

AB UTENOS TRIKOTAŽAS

CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003



■ Ernst & Young Baltic UAB

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To the shareholders of AB Utenos trikotažas

1. We have audited the accompanying balance sheet of AB Utenos trikotažas (a joint stock company registered in the Republic of Lithuania, the Parent company) as of 31 December 2003 and the consolidated balance sheet of AB Utenos trikotažas and its subsidiaries (the Group) as of 31 December 2003, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Parent company management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC) and Lithuanian National Auditing Standards as set forth by the Chamber of Auditors of Lithuania. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Parent company and the Group as of 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Baltic UAB
(Audit company's licence No. 344)



Per Moeller



Linas Dičpetris
(Auditor's licence No. 000058)

The audit was completed on 9 February 2004.

AB UTENOS TRIKOTAŽAS

Balance Sheets as of 31 December 2003 and 2002
(All amounts in thousand Litass)

Group			Parent	
<u>2003</u>	<u>2002</u>	<u>Note</u>	<u>2003</u>	<u>2002</u>
ASSETS				
NON-CURRENT ASSETS				
480	352	5	217	205
(2,626)	(511)	5	-	-
1,183	1,088	6	6,178	6,366
44,169	47,241	7	31,608	33,691
114	243	7	114	220
-	-	8	8,414	9,915
-	60		-	-
1,200	-	10	-	-
1,033	1,006	23	635	574
<u>45,553</u>	<u>49,479</u>		<u>47,166</u>	<u>50,971</u>
Total non-current assets				
CURRENT ASSETS				
17,684	19,924	9	10,011	10,528
534	2,334	10	522	1,034
137	120		61	66
22,036	17,244	11	17,453	12,693
-	-	12	6,195	5,205
3,073	3,599		1,750	2,392
629	670		91	68
3,066	8,480	13	1,343	6,647
<u>47,159</u>	<u>52,371</u>		<u>37,426</u>	<u>38,633</u>
Total current assets				
<u>92,712</u>	<u>101,850</u>		<u>84,592</u>	<u>89,604</u>
TOTAL ASSETS				

The accompanying notes are an integral part of these financial statements.

AB UTENOS TRIKOTAŽAS

Balance Sheets as of 31 December 2003 and 2002
(All amounts in thousand Litass)

Group			Parent	
2003	2002	Note	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY				
14 SHAREHOLDERS' EQUITY				
19,834	35,334	1	19,834	35,334
175	-		175	-
4,507	4,507		4,507	4,507
<u>20,348</u>	<u>19,913</u>		<u>20,348</u>	<u>19,913</u>
<u>44,864</u>	<u>59,754</u>		<u>44,864</u>	<u>59,754</u>
1,951	5,427		-	-
NON-CURRENT LIABILITIES				
<u>23,558</u>	<u>13,951</u>	15	<u>23,558</u>	<u>13,951</u>
<u>23,558</u>	<u>13,951</u>		<u>23,558</u>	<u>13,951</u>
CURRENT LIABILITIES				
4,009	3,248	15	4,009	3,248
9,473	9,101	16	5,285	4,402
3,207	3,191		2,710	2,859
<u>5,650</u>	<u>7,178</u>	17	<u>4,166</u>	<u>5,390</u>
<u>22,339</u>	<u>22,718</u>		<u>16,170</u>	<u>15,899</u>
<u>92,712</u>	<u>101,850</u>		<u>84,592</u>	<u>89,604</u>

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The accompanying notes are an integral part of these financial statements.

AB UTENOS TRIKOTAŽAS

Statements of Income for the years ended 31 December 2003 and 2002
(All amounts in thousand Litass)

Group			Parent		
<u>2003</u>	<u>2002</u>	Note	<u>2003</u>	<u>2002</u>	
180,855	163,212	4	134,191	128,798	SALES
<u>(135,744)</u>	<u>(123,490)</u>	18	<u>(100,759)</u>	<u>(99,646)</u>	Cost of sales
45,111	39,722		33,432	29,152	GROSS PROFIT
(11,360)	(10,896)	19	(3,693)	(3,804)	Selling expenses
(16,891)	(15,023)	20	(10,295)	(9,095)	General and administrative expenses
<u>(24)</u>	<u>411</u>		<u>445</u>	<u>668</u>	Other income (expenses), net
16,836	14,214		19,889	16,921	OPERATING PROFIT
<u>(1,186)</u>	<u>(1,156)</u>	22	<u>(506)</u>	<u>(731)</u>	Financial (expenses), net
15,650	13,058		19,383	16,190	PROFIT BEFORE RESULT FROM SUBSIDIARIES
<u>-</u>	<u>-</u>	8	<u>(4,256)</u>	<u>(3,396)</u>	Result from subsidiaries
15,650	13,058		15,127	12,794	PROFIT BEFORE INCOME TAX
<u>(2,002)</u>	<u>(2,340)</u>	23	<u>(1,965)</u>	<u>(1,740)</u>	Income tax
13,648	10,718		13,162	11,054	PROFIT BEFORE MINORITY INTEREST
<u>(486)</u>	<u>336</u>		<u>-</u>	<u>-</u>	Minority interest
<u><u>13,162</u></u>	<u><u>11,054</u></u>		<u><u>13,162</u></u>	<u><u>11,054</u></u>	NET PROFIT
0.66	0.55	24	0.66	0.55	Basic earnings per share (Litas)

Utena

Date of authorisation for issue: 6 February 2004

The accompanying notes are an integral part of these financial statements.

AB UTENOS TRIKOTAŽAS

Statements of Changes in Shareholders' Equity for the years ended
31 December 2003 and 2002
(All amounts in thousand Litass)

Parent and Group							
Note	Share capital	Share surplus	Reserves			Retained earnings	Total shareholders' equity
			Legal reserve	Other reserves	Foreign currency translation reserve		
Balance as of							
31 December 2001	23,260	7,410	1,162	19,373	-	18,015	69,220
Increase of share capital	16,000	-	-	(16,000)	-	-	-
Transfer to legal reserve 14 c)	-	-	2,371	-	-	(2,371)	-
Dividends paid for 2001	-	-	-	-	-	(8,834)	(8,834)
Transfer to other reserves	-	(7,410)	-	9,300	-	(1,890)	-
Annulment of treasury shares	(3,926)	-	-	(7,760)	-	-	(11,686)
Transfer to retained earnings	-	-	-	(3,939)	-	3,939	-
Net profit	-	-	-	-	-	11,054	11,054
Balance as of							
31 December 2002	35,334	-	3,533	974	-	19,913	59,754
Decrease of share capital 14 a)	(15,500)	-	-	-	-	-	(15,500)
Dividends paid for 2002 14 b)	-	-	-	-	-	(12,367)	(12,367)
Bonuses paid for 2002 14 b)	-	-	-	-	-	(360)	(360)
Transfer to foreign currency translation reserve 14 d)	-	-	-	-	175	-	175
Net profit	-	-	-	-	-	13,162	13,162
Balance as of							
31 December 2003	19,834	-	3,533	974	175	20,348	44,864

AB UTENOS TRIKOTAŽAS

Statements of Cash Flows for the years ended 31 December 2003 and 2002
(All amounts in thousand Litass)

Group			Parent	
2003	2002		2003	2002
Cash flow from (to) operating activities:				
15,650	13,058	Result before profit tax and minority interest	15,127	12,794
Adjustments to reconcile result before profit tax and minority interest to net cash provided by operating activities:				
(638)	(626)	Profit tax paid	(615)	(567)
-	-	Result from subsidiaries	4,256	3,396
8,546	9,058	Depreciation and intangible non-current assets amortisation	5,962	6,220
2	-	Impairment loss	390	-
(511)	(420)	Goodwill amortisation	-	-
(36)	5	(Profit) loss on disposal of property, plant and equipment	(46)	(1)
150	451	Write-off of property, plant and equipment	28	120
(58)	747	Provisions and write-off	(318)	585
(138)	(250)	Interest income	(316)	(144)
963	919	Interest expenses	963	876
<u>23,930</u>	<u>22,942</u>		<u>25,431</u>	<u>23,279</u>
Changes in current assets and current liabilities:				
60	136	Decrease in long-term accounts receivable	-	-
1,855	284	Decrease in inventories	458	3,666
24	(320)	Decrease / (increase) in prepayments and deferred expenses	(18)	(88)
-	-	(Increase) in accounts receivable from subsidiaries	(2,094)	(4,601)
(3,846)	(5,951)	(Increase) in trade and other accounts receivable	(3,734)	(4,304)
372	(2,142)	Increase / (decrease) in trade and other accounts payable	883	(3,851)
-	-	(Decrease) in accounts payable to subsidiaries	-	(343)
(4,136)	2,980	(Decrease) / increase in accrued and other current liabilities	(4,017)	2,228
<u>18,259</u>	<u>17,929</u>	Net cash from operating activities	<u>16,909</u>	<u>15,986</u>
Cash flow from (to) investing activities:				
(5,879)	(7,498)	(Acquisition) of tangible and intangible non-current assets	(4,018)	(4,882)
195	187	Proceeds from tangible non-current assets sales	49	87
(1,028)	-	(Acquisition) of subsidiary net of cash acquired (Note 8)	(1,373)	-
138	250	Interest received	316	144
490	709	Short-term and long-term loans repaid	402	709
<u>(6,084)</u>	<u>(6,352)</u>	Net cash (to) investing activities	<u>(4,624)</u>	<u>(3,942)</u>

AB UTENOS TRIKOTAŽAS

Statements of Cash Flows for the years ended 31 December 2003 and 2002
(All amounts in thousand Litass)

Group			Parent	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		(cont'd)		
		Cash flow from (to) financing activities:		
(4,454)	(2,222)	(Repayment) of long-term loans	(4,454)	(2,222)
14,822	17,066	Long-term loans received	14,822	17,066
(963)	(919)	Interest paid	(963)	(876)
(15,500)	(11,686)	Decrease of share capital	(15,500)	(11,686)
<u>(11,494)</u>	<u>(7,860)</u>	Dividends and bonuses paid, net of withholding tax	<u>(11,494)</u>	<u>(7,860)</u>
<u>(17,589)</u>	<u>(5,621)</u>	Net cash (to) financing activities	<u>(17,589)</u>	<u>(5,578)</u>
(5,414)	5,956	Net (decrease)/ increase in cash and cash equivalents	(5,304)	6,466
8,480	2,524	Cash and cash equivalents at the beginning of the year	6,647	181
		Cash and cash equivalents at the end of the year		
<u>3,066</u>	<u>8,480</u>	(see Note 13)	<u>1,343</u>	<u>6,647</u>

The accompanying notes are an integral part of these financial statements.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

1. Formation and Organisation

AB Utenos trikotažas (The Parent) is located in Utena, approximately 100 km from Vilnius, the capital of Lithuania. The address of its registered office is Basanavičiaus st. 122, Utena, Lithuania.

AB Utenos trikotažas shares are included in the Official List of the Lithuanian National Stock Exchange.

On 31 December 2001, AB Utenos trikotažas Group (the Group) consisted of the Parent, AB Utenos trikotažas, the location of the headquarters and the main factory, and subsidiaries - AB Šatrija (the Parent owns 88.7% of its share capital), UAB Utenos trikotažo prekyba (100%), UAB Gotija (90.5%), ZAO UTP Ukraina (100% subsidiary of UAB Utenos trikotažo prekyba operating in Ukraine), and SIA UTP Riga (100% subsidiary of UAB Utenos trikotažo prekyba operating in Latvia).

The Group's main line of business is production of knitted fabrics and trade of knitted and other clothes. The Group also acts as a contractor of sewing services.

The financial statements were authorised for issue by the Management of the Parent on 6 February 2004. The shareholders of the Parent have the statutory right to amend the financial statements after issue.

As of 31 December 2003 the share capital of the Parent consisted of 19,834,442 (39,260,491 shares as of 31 December 2002) ordinary shares with a par value of Litass
1. As of 31 December 2003 shares were distributed as follows:

	Share capital (%)
UAB koncernas SBA	46.48
The European Bank for Reconstruction and Development (EBRD), represented by Scandinavian Baltic Development Ltd. fund	28.60
Employees of the Parent	9.19
KIB Koncerno SBA investicija	4.72
Other shareholders	<u>11.01</u>
Total	<u>100.00</u>

Changes in the share capital are described in Note 14.

2. Form and Contents of the Financial Statements

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB (International Accounting Standards Board), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC (International Accounting Standards Committee) that remain in effect.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

2. Form and Contents of the Financial Statements (cont'd)

Basis of Accounting

The Parent maintains its books and records in accordance with the Lithuanian Accounting Principles. The accompanying financial statements reflect certain reclassifications not recorded in the books of the Parent made in order to conform them to financial statements prepared in accordance with International Financial Reporting Standards.

Consolidation

Consolidated financial statements are composed of AB Utenos trikotažas and its subsidiaries' financial statements, which are stated at uniform accounting principles. Subsidiaries are consolidated from the date from which effective control is transferred to the Parent and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and statement of income.

Measurement Currency

The amounts shown in these financial statements are presented in the local currency, Litas.

The Bank of Lithuania took a decision to re-peg Litas from US dollar to EUR on 2 February 2002 based on the official US dollar to EUR exchange rate on 1 February 2002. The rate according to which Litas was pegged to EUR is 3.4528 Litas for 1 EUR.

3. Significant Accounting Policies

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Parent and the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset).

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

3. Significant Accounting Policies (cont'd)

Rental Income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Negative goodwill represents an excess of the net identifiable assets of the acquired subsidiary at the date of acquisition over the cost of the acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life, generally over 5 years. Negative goodwill not exceeding fair value of the subsidiary's non-monetary assets at the date of acquisition is amortised using straight-line method over the period equal to the weighted average of acquired amortisable/depreciable assets' remaining useful lives. Negative goodwill exceeding fair value of the subsidiary's non-monetary assets at the date of acquisition is recognised as income in the statement of income immediately. Negative goodwill is presented in the same balance sheet classification as goodwill.

The value of goodwill is reviewed if new information about the fair value of acquired assets at the date of acquisition becomes available during the first annual accounting period after goodwill recognition. The difference is accounted as goodwill revaluation.

On a disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of income.

Intangible Non-current Assets

Intangible non-current assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible non-current assets are amortised using the straight-line method over their useful lives.

The cost of acquisition of new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. The Parent and Group's software is amortised on a straight-line basis over 2-5 years.

Property, Plant and Equipment

Property, plant and equipment is accounted at cost less accumulated depreciation and any accumulated impairment losses. Straight-line depreciation is provided over the estimated useful lives of the assets.

If an item of property, plant and equipment is impaired, it is stated at the higher of value in use and net selling price.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

3. Significant Accounting Policies (cont'd)

The Parent and the Group capitalises property, plant and equipment improvements and purchases with an estimated useful life of more than one year. Presented below are useful lives of the Parent's and the Group's property, plant and equipment:

Buildings	10 – 80 years
Plant and machinery	4 – 25 years
Vehicles	4 – 7 years
Other property, plant and equipment	2 – 20 years

Repairs are charged to the statement of income in the period they are incurred.

Renewals are added to the carrying amount of the property, plant and equipment when it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group.

Investment Properties

Investment properties of the Parent and the Group consist of investments in land and buildings that are held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of business. In accordance with IAS 40, Investment Property, which the Group adopted on 1 January 2001, investment properties are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently all investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses. Management believes that carrying values of investment properties approximate their fair values.

Transfers to, or from, investment property are made when and only when, there is an evidence of a change in use.

Financial Instruments

On 1 January 2001 the Parent and the Group companies adopted IAS39 – *Financial Instruments: Recognition and Measurement*. The adopting of IAS 39 did not have a significant effect on the financial statements.

When the Parent company and the Group adopted IAS 39, they classified their investments into the following categories: trading, held-for-maturity, and available-for-sale. Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are not current assets. Investments intended to be held for the indefinite period of time, which may be sold in response to needs of liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise working capital, in which case they are included in current assets. The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

3. Significant Accounting Policies (cont'd)

Investments in Subsidiaries (Parent)

Parent's investments in subsidiaries (i.e. where the Parent company has a control) are stated in accordance with the equity method, so that the Parent company includes its proportionate share of post-acquisition results of operations of such subsidiaries in the statement of income. As a result, the recorded value of the investment corresponds to the Parent company's proportionate share of the equity of the subsidiaries, and the consolidated net result and equity correspond to those of the Parent company.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is an estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

Accounts Receivable

The Parent and the Group provides a reserve for potential losses based on an evaluation of specific doubtful accounts.

Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Non-current Accounts Receivable and Accounts Payable

Non-current accounts receivable and non-current accounts payable are carried at amortised cost.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

3. Significant Accounting Policies (cont'd)

Transactions in Foreign Currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income. Such balances are translated at the balance sheet date exchange rate.

The foreign consolidated subsidiaries operating in Ukraine and Latvia are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their measurement currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at the average exchange rates for the year with respect to the statement of income. The exchange differences arising on the translation are taken directly to equity.

Minority Interests

Minority interests include their proportion of the fair values of identifiable assets and liabilities recognised upon acquisition of subsidiaries. Minority interests also share a proportion of income and losses of subsidiaries.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Borrowing Costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

3. Significant Accounting Policies (cont'd)

Income Tax

The Group companies are taxed individually irrespective of the overall results of the Group.

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with Lithuanian tax legislation.

Starting from 1 January 2002 income tax rate applied for the Parent and subsidiaries operating in Lithuania is 15%. According to the corporate income tax calculation rules, the Company is allowed to carry forward tax loss for five consecutive years. Up to 1 January 2002 companies also applied an investment incentive, which allowed to expense immediately acquisition costs of tangible non-current assets for corporate profit tax calculation purposes, however, depreciation expenses subsequently charged on these assets are not tax deductible.

Income tax rate in Ukraine and Latvia is 30% and 19% respectively.

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax asset is also recognised for the carry forward of unused tax losses.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board requires management of the Parent and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation, bad debt provisions and impairment evaluation. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

AB UTENOS TRIKOTAŽAS

Notes to the consolidated financial statements for the year
ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

3. Significant Accounting Policies (cont'd)

Segments

For management purposes the Group is organised into four major businesses. The Group reports its primary segment information based on these businesses. Financial information on business and geographical segments is presented in Note 4.

Subsequent Events

Post-year-end events that provide additional information about the Parent's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Corresponding Figures

The Parent and the Group reviewed their expenses classification and reclassified part of general and administrative expenses, mainly consisting from salaries and wages of workshops personnel to cost of sales. Where necessary, the corresponding figures have been adjusted to conform to changes in presentation in the current year.

4. Information According to Business and Geographical Segments

Information According to Business Segments

The Group's main business segments are: production of knitted fabrics, knitted and other clothes (the Parent), sewing services (subsidiary AB Šatrija) retail and wholesale trade of its own production (subsidiaries UAB Utenos trikotažo prekyba, UTP Ukraina, UTP Riga, and UAB Gotija).

<u>2003</u>	<u>Production</u>	<u>Sewing and other services</u>	<u>Wholesale and retail trade</u>	<u>Other opera- tions</u>	<u>Elimination</u>	<u>Total</u>
External sales	156,667	460	23,205	523	-	180,855
Internal sales	<u>12,392</u>	<u>-</u>	<u>2,623</u>	<u>-</u>	<u>(15,015)</u>	<u>-</u>
Total sales	<u>169,059</u>	<u>460</u>	<u>25,828</u>	<u>523</u>	<u>(15,015)</u>	<u>180,855</u>
Operating result for the period	15,926	43	2,433	25	(1,591)	16,836
Assets	90,297	245	13,795	279	(11,904)	92,712
Liabilities	49,889	135	7,622	155	(11,904)	45,897
Capital expenditure	5,186	14	792	16	-	6,008

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4. Information According to Business and Geographical Segments (cont'd)

Information According to Business Segments (cont'd)

<u>2002</u>	<u>Production</u>	<u>Sewing and other services</u>	<u>Wholesale and retail trade</u>	<u>Other opera- tions</u>	<u>Elimination</u>	<u>Total</u>
External sales	122,116	12,936	27,844	316	-	163,212
Internal sales	<u>18,801</u>	<u>718</u>	<u>5,549</u>	<u>657</u>	<u>(25,725)</u>	<u>-</u>
Total sales	<u>140,917</u>	<u>13,654</u>	<u>33,393</u>	<u>973</u>	<u>(25,725)</u>	<u>163,212</u>
Operating result for the period	12,215	1,184	2,946	84	(2,215)	14,214
Assets	77,368	19,635	16,351	584	(12,088)	101,850
Liabilities	29,545	14,817	4,159	236	(12,088)	36,669
Capital expenditure	5,576	540	1,344	38	-	7,498

Information According to Geographical Segments

Grouping into different geographical segments is based on the Group's management accounting information system. Management believes these geographical segments have similar characteristics.

<u>2003</u>	<u>Western Europe</u>	<u>Lithuania and Baltic countries</u>	<u>Other regions</u>	<u>Elimination</u>	<u>Total</u>
External sales	152,449	28,205	201	-	180,855
Internal sales	<u>-</u>	<u>13,653</u>	<u>1,362</u>	<u>(15,015)</u>	<u>-</u>
Total sales	<u>152,449</u>	<u>41,858</u>	<u>1,563</u>	<u>(15,015)</u>	<u>180,855</u>
Assets	28,808	7,910	295	(11,904)	25,109
Capital expenditure	4,676	1,284	48	-	6,008

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4. Information According to Business and Geographical Segments (cont'd)

Information According to Geographical Segments (cont'd)

<u>2002</u>	<u>Western Europe</u>	<u>Lithuania and Baltic countries</u>	<u>Other regions</u>	<u>Elimination</u>	<u>Total</u>
External sales	128,647	31,950	2,615	-	163,212
Internal sales	-	22,795	2,930	(25,725)	-
Total sales	128,647	54,745	5,545	(25,725)	163,212
Assets	15,679	16,488	764	(12,088)	20,843
Capital expenditure	5,097	2,182	219	-	7,498

The Group's assets except for subsidiaries ZAO UTP Ukraina and SIA UTP Riga are located in Lithuania. Management believes that it is not practicable to allocate assets, except for accounts receivable, to certain geographical segments.

Intersegment transactions: segment sales, segment expenses and segment performance include transfers between business segments and between geographical segments. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices. Those transfers are eliminated in consolidation.

External revenues constituting more than 10% from a customer in 2003 and 2002

<u>Customer</u>	<u>Geographical segment</u>	<u>% from total segment's revenues 2003</u>	<u>% from total segment's revenues 2002</u>
Hennes Mauritz AB New Yorker	Western Europe	38.74%	19.49%
Textilgrosshandels	Western Europe	-	16.03%
Inditex S.A. Zara	Western Europe	-	12.26%
UAB Utenos trikotažo prekyba	Lithuania and Baltic countries	-	11.18%

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5. Goodwill and Intangible Non-current Assets

Movements of the Parent's intangible non-current assets during 2003 can be specified as follows:

	<u>Software and other intangible assets</u>
COST:	
Balance as of 31 December 2002	1,813
Additions	120
Write-offs	(37)
Balance as of 31 December 2003	<u>1,896</u>
ACCUMULATED AMORTISATION:	
Balance as of 31 December 2002	1,608
Charge for the year	108
Write-offs	(37)
Balance as of 31 December 2003	<u>1,679</u>
NET BOOK VALUE as of 31 December 2003	<u>217</u>
NET BOOK VALUE as of 31 December 2002	<u>205</u>
Amortisation rate	20 – 50 %

Movements of the Group's goodwill and intangible non-current assets during the year 2003 can be specified as follows:

	Negative goodwill related to AB Šatrija	Goodwill related to UAB Utenos trikotažo prekyba	Software and other intangible assets	Total
COST:				
Balance as of 31 December 2002	(5,933)	3,830	2,618	515
Additions	(2,626)	-	323	(2,303)
Write-offs	-	-	(37)	(37)
Balance as of 31 December 2003	<u>(8,559)</u>	<u>3,830</u>	<u>2,904</u>	<u>(1,825)</u>
ACCUMULATED AMORTISATION:				
Balance as of 31 December 2002	(5,040)	3,448	2,266	674
Charge for the year	(893)	382	195	(316)
Write-offs	-	-	(37)	(37)
Balance as of 31 December 2003	<u>(5,933)</u>	<u>3,830</u>	<u>2,424</u>	<u>321</u>
NET BOOK VALUE as of 31 December 2003	<u>(2,626)</u>	<u>-</u>	<u>480</u>	<u>(2,146)</u>
NET BOOK VALUE as of 31 December 2002	<u>(893)</u>	<u>382</u>	<u>352</u>	<u>(159)</u>
Amortisation rate	20 %	-	20 – 50 %	-

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6. Investment Property

Movements of the Parent's investment property during 2003 can be specified as follows:

	<u>Total investment property</u>
COST:	
Balance as of 31 December 2002	6,954
Transfer to property, plant and equipment	<u>(48)</u>
Balance as of 31 December 2003	<u>6,906</u>
ACCUMULATED DEPRECIATION:	
Balance as of 31 December 2002	588
Charge for the year	145
Transfer to property, plant and equipment	<u>(5)</u>
Balance as of 31 December 2003	<u>728</u>
NET BOOK VALUE as of 31 December 2003	<u>6,178</u>
NET BOOK VALUE as of 31 December 2002	<u>6,366</u>
Depreciation rate	2 – 3 %

Depreciation of investment property amounting to Litas 145 thousand for the year 2003 (Litas 201 thousand for the year 2002) is included into other income (expenses) caption in the statement of income.

Investment property of the Parent consists of shops, warehouse and other buildings rented under contractual commitments. The major part is rented to the subsidiary UAB Utenos trikotažo prekyba.

There are no restrictions on the realisability of the investment property or the remittance of income and proceeds of disposals as of 31 December 2003.

No material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement exists at year-end.

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6. Investment Property (cont'd)

Movements of the Group's investment property during 2003 can be specified as follows:

	<u>Total investment property</u>
COST:	
Balance as of 31 December 2002	1,330
Additions	<u>125</u>
Balance as of 31 December 2003	<u>1,455</u>
ACCUMULATED DEPRECIATION:	
Balance as of 31 December 2002	242
Charge for the year	<u>30</u>
Balance as of 31 December 2003	<u>272</u>
NET BOOK VALUE as of 31 December 2003	<u>1,183</u>
NET BOOK VALUE as of 31 December 2002	<u>1,088</u>
Depreciation rate	1.5-2%

Investment property of the Group consists of buildings rented for the third parties under contractual commitments.

There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposals as of 31 December 2003.

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7. Property, Plant and Equipment

Movements of the Parent's property, plant and equipment during 2003 can be specified as follows:

	Land and buildings	Plant and machi- nery	Vehicles and other property, plant and equipment	Construc- tion in progress	Total
COST:					
Balance as of 31 December 2002	7,409	42,214	14,427	99	64,149
Additions	-	-	2,984	1,020	4,004
Transfer from investment property	48	-	-	-	48
Retirements and write-offs	-	-	(1,464)	-	(1,464)
Transfers between captions	-	(41,692)	41,791	(99)	-
Balance as of 31 December 2003	<u>7,457</u>	<u>522</u>	<u>57,738</u>	<u>1,020</u>	<u>66,737</u>
ACCUMULATED DEPRECIATION AND IMPAIRMENT:					
Balance as of 31 December 2002	3,010	21,506	5,942	-	30,458
Charge for the year	84	26	5,599	-	5,709
Transfer from investment property	5	-	-	-	5
Retirements and write-offs	-	-	(1,433)	-	(1,433)
Impairment	292	-	98	-	390
Transfers between captions	-	(21,356)	21,356	-	-
Balance as of 31 December 2003	<u>3,391</u>	<u>176</u>	<u>31,562</u>	<u>-</u>	<u>35,129</u>
NET BOOK VALUE as of 31 December 2003	<u>4,066</u>	<u>346</u>	<u>26,176</u>	<u>1,020</u>	<u>31,608</u>
NET BOOK VALUE as of 31 December 2002	<u>4,399</u>	<u>20,708</u>	<u>8,485</u>	<u>99</u>	<u>33,691</u>
Depreciation rate (straight-line method)	1-1.7%	4-25%	7-50%	-	

The Parent has prepaid an amount of Litass 114 thousand (Litass 220 thousand as of 31 December 2002) for property, plant and equipment as of 31 December 2003.

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7. Property, Plant and Equipment (cont'd)

The Parent's management decided to implement a new accounting and recourse management system Axapta. The Management assumes that total value of the project will amount to Litas 2,400 thousand (unaudited). As of the financial statements issue date the Parent had not signed an agreement with the system vendor. The major part of construction in progress represents mainframe computers that are acquired in relation to the ongoing implementation of the new accounting and resource management system.

Due to the implementation of recourse management system, the Parent reclassified items within Property, plant and equipment captions.

The depreciation charge for the year amounts to Litas 5,709 thousand (Litas 5,637 thousand in 2002). The amount of Litas 532 thousand (Litas 563 thousand in 2002) has been included into general and administrative expenses in the statement of income. The remaining Litas 5,177 thousand (Litas 5,074 thousand in 2002) have been included into cost of sales for the year and the year-end inventories balance.

As of 31 December 2003 the Parent had property, plant and equipment that was fully depreciated but still in use. Acquisition cost of such property, plant and equipment amounted to Litas 14,688 thousand as of 31 December 2003 (Litas 7,522 thousand as of 31 December 2002).

As further described in the Note 15, loan from AB Bankas Hansabankas is secured with the Parent's property, plant and equipment with the net book value of Litas 23,858 thousand as of 31 December 2003 (Litas 28,859 thousand as of 31 December 2002).

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7. Property, Plant and Equipment (cont'd)

Movements of the Group's property, plant and equipment during 2003 can be specified as follows:

	Land and buildings	Plant and machi- nery	Vehicles and other property, plant and equipment	Construc- tion in progress	Total
COST:					
Balance as of 31 December 2002	18,893	42,706	35,471	99	97,169
Additions	-	-	4,892	793	5,685
Transfer to investment property	(125)	-	-	-	(125)
Retirements	-	-	(2,590)	-	(2,590)
Transfers between captions	211	(41,532)	41,193	128	-
Balance as of 31 December 2003	18,979	1,174	78,966	1,020	100,139
ACCUMULATED DEPRECIATION AND IMPAIRMENT:					
Balance as of 31 December 2002	7,909	21,867	20,152	-	49,928
Charge for the year	284	39	7,998	-	8,321
Retirements	-	-	(1,038)	-	(1,038)
Write-offs	-	-	(1,243)	-	(1,243)
Transfer between captions	123	(21,194)	21,071	-	-
Impairment	(111)	-	113	-	2
Balance as of 31 December 2003	8,205	712	47,053	-	55,970
NET BOOK VALUE as of 31 December 2003	10,774	462	31,913	1,020	44,169
NET BOOK VALUE as of 31 December 2002	10,984	20,839	15,319	99	47,241
Depreciation rate (straight-line method)	1.1-4 %	3-25 %	14-50 %	-	

The Group has prepaid an amount of Litass 114 thousand for property, plant and equipment (Litass 243 thousand as of 31 December 2002).

Due to the implementation of recourse management system, the Group reclassified items within Property, plant and equipment captions.

The depreciation charge for the year amounts to Litass 8,321 thousand (Litass 8,489 thousand in 2002). The amount of Litass 959 thousand (Litass 1,822 thousand in 2002) has been included into general and administrative expenses in the statement of income. The remaining Litass 7,362 thousand (Litass 6,667 thousand in 2002) has been included into cost of sales and selling expenses for the year and the year-end inventories balance.

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Notes to the consolidated financial statements for the year ended 31 December 2003

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7. Property, Plant and Equipment (cont'd)

As of 31 December 2003 the Group had property, plant and equipment which was fully depreciated but still in use. Acquisition cost of such property, plant and equipment amounted to Litas 22,936 thousand as of 31 December 2003 (Litas 13,579 thousand as of 31 December 2002).

As further described in the Note 15, loan from AB Bankas Hansabankas is secured with the Group's property, plant and equipment with the net book value of Litas 23,858 thousand as of 31 December 2003 (Litas 28,859 thousand as of 31 December 2002).

8. Investments in Subsidiaries

The Parent's investments in subsidiaries as of 31 December 2003 and 2002 can be specified as follows:

	<u>2003</u>	<u>2002</u>
Acquisition costs adjusted for prior periods equity method	8,323	11,892
Result of subsidiaries for the year	(4,714)	(3,817)
Additional investment into UAB Utenos Trikotažo Prekyba subgroup	1,104	-
Additional acquisition of AB Šatrija shares	1,373	-
Foreign currency translation effect	175	-
Reversal (elimination) of unrealised gain in inventories, net	50	248
	<u>6,311</u>	<u>8,323</u>
Accumulated amortisation of goodwill (opening)	1,592	1,172
Charge for the year	511	420
Accumulated amortisation of goodwill (closing)	<u>2,103</u>	<u>1,592</u>
Total investments in subsidiaries	<u>8,414</u>	<u>9,915</u>

Reconciliation of Parent's proportional share in subsidiaries with the result reported in the statements of income:

	<u>2003</u>	<u>2002</u>
Proportional share of result in subsidiaries	(4,714)	(3,817)
Amortisation of goodwill	511	420
Unrealised gain in inventories	(53)	1
Total result from subsidiaries	<u>(4,256)</u>	<u>(3,396)</u>

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8. Investments in Subsidiaries (cont'd)

The details of the Parent's investments in subsidiaries are as follows:

	Country of incor- poration	Percentage of holdings		Parent's proportional share of profit (loss) (thousand Litass)	
		2003	2002	2003	2002
UAB Utenos Trikotažo					
Prekyba subgroup	Lithuania	100.0	100.0	(5,626)	(3,191)
AB Šatrija	Lithuania	88.7	64.9	895	(632)
UAB Gotija	Lithuania	90.5	90.5	17	6
Total				<u>(4,714)</u>	<u>(3,817)</u>

The details of UAB Utenos Trikotažo Prekyba investments in subsidiaries are as follows:

	Country of incor- poration	Percentage of holdings		Proportional share of profit (loss) (thousand Litass)	
		2003	2002	2003	2002
UTP Ukraina	Ukraine	100.0	100.0	(623)	(181)
UTP Riga	Latvia	100.0	100.0	(1,060)	(607)
Total				<u>(1,683)</u>	<u>(788)</u>

As of 31 December 2003 the Parent acquired additional 827,515 shares of AB Šatrija, comprising 23.8% of shareholding. The fair value attributable to the Parent of the identifiable assets and liabilities of AB Šatrija acquired are:

	<u>2003</u>
Cash and cash equivalents	345
Accounts receivable	1,804
Inventories	1,063
Non-current receivable	286
Deferred income tax asset	95
Property, plant and equipment	<u>1,427</u>
	5,019
Accounts payable	(701)
Tax and salaries related liabilities	(240)
Accrued expenses	<u>(79)</u>
Fair value of net assets	3,999
Negative goodwill arising on acquisition (see Note 5)	<u>(2,626)</u>
Total consideration	<u>1,373</u>

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8. Investments in Subsidiaries (cont'd)

The cash outflow on acquisition is as follows:

	<u>2003</u>
Net cash acquired with subsidiary, proportional share	345
Cash paid	<u>(1,373)</u>
Net cash outflow	<u>(1,028)</u>

9. Inventories

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
8,028	7,881	Raw materials	4,534	4,696
3,802	4,738	Work in progress	3,251	3,801
<u>5,854</u>	<u>7,305</u>	Finished goods	<u>2,226</u>	<u>2,031</u>
<u>17,684</u>	<u>19,924</u>	Total	<u>10,011</u>	<u>10,528</u>

Provision for the Parent's and the Group's obsolete and slow moving items as of 31 December 2003 amounted to Litass156 thousand and Litass 643 thousand respectively (Litass 200 thousand for the Parent and Litass 883 thousand for the Group as of 31 December 2002).

10. Long-term and Short-term Loans Granted

The Parent

Loan to AB Trinyčiai

On 10 April 2000 the Parent signed a loan agreement with a related party AB Trinyčiai and granted a loan of Litass 1,500 thousand bearing 7% annual interest. The loan is secured with AB Trinyčiai inventories. According to the court case, AB Trinyčiai is under the bankruptcy procedure, therefore the Parent in 2003 decided to make a full realisation allowance for the loan gross balance outstanding as of 31 December 2003 in an amount of Litass 580 thousand (Litass 580 thousand as of 31 December 2002). Also see Note 25.

Loan to Association of Pramonės ir Marketingo Biznio Centras

On 8 October 2001 the Parent signed a loan agreement with a related party Association of Pramonės ir Marketingo Biznio Centras and granted a non-interest bearing loan of up to Litass 1,000 thousand. On 8 October 2003 the loan repayment term was extended until 8 October 2004 and implied annual interest rate of 3.2%. The loan is not secured. The outstanding balance of the loan granted to the Association of Pramonės ir Marketingo Biznio Centras amounted to Litass 522 thousand as of 31 December 2003 (Litass 878 thousand as of 31 December 2002). Also see to Note 25.

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10. Long-term and Short-term Loans Granted (cont'd)

The Group

Loan to UAB koncernas SBA

On 16 October 2001 AB Šatrija (the Subsidiary) granted a loan to UAB koncernas SBA, which is the shareholder of the Parent, for an amount of Litass 1,300 thousand. According to the loan agreement amendment signed on 16 October 2003, the loan bears 4% annual interest rate and has to be repaid until 16 October 2005. The loan has no specific payment schedule and may be repaid by one instalment at any time before the maturity date. The repayment of the loan is guaranteed by UAB Klaipėdos Baldu Prekyba (related party). The outstanding balance as of 31 December 2003 and 2002 amounts to Litass 1,200 thousand. Also see Note 25.

11. Trade and Other Accounts Receivable

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
22,022	17,417	Trade accounts receivable	17,423	13,062
<u>227</u>	<u>559</u>	Other accounts receivable	<u>30</u>	<u>27</u>
22,249	17,976	Total	17,453	13,089
		Provisions for doubtful trade accounts receivable		
<u>(213)</u>	<u>(732)</u>		<u>-</u>	<u>(396)</u>
		Trade and other accounts receivable, net		
<u>22,036</u>	<u>17,244</u>		<u>17,453</u>	<u>12,693</u>

Foreign trade accounts receivable of the Parent amounting to Litass 17,198 thousand as of 31 December 2003 (Litass 12,792 thousand as of 31 December 2002) are insured against debtors' default with insurance company Gerling NCM Sweeden for an amount of Litass 8,632 thousand (Litass 7,682 thousand as of 31 December 2002). The insurance agreement is valid until 30 April 2004.

Trade accounts receivable of the Group amounting to Litass 21,579 thousand as of 31 December 2003 (Litass 15,542 thousand as of 31 December 2002) are insured against debtors' default with the state owned export promotion insurance company UAB DK Lietuvos Eksporto ir Importo Draudimas, UAB Lietuvos draudimo kreditų draudimas and Gerling NCM Sweeden for a total insurance coverage amount of Litass 36,832 thousand (Litass 9,782 thousand as of 31 December 2002).

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12. Accounts Receivable from Subsidiaries

The Parent's accounts receivable from subsidiaries can be specified as follows:

	<u>2003</u>	<u>2002</u>
UAB Utenos Trikotažo Prekyba	6,177	5,138
UAB Gotija	18	67
Total	<u>6,195</u>	<u>5,205</u>

13. Cash and Cash Equivalents

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		Current bank accounts and cash on hand		
2,385	8,064		962	6,647
681	416	Short-term bank deposits	381	-
<u>3,066</u>	<u>8,480</u>	Total	<u>1,343</u>	<u>6,647</u>

There are no restrictions on the cash and cash equivalents balances of the Parent and the Group as of 31 December 2003 and 2002, except for the pledge of the current and future proceeds in the Parent's account in AB Bankas Hansabankas (see Note 15).

14. Shareholders' Equity

Changes in Share Capital

A. Decrease of Share Capital

On 21 November 2002 the Shareholders' meeting decided to decrease the Parent's share capital by Litass 15,500 thousand. On 16 January 2003 the Lithuanian Securities Commission permitted to reduce the share capital and the share capital decrease was registered on 24 February 2003. Share capital decrease was paid out in cash to all Parent's shareholders proportionally.

B. Distribution of Profit

On 26 March 2003 the Parent's Shareholders' meeting decided to pay out Litass 12,367 thousand of dividends. Also it was decided to assign Litass 360 thousand bonuses to Board members.

Description of Reserves

C. Legal Reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5% of distributable retained earnings calculated in accordance with the Lithuanian accounting principles are required until the legal reserve and share surplus reach 10% of the share capital. As of 31 December 2003 the legal reserve amounted to more than 10% of share capital.

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14. Shareholders' Equity (cont'd)

D. Foreign Currency Translation Reserve

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiaries.

Exchange differences arising on a monetary item that, in substance, forms part of the company's net investment in a foreign entity are classified as equity in the consolidated financial statements until disposal of the investment.

Upon disposal of the corresponding assets, the cumulative revaluation of translation reserves are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

E. Non-distributable Reserves

Non-distributable reserve is formed from the annual (until 31 December 1999) transfers of current year taxable profit, representing capital expenditure relating to acquisition of property, plant and equipment, taxed at a corporate tax rate of 0%. This reserve could not be distributed and could only be converted to share capital. Starting from 1 January 2004 after the change of legislation, the mentioned requirement is not longer valid.

15. Long-term Loans

Long-term loans of the Parent and the Group as of 31 December 2003 and 2002 can be specified as follows:

<u>Lending agency</u>	<u>Principal amount (thousand currency units)</u>	<u>Annual interest rate</u>	<u>Outstanding balance 2003 (thousand Litas)</u>	<u>Outstanding balance 2002 (thousand Litas)</u>
		LIBOR		
AB Bankas Hansabankas	9,274 EUR	6 months EUR +1.05%	27,567	17,069
		LIBOR		
AB Bankas Hansabankas	1,158 EUR	6 months EUR +1.05%	-	-
NEFCO	170 EUR	3%	-	130
Total			27,567	17,199
Less: current portion of long-term loans			(4,009)	(3,248)
Long-term loans less current maturities			<u>23,558</u>	<u>13,951</u>

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15. Long-term Loans (cont'd)

On 17 January 2002 the Parent signed a credit agreement with AB Bankas Hansabankas. The credit consists of two parts: a long-term loan of EUR 9,274 thousand and a credit line of EUR 1,158 thousand. The long-term loan was provided to the Parent for the acquisition of treasury shares, payment of dividends and financing of decrease of share capital that was paid out to shareholders. Credit line was provided for the repayment of the prior loans and for working capital financing.

The Parent and the Group pledged their property, plant and equipment with the net book value of Litas 23,858 thousand as of 31 December 2003 (Litas 27,950 thousand as of 31 December 2002), unquantified inventory, current and future proceeds in the Parent's account in AB Bankas Hansabankas.

As of 31 December 2003 the Parent and the Group had not used the credit line.

According to the loan agreement amendment subsequently on 16 January 2004, the credit line maturity is prolonged until 17 January 2006 (Note 26). Long-term loan maturity is 31 December 2008.

According to the loan agreement the Parent must use accounts opened in AB Bankas Hansabankas for at least 70% of monthly transactions during the whole period of the loan agreement. The Parent cannot generate data for assurance of compliance with this requirement, however, management of the Parent believes they meet the requirements of agreement.

The future maturity of the long-term loan can be specified as follows:

<u>Year</u>	<u>Principle amount payable</u>
2004	4,009
2005	5,345
2006	5,345
2007	6,434
2008	6,434
Total long-term loans	<u>27,567</u>

16. Trade and Other Accounts Payable

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
6,320	7,225	Trade accounts payable	3,473	3,902
3,153	1,876	Other accounts payable	1,812	500
<u>9,473</u>	<u>9,101</u>	Total	<u>5,285</u>	<u>4,402</u>

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17. Accrued and Other Short-term Liabilities

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
3,076	2,461	Salaries and social security	2,293	1,719
2,202	1,988	Vacation pay reserve	1,720	1,506
41	88	Advances received	16	88
<u>331</u>	<u>2,641</u>	Other liabilities	<u>137</u>	<u>2,077</u>
<u>5,650</u>	<u>7,178</u>	Total	<u>4,166</u>	<u>5,390</u>

18. Cost of Sales

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
66,345	62,664	Raw materials	50,324	50,525
38,253	32,386	Salaries and wages	28,633	26,094
<u>31,146</u>	<u>28,440</u>	Overhead production costs	<u>21,802</u>	<u>23,027</u>
<u>135,744</u>	<u>123,490</u>	Total	<u>100,759</u>	<u>99,646</u>

19. Selling Expenses

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
3,550	5,858	Costs of retail outlets maintenance	3	-
4,616	2,190	Salaries and social security	1,714	1,532
1,031	659	Transportation expenses	675	458
1,188	937	Advertising & marketing costs	509	941
279	213	Custom duties and charges	224	213
71	32	Mediator services	71	22
<u>625</u>	<u>1,007</u>	Other selling costs	<u>497</u>	<u>638</u>
<u>11,360</u>	<u>10,896</u>	Total	<u>3,693</u>	<u>3,804</u>

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20. General and Administrative Expenses

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
6,318	6,130	Salaries and social security	3,721	3,712
1,135	1,369	Depreciation and amortisation	735	946
1,523	1,409	Taxes, other than income tax	951	858
4,827	2,818	Communication charges, consulting services	2,635	1,436
(511)	(420)	Amortisation of goodwill	-	-
525	435	Business trips	328	217
451	393	Charity and support	383	379
7	8	Write-off and impairment of property, plant and equipment	390	8
<u>2,616</u>	<u>2,881</u>	Other administrative expenses	<u>1,152</u>	<u>1,539</u>
<u>16,891</u>	<u>15,023</u>	Total	<u>10,295</u>	<u>9,095</u>

21. Personnel Expenses and Average Number of Employees

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
49,187	48,374	Salaries and wages (including social security)	34,068	32,345
<u>1,151</u>	<u>1,532</u>	Premiums and bonuses	<u>1,077</u>	<u>1,532</u>
<u>50,338</u>	<u>49,906</u>	Total	<u>35,145</u>	<u>33,877</u>

The average number of employees:

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
2,150	2,282	Lithuania	1,296	1,339
<u>44</u>	<u>53</u>	Other locations	<u>-</u>	<u>-</u>
<u>2,194</u>	<u>2,335</u>	Total	<u>1,296</u>	<u>1,339</u>

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(All amounts in thousand Litas unless otherwise stated)

22. Financial Income (Expenses), Net

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		Financial income:		
138	250	Interest income	316	144
257	374	Other	239	241
<u>395</u>	<u>624</u>	Total financial income	<u>555</u>	<u>385</u>
		Financial expenses:		
(1)	(33)	Overdue interest	-	-
(616)	(795)	Foreign exchange transactions (losses), net	(98)	(213)
(963)	(919)	Interest expenses	(963)	(876)
<u>(1)</u>	<u>(33)</u>	Other	<u>-</u>	<u>(27)</u>
<u>(1,581)</u>	<u>(1,780)</u>	Total financial expenses	<u>(1,061)</u>	<u>(1,116)</u>
<u>(1,186)</u>	<u>(1,156)</u>	Financial (expenses), net	<u>(506)</u>	<u>(731)</u>

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Notes to the consolidated financial statements for the year ended 31 December 2003

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23. Income Tax

Movements in deferred income tax accounts of the Parent and the Group during 2003 and 2002 can be specified as follows:

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		<u>Profit tax expenses</u>		
		Net result before income tax and minority interest	15,127	12,794
15,650	13,058	Changes in temporary differences	407	(417)
(182)	(2,820)	Tax non-deductible expenses	6,190	5,306
7,977	5,609	Loss carried forward	-	-
<u>(1,698)</u>	<u>(160)</u>	Taxable result	<u>21,724</u>	<u>17,683</u>
21,747	15,687	Current income tax	(3,259)	(2,652)
(3,262)	(2,655)	Change in deferred income tax	61	(62)
27	(659)	Reimbursed income tax on dividends	<u>1,233</u>	<u>974</u>
<u>1,233</u>	<u>974</u>	Income tax reported in the statement of income	<u>(1,965)</u>	<u>(1,740)</u>
<u>(2,002)</u>	<u>(2,340)</u>			
		<u>Deferred income tax asset</u>		
756	829	Valuation allowances and impairment	286	235
322	307	Accrued expenses	256	235
55	58	Depreciation	55	58
14	118	Loss carry forward from 1999	-	-
114	95	Loss carry forward from 2000	-	-
131	146	Loss carry forward from 2001	-	-
193	302	Loss carry forward from 2002	-	-
793	-	Loss carry forward from 2003	-	-
38	110	Elimination of unrealised gain in inventories	<u>38</u>	<u>46</u>
<u>2,416</u>	<u>1,965</u>	Total deferred income tax asset	<u>635</u>	<u>574</u>
<u>(1,045)</u>	<u>(514)</u>	Less: valuation allowance a)	-	-
1,371	1,451	Total deferred income tax asset after valuation allowance	635	574
		<u>Deferred income tax liability</u>		
<u>(338)</u>	<u>(445)</u>	Investment incentive	-	-
<u>(338)</u>	<u>(445)</u>	Total deferred income tax liability	-	-
<u>1,033</u>	<u>1,006</u>	Deferred income tax asset, net b)	<u>635</u>	<u>574</u>

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23. Income Tax (cont'd)

- a) Deferred income tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss-making for some time and future realisation of deferred tax is uncertain.
- b) Deferred income tax asset and deferred income tax liability are netted off in the balance sheets of the Parent and the Group as of 31 December 2003 and 2002 to the extent that deferred income tax liability will be realised simultaneously with deferred income tax asset and they are both related to the same tax authority.

Deferred income tax assets and liabilities were estimated at 15% in 2003 and 2002. Pre tax components of temporary differences are as follows:

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		<u>Temporary difference related to deferred income tax asset</u>		
5,034	5,525	Provisions and write-offs	1,903	1,564
2,141	2,046	Accrued expenses	1,707	1,564
366	389	Depreciation	366	388
93	788	Loss carry forward from 1999	-	-
759	633	Loss carry forward from 2000	-	-
877	973	Loss carry forward from 2001	-	-
1,288	2,016	Loss carry forward from 2002	-	-
5,294	-	Loss carry forward from 2003	-	-
		Elimination of unrealised gain in inventories		
<u>254</u>	<u>730</u>		<u>254</u>	<u>307</u>
		Total temporary differences related to deferred income tax asset	<u>4,230</u>	<u>3,823</u>
		<u>Temporary differences related to deferred income tax liability</u>		
<u>2,253</u>	<u>2,967</u>	Investment incentive	-	-
		Total temporary difference related to deferred income tax liability	<u>-</u>	<u>-</u>
<u>13,853</u>	<u>2,967</u>			

As of 31 December 2003 and 2002 the Group had tax losses arising in UAB Utenos trikotažo prekyba subgroup and AB Šatrija of Litass 8,311 thousand and Litass 4,410 thousand respectively that can be offset against future taxable profits of the companies in which the losses arose. Tax losses can be carried forward for 5 consecutive years.

Deferred income tax liability arose due to the application of income tax investment incentive, which lead to a different treatment of property plant and equipment depreciation expenses in the tax returns and financial books.

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23. Income Tax (cont'd)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre tax income as follows:

<u>Group</u>			<u>Parent</u>	
<u>2003</u>	<u>2002</u>		<u>2003</u>	<u>2002</u>
		Income tax (expenses) computed at		
(2,348)	(1,959)	15% in 2003 and 2002	(2,269)	(1,919)
255	-	Loss utilised	-	-
586	-	Effect of loss making subsidiaries	-	-
1,233	974	Reimbursed income tax on dividends	1,233	974
(531)	(514)	Change in allowance	-	-
<u>(1,197)</u>	<u>(841)</u>	Tax non-deductible expenses	<u>(929)</u>	<u>(795)</u>
		Income tax expenses reported in		
<u>(2,002)</u>	<u>(2,340)</u>	the statement of income	<u>(1,965)</u>	<u>(1,740)</u>

There is no formal procedure in Lithuania to agree the final level of tax charge for a period. Tax settlements might be a subject of review for current and 5 previous years. There is a risk that the tax authorities may have a different opinion from that presented by the entities constituting the Group as to interpretation of the law.

24. Basic Earnings per Share

Basic earnings per share reflect the Parent's and the Group's net profit, divided by the outstanding number of shares. Calculation of the basic earnings per share is presented below:

	<u>Parent</u>	
	<u>2003</u>	<u>2002</u>
Net profit, attributable to the shareholders (in thousand Litass)	13,162	11,054
Weighted average number of shares outstanding (in thousand items)	a) <u>19,834</u>	<u>20,201</u>
Basic earnings per share (in Litass)	<u>0.66</u>	<u>0.55</u>

a) Effect of subsequent ordinary shares decrease is included when calculating the number of shares outstanding as of 31 December 2003 and 2002.

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24. Basic Earnings per Share (cont'd)

Movement in the number of shares and calculation of the weighted average of number of shares for 2002 is presented below:

	<u>2002</u>
Opening balance of shares	39,260
Annulment of treasury shares	<u>(3,926)</u>
Shares after annulment	35,334
Decision to decrease share capital	<u>(15,500)</u>
Closing number of shares	<u>19,834</u>

The recalculated number of shares after the annulment: $39,260 / 35,334 * 19,834 = 22,038$;

Weighted average number of shares outstanding:
 $22,038 * 2/12 + 19,834 * 10/12 = 20,201$.

25. Transactions with Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties, which the Parent and the Group has transacted with, are described below:

AB Trinyčiai

Major shareholders of the Parent, UAB koncernas SBA and the EBRD represented by Scandinavian Baltic Development Ltd. fund, jointly have a controlling interest in AB Trinyčiai. In 2003 there were no transactions performed with AB Trinyčiai, as AB Trinyčiai is undergoing a bankruptcy procedure currently. In 2002 purchases of raw materials from AB Trinyčiai amounted to Litas 1,346 thousand, payables to AB Trinyčiai as of 31 December 2002 amounted to Litas 64 thousand.

The Parent also granted a loan to AB Trinyčiai as described in Note 10.

Pramonės ir Marketingo Biznio Centras

During 2003 membership fees paid by the Parent to the Association of Pramonės ir Marketingo Biznio Centras amounted to Litas 270 thousand (in 2002 – Litas 260 thousand). R. Sajienė who is a member of the Parent's Board also is the director of the Association of Pramonės Marketingo ir Biznio Centras, where the Parent is an associated member.

In addition, as described in Note 10, the Parent granted a loan amounting to Litas 522 thousand as of 31 December 2003 to the Association of Pramonės ir Marketingo Biznio Centras.

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25. Transactions with Related Parties (cont'd)

AB Utenos trikotažas

Managing Director of the Parent, Mrs. N. Dumbliauskiene, as of 31 December 2003 as well as in 2002 had 7.62% of the Parent's shares.

UAB koncernas SBA

AB Šatrija (the Parent's subsidiary) has granted a loan amounting to Litas 1,300 thousand to UAB koncernas SBA as described in Note 10. The repayment of the loan is guaranteed by UAB Klaipėdos baldų prekyba, which is indirectly owned by UAB koncernas SBA.

In 2003 the Parent paid Litas 1,957 thousand to UAB koncernas SBA for consulting and other services (Litas 161 thousand in 2002).

In 2003 the Group paid Litas 3,511 thousand to UAB koncernas SBA for consulting and other services (Litas 1,337 thousand in 2002).

Remuneration of Management

The Parent management's (General Director, Directors and Chief Accountant) total remuneration approximated to Litas 2,020 thousand and Litas 1,836 thousand in 2003 and 2002 respectively.

The Group management's (General Director, Directors and Chief Accountants) total remuneration approximated to Litas 3,047 thousand and Litas 2,670 thousand in 2003 and 2002 respectively.

26. Subsequent Events

According to the credit agreement amendment signed on 16 January 2004 with AB Bankas Hansabankas, the maturity of the credit line is prolonged until 17 January 2006 (see Note 15).

27. Financial Instruments

Financial Risk Management

The Group operates internationally, giving rise to significant exposures to credit, interest rate, foreign exchange and liquidity risks. The Group uses various techniques to manage those risks, as described below.

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Notes to the consolidated financial statements for the year
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27. Financial Instruments (cont'd)

Credit Risks

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures. Group procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. In addition, credit insurance procedures are applied. Thus, the maximum credit risk exposure is determined by the accounts receivable uncovered by the insurance and loans granted. The standard payment terms applied for accounts receivable and accounts payable vary from 30 to 60 days. There are no significant concentrations of credit risk within the Group.

Interest Rate Risks

The loans granted to the Parent and the Group have variable interest rate, which is related to LIBOR (see Note 15). There are no financial instruments designated to manage the exposure to fluctuation in interest rates.

Foreign Exchange Risk

The Group's policy is to match cash flows arising from highly probable future sales and purchases and other expenditures in each foreign currency. Monetary assets and monetary liabilities of the Group according to the currency denomination as of 31 December 2003 are presented in the table below (in Litass thousand):

Currency denomination	Assets	Liabilities and Shareholders' equity
Litass	7,056	14,291
EUR	20,683	31,138
USD	1,846	286
Other	461	182
Total	30,046	45,897

Liquidity Risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit line facilities. Liquidity risk exposures are reflected by the current assets/ current liabilities ratio that as of 31 December 2003 amounts to 2.31 for the Parent and 2.11 for the Group.

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

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27. Financial Instruments (cont'd)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- a) The carrying amount of trade accounts receivable, other financial assets and accounts payable approximates fair value.
- b) The fair value of the long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

Management believes that the exposure to interest rate risk of financial assets and liabilities as of 31 December 2003 and 2002 was minimal since their deviation from their respective fair values was not significant.



Nijolė Dumbliauskienė
Managing Director

Management:



Valda Gylienė
Chief Accountant