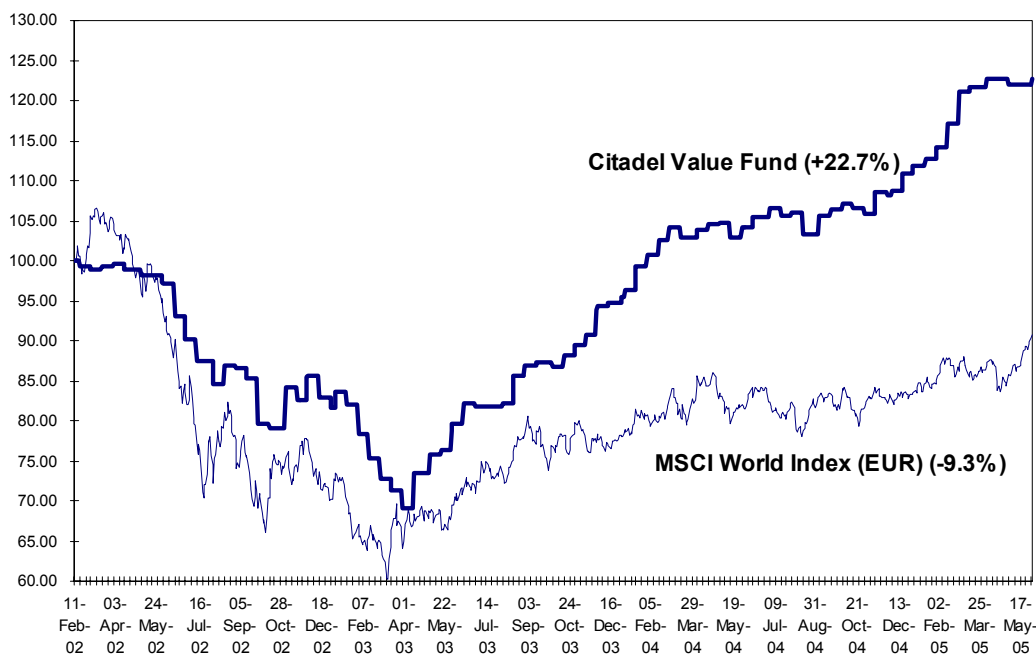


Dear Shareholders,

At the end of its financial year on May 31st 2005 the Net Asset Value (NAV) per share of your Fund was EUR 122.69. This compares to EUR 104.14 at the same time last year, and represents a healthy appreciation of 17.8% during the year.¹ Citadel got off to a good start in 2005 and is ahead by 9.8%. Since inception at the beginning of February 2002, the most important time-frame for the long-term investor, Citadel has risen by 22.7%. In addition to achieving a decent absolute return your Fund continues to outperform other comparable investments such as competing global equity funds, as well as the basket of stocks represented by the MSCI World Index.

Citadel Value Fund
(performance since inception to May 31st, 2005)



Portfolio news

Since the last letter to shareholders at the end of November last year, there have been a number of changes to the portfolio. Significantly, it is interesting to note that the shares in four companies were disposed of in the past half year. That is more than in the entire history of Citadel to this point. In two of these cases (**Aldeasa** and **API**) this was the result of takeover offers being made or contemplated. The sale of Aldeasa proved premature, as another higher offer emerged. To offer some consolation we should mention that the realised return was still an acceptable

¹ IMPORTANT: An investment in the Fund carries with it a degree of risk. The value of your investment may go down as well as up, and you could lose money on your investment. Past performance provides no guarantee for the future. Investors should read the fund's prospectus before deciding whether to invest. The opinions and commentary expressed herein should in no way be construed as personal investment advice, they are intended solely to illustrate the Fund's investment strategy and performance.

70% over a period of 2 ½ years. In the case of API the shares rose to a level that was far higher than what we estimated that it was worth, and Citadel consequently sold its holding. This decision to sell turned out to be a good one as the bid that was under consideration did not materialise, and the stock price subsequently tumbled. The other two sales involved **Brunel** and **Syms** both of which had risen sharply, and had reached their estimated 'intrinsic' values.

In addition to these sales new stakes were bought in three companies; **Ultraframe**, a UK producer of conservatories, **Dewhurst**, a manufacturer of elevator and door panels based in England, and **Village Supermarkets**, a small food retail chain with a strong position in the US state of New Jersey. These three companies share little in common except, what we are convinced, is a dramatically undervalued stock price.

Citadel Value Fund Performance (as of May 31st, 2005)	Cumulative returns			Annual returns			
	Since inception	3 year	1 year	2005* YTD	2004*	2003*	2002*
Citadel Value Fund	22.7%	26.0%	17.8%	9.8%	17.2%	17.0%	-18.4%
MSCI World Index (Euro)	-9.3%	-4.8%	10.7%	8.7%	6.9%	11.3%	-29.9%
Out/under-performance	32.0%	30.8%	7.2%	1.1%	10.2%	5.7%	11.5%

* annual returns based on estimated NAV on Dec. 31, 2002, '03 & '04; first NAV Feb. 11th 2002
source: European Fund Administration, MSCI

While the overall portfolio rose considerably since last November this was not true of all the stocks in the portfolio. As a result, there were a number of excellent opportunities to add to the holdings in several of the most undervalued companies in Citadel's portfolio. Amongst these were **Bristol-Myers Squibb** and **Heineken Holding**, to which Citadel added significantly. They are currently the two largest holdings in the portfolio. Likewise, we were able to buy more shares in **Molins**, **Carclo**, **Wolters Kluwer**, **Merck & Co.** and **Telegraaf**. This was rather good news, because in several instances the stakes threatened to become almost insignificant as result of the Fund's strong growth.

A final item worthy of mention is the uncharacteristically high level of net cash in the portfolio at somewhat more than 20% of Fund assets at the end of May. This should not be seen in any way as indicating a subtle (or not so subtle!) preference for cash over stock. Rest assured we remain allergic to this so-called 'asset allocation' model of investing. Rather, cash levels are a by-product, and a temporary one at that, of the degree of success we have in putting funds to work in individual stocks at prices we are willing to pay. Ultimately, this cash buffer should prove advantageous to returns in the future as we explain below.

Cash, returns, and the value of patience

The historically high level of net cash in Citadel's portfolio is somewhat unusual. However with a couple of years of rising stock markets, and noticeably fewer investments which meet the Fund's deep value criteria, we think it is fairly natural that cash levels are rising. The Fund's current liquidity position is, in fact, quite a luxurious one. Rather than burning a hole in our pockets, we know that our patience will be rewarded. Identifying new investments which are cheap enough to meet the Fund's criteria is a time-consuming process. However each new investment which is made (and only 3 – 4 good ideas are required to employ the bulk of the current bank account) has the potential to add significantly to Citadel's returns.

For some professional investors cash is often seen as a dangerous thing. As equity investors they quite rightly point out that their clients do not need to pay them to hold cash. A bank account is a worthy and cheaper alternative. In reality there is another reason why these investors have such an aversion to cash. When share prices rise large cash positions can lead them to under-perform versus stock markets (which are by definition 100% invested in stocks) and other competing investors who are more heavily weighted in shares. If one is focused in the short-term on keeping up with the Jones' in the form of other investors and market indices, then holding cash can indeed be risky. In the most absurd example a manager who invests his cash in stocks (to avoid the risk of not falling behind peers if

stock prices rise) can pat himself on the shoulder if his new investment actually falls in value so long as he doesn't lose more than the competition. This seems to us ludicrous if the goal of investing is to earn money. Nevertheless, it is by no means uncommon.

As an equity fund, the Citadel Value Fund's purpose is to invest in shares. But as a value fund, with a 'deep-value' philosophy, the price that shares are acquired at is all-important. Your Fund aims to generate good absolute returns in the long-term, and we are convinced that the best way to do that is to seek out and invest in very undervalued companies. In past letters we wrote extensively about a 'margin of safety' and why we think it is so crucial in improving both the chances of positive returns, and the extent of those returns. A big, fat, margin of safety doesn't guarantee a happy ending, but it improves the odds dramatically. We think that it is vastly preferable to hold cash (which admittedly will earn little but will not decline in nominal terms), than to invest in shares at questionable prices simply to avoid holding cash. We would rather miss a stock which soars in price despite not being demonstrably cheap, than to invest in a stock at questionable prices and see it implode. The famous value investor Warren Buffett distinguishes between these two sorts of mistakes as errors of omission versus errors of commission. The main difference between them is that errors of omission represent missed opportunities, while errors of commission actually cost money. To us the choice is obvious!

The rise in stock prices since the first quarter of 2003, and a very widespread rise at that, has greatly diminished the number of companies which meet our value criteria. Nevertheless we were able to find several new holdings at excellent prices in the past several months, as well as investing considerable amounts in the existing portfolio. The fact remains, however, that compelling new investments are hard to come by and we must look harder, and further afield, for ideas. More new opportunities will eventually present themselves and your Fund's sound cash position will allow it to capitalise. As we never tire of explaining even a couple of good ideas can do wonders for returns.

Ultraframe, a new deep value idea

Ultraframe PLC is one of your Fund's newest ideas. It is the UK market leader in what the English call conservatories and the Americans sunrooms - glass coated enclosures used in gardens and as additions to homes. Ultraframe's stock has been decimated in the past five years having fallen more than 90%. After several bumper years with extraordinary margins and fast sales growth, the English market suddenly began to contract. Consumers postponed or cancelled large purchases, new competitors entered the market, and the resulting overcapacity led prices to slide. Domestic margins fell from a high of 32% in 2000 to 21% last year, and will fall further this year. Compounding its problems at home, the company purchased the largest US producer in 2001 at an astronomic price. Its US cost base ballooned as management built for expansion, and this business careened into the red only two years after the acquisition, hit by a combination of external and internal factors.

Ultraframe's profitability will almost certainly never attain the levels it reached in the early years of this decade. Our analysis indicates that there are structural reasons why the company's growth and profitability will fall short of its earlier peaks. Nevertheless, part of its problems are self-inflicted and appear as if they are being corrected. Importantly, while falling prices have slashed the profitability of its core UK business, Ultraframe remains the market leader. This suggests that its products still have considerable appeal. The market, which is now undergoing a downturn, continues to have medium and long-term potential and a shakeout amongst weaker players is likely. The balance sheet is still healthy with only modest levels of debt, despite several horrendous years. Cash flows have shrunk but remain positive. With a restructured cost base and numerous operational improvements both in the UK and US, we think the business has a profitable future ahead.

At current prices the firm is valued at only 2/3 of book value and slightly more than 4X our estimate of normalised EBITA (itself less than 40% of the peak achieved only 2 years ago). Where over-optimism once led investors to pay almost 20 times EBITA, the current valuation looks to us to be a clear case of over-pessimism. With your Fund's usual 3-4 year investment horizon we think the downside risks are small given the average price paid, and the odds of a good return excellent.

Portfolio Holdings
(as of May 31st, 2005)

company	activity	% of portfolio
Altria Group Inc.	food & tobacco	1.3%
Batenburg Beheer NV	technical installation services	3.3%
Bristol-Myers Squibb Co.	pharmaceuticals	7.2%
Canadian Natural Resources Ltd	oil & gas exploration & development	2.2%
Carclo PLC	industrial goods (plastic components)	3.4%
Continental (Grupo) SA	soft-drink bottling	0.3%
Dewhurst PLC	industrial goods (lift panels & controls)	1.1%
Grolsch (Koninklijke) NV	brewing	0.2%
Havas SA	advertising	2.6%
Heineken Holding NV	brewing	6.9%
Merck & Co., Inc.	pharmaceuticals	4.5%
Merck KGaA	pharmaceuticals & speciality chemicals	2.6%
Metall Zug AG (part. Scheine)	consumer durables (appliances)	0.8%
Molins PLC	industrial goods (tobacco machinery)	4.1%
Nedschroef Holding NV (Koninklijke)	industrial goods (fasteners)	3.8%
Nexans SA	cable production	0.2%
OCA Inc. (Orthodontic Centers of America)	health services (business services)	0.5%
Reesink NV	wholesale and trade	0.8%
Richemont (Compagnie Financiere) AG	luxury goods	0.7%
Sasa Industrie SA	industrial goods (baking utensils)	2.3%
Signaux Girod SA	industrial goods (traffic signs)	1.7%
Southern Energy Homes Inc.	manufactured housing	0.1%
Springer (Axel) Verlag AG	newspapers	1.9%
Tamedia AG	newspapers	3.1%
Telegraaf (Holdingmaatschappij de) NV	newspapers	4.3%
Ultraframe PLC	consumer durables (conservatories)	4.6%
Unilabs SA	health services (laboratories)	1.1%
Village Super Market Inc.	food retail	2.4%
VLT AB	newspapers	1.7%
Wegener NV	newspapers	5.1%
Wolters Kluwer NV	professional publishing	4.0%
Cash and other assets and liabilities		<u>20.9%</u>
		100.0%

Citadel got off to a fast start in the first few months of 2005 yet the portfolio remains substantially undervalued. Clearly an overall market retraction would make it easier in putting more funds to work. As long-term investors we recognise that performance almost never comes evenly, returns can vary considerably even over the course of a single year. The same is true of new investment opportunities. The key we believe is to maintain our value discipline, prepare for these opportunities, and pounce when they arrive. We will report back to you on our success in this regard and wish, in the meantime, to thank you for the trust you place in Citadel.

Kind regards,

The Board of Directors
Citadel Value Fund SICAV

June 4th, 2005