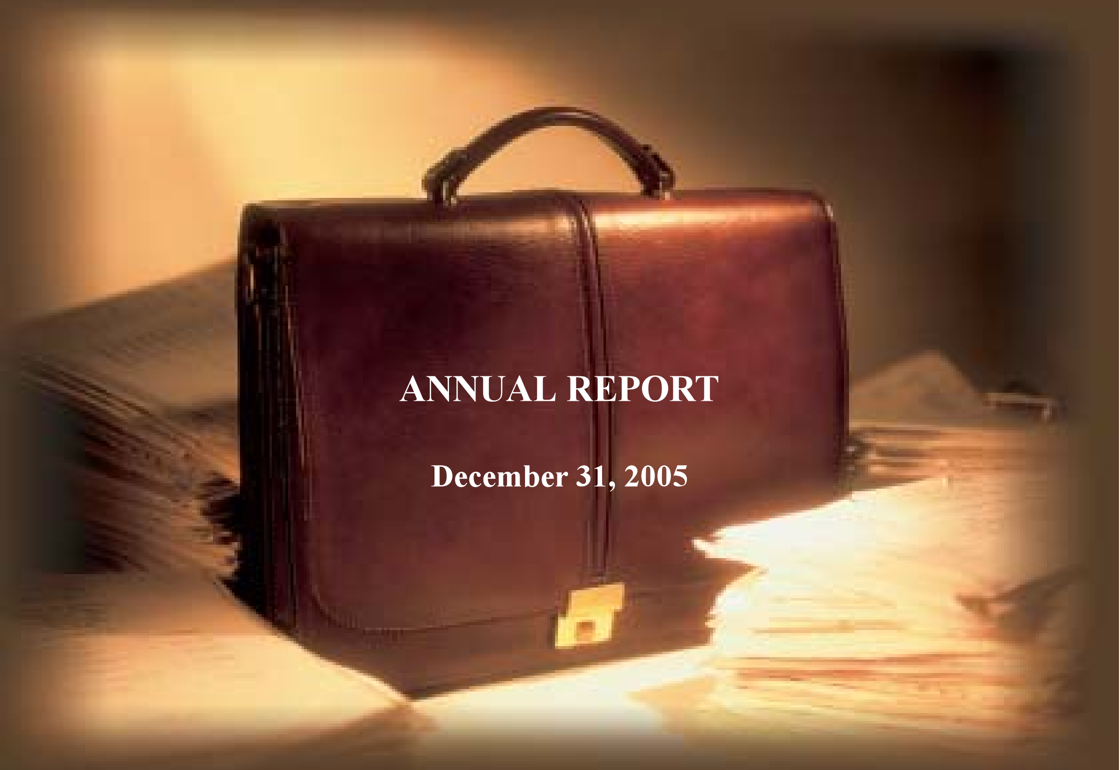
NSEL 30 INDEX FUND



ANNUAL REPORT

December 31, 2005

The NSEL 30 Index Fund is the only fund in Lithuania which invests only in Lithuanian stocks. It is also the first mutual fund founded in Lithuania – started on April 9, 2001. Numerous independent studies have shown that indexing provides greater returns than actively managed mutual funds over time with less risk and lower fees. More than half the active money managers underperform their benchmark indices. Since most active managers are not able to beat the market, then investors should try to match the market at the lowest cost.

Index mutual funds are designed to track the performance of a securities index or benchmark by investing substantially all of its assets in the securities contained in that index. NSEL 30 Index Fund attempts to replicate the performance of NSEL 30 Index. This is an index of 30 companies that have the highest free-float based market capitalization that are traded on the Vilnius Stock Exchange. As of December 31, 2005, the NSEL 30 Index represented 87.5% of the total capitalization of all listed stocks and 94.90% of the float adjusted capitalization.

Lithuania is an emerging market and the early stages of emerging markets represent tremendous investment opportunities. However, like anywhere in the world, some investors do not have time or enough investment knowledge to follow markets, do research, and make buy and sell decisions. Such investors can simply choose to replicate the performance of the aggregate market by indexing. Indexing provides investors with the market average return for a low fee.

One of the most significant advantages of the index fund in a thinly traded emerging market is that it provides liquidity for investors. The main data about the Fund is provided in the following table:

	2001.12.31	***2002.12.31***	***2003.1.231***	***2004.12.31***	***2005.12.31***
Net asset value, Lt.	1,266,316	1,316,997	11,171,021	37,542,949	56,443,778
Net asset value per share, Lt.	891.14	895.92	1,646.91	2,457.00	3,297.91
Number of investors, in units	15	18	170	486	858

Monthly performance in 2005 (%):

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3.75	5.67	0.43	1.38	0.47	2.25	7.04	5.69	8.34	-4.40	-3.87	2.72

During year 2005:	34.32%
Since inception:	246.32%
Last 3 years:	268.11%

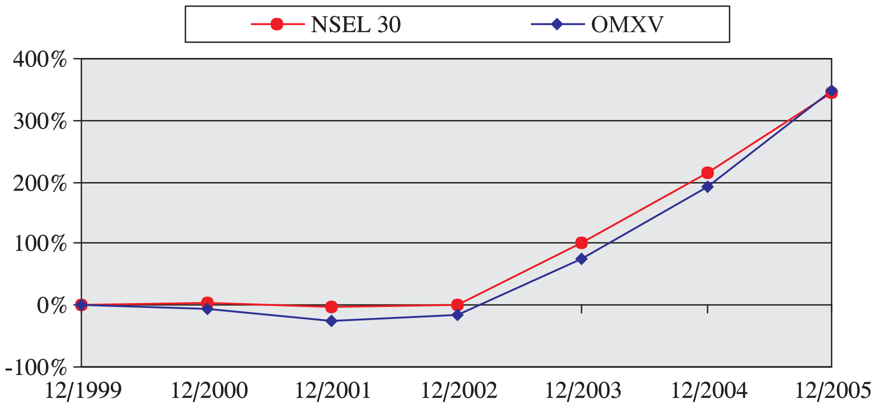
Past performance does not guarantee future results.

The NSEL 30 Index Fund has had the best performance of all funds offered in Lithuania the last three years. Its annualized return of 54% (268% for the 3 years) is one of the top 20 results in the world among all funds (Source: Morningstar). The average of all funds during the same period was 12.83%.

NSEL 30 INDEX PERFORMANCE

This year the historical LITIN-10 index was dropped by the stock exchange. This was a very misleading index. It did not include dividends and its membership was the most actively traded stocks. There were several serious calculation deficiencies. Also this year the VILSE index name was changed to OMXV(OMX Vilnius) index. This is an excellent index with only two flaws found by Professor Zavanelli; handling of new secondary offerings is incorrect and the calculations of spinoffs and breakups are possibly wrong. It is not adjusted for free float; only total capitalization. Some stocks on the exchange like VST, Lietuvos Energija have large total capitalizations, but only about 3% of shares are available for the investors.

The NSEL 30 theoretical index remains unchanged historically as does the procedure for calculation. It reflects what someone could actually make before trading commissions when investing in the stock market. For this reason this should be the official index of the country. Only this index should be used for academic research and comparisons with the other stock markets. The NSEL 30 data from 2000 was calculated daily live and is more reliable than something put together backwards historically.



Index	2000	2001	2002	2003	2004	2005
NSEL30*	+4.20%	-5.75%	+3.05%	+97.53%	+57.42%	+41.02%
OMXV**	-7.30%	-18.49%	+12.20%	+105.80%	+68.18%	+52.93%

* NSEL 30 Index is a cap-weighted index of 30 largest free-float capitalization companies listed on the Vilnius Stock Exchange of Lithuania. Dividends paid by companies are included in the Index.

** OMXV Index is a cap-weighted index of all companies listed on the Vilnius Stock Exchange's Official and Current Lists. Dividends paid by companies are included in the Index.

ANNUAL REPORT 2005

Dear Shareholder: January 26, 2006

It was another great year! The net asset per share of our fund rose 34.23%. For the last 3 years, we are up 268% which is one of the top performances in the world. At the beginning of the year, every investment firm in Lithuania was negative on the stock market and publishing negative forecasts. We were the only bullish opinion. Using our theory of stock prices, we said in our last annual report that stocks "needed to go up 122% to reach a fair value relative to an alternative investment in long term Lithuanian Government securities" and also we wrote: "Nothing goes straight up, so corrections are inevitable. But we can say that this market can still go up a lot and not be overpriced."

The number of shareholders of the fund almost doubled in 2005. Net assets of the fund increased 50.34% from year end 2004 to year end 2005. On October 11 the fund hit a high of 3512 which was up 42%. The market then dropped and November was also down. December regained 2.72%.

Index and Index Fund Difference

We are sad to say that there has still been no progress with the SEC to approve our Index as is allowed in the Lithuanian laws. This would exempt us from the onerous burden of EU diversification requirements which are completely inappropriate for an emerging stock index fund with a limited number of stocks. The purpose of diversification is reduce risk; not increase it.

Again we repeat the golden objectives of index fund investments. They are:

1. Provide liquidity;
2. Minimize risk;
3. Minimize transaction costs;
4. Minimize expenses.

And again, we note that the Securities Commission forces us to violate all 4 objectives. Their position seriously damages our shareholders return and greatly increases our risk. The diversification law limits all investments to a maximum of 10%. All investments with weights from 5% to 10% cannot exceed 40% of the fund assets.

First, let me note that there is no academic support or studies supporting these rules. On the contrary, they violate every concept of Modern Portfolio Theory. You can open any basic textbook on investments and learn it is the covariance and correlation that is important for risk. You can have a perfect hedge and no risk if you have two securities that are negatively correlated with each other.

To comply with these rules means we must hold less of the liquid and safer large companies and buy the illiquid and much riskier smaller companies. What's worse, we must constantly trade to adjust our position. The #1 benefit and advantage of an index fund is that it should never have to buy and sell except to manage cash flows of the fund. What is especially awful is that we must sell our winners and buy more of the losers since as a stock goes up it surpasses our weight limit of 5% or 10%. That is absolutely the wrong way to invest!

To add insult to injury, the SEC fined us for exceeding the weight because in a strong stock market some stocks can go up very quickly. We appealed this fine. However it was the SEC's position, which was upheld by the court, that because we are investment professionals we should know what stocks go up and we should sell in advance so we don't violate the weights! (Pardon my crystal ball.) It's a fine investment policy to have to sell the stocks before they go up!

The current objection to our index fund being recognized is that we calculate the index ourselves and there could be some conflict of interest. Utter nonsense. The index fund calculation rules are clearly defined in the prospectus and the SEC is always checking to see we follow those rules. Furthermore, our motivation is clear. We want to have the best possible index to have the best possible risk/return for our clients. Why not? We had a discussion with a third party, the Financial Analyst's Society, to do the calculation to satisfy the SEC, but then the SEC wanted daily calculations which would be expensive to our shareholders and duplicate unnecessary work. We set the theoretical index once a quarter. Only occasionally during the quarter is there an adjustment due to a buyout or major change (delisting) of a NSEL 30 member. Our daily calculation can easily be checked and audited and they are by the SEC anyway!

I have been a student of investments my entire life and have been teaching investments for a long time. It should not surprise me that regulators who have no theoretical understanding of efficient markets, no training in Modern Portfolio Theory, and very limited local experience, would rely only upon bureaucratic doctrine and not recognize that its application directly hurts the investors for which they exist to help.

What this means is we must actively manage the fund. Since we cannot invest in the theoretical weights, we must choose what stocks in what weights to buy. If we have to choose, then we make decisions to lower risk, and not buy higher risk securities. Since higher risk securities tend to generate for some periods of time much higher returns, it is more likely our fund will underperform the theoretical index. That was clearly the case this year.

Theoretical Index Portfolio	41.02%
Live Portfolio	37.04%
Calculated after diversification rules, with no cash balance, and after commissions, but before fees and expenses	
Net Asset Value/Share	34.23%

There is a 4% difference between the "live" portfolio and the theoretical. The commission rate is 0.30 to 0.45 basic points (0.45%). Total commissions as a percentage of assets at the beginning of the year was 0.43%. Therefore the rest of the performance shortfall is due to the diversification rules. We can say that SEC's decision cost our shareholders at least 1.3 million litas.

1.4102 x 37,542,949 = 52,943,066
1.3704 x 37,542,949 = 51,433,840
less commissions -163,000
1,346,226

before adjusting for interim cash flows. Of course a lot of the commission costs on trades were also done to meet the rule.

The bid ask spreads typically exceeds the commission cost by several times so the loss is much greater. Also the fund grew so this loss is a minimum estimate of what bureaucracy costs us. We should send the SEC a bill.

The major reason for the difference was the underweighting of *Mazeikiu Nafta*. It's theoretical weight was more than 10% of the market. We had to keep it at less than 5% to avoid the 40% rule. Of course, the price of oil doubled, which made them very profitable (the only oil refinery in the Baltics). Some of the political issues for this company got resolved and the stock soared 124.5% for the year.

The Lithuanian Stock Market 2005

The best performing stock in the NSEL 30 was *Bankas Snoras*; up 415%. The second best was *Ukio Bankas*; up 251%. The average stock in the NSEL 30 had a 37.19% gain.

This was less than the float weighted capitalization index of the NSEL 30. The worst performing stock was *Ekranas* which lost –70.60%.

Outside the NSEL 30 and among the listed stocks, two had very large gains. (There are 43 listed stocks – 30 are in the NSEL 30.) *Panevezio Statybos Trestas* was up an incredible 732%. *Lifosa* was up 400%. *Lifosa* was a large cap company and would have been in the index except they had announced they were going to delist on December 13, 2004.

In 2003, we had *Lifosa* in the index, but had removed it when the float dropped to 7% and it didn't trade. In 2004, the float declined again to only 4%. They never made a subsequent announcement so thinking they would delist at any time, we didn't want to buy it only to have to sell it when everyone else would have to sell. (We can only hold publicly traded securities.) We also believed that small shareholders could be forced out at a disadvantage. This is the main reason for the NSEL 30 being less than the OMXV this year. The OMXV would have counted 100% of the capitalization of *Lifosa* in their calculation while only 4.12% is actually available to public shareholders. With the large gain of PTR1L and LFO1L, the average listed stock rose an incredible 71.58%. Our GRAPES analysis was right once again.

The Economy

GDP growth continued to be strong at 7% to 8% as Lithuanians discover a consumer economy. Construction, hotels and restaurants, transportation, communications, and retail sales are all growing at greater than 12%. GDP would be higher except for agriculture and mining which barely increased. Inflation is the best in the Baltics at 2.6%, but this is nearly all composed of higher energy prices and real estate. Take these out and inflation is zero. The major problem is the add on taxes to the price of energy. Over 60% of the price of gas is taxes. This is a very heavy burden on the average Lithuanian. The government should not be in lockstep with absurd EU rules when the average income per citizen is so far less than the old European countries. The Lithuanian government and people should speak out that this is seriously wrong – hurting everyone and the economy. They should follow the lead of Estonia and not be afraid to do what is right. Do away with the huge tax on gasoline.

Real Estate Bubble

Every emerging stock market is accompanied by a real estate bubble. The meteoric rise of Hong Kong, Singapore, and Japan to among the 5 richest countries from the poorest are excellent examples. There have been several real estate bubbles in the US and a current one is well underway. There is one every generation for the fools who have no experience or history. Real estate is one of the most dangerous investments. Most people borrow heavily to buy a house or an apartment. Interest rates are ridiculously low in Lithuania now and government helps promote borrowing by rebating a portion of the interest at the end of the year.

The mechanics are simple. You can borrow in the US 90% of your loan to build or buy a house and the land. If prices go up 10%, you have doubled your money; 20%, you have tripled your equity. You can do the same thing in the stock market, but who would take that type of risk? As real estate prices rise, people think they are suddenly rich. Real Estate prices have gone up 3 to 4 times so those who heavily borrowed make 30 to 40 times their equity. This is a recipe for greed and speculation. What goes up can also come down. The problem is that when the bubble bursts in real estate, it usually takes the economy and the stock market with it. That is why we must be very concerned. The price of land in Vilnius is several times that of Florida. Vilnius does not have nice beaches and wonderful weather. The average salary and wealth of Floridians is higher so they can afford the interest payments.

Banks in Lithuania are very smart. They use only variable rate loans or a fixed rate for 1, 2, or 3 years maximum. Interest rates now are at the very bottom of the cycle. The year governments are at 3.53%. Only 5 years ago there was a crisis and two year treasuries were at 21% and the government had to cancel the auction. The risks in Lithuania far exceed 3.53%. Rates could easily double. Mortgage payments would double. Many of the home buyers would not be able to make the payment and go bankrupt. They or the bank would have to sell. Prices would plunge. And all those investing in real estate to make a quick profit are ruined. That's the way it works from the beginning of time immemorial. Buy a new house or an apartment because you want a better life, but make sure you have enough cash to make much higher payments, and do not use real estate as an investment at the top of a speculative bubble.

Real estate is consumption. It has no productivity. A stock is a claim on the talents, ideas, and work of all the employees and future stream of earnings and revenues which will continue to grow and improve. A claim on real estate is a claim on dead unproductive land unless you are a farmer or can rent it out. Real estate is illiquid and immobile. It has costs and rarely can you earn enough rent to cover your true cost of capital if real estate prices are high.

Floods, storms, fires, pollution, and bad neighbors are all unexpected risks that can cause total loss plus you have the risk of sharply rising rates and recession.

Political Review

Democracy is at work. Scandal after scandal is normal. Often many are falsely accused and bickering among political parties with a one sided tilt of the facts is also normal. Of course it is nauseating, disgusting, and disappointing, but the alternative of a dictatorship is worse. We must count on a free and responsible press to sort it all out for us.

As the Romans discovered long ago, bread and circuses buy votes. Politicians get elected on promises and the more "free beer" they can give to the masses, the better chance they will be elected. But there are no free lunches. Someone has to pay. The road to hell is paved with good intentions. Few politicians understand the consequences of what they do. There is always cause and effect and collateral damage.

The quickening pace of socialism in Lithuania is alarming. Communism is a system where everyone is supposed to be equal. As a result everyone has equally nothing – except party members of course. Socialism is another name for free bread and circuses. Let's make people richer by increasing their wages. Let's make them happy by giving them more holidays. But someone has to pay.

Businesses have to pay higher wages and get less work done. There is less profit. There is less money to expand, to hire more workers, and make improvements. Less profit means fewer people will invest here. The company will have to raise the prices of its products. Lithuania is less competitive. Unemployment increases, the economy slow down, and people eventually become worse off. It's that simple. Europe and Lithuania already have twice as many holidays as the USA, Japan, and other countries. In the USA, two weeks vacation is normal. In Europe, one month is mandatory. The operations manager of ZPR Investment Management has taken but one week vacation in all of the ten years he has been with us. He has responsibility to our clients. Our trader in Bangkok has never taken a day off in 15 years when the stock market has been open. Money never sleeps – it has to be watched. It is called responsibility, efficiency, dedication, and the desire to get ahead in life. You should be free to choose your path – not told what to do by government. It should be obvious why the US and Asian economies will continue to greatly outperform European economies.

Peculiarities of Lithuanian Investing

Lithuanian accounting and regulatory rules remain very backward and archaic; creating serious damage to business, free markets, and capitalism. This holds back the economy, the wealth and success of its citizens, and is a major burden on the future. We mention the items below that directly affect us as investors that need to be reformed so that Lithuania can become a dynamic and modern society. It all begins with property rights and with free trade and application of capitalism.

- ***Trade Date Versus Settlement Date***

The rest of the world uses trade date to evaluate their investments. In Lithuania, the law and accounting practice requires settlement date. There is a 3 day settlement time (you have to pay in 3 days) from when you buy or sell a security. That means that when you look at a bank or brokerage statement, anything that happened in last 3 days of the accounting period does not appear. We have done tens of thousands of trades and not once have we not had a trade settle on time. Furthermore, you are liable for the trade even if you don't pay. In the investment trading world, your word is your bond. If you don't honor your order to buy or sell, you will immediately find yourself out of business on your next order. Only trade date based accounting represents true economic value.

Consequence: The index fund rarely trades the last 3 days of the year because it screws up the year end statements and valuations. Decisions should be driven by logic; not by archaic accounting rules.

As of January 1, 2005, trade date accounting is <u>mandatory</u> for investing in more than 30 countries (USA, Germany, France) and is a key part of the Global Investment Performance Standards.

- ***Dividend Policy***

In the modern stock markets, companies are required to have a stated dividend policy. This can be a regular fixed dividend or a percentage of profits. Furthermore payments are often quarterly or every six months. Payment procedure is swift – usually 2 weeks, and is controlled by the exchange with the stock being marked automatically ex-dividend. Dividends are a major part of total return. Studies show that as much as half the return to investors is from dividends. Dividends are an important source of stability in the stock market. If you are getting a 6% dividend when government pays 3.5% and your bank account pays less, you are more patient and happy with your investment. But if this dividend is paid only once a year and you have no idea what will be approved, then you are nervous and quick to sell on any worry.

Dividends take up to 2 months in Lithuania to be paid after they are announced. There is no automatic mechanism as the stock exchange does not know its job. Consequently there is rampant speculation up to the time of the announcement and record date followed by a fall in the price. Instead of being a stabilizing factor, large dividends lead to higher volatility in the peculiar Lithuanian stock market.

- ***Book Value And Capital***

Without a doubt, the most silly and most archaic laws of all concern book value per share and the definition of capital. This has enormous negative consequences for investing, free markets, and the future of Lithuania.

In the modern world, capital (equity of the owners) is defined as paid in capital (to start the business or additional money later added to expand or support the business) plus retained earnings. Divide this total amount by the number of shares outstanding and you have book value per share. When a company is started, you must have some legal value per share. This is called par value and used to reflect the initial paid in capital. Most new companies today use a par value of $1 or 1 cent or "no par value". Having something as par value is still useful since it allows you to track splits of the stock, but it is not necessary. Except for this par value concept, there are no legal restrictions on the combined pool of capital. It doesn't matter whether it was retained earnings or paid in, it is still capital, to be used as the owners/ shareholders wish. It can be paid out entirely in dividends or used to buyback the stock. The market price of the stock is what is important. New shares can only be issued/offered at the market price. Otherwise you give an advantage or disadvantage to shareholders.

In Lithuania, all this is turned upside down. The paid in capital is called authorized capital and becomes rigid and immovable. You cannot pay it out in dividends. You cannot change it easily. New shares cannot be issued below the authorized capital unless you can prove it doesn't harm shareholders. (No one has done this.) Furthermore shares are issued at a limit of authorized capital and total book value. We can find no cases where new stock is issued at anywhere near the market price if there is a big difference from book value.

This leads to enormous insider abuse. *Ekranas* could issue shares at far below the market to insiders, diluting the value of the public shareholders. *Ukio bankas* really wanted to raise new capital badly, but its book value was 12 and its stock price was 3. It was enormously undervalued. The stock then rose to 38. *Ukio Bankas* was at last able to raise its capital, but very disappointingly as the new shares had to be issued at only 12! They correctly did the right thing and offered the new shares to all investors in proportion to their existing holdings.

As a result, the index fund had a windfall gain of nearly 600,000 litas from the new shares as the share price only fell back to 35 on the dilution.

According to all economic theory and our own theory of stock prices (GRAPES), the price of a stock should be at a premium or discount to book value based upon future expected returns (profits). If a company was started 10 years ago, it is stuck with this book value concept – having to issue new shares at the long ago price totally oblivious of its prospects and 10 years of success! I don't think I have seen anything more stupid although I have a long list. The free market should decide at what price the shares will be issued.

- ***Splits***

There is no automatic adjustment by the stock exchange for splits. This leads to very crazy swings in stock prices. Often the announcement is not clear because of the befuddling method of book value accounting and false concepts of authorized capital. Sometimes a company combines this split with new shares to insiders or an offering to all shareholders adding even more confusion. Not unusual is a reverse split where the company is trying to get the "authorized book value" up to a certain value because it is too low from previous losses. One extraordinary case concerned *Mazeikiu Nafta* which did a reverse split of 1 for 2. The stock was at half a litas. It then went to 0.75. The financial press reported this as a huge gain in returns (50%), but it was really a 25% loss since shareholders had only half as many shares as before.

The retained earnings are usually called "reserve", but only the authorized capital is involved in the split so some very strange calculations are necessary. Figuring out the gain or loss on the shares requires detective work. All this usually takes place without regard to reality (the stock price).

In the US and other markets, the exchange and custodians simply split the number of shares outstanding and the price. Nothing at all changes to thebalance sheet and capital of the company – only the number of outstanding shares. No accounting shenanigans or confusion. Everything is clear.

In other stock markets, splits are managed in an orderly fashion by the stock exchange and everyone immediately knows when a split will take place and as it happens. But in Lithuania, you are on your own.

- ***Investment Banking***

This is the keystone of capitalism and it doesn't exist in Lithuania. The most profitable form of banking is bringing new companies to market. Allowing new and existing growth companies to raise badly needed capital in efficient markets has built all the great banking houses of the world. With the problems we have with book value, it is no wonder no one wants to issue new stocks! Simpler to just borrow the money.

Privatization in Lithuania has been second or third rate because it has taken the form of either direct foreign investment or insider purchases and where the majority of ownership is given to one or two very large companies with only a handful of shares available for the general public. There is dubious accountability and transparency for such situations. As a shareholder, does the index fund have any say in the dividend policy or management of *Mazeikiu Nafta* or *Lietuvos Telekomas*? Do you as an individual investor have a vote that is worth anything? Although the NSEL 30 Fund is the biggest institutional investor on the stock exchange, anything we say would fall on deaf ears. That is not capitalism as I know it. That is also not healthy for a stock market. Until the accounting rules are reformed and investment banking is developed in this country, we will not have an efficient market. Lithuanian business and its citizens will be worse off and we will have few new companies to make our investments.

- ***No Agreements With The US***

It is still not possible for US investors to invest in Lithuanian stocks because there are no agreements between the US brokerage firms and their Lithuanian counterparts. The USA has the biggest stock market (over half the entire world's capitalization) and the most enthusiastic investors. ZPR has many US clients and we of course wanted to buy Lithuanian stocks for the last 4 years. I have spoken to the Stock Exchange twice on this problem. Most recently was when it became the VSE in September of 2004. I also spoke with President V. Adamkus at a American Chamber of Commerce meeting. He said he would speak to the Finance Minister. Nothing has been done. The only way an American can invest is to come to Lithuania, open a bank account, complete apostiles and notary items. (We do not have "apostiles" in the US and I had never heard of it before. I had to write the Secretary of State to get one which took 3 weeks.) It is all but impossible for the average investor.

Lithuania desperately wants direct foreign investment. It seems that the government forgot that the stock market exists to raise capital for businesses.

ZPR has trading accounts at the biggest banks in the world, but nowhere can we buy Lithuanian stocks on the VSE. It is no problem at all to buy Asian stocks in all the Asian markets for our US accounts. I cannot change this situation. It has be done by an initiative from the stock exchange and the government.

- ***Stock Options, Incentives, And Bonuses***

Even Communist China has stock options now for its corporations' management and employees, but not in Lithuania. That makes our investment task simple as we don't have to worry about dilution or calculating the expenses to earnings for options. However that relegates Lithuania permanently to backwater status for efficiency and production, and hurts its future wealth and economy. Once its labor cost advantage declines, Lithuanian businesses will be at a severe disadvantage for attracting or even keeping its most talented managers and workers. Given the enormous tax burden where less than half of what a company pays actually ends up in the pocket of the worker (corporate tax on salary of 31%, then a worker has a 36% tax), it is a tragedy.

Incentives and bonuses are rare to nonexistent in Lithuania while they are common in successful economies. Bonuses by law are severely limited to a small percentage of dividends paid out. Sales commission bonuses are also rare.

Four years ago we were all set to buy privately an industrial company in Vilnius and turn it around. It had serious losses due to a complete lack of understanding the financial side of the business as it's revenues were in euros while its costs were in Litas/dollars. As the euro fell to $0.86, they were in serious trouble. This company was desperate for new capital. It's equipment was from 1948 and everything was from Russian times. There was no heat in the buildings for its 300 employees in the dead of winter. Lights were dim. Windows and toilets were broken. Most made only the minimum wage of 300 Litas and some hadn't been paid for 6 months. There was only one salesman and one real customer – a big German electronics company that had a very favorable contract. Working conditions were unsafe and appalling. To turn this company around I would have to invest as much as I would pay for the company itself. I would hire an accountant, more salesmen, more engineers, and buy the existing engineers computers. Radically clean up the place. The existing General Manager (who drove a very expensive new car) and the workers were paralyzed with fear as the American in a cowboy hat looked at every toilet, every room, every piece of equipment – with my 3 assistants trailing and scribbling notes as fast as they could as I sprouted ideas for improvement and reorganization. I could see in the eyes of the general manager and workers that it was better to pretend to work and that the company pretend to pay them!

First I would have increased the wages for everyone to let them know that the new management was here and things were going to change. Toilets and windows would be immediately fixed. Real lighting and heaters at once. A place for workers to eat would be set up. And most importantly, we give stock options to all employees tied to the book value of the company and large bonuses for cost savings and improvements and to the salesmen to bring in new business.

Then the “can’t police” stepped in. Stock options are not in the Lithuanian Law. So what. Our philosophy in the west is if it not prohibited by law, you can do it. Things work differently in Lithuania. You need a law to let you do anything. Then I was told we can’t give bonuses because we are losing money. So how can I possibly turn around a losing company without incentives? Pile after pile of “red tape” confronted everything I wanted to do. I gave up. Much simpler to just buy a stock on the stock exchange. I still feel sorry for all those workers in those awful conditions.

What Lithuania needs is a strong dose of American capitalism, free will, free markets, and a radical change in attitude that will allow any creative and new idea to go forward even though the government hasn’t yet passed a law to allow it because they haven’t thought of it. And the SEC needs to get with the program and do what is right for shareholders and investors instead of enforcing laws that harm the very people they are supposed to protect. They never had an index fund before or a fund at all before so they don’t have a clue.

Why do we care about such things? Because successful companies have successful stock prices. With the index fund, we will automatically buy all the successful public companies. What we can do to make Lithuanian companies and life better for Lithuanians is a direct link to own profits as an investor.

Increasing Risk andValuations

The stock market is at last approaching fair value. PE’s are relatively high. Nevertheless, a fourth consecutive up year will not be unusual. Markets tend to run in streaks. The economy is very strong. The return on equity (ROE) on Lithuanian companies has greatly improved. Most companies are now profitable. Transparency and nasty surprises by management and insiders remain a problem. “Linas” is the latest disaster. ROE is now up to European levels, but far below US and Asian levels. Given the backward laws and increasing socialism, it is unclear if greater efficiency and productivity can be obtained.

Our GRAPES analysis of stock prices shows the market still has the potential to increase 30% in 2006 (after removing one extreme outlier in the calculation). This positive valuation is relative to the extremely low 3.5% interest rate of 10 year government securities.

The main reason why the Lithuanian stock market remains a good investment is that alternatives are so poor in risk and return. We would classify nearby emerging markets of Russia and Ukraine as the ultimate risks where rule of law, transparency, and return of your money are all serious questions. Lithuania is also far superior to old European stock markets where GDP is barely positive and conditions are impossible for business. Lithuanian stocks are far safer than Lithuanian real estate as well. Because of the current bubble and complete lack of understanding about the history and nature of real estate investments by the average Lithuanian, I would put this in the extreme risk category. Our fear is that the eventual collapse in real estate would drag down the economy and the stock market. This should be the #2 concern of the government. The #1 concern should be what happens when they turn off the lights at Ignalina and how can we be dependent on Russia for heating our homes. Without a reliable source of energy free from geopolitics and blackmail, Lithuania's brilliant future will became a dim candle in the dark. So until the nuclear reactor is shut down, interest rates increase sharply, real estate prices collapse, or the government does something unbelievably stupid against free trade and commerce, I still have a large number of shares in the fund as the first investor.

Sincerely,
MAX ZAVANELLI

Chairman of the Board of Directors
Chairman of the Supervisory Board

FINANCIAL STATEMENTS

The following financial statements are prepared in accordance with the Business accounting standards and the Securities Commission's Decision No.11 "Rules of preparing and providing information for management companies and investment variable capital companies which assets are not transferred to management companies". Statements of previous years are prepared using Business accounting standards and the "Order of bookkeeping and accounting for pension funds" confirmed by Government on January 13, 2004. Statements are in Lithuanian litas and are audited by the auditors.

BALANCE SHEET

No.	ASSETS	12/31/2005	12/31/2004
I.	CASH AND EQUIVALENTS	896,774	894,164
II.	TERM DEPOSITS		
III.	INVESTMENTS	55,407,301	36,562,278
1.	Debt securities		
1.1.	Debt securities issued or guaranteed by government and central banks		
1.2.	Other debt securities		
2.	Equity securities	55,407,301	36,562,278
3.	Investment units of collective investment subjects		
4.	Other investments		
IV.	ACCOUNTS RECEIVABLE	248,476	565,418
1.	Accounts receivable for sold securities	3,302	256,653
2.	Other accounts receivable	245,174	308,765
	TOTAL ASSETS	56,552,551	38,021,860

	NET ASSETS AND LIABILITIES		
V.	LIABILITIES	108,773	478,911
1.	Accounts payable for bought securities		386,108
2.	Accounts payable to the fund's management company and custodian	104,647	91,331
3.	Other accounts payable and other liabilities	4,126	1,472
VI.	NET ASSETS (I+II+III+IV-V)	56,443,778	37,542,949
	TOTAL NET ASSETS AND LIABILITIES	56,552,551	38,021,860

Comments to Balance sheet:

@ Fund has no physical assets of its own. Management Company *Investiciju portfeliu valdymas* manages the Fund.

STATEMENT OF CHANGES IN NET ASSETS

	2005 12 31	2004 12 31	2003 12 31
1. Value of shares issued	**19,101,033**	**19,760,941**	**8,830,725**
2. Value of shares redeemed	**15,087,541**	**2,073,330**	**462,356**
3. Investment income:			
3.1. Bank deposit interest	2,526	2,152	766
3.2. Dividends	988,048	370,979	46,726
Total investment income	**990,574**	**373,131**	**47,492**
4. Realized gain (loss)*	**8,410,970**	**1,223,017**	**93,852**
5. Gain (loss) from securities*	**6,595,297**	**7,632,049**	**1,488,523**
6. Operating expenses:			
6.1. Marketing	148,643	53,558	6,296
6.2. Road tax	15,410	6,021	483
6.3. Legal fees and expenses	17,779	31,273	8,850
6.4. Audit	7,000	4,000	4,720
6.5. Investment management fee	542,470	242,757	52,181
6.6. Brokerage fee**	163,430	100,123	37,751
6.7. Custodian fees and expenses	214,008	104,189	32,158
6.8. Other expenses	764	1,959	2,773
Total operating expenses	**1,109,504**	**543,880**	**145,212**
7. Other operating income			**1,000**
Net Assets			
Beginning of year	37,542,949	11,171,021	1,316,997
End of year	56,443,778	37,542,949	11,171,021
Net Assets per share			
Beginning of year	2457.00	1646.91	895.92
End of year	3297.91	2457.00	1646.91

Notes:

* The brokerage fee is not included in the realized gain (loss) or gain (loss) from securities due to the peculiarities of Lithuanian accounting. Subtract the brokerage fee to have the standard mutual fund accounting of gains and losses.

** Standard mutual fund accounting does not consider brokerage fee as part of operating expense. It is already reflected in the valuation of securities.

The reasons to invest in Lithuania:

- ***Very low inflation***;
- ***Growth in GDP*** (7.3% in 2005);
- ***Low currency risk*** (Lithuanian currency is linked to the Euro since 2002);
- ***Accounting standards are very high*** for companies listed on the Vilnius Stock Exchange;
- IMF forecasts Lithuania to have ***the highest growth of all EU members***. For emerging market growth, Lithuania is the Baltic Tiger.

The reasons to invest to *NSEL 30 Index Fund*:

- ***Diversification:*** Diversification is a popular way for investors to reduce risk by spreading assets across a wide selection of securities and industries. An investment in a fund that holds 30 securities of different companies and industries is likely to be less volatile than a less diversified equity portfolio composed of smaller number of securities.

- ***Blue Chip Index*****:** NSEL 30 is a Blue Chip Index composed of established companies (similar to Dow Jones 30).

- ***Efficiency:*** Low portfolio turnover will keep portfolio transaction costs down, putting a greater portion of your investment to work for you.

- ***Convenience*****:** Participation in the long-term growth potential of the 30 stocks with one convenient, low cost investment.

- ***Automatic Dividend Reinvestment:*** Dividends that are paid out by companies in the portfolio are automatically reinvested into the fund.

- ***Liquidity:*** Investors can sell (redeem) shares at any time.

MAIN DATA ABOUT THE FUND, MANAGEMENT COMPANY, CUSTODIAN AND DISTRIBUTOR

NSEL 30 Index Fund

P. Luksio Str. 32
LT-08222 Vilnius, LITHUANIA
Tel./fax.: (+370-5) 2747016, 2747017, 2747018
E-mail: office@ipv.lt
www.indexfund.lt

The Fund's Management Company

Investiciju portfeliu valdymas
P. Luksio Str. 32, LT-08222, Vilnius, LITHUANIA
Tel./fax.: (+370-5) 2747016, 2747017, 2747018
E-mail: office@ipv.lt
www.ipv.lt

The Fund's Shares Distributor and Custodian

SEB Vilniaus bankas
Gedimino Ave. 12, LT-01103, Vilnius, LITHUANIA
Tel. (+370-5) 2682371, fax. (+370-5) 2682374
E-mail: info@seb.lt
www.seb.lt

The free full version of Prospectus containing more complete information about the Fund as well as full Annual report can be obtained from the Fund's Management company or the Distributor. You are very welcome to send us any comments or questions you may have.