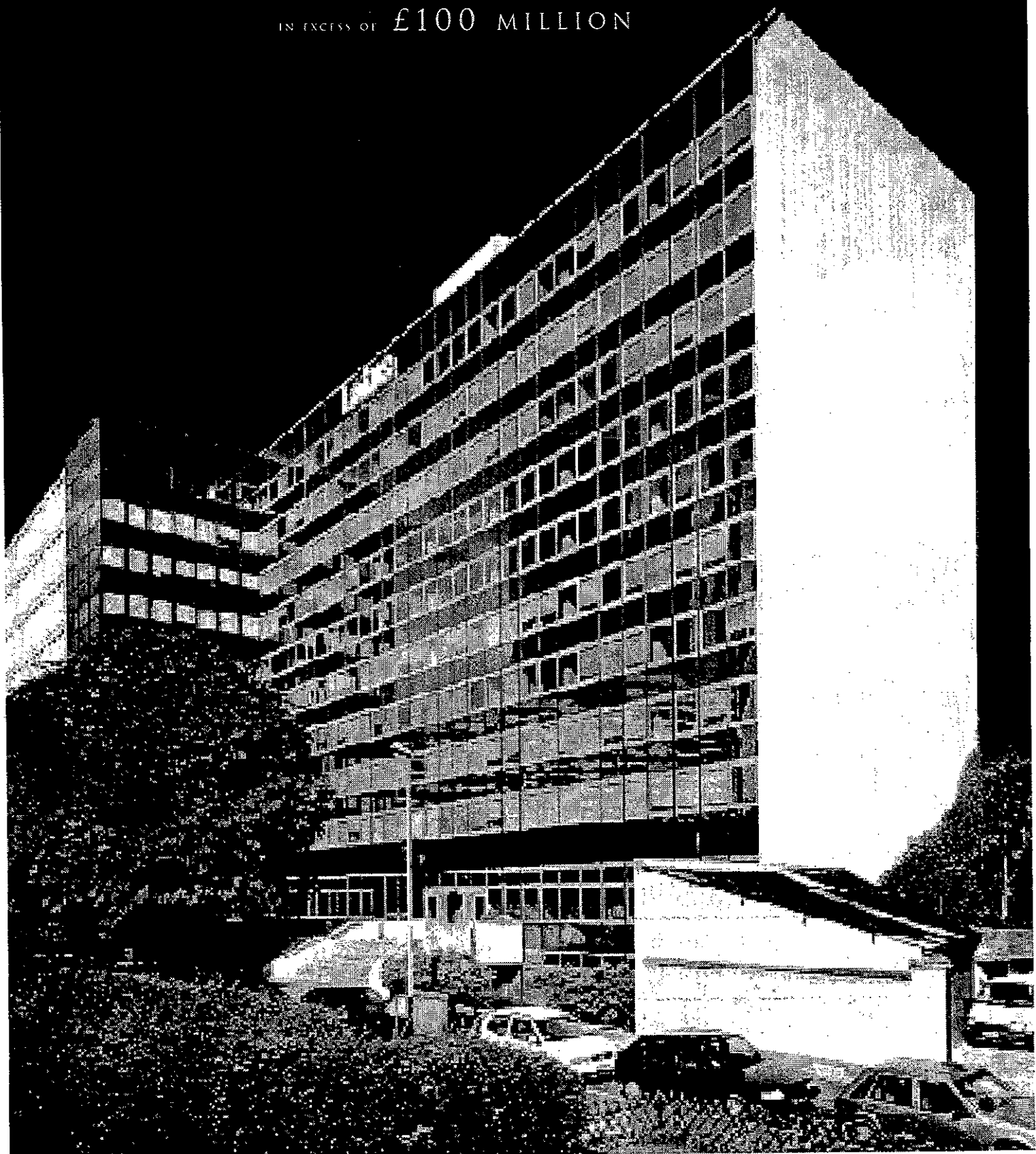
The property market in Paris and Lyon has improved during 1998 and we hope to have completed our investment programme during the first half of 1999. Our aim will then be to capitalise on increasing rents to enhance the value of our portfolio.

WE HAVE CONTINUED OUR STRATEGY

OF ACQUIRING WELL-LOCATED, WELL-LET BUILDINGS

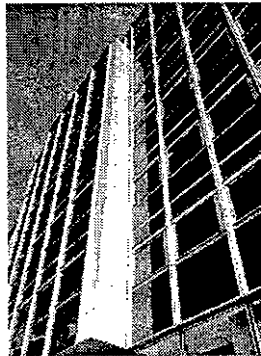


OUR PORTFOLIO HAS A VALUE
IN EXCESS OF £100 MILLION

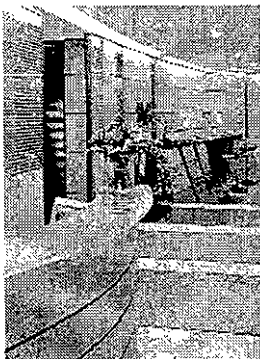


PETITS CHAMPS

48, RUE CROIX DES PETITS CHAMPS.
75001 PARIS
ACQUIRED: APRIL '98
NET ANNUAL RENT: £4.77M
SQ.M: 1,800
SQ.FT: 19,375



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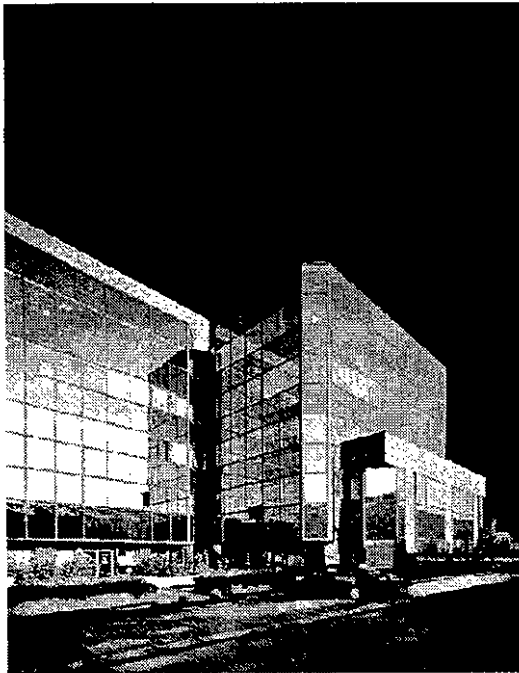


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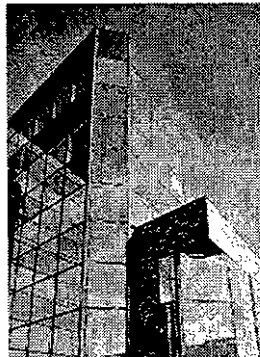
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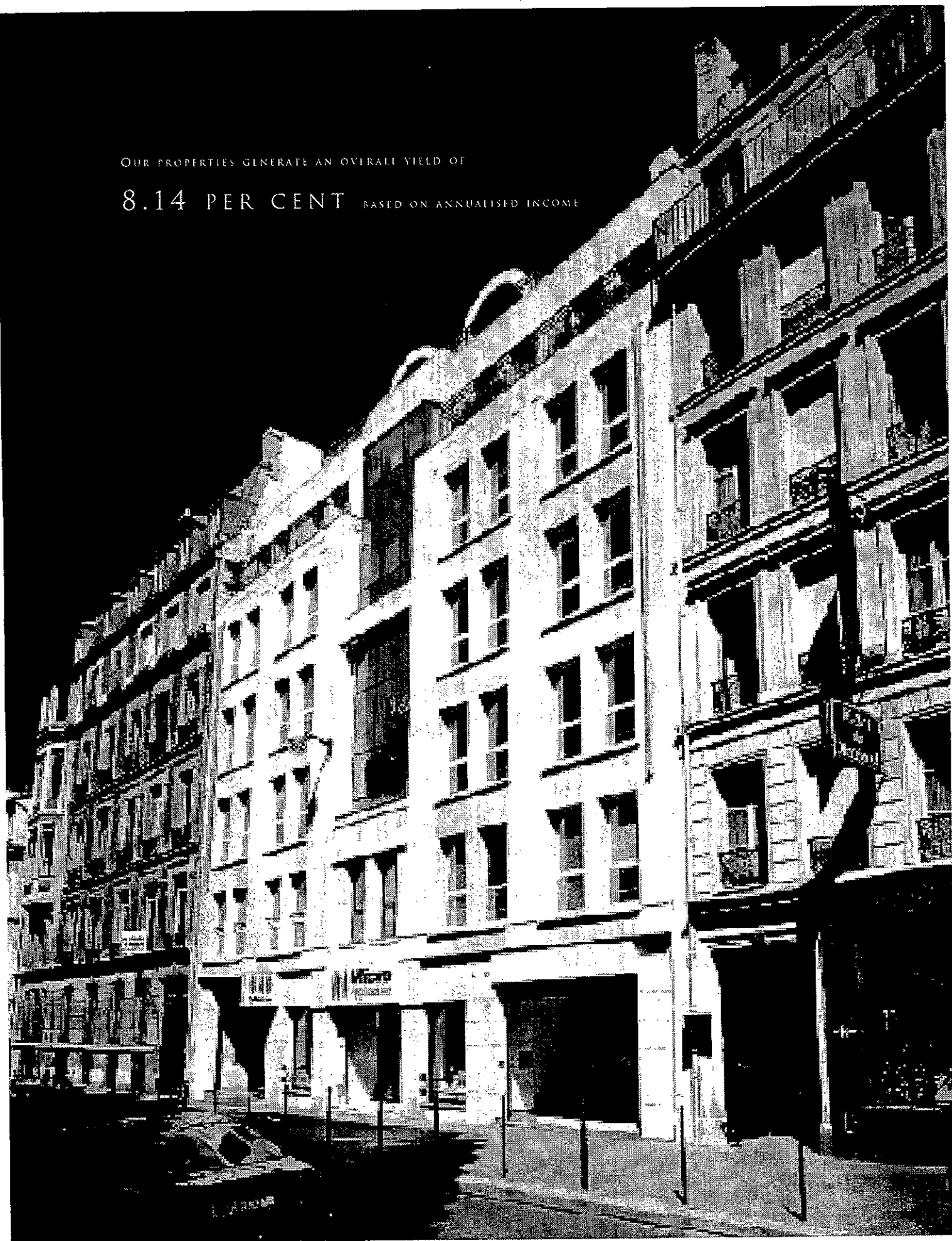
SANTOS DUMONT

23 AVENUE LOUIS BREGUET 78140 VELIZY,
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NET ANNUAL RENT: £2.25M
SQ_M: 2.885
SQ_FT: 31.054



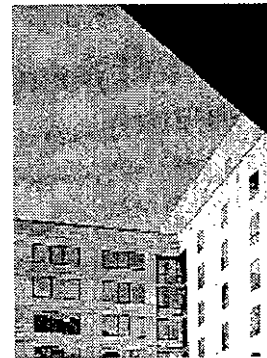
OUR PROPERTIES GENERATE AN OVERALL YIELD OF

8.14 PER CENT BASED ON ANNUALISED INCOME



OUR PORTFOLIO COMPRISES 18 HIGH QUALITY
MODERN PROPERTIES, 5 IN LYON AND 13 IN PARIS





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RUEIL 2000

15/21 AVENUE EDOUARD BERLIN.
92500 RUEIL-MALMAISON
ACQUIRED: DECEMBER '98
NET ANNUAL RENT: £10.25M
SQ.M: 7.408
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SQ.(FT): 45.585

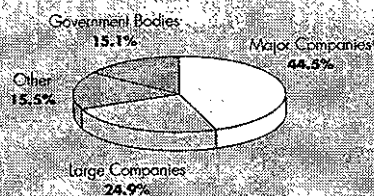
CITADEL HAS PRODUCED IMPRESSIVE RESULTS.

GENERATING A PRE-TAX PROFIT OF

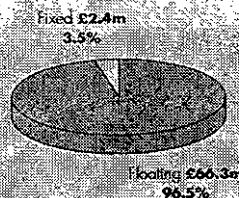
£3.05 MILLION/FF29.98 MILLION

FINANCIAL R

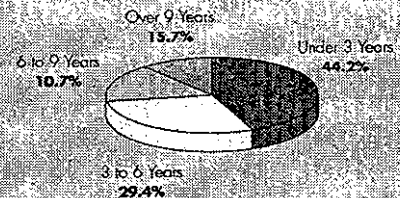
TENANT MIX



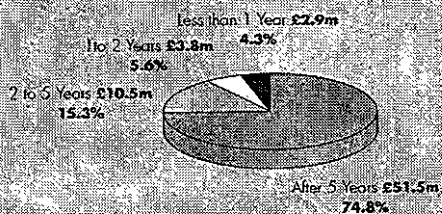
DEBT BY CATEGORY



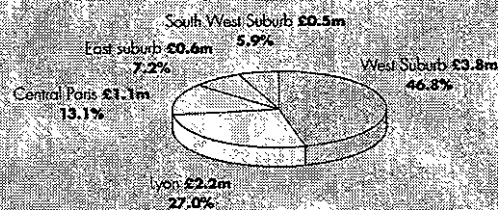
LENGTH OF LEASE



DEBT MATURITY PROFILE



RENTAL INCOME BY AREA



RESULTS

In its first full year of trading, Citadel has produced impressive results, generating a pre-tax profit of £3.05 million/FF29.98 million (1997: Loss £0.1 million/FF1.0 million) and more than doubling its property portfolio to £106.7 million/FF992 million (1997: £50.6 million/FF500.7 million). The net asset value has increased by 33.1% to 142.1 p per share (1997: 106.8 p) and cash reserves of £11.9 million/FF110.7 million (1997: £17.8 million/FF176.1 million) were held at the balance sheet date.

The financial review set out below compares current year results to the five month period of operation in 1997.

INCOME

Our continuing acquisition programme has meant a rapidly rising rental income. Rental income has increased to £5.8 million/FF57.5 million (1997: £1.3 million/FF13.4 million) and includes £1.2 million/FF12.0 million from property acquired during the course of the year. As at 31 December 1998 annualised rental income was £8.22 million/FF80.8 million (1997: £4.4 million/FF43.5 million) equating to a yield of 8.14%.

OPERATING EXPENSES

Operating expenditure for the year was £1.5 million/FF14.7 million (1997: £0.7 million/FF6.6 million) inclusive of net property expenses of £0.2 million/FF2.1 million (1997: £0.0 million/FF0.3 million). Included within administrative expenses of £1.3 million/FF12.6 million (1997: £0.6 million/FF6.3 million) were costs associated with the further strengthening of the management team to ensure adequate capacity to manage the enlarged property portfolio.

FINANCIAL COSTS

Net interest and financial charges at £1.3 million/FF12.6 million (1997: £0.8 million/FF7.8 million) included a gain on foreign exchange of £0.4 million/FF4.0 million (1997: loss £0.7 million/FF7.1 million). Interest payable of £2.1 million/FF20.7 million (1997: £0.5 million/FF5.4 million) was offset by interest receivable £0.4 million/FF3.8 million (1997: £0.5 million/FF4.8 million) arising from cash reserves set aside for future property acquisitions.

TAXATION

The Group's taxation charge is maintained at a relatively low rate as a result of tax losses brought forward in some subsidiaries and significant depreciation allowances on French property. These factors should continue to benefit the Group in the future.

FOREIGN EXCHANGE

It is not the Board's intention to hedge the Group's foreign currency position and once fully invested, foreign exchange exposure will be limited to the Group's equity and intra-group funding provided for each acquisition, as all borrowings are in local currency. Sterling has been converted into French Francs at various stages at an average exchange rate of 9.8301 (1997: 9.8281). The year end French Franc rate of 9.294 (1997: 9.8985) resulted in foreign exchange gains on cash held and net equity investments of £2.3 million/FF21.4 million (1997: Loss £1.2 million/FF11.4 million) of which £0.4 million/FF4.0 million has been credited to the profit and loss account (1997: Loss £0.7 million/FF7.1 million), with the remainder transferred to reserves.

DIVIDEND

The Board is recommending a final dividend of 1.7 pence per share, payable on 28 May 1999 to shareholders on the register on 23 April 1999. This, together with the interim dividend of 1.3 pence, brings the total to 3.0 pence per share, an increase of 2.5 pence on 1997. A scrip dividend alternative will be offered.

INVESTMENT PROPERTIES

The property portfolio has increased to £106.7 million/FF992 million (1997: £50.6 million/FF500.7 million) which was principally due to the acquisition of seven properties at a cost of £44.6 million/FF414.5 million. Properties were valued by DTZ Debenham Thorpe based on annualised income of £8.22 million/FF80.8 million thereby giving a yield of 8.14%.

DEBT STRUCTURE

Financial instruments are held by the Group principally to finance the acquisition of investment properties and to manage interest rate risk. In addition, various other financial instruments have been used in the normal course of trading, in the form of trade debtors and creditors, accruals and prepayments.

The activities of the Group are mainly financed through share capital and reserves and long term loans which are secured against the properties to which they relate.

The Group has primarily pursued a financial strategy, approved by the Board, of raising floating rate long term loans which are aligned to interest rate caps. Caps are normally purchased on a five year basis with interest capped at an average rate of 7.0% in order to provide protection against a rise in interest rates.

The net borrowings of the Group at 31 December 1998 were £36.8 million/FF328.2 million (1997: £19.3 million/FF191.5 million), an increase of £37.5 million/FF348.5 million over the previous year, reflecting the Group's active investment programme.

Of the net debt at 31 December 1998, £2.4 million/FF22.4 million (4.2%) represented fixed rate loans. Included within creditors are non-interest bearing liabilities amounting to £5.0 million/FF46.1 million. The fair value of the Group's fixed rate debt was in excess of book value by an amount of £0.1 million/FF0.9 million.

To ensure continuity of funding, the Group has pursued a policy of negotiating principal repayment schedules on the basis of the income streams derived from the related property. As set out in note 24, only £2.8 million/FF27.3 million (4.3%) of the Group's total debt of £68.7 million/FF638.9 million matures within the next 12 months with £51.5 million/FF478.4 million (74.9%) maturing after five years.

In order to protect the Group from movements in foreign currency, French property investments are matched with borrowings in the local currency.

CORPORATE STRUCTURE

The strategy has been to continue for the most part, to hold individual properties within separate subsidiary companies, each with one loan on a non-recourse basis.

THE EURO

On 1 January 1999 the Economic and Monetary Union in Europe commenced. The Euro is initially available only for currency trading and non-cash transactions. It will not appear as bills and coins until at least 1 January 2002.

The Group has decided that it will for the time being, continue to record its transactions in the local currency of its reporting entities and report its consolidated statutory results in sterling.

In addition, the Group has disclosed its Profit and Loss account and Balance Sheet in Euro's as set out on pages 18 and 19, both converted using the synthetic Euro rate of 1.4169 at 31 December 1998 (1997: 1.5006).

YEAR 2000

The management of the Group is addressing the risk arising from the Millennium date change as a matter of priority. Having taken professional advice, the Group is addressing equipment within its properties, where appropriate, and in house computer systems by carrying out four essential steps. These are:

- taking an inventory of computer environments, applications and systems;
- testing microprocessor reliant equipment and computer systems and prioritising action;
- upgrading/replacing equipment and systems where necessary;
- verifying the result.

Additionally, the Group is assessing the risk that might be encountered in respect of tenants and suppliers. The cost of this work is not expected to exceed our forecast of £50,000.

CONSOLIDATED PROFIT AND LOSS ACCOUNT DENOMINATED IN EURO'S
FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 Euro 000	For the five month period ended 31 Dec 1997 Euro 000
Turnover		
Net rental income	8,286	2,041
from:		
Acquisitions	1,738	-
Continuing operations	6,551	2,041
Administrative expenses	(1,814)	(968)
Net property expenses	(302)	(42)
Operating expenses	(2,116)	(1,010)
Operating Profit	6,170	1,031
from:		
Acquisitions	942	-
Continuing operations	5,228	1,031
Interest receivable and financial income	554	726
Interest payable and related charges	(2,977)	(822)
Foreign exchange profit/(loss)	574	(1,089)
Profit/(Loss) on Ordinary Activities Before Taxation	4,321	(154)
Tax on ordinary activities	(664)	(11)
Profit/(Loss) For The Financial Year	3,657	(165)
Dividends	(1,435)	(248)
Retained Profit/(Loss) For The Year	2,222	(413)
Earnings per Share	w 11.06	u(0.50)

CONSOLIDATED BALANCE SHEET DENOMINATED IN EURO'S

AT 31 DECEMBER 1998

	1998 Euro 000	1997 Euro 000
Fixed Assets		
Tangible assets	151,310	75,902
Current Assets		
Debtors -- amounts falling due after more than one year	275	272
Debtors -- amounts falling due within one year	1,410	7,246
Cash at bank and in hand	16,874	26,691
	18,559	34,209
Creditors: amounts falling due within one year	(11,103)	(4,352)
Net Current Assets	7,456	29,857
Total Assets Less Current Liabilities	158,766	105,759
Creditors: amounts falling due after more than one year	(92,108)	(52,877)
Net Assets	66,658	52,882
Capital and Reserves		
Called up share capital	11,729	12,380
Share premium account	34,334	36,226
Revaluation reserve	16,453	4,746
Other reserves	2,210	(57)
Profit and loss account	1,832	(413)
Total Equity Shareholders' Funds	66,658	52,882

The Sterling results of Citadel Holdings plc have been converted at synthetic Euro's rates ruling on 31 December of each respective year as follows: £1:1.4169 Euro's in 1998, £1: 1.5006 Euro's in 1997.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors present their report and audited financial statements for the year ended 31 December 1998. The Chairman's Statement should be read in conjunction with this report.

1 PRINCIPAL ACTIVITIES

The principal activities of the Group during year were the investment in and management of office properties in Paris and Lyon.

2 REVIEW OF BUSINESS

The consolidated Profit and Loss Account of the Group for the year is set out on page 28. A review of activities, results for the period and prospects for the future are included in the Chairman's Statement, the Property Review and Financial Review on pages 6 to 19.

3 DIVIDENDS

The Directors recommend a final net dividend of 1.7p per share (1997: 0.5p) which, together with the net interim dividend of 1.3p per share paid on 27 November 1998 will make a total net dividend for the year of 3.0p (1997: 0.5p). A scrip dividend alternative will be offered and accordingly resolution 8 set out in the Notice of the Meeting at the end of this report gives the necessary authority.

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4 PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 1998 was carried out by DTZ Debenham Thorpe which produced an open market value of £106.8 million/FF992 million (1997: £50.6 million/FF501 million). On the basis of this valuation and the exchange rate as at 31 December 1998 of FF9.294 to the pound Sterling net assets per share amounted to 142.1p (1997: 106.8p).

5 DIRECTORS

The Directors who served during the year are shown on page 4. Biographical details of the non-executive Directors, each of whom is considered to be independent and was appointed to the Board on 23 June 1997, are as follows:

Mark Townsend (aged 47) is a fellow of the Royal Institute of Chartered Surveyors and works for Ivory & Sime Asset Management Limited, where he runs French Property Trust plc, a closed end fund quoted on the London Stock Exchange. Mark Townsend is the senior non-executive Director and is Chairman of the Audit Committee.

Gavin Kelly (aged 31) works for The Benfield Group in connection with the development of their corporate finance and investment business. Gavin Kelly is Chairman of the Dividend Committee.

Richard Lockwood (aged 55) is employed by Invesco Private Portfolio Management Limited, where he runs the City Merchants High Yield Trust, which he set up. He is also Chairman of Navan Resources, which is involved in mining activities in Bulgaria, Spain and Hungary, as well as a director of Resolute Limited, one of Australia's larger mining companies, and a director of Invesco International Property Portfolio Management Limited. Richard Lockwood is Chairman of the Remuneration Committee.

6 REMUNERATION POLICY

The Board determines the remuneration of all non-executive Directors although none of the non-executive Directors participates in discussions relating to his own remuneration.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

2 DIRECTORS' EMOLUMENTS

As the services of the executive Directors are supplied pursuant to the terms of the Management Agreement with CLSH Management Limited referred to on page 50, no salaries, bonuses or other benefits have been provided to any executive Director during the year.

During the year the emoluments of the non-executive Directors of the Company were as follows:

	1998 £000	1997 £000
Gavin Kelly	10	5
Richard Lockwood	10	5
Mark Townsend	10	5

Fees paid to CLSH Management Limited under the Management Agreement which are attributable to the executive Directors time are:

	1998 £000	1997 £000
Sten Mörtstedt	39	17
Glyn Hirsch	54	28
Dan Baverstam	71	45

No Director received any pension contributions or waived emoluments in respect of the period. The Company does not operate a pension scheme.

3 SHARE OPTIONS

The Board has delegated to the Remuneration Committee (whose members comprise the three non-executive Directors) the grant of options under the Company's Executive Share Option Scheme. The exercise of share options under the scheme is conditional upon satisfaction of performance criteria based on the growth in net assets of the Company.

- i) Particulars of the holding of the Directors of options granted under the Executive Share Option Scheme over ordinary shares in the Company are as follows:

	No. of Options at 1 January 1998	Lapsed during year	No. of Options at 31 December 1998	Exercise price per share	Exercisable date of options
Sten Mörtstedt	115,000	-	115,000	100p	23.07.2000-20.07.2004
Dan Baverstam	115,000	-	115,000	100p	23.07.2000-22.07.2004
Glyn Hirsch	115,000	-	115,000	100p	23.07.2000-22.07.2004
	345,000	-	345,000	-	

- ii) The number of options granted and options which lapsed during the year were as follows:

	Issued	Lapsed	Exercise price per Share	Exercisable period of option
1998				
Executive Share Option Scheme	80,000	74,000	103.5p - 121.0p	15.06.2001 - 15.11.2005
1997				
Executive Share Option Scheme	465,000	15,000	100p - 102.5p	23.07.2000 - 15.11.2004

The middle market price of the Company's shares at the end of the financial year was 103.5 pence and the range of market prices during the year was between 101.5 pence and 121.5 pence. No consideration has been paid for the grant of any share options.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

7 SERVICE AGREEMENTS

There are no service agreements between the Company and any of its Directors. Each of the Directors was appointed under a letter of appointment dated 25 June 1997. The appointment may be terminated at any time by the Company by notice in writing. There is no provision in any letter of appointment for compensation on termination.

10 DIRECTORS' INTERESTS

The interests of the Directors and their families in the shares of the Company as at 31 December 1998 were as follows:

	1 January 1998 Ordinary Shares of 25p	31 December 1998 Ordinary Shares of 25p
Sten Mörtstedt	7,023,997	7,063,161
Dan Boverstam	20,000	20,111
Glyn Hirsch	20,557	20,671
Gavin Kelly	10,000	10,000
Richard Lockwood	-	-
Mark Townsend	13,000	18,071

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The Company's Register of Directors' Interests, which is open for inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

11 SUBSTANTIAL SHAREHOLDINGS

In addition to the interest of Sten Mörtstedt disclosed above, the Company has been notified of, or is aware of, the following interests at 31 March 1999 representing 3 per cent or more of the Company's issued share capital:

	Number of shares	Percentage
CLS Holdings plc	4,077,610	12.32
Equitable Life Assurance Society	2,903,935	8.77
Schroder Smaller Cos Ex UT	2,772,762	8.37
Bank of New York (Nom)	1,772,559	5.35
B F Mörtstedt	1,679,074	5.07
Chase Nom	1,675,863	5.06
Direct Nom	1,511,381	4.56
Fidelity European Growth Fund	1,345,308	4.06
Fidelity European Fund	1,301,021	3.93
Pictet European Asset Value Fund	1,201,492	3.63
MSS Nom	1,159,819	3.50
Henderson Property IT	1,130,394	3.41

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

12 THE COMBINED CODE

In June 1998 the Combined Code ("the Code") was published by the London Stock Exchange. The Code is a combination of the recommendations of the three committees which have been established in recent years to report on corporate governance in the UK – the Cadbury, Greenbury and Hampel Committees. Under the Listing Rules of the London Stock Exchange companies are now required to include in their Annual Report statements as to the compliance with the Code. Citadel Holdings plc is an AIM listed company and therefore not required to comply with the provisions of the Code. However, save as stated below, the Board considers that the company has complied with the provisions of the Code since its publication.

Main Board

The Board comprises three executive and three non-executive Directors. Each of the non-Executive Directors are considered by the Board to be independent of management and free from any business or other relationship with the Company which could materially interfere with the exercise of his independent judgement. In response to the new provisions contained in the Code, the Board formally nominated a senior independent Director in March 1999.

It meets quarterly and is responsible to the shareholders of the company for the strategy and future development of the Group and the active management of its resources. Additionally an executive committee consisting of senior management meets weekly to discuss Group issues.

Audit Committee

The Audit Committee consists of the three non-executive Directors. The principal duties of the committee are to review the half-yearly and annual financial statements before their submission to the Board and to consider any matters raised by the auditors.

Remuneration Committee

The Remuneration Committee consists of the three non-executive Directors. The Committee is responsible for determining the terms of service and remuneration of the executive Directors and the granting of options under the Company's executive share option scheme.

Investment Committee

The Group has established an Investment Committee which comprises one executive Director and two non-executive Directors. The duties of the Investment Committee are to assess investment opportunities presented to the Company by CLSH Management Limited under the terms of its Management Agreement with the Group, to make recommendations to the Board regarding any investment opportunity, and to review the performance of CLSH Management Limited under the terms of the Management Agreement.

Dividend Committee

The Board has established a Dividend Committee which comprises the three non-executive Directors. The duties of the Dividend Committee are to make recommendations to the Board regarding the level of Interim and Final Dividends and to ensure that the Company maintains an initial focus on capital growth and following full investment that a progressive dividend policy is pursued.

As the Board comprises only six directors and the market capitalisation of the company is relatively modest the Board has decided not to appoint a Nomination Committee for the time being. Any appointment to the Board will instead be considered by the full board.

Shareholder Relations

The company issues full annual accounts to each of its shareholders and at the half-year an interim report is sent to all shareholders. In addition all press releases are copied to each shareholder.

The Chairman and the Chief Executive have regular meetings with institutional shareholders.

Internal Control

The Board acknowledges that it has a responsibility to employ procedures and controls to safeguard the company's funds and the consequences of any negligence, fraud, material mis-statement or loss.

Whilst acknowledging this overall responsibility, the company's day to day operating responsibilities have been delegated to CLSH Management Limited under the terms of the Management Agreement with that company. CLSH Management Limited is a subsidiary of CLS Holdings plc, whose Directors have reviewed the effectiveness of its internal financial control. The Board has not reviewed the application of the Code by CLS Holdings plc in 1998 neither has it reviewed the effectiveness of its own internal control or internal financial control, but intends to do so later this year after guidance has been made available by the Institute of Chartered Accountants for England and Wales committee on the precise requirements of the Code in relation to internal control.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

13 GOING CONCERN

The financial statements which appear on pages 28 to 50 are prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

14 SHARE CAPITAL

Changes in share capital are shown in note 18.

Three resolutions relating to share capital will be proposed at this year's Annual General Meeting.

In relation to the Directors' authority to allot shares, resolution 6 set out in the Notice of Meeting on pages 53 to 54, authorises the Directors to allot all relevant securities in the authorised share capital of the Company which are unissued at the date of the meeting. Resolution 7 empowers the Directors to allot the unissued shares in four circumstances: to all members pro rata, pursuant to the Company's Executive Share Option Scheme, pursuant to the Warrant Agreement with CLS Holdings plc, or otherwise, up to a maximum nominal amount of £413,875.

Resolution 9 gives authority to the Company to purchase up to 10% of its Ordinary Shares. The Directors have no current intention of using this authority and it would only be exercised if they considered it to be in the best interests of the shareholders, taking into account the Company's cash resources, capital requirements, and the effect of any purchase on earnings per share.

These powers will be valid until the Annual General Meeting of the Company to be held in 2000 or until 25 August 2000, whichever shall be the earlier.

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15 SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group 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 8 days (1997: 16 days) total invoices received for the year as a whole.

16 CHARITABLE CONTRIBUTIONS

No charitable contributions were made by the Group during the period.

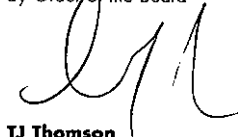
17 INSURANCE OF DIRECTORS

The Group maintains insurance for the Company's Directors in respect of their duties as Directors.

18 AUDITORS

Our auditors, Coopers & Lybrand merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers as auditors to the company will be proposed at the forthcoming annual general meeting.

By Order of the Board



TJ Thomson
Company Secretary

20 April 1999

STATEMENT OF DIRECTORS' FINANCIAL RESPONSIBILITIES

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



TJ Thomson
Company Secretary

20 April 1999

REPORT OF THE AUDITORS

TO THE MEMBERS OF CITADEL HOLDINGS PLC

We have audited the financial statements on pages 28 to 50 which have been prepared under the historic cost convention, as modified by the revaluation of properties, and the accounting policies set out on pages 33 to 34.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 26, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We also, at the request of the Directors (because the company applies the Stock Exchange listing rules as if it is a listed Company), review whether the statement on page 24 reflects the company's compliance with those provisions of the combined code specified by the stock exchange for review by auditors of listed companies, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

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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 affairs of the Company and the Group at 31 December 1998 and of the profit, and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London

20 April 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

		1998 £000	For the five month period ended 31 Dec 1997 £000
	Notes		
Turnover	2		
Net rental income		5,848	1,360
represented by:			
Acquisitions		1,225	-
Continuing operations		4,623	1,360
Administrative expenses		(1,280)	(645)
Net property expenses		(213)	(28)
Operating expenses		(1,493)	(673)
Operating Profit	3	4,355	687
represented by:			
Acquisitions		665	-
Continuing operations		3,690	687
Interest receivable and financial income		391	484
Interest payable and related charges	4	(2,101)	(548)
Foreign exchange profit/(loss)		405	(726)
Profit/(Loss) on Ordinary Activities Before Taxation	6	3,050	(103)
Tax on ordinary activities	8	(469)	(7)
Profit/(Loss) For The Financial Year	9	2,581	(110)
Dividends	10	(1,013)	(165)
Retained Profit/(Loss) For The Year	20	1,568	(275)
Earnings per Share	11	7.81p	(0.33)p
Diluted Earnings per Share	11	6.27p	(0.33)p

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CONSOLIDATED BALANCE SHEET

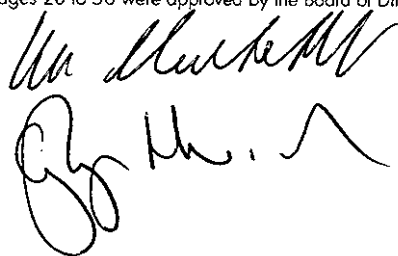
AT 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed Assets			
Tangible assets	12	106,739	50,581
Current Assets			
Debtors – amounts falling due after more than one year	14	195	181
Debtors – amounts falling due within one year	14	995	4,829
Cash at bank and in hand		11,909	17,787
Creditors: amounts falling due within one year	15	13,099 (7,836)	22,797 (2,900)
Net Current Assets		5,263	19,897
Total Assets Less Current Liabilities		112,052	70,478
Creditors: amounts falling due after more than one year	16	(65,007)	(35,237)
Net Assets		47,045	35,241
Capital and Reserves			
Called up share capital	18	8,278	8,250
Share premium account	20	24,232	24,141
Revaluation reserve	20	11,612	3,163
Other reserves	20	1,630	(38)
Profit and loss account	20	1,293	(275)
Total Equity Shareholders' Funds		47,045	35,241

The financial statements on pages 28 to 50 were approved by the Board of Directors on 20 April 1999 and were signed on its behalf by:

Mr S A Mörtstedt
Director

Mr G V Hirsch
Director



CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £000	For the five month period ended 31 Dec 1997 £000
Net cash inflow from operating activities	21	4,429	1,276
Returns on investments and servicing of finance			
Interest received		391	484
Interest paid		(1,253)	(293)
Debt arrangement fees paid		(170)	(688)
Interest rate caps purchased		(72)	(108)
Foreign exchange loss		-	(446)
Net cash outflow from returns on investments and servicing of finance		(1,704)	(1,051)
Taxation paid		(93)	(7)
Capital expenditure			
Purchase and enhancement of properties		(16,119)	(29,485)
Purchase of other fixed assets		(56)	(11)
Net cash outflow from capital expenditure		(16,175)	(29,496)
Acquisitions			
Purchase of subsidiary undertakings		(22,221)	(510)
Cash acquired with subsidiaries		1,670	168
Net cash outflow for acquisitions		(20,551)	(342)
Equity Dividend paid		(495)	-
Cash outflow before management of liquid resources and financing		(34,589)	(29,620)
Management of liquid resources*			
Cash released/(placed) on short term deposits		6,040	(13,924)
Net cash inflow/(outflow) from the management of liquid resources		6,040	(13,924)
Financing			
Issue of equity share capital		-	26,668
Expenses paid in connection with share issue		-	(609)
New loans		31,191	22,382
New finance lease		2,814	-
Repayment of loans		(5,294)	(1,034)
Net cash inflow from financing		28,711	47,407
Increase in cash	22	162	3,863

*Liquid resources are short term deposits or current asset investments that are readily convertible into known amounts of cash.

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £000	For the five month period ended 31 Dec 1997 £000
Profit/(Loss) for the financial year	2,581	(110)
Unrealised surplus on revaluation of properties	8,243	3,163
Currency translation differences on foreign currency net investments	1,874	(427)
Other recognised gains relating to the year	10,117	2,736
Total recognised gains and losses for the year	12,698	2,626

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RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £000	For the five month period ended 31 Dec 1997 £000
Profit/(Loss) for the financial year	2,581	(110)
Dividends	(1,013)	(165)
Retained Profit/(Loss) for the year	1,568	(275)
Other recognised gains relating to the year	10,117	2,736
New share capital issued	119	33,000
Expenses of share issue	-	(609)
Goodwill written off	-	389
Net additions to shareholders' funds	11,804	35,241
Opening shareholders' funds	35,241	-
Closing shareholders' funds	47,045	35,241

COMPANY BALANCE SHEET

AT 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed Assets			
Tangible Assets	12	4	6
Investments	13	5,978	4,185
		5,982	4,191
Current Assets			
Debtors – amounts falling due within one year	14	27,319	22,160
Cash at bank and in hand		374	6,702
		27,693	28,862
Creditors: amounts falling due within one year	15	(1,147)	(526)
Net Current Assets		26,546	28,336
Net Assets		32,528	32,527

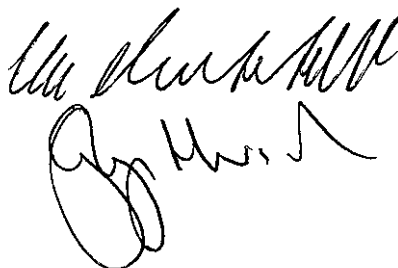
Capital and Reserves

Called up share capital	18	8,278	8,250
Share premium account	20	24,232	24,141
Profit and loss account	20	18	136
Total Equity Shareholder's Funds		32,528	32,527

The financial statements on pages 28 to 50 were approved by the Board of Directors on 20 April 1999 and were signed on its behalf by:

Mr S A Mörtstedt
Director

Mr G V Hirsch
Director



NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The principal accounting policies, which have been applied consistently are set out below.

(a) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of investment properties held as fixed assets. FRS11 "Impairment of fixed assets and goodwill" has been adopted early, but has no impact on the results of the Group. FRS12 "Provisions, contingent liabilities and contingent assets" has been adopted early but has no impact on the results of the group. FRS13 "Derivatives and other financial instruments" has been adopted early by the Group. Further, FRS14 "Earnings per share", has been adopted and, consequently, basic and diluted earnings per share have been calculated in accordance with the new methodology. Comparative basic and diluted earnings per share for 1997 have been recalculated on the same basis.

(b) Basis of consolidation

The Group financial statements consolidate the accounts of Citadel Holdings plc and all its subsidiary undertakings drawn up to 31 December each year. Four Group companies have different balance sheet dates to Citadel Holdings plc including SA Euler and SA Petits Champs at 31 May and SA Sutol and SA Solabel at 31 October. No profit and loss account is presented for Citadel Holdings plc as permitted by Section 230 of the Companies Act 1985.

(c) Goodwill

Goodwill represents the excess of purchase consideration for businesses and subsidiary undertakings acquired over the attributable net asset value at the date of acquisition. In the past, Goodwill was written off to other reserves in accordance with SSAP22 "Accounting for goodwill". In circumstances where the purchase consideration was less than the attributable net asset value at the date of acquisition, the difference was treated as a "reserve arising on consolidation" and was included within other reserves. In future goodwill will be capitalised and amortised over a period not exceeding 20 years in accordance with FRS10 "Goodwill and intangible assets".

(d) 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, and the accounts of overseas subsidiaries are translated at the same rates. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to reserves. All other exchange differences are dealt with through the profit and loss account.

(e) Turnover

Turnover comprises the total value of rents receivable under operating leases, including reverse premiums paid by tenants on surrender of leases, and property-related services provided during the year, excluding VAT and intra-Group trading. Rents received in advance are shown as deferred income in the balance sheet.

(f) Income from property sales

Profits or losses arising from the sale of investment properties are included as part of the operating profit of the Group. Profits or losses arising from the sale of investment properties are calculated by reference to their carrying value.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Properties

i) Investment properties

Investment properties are revalued annually and stated at their open market value. Surpluses or deficits arising on revaluation are reflected in the revaluation reserve. Revaluation deficits which exceed the total of the revaluation reserve are charged to the profit and loss account.

ii) Acquisition and disposal of properties

Acquisitions and disposals of assets are considered to have taken place where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract. Profits or losses on sales of investment properties are calculated by reference to their carrying value.

(h) Depreciation

i) Investment properties

Freehold

In accordance with Statement of Standard Accounting Practice No 19 no depreciation is provided on completed freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The Directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. Depreciation or amortisation is one of the many factors influencing a property valuation and if depreciation or amortisation might have been charged, it is not possible to identify or quantify this separately.

Leasehold

No amortisation is provided on long leasehold properties with unexpired terms of more than 50 years. Leasehold properties having unexpired terms of less than 50 years are amortised so as to write off their cost or valuation over the unexpired period of the lease. For the reasons outlined above for freehold properties, we do not depreciate long leasehold properties.

ii) Other tangible fixed assets

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

Leasehold improvement	over period of lease
Plant and machinery	20% – 25%

(i) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced.

(j) Leases

Finance leases are capitalised and depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets. Lease payments are treated as consisting of capital and interest elements. Interest is charged to the profit and loss account. Operating lease rentals are charged wholly to the profit and loss account as incurred.

(k) Financial instruments

Interest rate caps

The premium paid for interest rate caps is held within debtors on the balance sheet and amortised over the period of the cap.

Loan costs

Loan costs are deferred against the loan liability and amortised over a period of 15 years.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

2 SEGMENTAL REPORTING

	Turnover 1998 £000	Turnover for the five month period ended 31 Dec 1997 £000	Profit/(Loss) before tax 1998 £000	Profit/(Loss) before tax for the five month period ended 31 Dec 1997 £000	Net assets 1998 £000	Net assets 1997 £000
Geographical analysis						
France	5,848	1,360	3,050	(103)	47,045	35,241

The major activity for the year to 31 December 1998 was property investment.

3 OPERATING PROFIT

	1998 £000 Continuing operations	1998 £000 Acquisitions	1998 £000 Total	1997 £000 Continuing operations	1997 £000 Acquisitions	1997 £000 Total
Property and other income	4,623	1,225	5,848	1,360	—	1,360
Operating expenses						
– Administrative	(770)	(510)	(1,280)	(645)	—	(645)
– Net property	(163)	(50)	(213)	(28)	—	(28)
Operating profit	3,690	665	4,355	687	—	687

4 INTEREST PAYABLE AND RELATED CHARGES

	For the five month period ended 31 Dec 1998 £000	For the five month period ended 31 Dec 1997 £000
On bank loans	2,101	548

5 DIRECTORS' EMOLUMENTS, SHARE OPTIONS AND INTERESTS IN ORDINARY SHARES

Information relating to Directors' emoluments, share options and interests in ordinary shares are given in the Directors report on pages 21 to 25.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

6 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	For the five month period ended 31 Dec	
	1998	1997
	£000	£000
This is stated after charging:		
Auditors' remuneration (Company £8,000)	84	57
Depreciation of tangible fixed assets	12	1
Directors' emoluments (see note 5 page 35)	164	105

Fees paid to the auditors in respect of other services were £64,056. (1997: £62,000)

7 EMPLOYEE INFORMATION

The average number of persons employed by the Group including executive Directors and their aggregate emoluments was as follows:

	1998	1997
(a) Number of employees	6	5

	For the five month period ended 31 Dec	
	1998	1997
	£000	£000
(b) Costs		
Salaries	122	14
Social security	9	4
	131	18

8 TAX ON ORDINARY ACTIVITIES

	For the five month period ended 31 Dec	
	1998	1997
	£000	£000
United Kingdom corporation tax at 31% (1997: 31%)	362	—
Overseas taxation	107	7
	469	7

The taxation charge for the year has been reduced by overseas tax losses brought forward in companies acquired by the Group and by depreciation allowances on French properties held as investments. In accordance with the Group's accounting policy, no deferred tax has been provided in respect of depreciation allowances as there is no present intention to sell any of the investment properties.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

9 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the parent Company's profit and loss account has not been published in these financial statements. The parent Company's loss for the financial year was £(117,767) (1997: profit £300,746).

10 DIVIDENDS

	Pence per share	1998 £000	Pence per share	1997 £000
Dividends on ordinary shares:				
Interim paid	1.3	430	—	—
Final proposed	1.7	563	0.5	165
1997 scrip enhancement		20		—
	3.0	1,013	0.5	165

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11 EARNINGS PER ORDINARY SHARE

The calculation of earnings per share on the net basis is based on the profit on ordinary activities after taxation and on 33,065,116 (1997: 33,000,000) ordinary shares being the weighted average number of ordinary shares in issue and ranking for dividend during the year. The Diluted earnings per share calculation has been adjusted for the weighted average number of potential ordinary shares in issue during the year.

	Earnings £000	Weighted average number of shares	1998 Earnings per share	Earnings £000	Weighted average number of shares	1997 Earnings per share
Basic EPS						
Earnings attributable to ordinary shareholders	2,581	33,065,116	7.81p	(110)	33,000,000	(0.33)p
Effect of dilutive securities						
Warrant options exercisable		8,000,000 4,009,136			—	
Share options exercisable		34,581			3,956	
Executive share options exercisable		47,322			4,011	
Diluted earnings	2,581	41,147,019	6.27p	(110)	33,007,967	(0.33)p

33,547,955

7.69

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

12. TANGIBLE FIXED ASSETS

	Investment freehold property £000	Investment leasehold property £000	Plant and machinery £000	Total £000
Group				
Cost or valuation:				
Opening balance	41,681	8,890	11	50,582
Additions	44,632	–	56	44,688
Exchange differences	2,711	578	–	3,289
Surplus on revaluation	7,059	1,184	–	8,243
At 31 December 1998	96,083	10,652	67	106,802
Depreciation:				
At 1 January 1998	–	–	1	1
Charge for the year	–	–	12	12
At 31 December 1998	–	–	13	13
Net book value at 31 December 1998	96,083	10,652	54	106,789

- (a) At 31 December 1998 all freehold and leasehold properties owned by the consolidated Group were revalued at their open market value taking into account their condition and tenancies existing at that date. The property valuations were carried out by DTZ Debenham Thorpe, an independent firm of Chartered Surveyors, in compliance with the Practice Statements contained within the Appraisal and Valuation Manual prepared by the Royal Institute of Chartered surveyors.
- (b) The historical cost of the freehold and leasehold investment properties included at valuation is £95.1 million (1997: £ 48.7 million).
- (c) All leasehold properties are held under long leases.
- (d) The holding Company has plant and machinery with a net book value of £ 4,226 (1997: £5,836 (cost £6,040)).

13. INVESTMENTS

	Total 1998 £000	Total 1997 £000
Company		
Subsidiary undertakings:		
At 1 January 1998	4,185	–
Additions	1,793	4,185
Cost at 31 December 1998	5,978	4,185

A list of subsidiary undertakings is shown in Note 29.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

14 DEBTORS

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Amounts falling due after more than one year				
Other debtors	195	181	-	-
Amounts falling due within one year				
Trade debtors	57	85	-	-
Amounts owed by subsidiary undertakings	-	-	27,241	21,981
Advance corporation tax recoverable	-	41	-	41
Other debtors	827	76	11	-
VAT recoverable	44	4,517	44	31
Prepayments and accrued income	67	110	23	107
	995	4,829	27,319	22,160

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15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Interest bearing:				
Bank loans	2,789	1,268	-	-
Obligations under finance leases	144	-	-	-
Non interest bearing:				
Trade creditors	58	76	20	23
Amounts owed to subsidiary undertakings	-	-	5	5
Advance Corporation tax payable	108	41	108	41
UK Corporation tax payable	238	-	238	-
Overseas taxation payable	31	-	-	-
Other taxes and social security	56	51	-	-
Other creditors	3,068	684	102	103
Accruals and deferred income	781	615	111	189
Dividends payable	563	165	563	165
	7,836	2,900	1,147	526

Details of bank loans and other loans are shown in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

16 CREDITORS, AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Bank loans	62,337	35,237	-	-
Obligations under finance leases	2,670	-	-	-
	65,007	35,237	-	-

A maturity analysis is provided in note 25d).

17 DEFERRED TAXATION

No provision has been made for further tax which could arise if subsidiary or associated undertakings or investment properties included in fixed assets, are disposed of and the proceeds remitted to the UK, or if overseas Companies were to remit dividends to the UK. There is no present intention to take any of these actions.

18 SHARE CAPITAL

	1998 £000	1997 £000
(a) Authorised and issued as at 31 December 1998		
Authorised		
52,000,000 Ordinary Shares of 25 p each	13,000	13,000
Allotted, called up and fully paid		
33,000,000 Ordinary Shares of 25 p each	-	8,250
33,110,034 Ordinary Shares of 25 p each	8,278	-
	Nominal value £000	Number of Ordinary Shares of 25p each
(b) Allotments of issued capital		
Opening share capital	8,250	33,000,000
Allotted in lieu of 1997 final cash dividend	28	110,034
	8,278	33,110,034

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

19. OPTIONS IN SHARES OF CITADEL HOLDINGS PLC

Details of options in shares of Citadel Holdings plc are given in the Directors' Report at page 22.

20. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
Group				
At 1 January 1998	24,141	3,163	(38)	(275)
Exchange difference	—	206	1,668	—
Issue of shares – Placing	91	—	—	—
Unrealised surplus on revaluation of properties	—	8,243	—	—
Retained profit for the year	—	—	—	1,568
At 31 December 1998	24,232	11,612	1,630	1,293
Company				
At 1 January 1998	24,141	—	—	136
Issue of shares – Placing issue	91	—	—	—
Retained loss for the year	—	—	—	(118)
At 31 December 1998	24,232	—	—	18

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21. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £000	For the five month period ended 31 Dec 1997 £000
Continuing activities		
Operating profit	4,355	687
Depreciation	12	1
Decrease in debtors	359	45
(Decrease)/Increase in creditors	(297)	543
Net cash inflow from operating activities	4,429	1,276

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

22) ANALYSIS OF NET DEBT

	1 Jan 1998 £000	Cashflow £000	31 Dec 1998 £000
Net cash:			
Cash at bank and in hand	17,787	(5,878)	11,909
Less: deposits treated as liquid resources	(13,924)	6,040	(7,884)
	3,863	162	4,025
Liquid resources:			
Deposits included in cash	13,924	(6,040)	7,884
Debt:			
Debts falling due within one year	(1,268)	(1,665)	(2,933)
Debts falling due after more than one year	(35,237)	(29,770)	(65,007)
	(36,505)	(31,435)	(67,940)
Net debt	(18,718)	(37,313)	(56,031)
Analysed in Balance Sheet:			
Cash at bank and in hand	17,787	(5,878)	11,909
Debts falling due within one year	(1,268)	(1,665)	(2,933)
Debts falling due after more than one year	(35,237)	(29,770)	(65,007)
	(18,718)	(37,313)	(56,031)

23) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1998 £000	For the five month period ended 31 Dec 1997 £000
Increase in cash in the period	162	3,863
Cash (outflow)/inflow from (increase)/decrease in liquid resources	(6,040)	13,924
Cash inflow from increase in debt	(26,223)	(20,679)
Changes in net debt resulting from cash flows	(32,101)	(2,892)
Loan acquired with subsidiary	(2,364)	(16,710)
Translation differences	(2,848)	884
Net debt at 1 January	(18,718)	-
Net debt at 31 December 1998	(56,031)	(18,718)

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

23 CHANGES IN FINANCING

	1998 £000	For the five month period ended 31 Dec 1997 £000
(a) Loan finance		
Balance brought forward	36,505	-
Net cash inflow	23,533	21,348
Loans of subsidiary undertakings acquired during the year	2,364	16,710
New finance lease	2,814	-
Debt arrangement fees paid	(170)	(688)
Amortisation of deferred loan costs	46	19
Foreign exchange movements	2,848	(884)
	67,940	36,505

	1998 £000	For the five month period ended 31 Dec 1997 £000
(b) Share capital (including premium)		
Balance brought forward	32,391	-
Shares issued for cash	-	26,668
Expenses of share issue	-	(609)
Shares issued for non cash consideration	119	6,332
Balance carried forward	32,510	32,391

24 ACQUISITIONS

On 1 April 1998 the Group acquired the whole of the issued share capital of SA Petits Champs for a cash consideration of £6,697,912. Petits Champs had net profits of FF 756,424 from 1 January 1998 until 1 April 1998, the effective date of purchase (1998: Full year profit FF 4,597,557). Net profit included in the Group results following acquisition was £276,763 (FF 2,720,608).

On 29 May 1998 the Group acquired the whole of the issued share capital of SCI Velizy C and SCI Velizy D for a cash consideration of £45,220. SCI Velizy C and D had net profits of FF 4,174,073 (including exceptional loan write off income of FF 3,380,554) from 1 January 1998 until 29 May 1998, the effective date of purchase (1998: FF 4,870,117 full year profit). Net profit included in the Group's results following acquisition was £70,807 (FF 695,844).

On 30 July 1998 the Group acquired the whole of the issued share capital of SAS Charenton Bercy for a cash consideration of £5,297,798. Charenton Bercy had net profits of FF 1,489,549 from 1 January 1998 until 30 July 1998, the effective date of purchase (1998: FF 3,366,514 full year profit). Net profit included in the Group's results following acquisition was £203,639 (FF 2,001,792).

On 31 July 1998 the Group acquired the whole of the issued share capital of SA Solabel for a cash consideration of £7,815,792. SA Solabel had net profits of FF 381,880 from 1 January 1998 until 31 July 1998, the effective date of purchase (1998: FF 2,129,957 full year profit). Net profit included in the Group's results following acquisition was £63,962 (FF 628,753).

The Group has used acquisition accounting to account for all purchases.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

24 ACQUISITIONS (CONTINUED)

The fair value of the assets and liabilities of the subsidiaries (none of which are individually material) acquired as at the date of acquisition are set out below:

	Book value £000	Revaluation £000	Fair value 1998 £000
Tangible fixed assets	21,774	990	22,764
Debtors: amounts due after one year	-	-	-
Debtors: amounts due within one year	354	-	354
Cash at bank	1,670	-	1,670
Creditors: amounts falling due within one year	(2,566)	-	(2,566)
Creditors: amounts due after one year	(2,364)	-	(2,364)
Net assets	18,868	990	19,858

The assets and liabilities of the companies acquired were historically carried at fair value with the exception of freehold and leasehold property which, under French accounting policy, is stated at cost less depreciation. All properties were revalued on acquisition, to comply with group policy, producing an increase in book value of £990,345.

25 FINANCIAL INSTRUMENTS

a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

b) Interest rate risk of financial assets

The following table provides an analysis of the Groups financial assets as at 31 December 1998. The interest bearing assets have been split into principal currencies.

	Cash at bank and in hand £000	Short-term deposits £000	Total 1998 £000	Cash at bank and in hand £000	Short-term deposits £000	Total 1997 £000
Currency						
Sterling	215	1,022	1,237	956	6,548	7,504
French Franc	3,810	6,862	10,672	2,907	7,376	10,283
Total	4,025	7,884	11,909	3,863	13,924	17,787

Short term deposits in sterling are placed with banks on a one week rolling basis and earn interest on a floating rate at an average of 7 per cent. Short term deposits in French Francs are placed with banks on a one week to one month rolling basis and earn interest on a floating rate at an average of 3.25 per cent.

In addition the following other financial assets were held:

	1998 £000	1997 £000
Interest rate caps	262	206

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

35 FINANCIAL INSTRUMENTS (CONTINUED)

c) Interest rate risk profile of financial liabilities

The following tables provide an analysis of the Groups interest rate risks in relation to its financial liabilities as at 31 December 1998. These are analysed to show separately those liabilities at fixed interest rates and those at floating interest rates as follows:

i)	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Total 1998 £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000	Total 1997 £000
Currency						
French Franc:						
Financial liabilities	66,336	2,406	68,742	34,802	2,331	37,133
Deferred financing charges	(773)	(29)	(802)	(599)	(29)	(628)
At 31 December	65,563	2,377	67,940	34,203	2,302	36,505

All of the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short-term items or because they do not meet the definition of a financial liability, such as tax balances.

ii)	Fixed rate financial liabilities Weighted average interest rate %	Fixed rate financial liabilities Weighted average period for which rate is fixed Years
Currency		
French Franc:		
Financial liabilities	5.67	14
At 31 December 1998	5.67	14
French Franc:		
Financial liabilities	5.67	15
At 31 December 1997	5.67	15

Floating rate financial liabilities bear interest at rates, based on relevant national PIBOR equivalents, which are fixed in advance for periods of between one month and six months.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

15 FINANCIAL INSTRUMENTS (CONTINUED)

d) Maturity of financial liabilities

The following table provides a maturity analysis of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals as at 31 December 1998 as follows:

	Debt £000	Finance leases £000	Total 1998 £000	Debt £000	Finance leases £000	Total 1997 £000
Within 1 year, or on demand	2,789	144	2,933	1,268	—	1,268
Between 1 and 2 years	3,680	150	3,830	5,251	—	5,251
Between 2 and 5 years	10,018	488	10,506	4,585	—	4,585
Over 5 years	49,441	2,032	51,473	26,029	—	26,069
	65,928	2,814	68,742	37,133	—	37,133
Deferred financing charges	(802)	—	(802)	(627)	—	(627)
At 31 December	65,126	2,814	67,940	36,506	—	36,506

Interest on bank loans is charged at fixed rates of 5.7% and floating rates of PIBOR plus a margin ranging between 1.0% and 1.1%. All bank loans are secured by legal charges over the respective properties to which they relate, and in most cases, floating charges over the remainder of the assets held in the Company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

e) Borrowing Facilities

The Group does not have any undrawn committed borrowing facilities at 31 December 1998 (1997: Nil)

f) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the book values and the fair values of the Group's financial assets and financial liabilities at 31 December 1998. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

2.5 FINANCIAL INSTRUMENTS (CONTINUED)

f) Fair values of financial assets and financial liabilities (continued)

Set out below the table is a summary of the methods and assumptions used for each category of financial instrument.

	Book value £000	1998 Fair value £000	Book value £000	1997 Fair value £000
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	2,933	2,933	1,268	1,268
Long-term borrowings	65,809	65,883	35,865	35,759
Other financial liabilities	—	—	—	—
Short-term deposits	7,884	7,884	13,924	13,924
Cash at bank and in hand	4,025	4,025	3,863	3,863
Derivative financial instruments held to manage the interest and currency profile				
Interest rate caps	262	18	206	unavailable

A fair value estimate comparative figure relating to interest rate caps was not obtainable from the banks concerned. As at 31 December 1997, 100 per cent of the Group's floating rate debt was covered by interest rate caps with rates from between 6.5 per cent to 7.0 per cent and an average term of five years. None of these caps expired during the year to 31 December 1998.

Summary of methods and assumptions

Short-term deposits and borrowings:

The fair value of short-term deposits, loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments.

Long-term borrowings:

The Group has utilised both fixed and variable bank borrowings to date. The fair value and the floating rate loans approximates to the carrying value reported in the balance sheet as payments are reset to market rates at intervals of less than one year.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

25 FINANCIAL INSTRUMENTS (CONTINUED)

g) Currency exposures

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the group companies and the Group.

	Net foreign currency monetary assets/(liabilities)		
	Sterling £000	French Franc £000	Total £000
1998			
Functional currency of group operations:			
Sterling	87	4,697	4,784
French Franc	-	3,157	3,157
Total	87	7,854	7,941
1997			
Functional currency of group operation:			
Sterling	7,267	9,829	17,096
French Franc	-	3,948	3,948
Total	7,267	13,777	21,044

h) Hedging

As explained in the financial review on pages 16 to 19, the Group's policy is to hedge interest rate risk using fixed caps.

Gains and losses on instruments used for hedging are not recognised and are effectively deferred and amortised in the balance sheet over the *period* of the cap.

	Deferred losses £000's
Deferred losses on hedges at 31 December 1998	244
Of which:	
Losses expected to be recognised in 1999	52
Losses expected to be recognised in 2000 or later	192

i) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

26 MAJOR NON-CASH TRANSACTIONS

No major non-cash transactions were made during the year.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

27. COMMITMENTS AND CONTINGENT LIABILITIES

The Group and Company had no annual commitments and no capital commitments existing as at 31 December 1998 (1997: Nil).

28. POST-BALANCE SHEET EVENTS

There are no post balance sheet events.

29. INVESTMENT IN GROUP UNDERTAKINGS

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.

These companies plus all French subsidiaries are as follows:

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%	
Hermalux SARL	Luxembourg	Ordinary Shares of FF200	100%	
Sarl BV	France	Ordinary Shares of FF100		100%
Sarl HE	France	Ordinary Shares of FF100		100%
Sarl Citadel Services	France	Ordinary Shares of FF100		100%
SA Columbus	France	Ordinary Shares of FF100		100%
SA Mission Marchand	France	Ordinary Shares of FF100		100%
SA Equinox	France	Ordinary Shares of FF100		100%
SA Capitaine Guynemer	France	Ordinary Shares of FF100		100%
SA Philippe Auguste	France	Ordinary Shares of FF100		100%
SA Rhone Alpes	France	Ordinary Shares of FF100		100%
SA Sigma	France	Ordinary Shares of FF100		100%
SA Euler	France	Ordinary Shares of FF100		100%
SA Petits Champs	France	Ordinary Shares of FF100		100%
SA Velizy	France	Ordinary Shares of FF100		100%
SA Amsterdam	France	Ordinary Shares of FF100		100%
SA Sutol	France	Ordinary Shares of FF100		100%
SA Solabel	France	Ordinary Shares of FF100		100%
SA Rue de l'Est	France	Ordinary Shares of FF100		100%
SA Pascal	France	Ordinary Shares of FF100		100%
SA Boulevard des Iles	France	Ordinary Shares of FF100		100%
SA Immobiliere V	France	Ordinary Shares of FF100		100%
SA Victor Hugo	France	Ordinary Shares of FF100		100%
SCI Forum	France	Ordinary Shares of FF100		100%
SCI Park Avenue	France	Ordinary Shares of FF100		100%
SCI Parc	France	Ordinary Shares of FF100		100%
SCI Columbus	France	Ordinary Shares of FF100		100%
SCI D'Aubigny	France	Ordinary Shares of FF100		100%
SCI Velizy C	France	Ordinary Shares of FF100		100%
SCI Velizy D	France	Ordinary Shares of FF100		100%
SAS Charenton Bercy	France	Ordinary Shares of FF100		100%

The Group has no associated undertakings.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 1998

30 RELATED PARTY TRANSACTIONS

Management Agreement

The management agreement dated 25 June 1997 between the Company and CLSH Management Limited remains in force and during 1998 fees of £482,096 were paid or payable to CLSH Management Limited in addition to the reimbursement of third party costs and expenses.

Citadel also had a current account balance owing to CLSH Management Limited of £103,399 as at 31 December 1998, which has since been repaid.

Warrant Agreement

CLSH Management Limited is a wholly-owned subsidiary of CLS Holdings plc which owns 12.32 per cent of the issued shares in the company. The Warrant Agreement between CLS Holdings plc and the Company, under which CLS Holdings plc is entitled to subscribe for a further 8,000,000 Ordinary Shares in Citadel (19.46 per cent of the enlarged share capital following subscription) in specified periods of up to seven years from June 1997 subject to the achievement by the Company of certain performance targets, remains in force. To date CLS has not exercised any of its rights to subscribe for further shares although the criteria for exercising warrants at 100 pence per share have been met. CLS has informed the Company that it is not its current intention to exercise the performance warrants.

Relationship Agreement

CLS Holdings plc, Sten Mörtstedt, Bengt Mörtstedt and Citadel Holdings plc have entered into a relationship agreement which is designed, inter alia to regulate any conflicts arising between CLS and Citadel in relation to investment opportunities which arise whether in France or elsewhere. CLS has agreed that no member of its Group will invest in property in France without that opportunity first being made available to Citadel.

Shares in CLS Holdings plc by Citadel Directors

Sten Mörtstedt, Glyn Hirsch and Dan Baverstam and their families hold shares in CLS Holdings plc of 44,085,713, 11,244 and 24,544 respectively. In addition Glyn Hirsch holds 1,000,000 options over ordinary shares in CLS Holdings plc at an exercise price of 97 pence per share and Dan Baverstam holds 60,000 options over ordinary shares at an exercise price of 108 pence per share and a further 36,000 options over ordinary shares at an exercise price of 98 pence per share.

TWO YEAR FINANCIAL SUMMARY

FOR THE YEAR ENDED 31 DECEMBER 1998

	1998 £000	For the five month period ended 31 Dec 1997 £000
Turnover and results		
Turnover		
Acquisitions	1,225	—
Continuing operations	4,613	1,360
	5,848	1,360
Operating Profit		
Acquisitions	1,079	—
Continuing operations	3,276	687
	4,355	687
Net interest payable and related charges	(1,710)	(64)
Foreign exchange loss gain/(loss)	405	(726)
Profit/(Loss) Before Taxation	3,050	(103)
Tax on ordinary activities	(469)	(7)
Profit/(Loss) for the Financial Year	2,581	(110)
Dividends	(1,013)	(165)
Retained Profit/(Loss)	1,568	(275)
Net Assets Employed		
Fixed assets	106,789	50,581
Net current assets	5,263	19,897
	112,052	70,478
Non-current liabilities	(65,007)	(35,237)
	47,045	35,241
Ratios		
Net assets per share	£142.1p	£106.8p
Earnings per share	7.81p	(0.33)p
Gearing	120.50%	54.90%

The results comply with the requirements of FRS3 and have been prepared on a consistent basis.

SCHEDULE OF GROUP PROPERTIES

Property	Address	Freehold/ Leasehold	Area m2	Area sq ft	Use	Date of Construction/ Refurbishment
D'Aubigny	27 rue de la Villette, 69003 Lyon	Leasehold	4,037	43,454	Office	1989
Forum	27/33 rue Maurice Flandin, 69003 Lyon	Freehold	6,911	74,390	Office	1989
Front de Parc	109 Boulevard de Stalingrad, 69100 Lyon	Leasehold	5,223	56,220	Office	1989
Park Avenue	81 Boulevard de Stalingrad, Villeurbanne, 69100 Lyon	Freehold	3,909	42,076	Office	1988/89
Rhone Alpes	Cours Lafayette, 69006 Lyon	Freehold	3,657	39,363	Office	1993
Capitaine Guynemer	53/55 rue du Capitaine Guynemer, Courbevoie, 92400 Paris	Freehold	1,893	20,376	Office	1993
Columbus	1 Rond Point de L'Europe, 92250 La Garenne-Colombes, Paris	Freehold	3,162	34,036	Office	1990
Equinoxe II	1 bis Avenue du 8 Mai 1945, St Quentin en Yvelines, Paris	Freehold	4,235	45,585	Office	1995
Mission Marchand	56 Boulevard de la Mission Marchand, 92400 Courbevoie, Paris	Freehold	2,635	28,363	Office	1993
Philippe Auguste	83/85 Avenue Philippe Auguste, 75011 Paris	Freehold	1,610	17,330	Office	1995
Le Sigma	Place de Belgique, 92250 La Garenne Colombes, Paris	Freehold	6,576	70,784	Office	1993
Rueil 2000	15/21 Avenue Edouard Berlin, 92500 Rueil-Malmaison, Paris	Freehold	7,408	79,739	Office	1991
Levallois-Perret	30, rue Edouard Vaillant, Levallois-Perret 92300, Paris	Freehold	1,706	18,363	Office	1996
Charenton	2 rue du Nouveau Bercy, 94220 Charenton, Paris	Freehold	5,207	56,048	Office	1994
Petits Hotels	20-22 rue des Petits Hotels, Paris	Freehold	2,001	21,538	Office	1994
Santos Dumont	23 Avenue Louis Breguet, 78140 Velizy, Paris	Freehold	2,885	31,054	Office	1991
Petits Champs	48, rue Croix des Petits Champs, 75001 Paris	Freehold	1,800	19,375	Office	1972
Lotus Building	41 rue du Capitaine Guynemer, 92400 Courbevoie, Paris	Freehold	6,026	64,863	Office	1977
TOTAL			70,881	762,957		

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Citadel Holdings plc will be held at 6 Spring Gardens Citadel Place Tinworth Street London SE11 5EH on 25 May 1999 at 11 a.m. for the following purposes:

ORDINARY BUSINESS

- 1 To adopt the Report of the Directors and the Accounts for the period ended 31 December 1998.
- 2 To declare a Final Dividend.
- 3 To re-elect as a Director Sten Mörtstedt who retires under Article 97 (retirement by rotation).
Sten Mörtstedt (aged 59) has been in the property business for 34 years. He began his career in 1962 with Svenska Handelsbanken in Stockholm. Within three years he had formed a property investment partnership and in 1968 he became Managing Director of the Mörtstedt family's property company, Flygbostäderi Ronneby AB (later renamed Citadellet AB), based in Stockholm. In 1977, he brought his family to live in England. Since 1977, he has been involved principally with the running of the Mörtstedt family's property interests in the UK and was appointed to the Board of the Company in March 1994. He has also been a director of Citarent AB, Drummond Gate AB, Instant Office AB and Malmros International AB in Sweden and Sodastream Limited in the UK.
- 4 To re-elect as a Director Richard Lockwood who retires under Article 97 (retirement by rotation).
- 5 To re-appoint PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration.
- 6 To consider and if thought fit to pass the following resolution as an Ordinary Resolution:
"That the Directors be and are hereby unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to allot all relevant securities (within the meaning of the said Section 80) in the authorised share capital of the Company which are unissued at the time of the passing of this resolution provided that the maximum amount of relevant securities that may be allotted pursuant to this resolution shall not exceed an aggregate nominal value of £2,522,000 and provided further that this authority shall expire on the conclusion of the next Annual General Meeting of the Company following the date of the passing of this resolution or 25 August 2000 whichever is the earlier".
- 7 To consider and if thought fit to pass the following resolution as an Special Resolution:
"That, subject to the passing of the preceding resolution, the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that this power shall be limited to:
 - a) the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them;
 - b) the allotment of equity securities pursuant to the terms of Citadel Holdings Executive Share Option Scheme;
 - c) the allotment of equity securities pursuant to the terms of the Warrant Agreement with CIS Holdings plc dated 23 June 1997;
 - d) the allotment otherwise pursuant to sub-paragraphs a) and b) above of equity securities up to an aggregate nominal value of £413,875 provided that this power shall expire on the conclusion of the next annual general meeting of the company following the date of the passing of this resolution or 25 August 2000, whichever is the earlier save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired."

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL BUSINESS

- 8 To consider and if thought fit pass the following resolution as an Ordinary Resolution:

"That the Directors are generally and unconditionally authorised:

- a) to exercise the power contained in Article 149 of the Articles of Association of the company so that, to the extent determined by the Directors, the holders of Ordinary Shares may be permitted to elect to receive new Ordinary Shares credited as fully paid instead of all or part of the final dividend for the financial year ending 31 December 1998 and any interim dividend resolved by the Directors to be paid in respect of the financial year ending 31 December 1999;
- b) to capitalise the appropriate nominal amount of additional Ordinary Shares falling to be allotted pursuant to the election made as aforesaid out of the amount standing to the credit of reserves, to apply such sum in paying up such Ordinary Shares and to allot such shares to members of the company validly making such elections".

- 9 To consider and if thought fit pass the following resolution as an Ordinary Resolution:

"that the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of up to an aggregate of 3,311,000 Ordinary Shares in the Company at a price per share of not less than 25 pence and not more than 105 per cent of the average of the middle market quotations for such Ordinary Share as derived from the Stock Exchange Daily Official List for the ten business days immediately preceding the day of purchase provided that such authority shall expire at the conclusion of the next Annual General Meeting of the Company or on 25 August 2000 whichever is the earlier (except in relation to the purchase of Ordinary Shares pursuant to any contract made by the Company before the expiry of this authority)".

By order of the Board

TJ Thomson
Company Secretary
20 April 1999

Registered Office:
Citadel Place
6 Spring Gardens
Tinworth Street
London SE11 5EH

Notes

- 1 Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the company. Any form of proxy must be deposited with the company's registrars at the address shown on the form of proxy not later than forty-eight hours before the time fixed for the meeting. Completion of a form of proxy will not preclude a member attending and voting in person at the meeting.
- 2 There will be available for inspection at the company's registered office during usual business hours each week on Mondays to Fridays (excluding public holidays) from the date of this notice up to the date of the meeting and at the meeting itself from fifteen minutes prior to the commencement of the meeting until its conclusion:
 - i) the register of interests of the directors in the share capital of the company;
 - ii) copies of all service contracts relating to Directors of the company.

FORM OF PROXY FOR ANNUAL GENERAL MEETING

I/We _____

Of _____

Being a member/members of Citadel Holdings plc hereby appoint the Chairman of the meeting

or _____

As my/our proxy to vote for me/us and on my/our behalf at the annual general of the company to be held on 25 May 1999 and at any adjournment thereof.

I/We desire to vote in respect of the resolutions set out in the notice convening the meeting as follows:

	For	Against
1 Resolution to receive the Directors' Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>
2 Resolution to declare a final dividend	<input type="checkbox"/>	<input type="checkbox"/>
3 Resolution to re-appoint Sten Mörtstedt	<input type="checkbox"/>	<input type="checkbox"/>
4 Resolution to re-appoint Richard Lockwood	<input type="checkbox"/>	<input type="checkbox"/>
5 Resolution to re-appoint the auditors and authorise the Directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
6 Resolution to renew the Directors' authority to issue shares	<input type="checkbox"/>	<input type="checkbox"/>
7 Resolution to grant authority to allot shares	<input type="checkbox"/>	<input type="checkbox"/>
8 Resolution to give the Directors authority to issue scrip dividend shares	<input type="checkbox"/>	<input type="checkbox"/>
9 Resolution to grant authority to the Company to purchase its own shares	<input type="checkbox"/>	<input type="checkbox"/>

Dated this _____ day of _____ 1999

Signature _____

Notes

- 1 Please indicate with a tick how you would like your votes to be cast. If for any resolution neither box is ticked the proxy will abstain or vote at his discretion.
- 2 This form of proxy, to be valid, must be lodged with the company's registrars not less than 48 hours before the time of the meeting.
- 3 In the case of a corporation, this proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised, in which case the written authority must also be lodged with the company's registrars with this form of proxy.
- 4 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
- 5 A member is entitled to appoint his or her own proxy and if he or she wishes to do so he or she should delete the appointee given above and insert the proxy's name in the space provided. A proxy need not be a member of the company.
- 6 Completion of this form of proxy will not preclude attendance in person.

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