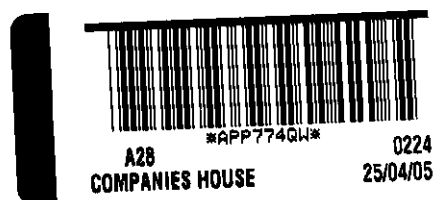


CITADEL FINANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2004



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

Company No. 3377672

CITADEL FINANCE LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2004

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CITADEL FINANCE LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2004.

1 PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as a financial investment Company within the Citadel Holdings plc Group.

2 REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The results for the year are shown on page 4 of the annual report. The Directors expect the principal activity of the Company to remain unchanged for the foreseeable future.

3 DIVIDENDS

The Directors do not recommend payment of any dividends for the year ended 31 December 2004 (2003: £nil).

4 DIRECTORS & THEIR INTERESTS

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

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

The Directors had no interests in the shares of the Company at any time during the year. The interests of the Directors, who are also directors of the parent company, CLS Holdings plc, are disclosed in that Company's financial statements.

CITADEL FINANCE LIMITED

5 STATEMENT OF DIRECTORS' RESPONSIBILITIES

UK Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the year. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records, that disclose with reasonable accuracy at any time the financial position of the Company, and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

6 AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD


Mr T J Thomson
Director

REGISTERED OFFICE
One Citadel Place
Tinworth Street
London SE11 5EF

31 March 2005

CITADEL FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITADEL FINANCE LIMITED

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

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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.

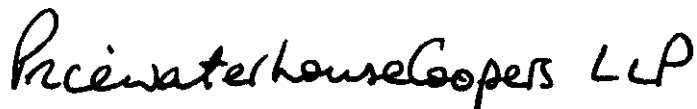
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and
Registered Auditors
LONDON

31 March 2005

CITADEL FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	2004 £	2003 £
Turnover	(2)	1,176,250	612,079
Administrative expenses		(5,481)	(5,327)
		<hr/>	<hr/>
Operating profit	(3)	1,170,769	606,752
Interest payable and similar charges	(5)	(2,414,230)	(728,503)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(1,243,461)	(121,751)
Tax on loss on ordinary activities	(6)	-	-
		<hr/>	<hr/>
Deficit for the financial year	(12)	(1,243,461)	(121,751)
		<hr/> <hr/>	<hr/> <hr/>

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

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

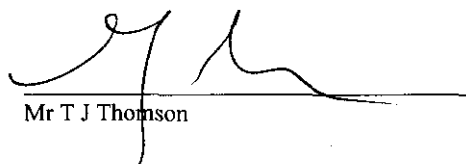
The Company has no other recognised gains and losses other than the above and therefore no separate statement of total recognised gains and losses has been presented.

CITADEL FINANCE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2004

	NOTES	2004 £	2003 £
FIXED ASSETS			
Investments	(7)	10,303,709	6,638,609
		<hr/>	<hr/>
		10,303,709	6,638,609
CURRENT ASSETS			
Debtors: amounts falling due within one year	(8)	397,652	240,817
Cash at bank and in hand		18,383,120	21,759
		<hr/>	<hr/>
		18,780,772	262,576
CREDITORS			
Amounts falling due within one year	(9)	(5,379,803)	(7,865,108)
		<hr/>	<hr/>
NET CURRENT ASSETS / (LIABILITIES)		13,400,969	(7,602,532)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,704,678	(963,923)
		<hr/>	<hr/>
CREDITORS			
Amounts falling due after more than one year	(10)	(27,849,016)	(1,936,954)
		<hr/>	<hr/>
NET LIABILITIES		(4,144,338)	(2,900,877)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	(11)	2	2
Other reserves	(12)	(1,315,932)	(1,315,932)
Profit and loss account	(12)	(2,828,408)	(1,584,947)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' DEFICIT	(13)	(4,144,338)	(2,900,877)
		<hr/>	<hr/>

The financial statements on pages 4 to 10 were approved by the Board of Directors on 31 March 2005 and signed on its behalf by:


 _____ DIRECTOR
 Mr T J Thomson

CITADEL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The Company has taken advantage of the exemption in Financial Reporting Standard No. 1 as a cash flow statement has been prepared for the Group. The Company is a wholly-owned subsidiary of Citadel Holdings plc, which is 100 per cent owned by CLS Holdings, and has taken advantage of the exemption in Financial Reporting Standard No.8 not to detail transactions with fellow Group undertakings as the financial statements of CLS Holdings plc are publicly available.

The Company has received assurances from Citadel Holdings plc that sufficient funds will be available to meet the Company's requirements for at least twelve months from the date of these accounts. Accordingly, these financial statements have been prepared on a going concern basis.

1.2 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the date of transaction. Realised exchange losses arising from redemption of loan balances are taken to other reserves. All other exchange differences are dealt with through the profit and loss account.

1.3 Turnover

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

1.4 Deferred Taxation

Deferred taxation is recognised in respect of timing differences arising from differences in the treatment for accounts and tax purposes of transactions or events recognised in the financial statements except that:

- Provision is not made in respect of property revaluation gains and losses, and
- Deferred tax assets are recognised only to the extent that suitable taxable profits are considered sufficiently certain to arise which could be set against these assets when they reverse.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse.

CITADEL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

2 TURNOVER

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

	2004 £	2003 £
Interest - bank	578,250	138,469
Intercompany interest	598,000	473,610
	<u>1,176,250</u>	<u>612,079</u>

3 OPERATING PROFIT

	2004 £	2003 £
This is stated after charging:		
Auditors' remuneration	1,500	1,500
	<u>1,500</u>	<u>1,500</u>

4 DIRECTORS' EMOLUMENTS & EMPLOYEE INFORMATION

The emoluments of the Directors of the Company, who are directors of CLS Holdings plc, are paid by and disclosed in that Company's financial statements in respect of their services to the Group as a whole. The Company had no employees during the year (2003: none).

CITADEL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

5 INTEREST PAYABLE AND SIMILAR CHARGES	2004 £	2003 £
Interest payable on loans from group undertakings	1,084,417	875,761
Foreign exchange loss / (gain)	1,329,813	(147,258)
	<hr/> 2,414,230 <hr/>	<hr/> 728,503 <hr/>

6 TAX ON LOSS ON ORDINARY ACTIVITIES	2004 £	2003 £
UK corporation tax at 30% (2003: 30%)	-	-
Deferred tax charge:		
Origination and reversal of timing differences	-	-
	<hr/> - <hr/>	<hr/> - <hr/>

The current tax charge for the period is lower in 2004 and 2003 than the standard rate of UK corporation tax (30%) as explained below:

Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2003: 30%)	(373,038)	(36,525)
<u>Effect of:</u>		
Amounts taxable as capital gains	-	159,138
Losses used or surrendered by group/consortium relief and differences between capital allowances and depreciation	373,038	(122,613)
	<hr/> - <hr/>	<hr/> - <hr/>
Current tax charge in profit and loss account	-	-

The Company expects to be able to shelter any future taxable profits by the use of available losses.

CITADEL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

7 INVESTMENTS	2004	2003
	£	£
Loans to group undertakings		
At 1 January	6,638,609	6,638,609
Additional loans	7,215,035	-
Redemptions	(3,549,935)	-
	<hr/>	<hr/>
At 31 December	10,303,709	6,638,609
	<hr/>	<hr/>
8 DEBTORS: amounts falling due within one year	2004	2003
	£	£
Amounts due from group undertakings	397,652	240,817
	<hr/>	<hr/>
9 CREDITORS: amounts falling due within one year	2004	2003
	£	£
Amounts due to group undertakings	5,376,278	7,862,546
Accruals and deferred income	3,525	2,562
	<hr/>	<hr/>
	5,379,803	7,865,108
	<hr/>	<hr/>
10 CREDITORS: amounts falling due after more than one year	2004	2003
	£	£
Amounts due to group undertakings	27,849,016	1,936,954
	<hr/>	<hr/>
11 CALLED UP SHARE CAPITAL	2004	2003
	£	£
Authorised:		
100 Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid:		
2 Ordinary Shares of £1 each	2	2
	<hr/>	<hr/>

CITADEL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (CONTINUED)

12 RESERVES

	Other Reserves £	Profit and loss account £
At 1 January 2004	(1,315,932)	(1,584,947)
Loss for the financial year	-	(1,243,461)
	<hr/>	<hr/>
At 31 December 2004	(1,315,932)	(2,828,408)
	<hr/> <hr/>	<hr/> <hr/>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2004 £	2003 £
Loss for the year	(1,243,461)	(121,751)
Shareholders' deficit as at 1 January 2004	(2,900,877)	(2,779,126)
	<hr/>	<hr/>
Shareholders' deficit as at 31 December 2004	(4,144,338)	(2,900,877)
	<hr/> <hr/>	<hr/> <hr/>

14 CONTINGENT LIABILITIES

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

15 ULTIMATE PARENT UNDERTAKING

The Directors consider that the immediate, ultimate parent undertaking and controlling party is Citadel Holdings plc which is registered in England and Wales and the ultimate parent is CLS Holdings plc. Copies of the parent's consolidated financial statements may be obtained from The Secretary, CLS Holdings plc, One Citadel Place, Tinworth Street, London, SE11 5EF.