AB ALYTAUS TEKSTILĖ

Independent Auditors' Report and
Financial Statements
for the year ended 31 December 2003

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OVERVIEW

AB Alytaus Tekstilė is the biggest company in Alytus, the biggest textile company in Lithuania and one of the biggest textile companies in the Baltic States. The company produces pure cotton and mixed yarns, fabrics and home textiles, fabrics for coveralls and uniforms.

The competitiveness of the produced products is assured by the close location of the company to the EU, free trade relations with the EU members, quick response to the market request, highly qualified staff, positive attitude of our clients to Lithuanian producers, production quality and work culture.

2003 FISCAL YEAR OVERVIEW

For the year ended 31 December 2003 and 2002, the Company incurred a loss of LTL'000 12,759 and LTL'000 8,659, respectively, in accordance with International Financial Reporting Standards, and LTL'000 7,139 and LTL'000 8,857, respectively, in accordance with generally accepted accounting principles in the Republic of Lithuania.

Recent years have been complicated for the textile industry: stagnation in economy in Central Europe, decline of the market demand for the textile goods and huge competition from the far east companies in EU market have had negative effect on the Company's activities. The Company's turnover in 2003 year has decreased by 15% in comparison with 2002 year. The following caused the decline of sales:

1. Decrease in sales by 40% in grey cotton fabrics, because of the price competition with Far East producers.
2. Keeping of the fixed sales prices of fabric when the raw cotton prices have increased by 35%.
3. Loss of sales in sewn goods by 17%, because of the competition of the same goods from Pakistan, China and other countries. The Company cannot compete with the ready-made goods prices from these countries.

The Company has increased sales of the finished and mostly dyed fabrics, but the sales of the grey fabrics have decreased.

Changes in the sales structure are as follow:

	2003	2002
Grey fabrics	22%	31%
Bleached fabrics	12%	11%
Dyed fabrics	23%	17%
Printed fabrics	3%	4%
Sewn goods	25%	25%
Yarns	12%	10%
Other	3%	2%

Shortage in working capital resulted in the Company's loss. This has interrupted the work of the Company, forced the delays in salary payment and reduced the creditability of the Company. Advance payments were required because of overdue accounts payable. The interruption of the production cycle caused the over consumption of energy. With the decrease of the sales the Company has to reduce the number of employees. Because of the problems with the utilization of capacity, the Company has paid for the employees minimal salary of 1.7 million Lt. 379 employees were made redundant and severance compensation of 1.6 million Lt has been paid.

For the year 2003 the shareholders of the company planned to invest 10 million Lt in the equipment, but because of the changes in plans there were no investments made and the Company had no possibility to make investment on its own. Equipment was not renovated and the management could not proceed with the modernization of the company.

Information about subsidiaries
Company has no subsidiaries.

Information about the acquisition or transfer of the treasury shares of the company during the last financial year
During 2003 year the Company has not acquired or transferred the treasury shares.

Information about the acquisition of the shares of other companies during the last financial year

During 2003 year company has not acquired the shares of other companies.

Information about the affiliates of the company

Company has no affiliates.

2004 FISCAL YEAR OVERVIEW

Because of the complicated situation the management of the company has appealed for the Government of the Republic of Lithuania help. On 4th of September 2003 the Parliament of Lithuania has issued the law of the acquisition of the shares of AB Alytaus Tekstilė and on 29th January 2004 passed a law No IX-1991 on AB Alytaus Tekstilė restoration. According to the Law the accounts payable for personal income, social security tax and private pension funds were deferred until the 1st May 2005. The Company was also exempted from paying late payment fines on personal income and social security taxes, and loan granted by the Ministry of Finance and related interest. The law came into force on 25th February 2004, when shares of AB Alytaus Tekstilė held by ASEAN INTERESTS LTD, Honkong, were transferred to the Government of Lithuania.

The main issue of the year 2004 is to recover the company from the existing situation. In this financial year the investments in to the equipment will reach LTL'000 8,500. For the modernization of spinning department the funds of LTL'000 1,200 will be raised, for weaving department - LTL'000 3,400 and for finishing LTL'000 3,900 will be raised. The main proceedings for the company will be: increase of the sales of sanforized fabrics, production of the complicated printing designs, increase of the quality of the fabrics, decrease of the costs of production. Weaving and sewing production will be restructured for the purpose of cost decreasing and higher added value fabric production. With the investments made company expects to increase sales amount of more expensive and high quality products in markets of coveralls, uniforms and yarns for knitwear. Further optimization of management and accountancy system will be carried. All of the mentioned above are the steps for the profitable functioning of the company.

Administration of the Company would like to thank all employees for their work during last year and more optimism and productive work in year 2004.

Acting General Director　　　　Albinas Jasiulevičius

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INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Alytaus Tekstilė:

1. We have audited the accompanying balance sheets of AB Alytaus Tekstilė (the "Company") as of 31 December 2003 and 2002 and the related statements of income, cash flows and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. Except as discussed in the paragraph 3, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform our 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. In our judgement, there are indications that the Company's fixed assets might be impaired, e.g. the Company has incurred significant operating losses during 2003 and previous years; the Company's utilization of production capacity is 50% or less, and during 2003 the Company had to stop production temporarily due to cash shortages. The Company has not made an estimate of the recoverable amount of the assets, as required by International Financial Reporting Standards, when such indications exist. Accordingly, we were unable to satisfy ourselves whether the Company's fixed assets as of 31 December 2003 are properly stated in accordance with International Financial Reporting Standards.

4. In our opinion, except for the impact, if any, of the matter described in paragraph 3 above, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards.

5. Without further qualifying our opinion, we draw attention to note 21 to the financial statements. For the year ended 31 December 2003 and 2002, the Company incurred a loss of LTL'000 12,759 and LTL'000 8,659, respectively, and as of 31 December 2003 and 2002 current liabilities exceeded current assets by LTL'000 22,168 and LTL'000 9,598, respectively. The Company's operations are significantly reliant upon obtaining continuing financial support from the government of the Republic of Lithuania and on a successful outcome of negotiation with banks regarding the continued granting of borrowings by banks, as further described in Note 21. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche

Deloitte & Touche
Vilnius, Lithuania
6 April 2004

AB ALYTAUS TEKSTILĖ

BALANCE SHEET
AS OF 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
ASSETS			
Non-current assets:			
Tangible fixed assets	2	79,139	83,453
Intangible fixed assets		13	16
Total non-current assets		**79,152**	**83,469**
Current assets:			
Cash	3	140	421
Inventories	4	21,053	26,976
Accounts receivable and other current assets	5	10,543	14,428
Total current assets		**31,736**	**41,825**
TOTAL ASSETS		**110,888**	**125,294**
EQUITY AND LIABILITIES			
Equity:			
Share capital	10	85,744	85,744
Revaluation reserve	11	45,587	45,587
Legal reserve	11	1,365	1,365
Accumulated deficit		(81,093)	(68,334)
Total equity		**51,603**	**64,362**
Non-current liabilities:			
Long-term borrowings	6	5,323	8,238
Long-term trade payables		37	1,080
Obligations under finance lease	7	21	191
Total non-current liabilities		**5,381**	**9,509**
Current liabilities:			
Short-term borrowings	8	19,901	22,005
Current portion of long-term borrowings	6	6,763	3,461
Current portion of obligations under finance leases	7	170	190
Trade notes		1,392	1,419
Accounts payable and other current liabilities	9	25,678	24,348
Total current liabilities		**53,904**	**51,423**
TOTAL EQUITY AND LIABILITIES		**110,888**	**125,294**

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

These financial statements were approved on 6 April 2004 and signed by:

Acting General Director
Albinas Jasiulevičius

Acting Chief Financial Officer
Gražina Ludavičiene

AB ALYTAUS TEKSTILĖ

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
Sales	**12**	109,468	128,922
Cost of sales	**12**	(106,521)	(121,558)
GROSS PROFIT		**2,947**	**7,364**
Distribution expenses	**13**	(5,369)	(6,842)
Administrative expenses	**14**	(8,179)	(8,764)
Other operating income		589	668
Other operating expenses		(473)	(569)
OPERATING LOSS		**(10,485)**	**(8,143)**
Net financial expenses	**15**	(2,274)	(516)
Net loss before taxes		**(12,759)**	**(8,659)**
Income tax	**16**	-	-
NET LOSS		**(12,759)**	**(8,659)**
Basic Loss Per Share (in LTL)		**(0.15)**	**(0.10)**

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

These financial statements were approved on 6 April 2004 and signed by:

Acting General Director	Acting ~~Chief~~ Financial Officer
Albinas Jasiulevičius	Gražina Ludavičienė

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital LTL'000	Revaluation reserve LTL'000	Legal reserve LTL'000	Accumulated deficit LTL'000	Total LTL'000
As of 31 December 2000	**105,463**	**45,587**	**1,365**	**(73,884)**	**78,531**
Reduction of share capital	(21,000)	-	-	21,000	-
Share issue	1,281	-	-	-	**1,281**
Net loss	-	-	-	(6,791)	**(6,791)**
As of 31 December 2001	**85,744**	**45,587**	**1,365**	**(59,675)**	**73,021**
Net loss	-	-	-	(8,659)	**(8,659)**
As of 31 December 2002	**85,744**	**45,587**	**1,365**	**(68,334)**	**64,362**
Net loss	-	-	-	(12,759)	**(12,759)**
As of 31 December 2003	**85,744**	**45,587**	**1,365**	**(81,093)**	**51,603**

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

These financial statements were approved on 6 April 2004 and signed by:

Acting General Director
Albinas Jasiulevičius

Acting Chief Financial Officer
Gražina Ludavičienė

AB ALYTAUS TEKSTILĖ

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 LTL'000	2002 LTL'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss before taxes	**(12,759)**	**(8,659)**
Adjustments to reconcile net loss before taxes to net cash provided by operating activities:		
Depreciation and amortization	5,621	5,639
Loss of fixed assets sold	-	(109)
Provision for doubtful receivables	455	680
Write off of obsolete and slow moving inventory	1,586	782
Use of inventory previously written-off	(839)	-
Proceeds from accounts receivable previously provided for	(93)	(10)
Foreign exchange gain on long-term loan	-	(220)
Interest expense	2,967	3,419
Interest income	-	(2)
	(3,062)	**1,520**
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	3,523	3,927
Inventory	5,176	(1,512)
Accounts payable and other current liabilities	(1,112)	3,356
Cash generated from operations	**4,525**	**7,291**
Interest paid	(1,568)	(3,419)
Interest received	-	2
Net cash provided by operating activities	**2,957**	**3,874**
INVESTING ACTIVITIES		
Purchase of tangible and intangible fixed assets	(1,304)	(3,484)
Net cash used in investing activities	**(1,304)**	**(3,484)**
FINANCING ACTIVITIES		
Proceeds from borrowings	-	4,606
Repayment of borrowings	(1,717)	(4,668)
(Repayment of) / proceeds from trade bills	(27)	201
Repayments of finance leases	(190)	(218)
Net cash used in financing activities	**(1,934)**	**(79)**
Net (decrease) / increase in cash	**(281)**	**311**
CASH , BEGINNING OF YEAR	**421**	**110**
CASH , END OF YEAR	**140**	**421**

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

These financial statements were approved on 6 April 2004 and signed by:

Acting General Director
Albinas Jasiulevičius

Acting Chief Financial Officer
Gražina Ludavičienė

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business
The Company was incorporated and commenced its' operations in 1968. The Company's main location is Pramonės st. 1, 4580 Alytus, Lithuania. The Company's principal business activity is the production of yarn, textile fabrics and sewn goods.

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The following summarises the more significant of these policies.

The accompanying financial statements are presented in the national currency of Lithuania, the Litas (LTL).

Cash
Cash include cash on hand and current accounts in banks.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee
Assets held under finance leases are recognized as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to expenses as incurred on a straight-line basis over the term of the relevant lease.

Foreign Currencies
The Company performs the majority of transactions in the national currency. Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as of 31 December 2003 and 2002 were as follows:

	2003	**2002**
1 USD	2.7621 LTL	3.3114 LTL
1 EUR	3.4528 LTL	3.4528 LTL

All resulting gains and losses relating to cash settlement are recorded in the income statement in the period in which they arise. Gains and losses on translation are credited or charged to the statement of income by application of the foreign exchange rates prevailing at the year-end.

Fixed Assets
Fixed assets including intangible and tangible fixed assets are stated at acquisition cost as adjusted for the indexation of certain fixed assets less accumulated depreciation or amortization. Depreciation / amortization is charged so as to write-off the cost of fixed assets over their estimated useful lives, using the straight - line method, on the following basis:

Buildings and structures	40 - 100 years
Equipment, machinery tools, fixtures and fittings	5 - 33 years
Vehicles	7 - 8 years
IT equipment and software	1 - 5 years

All assets in excess of LTL 1,000 are capitalized. Gains and losses on disposal of fixed assets are recognized in the year of disposal.

Impairment
At each balance sheet date, the Company reviews the carrying amounts of its tangible assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a decrease of the revaluation reserve.

Inventories
Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value. The cost of work in progress and finished goods comprises of raw materials, direct labor, other direct costs and related production overheads.

Financial instruments
Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade, other payables and trade notes are stated at their nominal value.

Credit risk
The Company's credit risk is attributable to its trade and other accounts receivable. The amounts presented in the balance sheet are net of allowances for doubtful receivables estimated on prior experience.

The credit risk of liquid funds (cash) is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Fair value of financial instruments
Fair value represents the amount at which an asset could be exchanged or liability settled on an arm's length basis. Where, in the opinion of the management, the fair value of financial assets and liabilities differs materially from their book value, such fair values are separately disclosed in the notes to the financial statements.

Revenue recognition and related expenses
Revenues are recognized as income on an accrual basis when earned. Expenses are charged to operations as incurred.

Earnings per share
For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2003 and 2002 was 85,744,143. The Company had no dilutive share options outstanding during 2003 and 2002 and as of 31 December 2003 and 2002.

Taxation
The charge for current tax is based on the results for the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity.

Use of estimates
The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications
Certain 2002 amounts have been reclassified to conform to the 2003 basis of presentation.

2. TANGIBLE FIXED ASSETS

At 31 December tangible fixed assets consisted of the following:

	Buildings LTL'000	Machinery and equipment LTL'000	Vehicles LTL'000	Other assets LTL'000	Construction in progress LTL'000	Total LTL'000
Historical cost as revalued						
31 December 2001	95,152	167,331	3,931	5,520	2,509	274,443
Additions	-	3,176	661	239	-	4,076
Disposals	(533)	(1,023)	(102)	(630)	-	(2,288)
Transfers	-	150	-	-	(150)	-
31 December 2002	94,619	169,634	4,490	5,129	2,359	276,231
Additions	527	505	265	40	6	1,343
Disposals	-	(2,528)	(274)	(231)	-	(3,033)
Transfers	1,296	112	-	-	(1,408)	-
31 December 2003	96,442	167,723	4,481	4,938	957	274,541
Accumulated depreciation						
31 December 2001	35,275	146,794	2,748	4,188	-	189,005
Charge for the year	938	4,028	357	308	-	5,631
Disposals	(285)	(881)	(68)	(624)	-	(1,858)
31 December 2002	35,928	149,941	3,037	3,872	-	192,778
Charge for the year	1,365	3,512	442	297	-	5,616
Disposals	-	(2,487)	(274)	(231)	-	(2,992)
31 December 2003	37,293	150,966	3,205	3,938	-	195,402
Net book value						
31 December 2002	**58,691**	**19,693**	**1,453**	**1,257**	**2,359**	**83,453**
31 December 2003	**59,149**	**16,757**	**1,276**	**1,000**	**957**	**79,139**

As of 31 December 2003 tangible fixed assets with the net book value of LTL'000 60,238 have been pledged as security against outstanding borrowings (see notes 6 and 8).

As of 31 December 2003 fixed assets include assets with the net book value of LTL'000 604 (2002: LTL'000 728) that were acquired under finance lease.

According to Lithuanian Government Regulations four revaluations / indexations of tangible fixed assets were performed prior to 31 December 1995.

The indexation of tangible fixed assets were performed in the following stages:

The first indexation was performed on 1 July 1991 increasing the value of tangible fixed assets acquired up to that date by 2.2 times.

The second indexation was performed on 1 May 1992 and the indexation rates stated by Lithuanian Government were from 2 to 5 times.

The third indexation was performed on 1 May 1994 and the indexation rates were different for buildings (1-14) and for machinery and equipment (1-10).

The fourth indexation was performed at 31 December 1995 and again the indexation rates were different for buildings (1-1.68) and for machinery and equipment (1-1.593).

During the second, the third, and the fourth indexations the indexation was performed for the tangible fixed assets that had been revalued during the previous indexations.

John Foord & Company performed a valuation of machinery as of 31 December 1998. The valuation was carried out in accordance with the Royal Institute of Chartered Surveyors' practice statements contained in the Institute's Appraisal and Valuation Manual, this being a quality standard that is recognized internationally. The basis of value that was adopted was Value of Plant and Machinery of the Business (VPMB). According to the valuation report the value of machinery was USD'000 48,751 or LTL'000 195,004. As of 31 December 1999, the value of machinery and equipment according to the valuation report exceeded its carrying value by LTL'000 170,729.

A local company UAB Korporacija Matininkai performed valuation of buildings, constructions and utility equipment as at 1 March 1999. The valuation was carried out in accordance with Valuation Guidance approved by the Government of the Republic of Lithuania as well as other relevant valuation regulations and guidance applicable in the Republic of Lithuania. The assets were valued in accordance with the value comparison (comparison to similar sales deals), value in use (income capitalization) and replacement value (replacement cost) approaches. Market value was treated in accordance with the definition of Market Value provided by the General Principles of Valuation (1995), Valuation Guidance Notes (1996), International and European Valuation Standards (1994, 1997).

In the opinion of the appraisers, considering the state of the market of real estate, real estate physical state and additional factors on the subject of the valuation, the fair value (market value) of the buildings, constructions and utility equipment was LTL'000 64,245 as of 1 March 1999. As of 31 December 1999, the value of the buildings according to the valuation report exceeded its carrying value by LTL'000 3,016 (the net surplus consisting of a deficit of LTL'000 10,005 and a surplus of LTL'000 13,021).

The Company did not adjust its financial statements to reflect the results of the above valuations.

3. CASH AND CASH EQUIVALENTS

As of 31 December cash and cash equivalents consisted of the following:

	2003 LTL'000	2002 LTL'000
Cash at bank	90	405
Cash on hand	50	16
Total	**140**	**421**

As of 31 December 2003 the cash inflows into current Company's accounts at bank up to LTL'000 17,840 have been pledged as security against borrowings outstanding (see note 8).

4. INVENTORIES

As of 31 December inventories consisted of the following:

	2003 LTL'000	2002 LTL'000
Work in progress	11,982	12,901
Finished goods	4,806	6,369
Raw material and consumables	4,265	7,706
Total	**21,053**	**26,976**

As of 31 December 2003 the inventories in the amount of LTL'000 20,000 have been pledged as security against borrowings outstanding (see note 8).

5. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

As of 31 December accounts receivable and other current assets consisted of the following:

	2003 LTL'000	2002 LTL'000
Trade accounts receivable	10,110	11,402
Other accounts receivable	2,651	4,447
Prepayments	348	709
Deferred expenses	307	401
	13,416	**16,959**
Less: provision for doubtful accounts receivable	(2,873)	(2,531)
Total	**10,543**	**14,428**

For the years ended 31 December movements in provision for doubtful accounts receivable were as follows:

	2003 LTL'000	2002 LTL'000
Opening balance	2,531	1,957
Repayment of accounts receivable previously provided for	(93)	(10)
Written off accounts receivable previously provided for	(20)	(96)
Charge for the year	455	680
Closing balance	**2,873**	**2,531**

6. LONG-TERM BORROWINGS

As of 31 December long-term borrowings consisted of the following:

	2003 LTL'000	2002 LTL'000
Loan granted by Ministry of Finance denominated in EUR, with maturity in 2007	11,699	11,699
Loan granted by NEFCO denominated in EUR, with maturity in 2005 (the loan granted in 2002 was renewed, the maturity was changed from 2003 to 2005, the loan being reclassified to long-term borrowings)	387	-
Less: amount due for settlement within 12 months	(6,763)	(3,461)
Total long-term borrowings	**5,323**	**8,238**

The interest rate for the loan ranged from 3% to 7%.

According to the law No IX-1991 on AB Alytaus Tekstilė restoration dated 29th January 2004, the loan granted by the Ministry of Finance and related interest should be capitalized into share capital of the Company (see note 21).

As of 31 December 2003 the Company has been pledged fixed assets with the net book value of LTL'000 19,144 to secure the loan received by Ministry of Finance.

The future aggregate loan repayments are as follows:

	LTL'000
2004	6,763
2005	2,381
2006	2,354
2007	588
Total	**12,086**

7. OBLIGATIONS UNDER FINANCE LEASE

The Company has outstanding obligations of LTL'000 191 (2002: LTL'000 381) in connection with the acquisition of equipment under finance lease.

Net book value of fixed assets under financial lease was LTL'000 604 as of 31 December 2003 (2002: LTL'000 728).

As of 31 December 2003 the future annual minimum obligations under finance leases of fixed assets were as follows:

	Minimum lease payments LTL'000	**Present value of minimum lease payments LTL'000**
Amounts payable under finance leases in:		
2004	179	170
2005	9	8
2006	10	9
2007	4	4
Minimum lease payments	**202**	**191**
Less: future finance charges	(11)	
Present value of lease obligations	**191**	

8. SHORT-TERM BORROWINGS

At 31 December short-term borrowings consisted of the following:

	2003 LTL'000	2002 LTL'000
Loan granted by AB Vilniaus Bankas denominated in LTL, with maturity in 2004 (the loan granted in 2000 was renewed reducing the limit)	12,409	12,608
Loan granted by AB Bankas Snoras denominated in LTL, with maturity in 2003 (the loan granted in 2001 was renewed reducing the limit)	3,419	3,660
Loan granted by AB Vilniaus Bankas denominated in LTL, with maturity in 2004 (the loan granted in 2001 was renewed reducing the limit)	1,735	1,735
Loan granted by AB Bankas Snoras denominated in USD, with maturity in 2004	2,338	3,311
Loan granted by NEFCO denominated in EUR, with maturity in 2005 (the loan granted in 2002 was renewed, the maturity was changed from 2003 to 2005, the loan being reclassified to long-term borrowings)	-	691
Total	**19,901**	**22,005**

Management of the Company is renegotiating its' short term loans obtained from AB Vilniaus Bankas in the amount of LTL'000 14,143 and AB Bankas Snoras in the amount of USD'000 847 according to the contract No 031 - 97037 and has reached an oral agreement with the lenders regarding extension of the maturities of the loans (see note 21).

The Company has pledged cash inflows into current accounts up to LTL'000 17,840, finished goods and other inventories in the amount of LTL'000 20,000, and fixed assets with the net book value of LTL'000 41,094 to secure loans received.

The weighted average interest rates were as follows:

	2003	2002
Short-term loans	7.8%	7.7%

9. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

At 31 December accounts payable and other current liabilities consisted of the following:

	2003 LTL'000	2002 LTL'000
Trade accounts payable	10,080	12,078
Salaries payable	4,826	4,025
Other taxes payable	3,232	754
Accrued expenses	2,074	938
Vacation reserve	1,351	1,591
Social insurance payable	909	774
Other accounts payable	3,206	4,188
Total	**25,678**	**24,348**

10. SHARE CAPITAL

At 31 December 2003 and 2002 authorized share capital consisted of 85,744,143 common shares respectively at par value of LTL 1.

All shares are outstanding and fully paid.

The shareholders of the Company are as follows:

	Number	%
Asean Interests Ltd. Honkong (see note 21)	40,566,190	47.31
Tolaram Investments AS, Estonia	23,038,006	26.87
Government of the Republic of Lithuania	10,137,745	11.82
Employees of the Company	7,779,175	9.07
Other	4,223,027	4.93
Total	**85,744,143**	**100**

11. RESERVES

The revaluation reserve represents the increase in the value of tangible fixed assets created through revaluation performed based on government indexation rates (see note 2).

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of distributable profit calculated in accordance with Lithuanian legislation are compulsory until the reserve reaches 10% of the share capital.

12. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Company has divided its business into four main groups - yarn, fabrics, sewing goods, services and spare parts. These groups are the basis on which the Company reports its primary segment information. Segment information about these groups is presented below.

	2003			2002		
	Sales	Cost of sales	**Segment result**	Sales	Cost of sales	**Segment result**
Yarn	12,927	(11,405)	**1,522**	13,304	(11,465)	**1,839**
Fabrics	66,601	(65,648)	**953**	80,800	(76,392)	**4,408**
Sewing Goods	27,033	(26,569)	**464**	32,660	(31,477)	**1,183**
Other Services	2,907	(2,899)	**8**	2,158	(2,224)	**(66)**
Total	**109,468**	**106,521**	**2,947**	**128,922**	**(121,558)**	**7,364**

All business segments use most of the Company's assets and liabilities and no reasonable basis exists to allocate the Company's assets, capital expenditure and liabilities to different segments.

Geographic segments

For the years ended 31 December sales by geographical segments consisted of the following:

	2003 LTL'000	**%**	**2002 LTL'000**	**%**
Lithuania	30,049	27.45	27,471	21.31
Italy	25,046	22.88	29,276	22.71
Sweden	16,544	15.11	23,040	17.87
Finland	9,141	8.35	8,569	6.65
Germany	6,715	6.13	7,014	5.44
Holland	5,099	4.66	9,974	7.74
England	3,855	3.52	3,517	2.73
Estonia	3,449	3.15	3,542	2.74
Other countries	9,570	8.75	16,519	12.81
Total	**109,468**	**100.00**	**128,922**	**100.00**

13. DISTRIBUTION EXPENSES

For the years ended 31 December distribution expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Commission	2,602	3,322
Transportation and railway services	1,200	1,529
Salaries and social security	829	875
Representation and fairs expenses	254	190
Business trips	113	86
Other distribution expenses	371	840
Total	**5,369**	**6,842**

14. ADMINISTRATIVE EXPENSES

For the years ended 31 December administrative expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Salaries and social security	3,047	3,090
Write off of obsolete and slow moving inventory	1,586	782
Taxes other than income tax	1,224	1,511
Penalties	1,195	831
Provision for doubtful trade receivables	455	680
Bank charges	299	443
Depreciation	233	232
Loss on fixed assets, investments sold/written off	-	109
Use of inventory previously written off	(839)	(215)
Repayment of accounts receivable previously provided for	(93)	(10)
Other expenses	1,072	1,311
Total	**8,179**	**8,764**

As of 31 December 2003 the Company employed 2,457 people (2002: 2,836).

15. NET FINANCIAL EXPENSES

For the years ended 31 December net financial expenses consisted of the following:

	2003 LTL'000	2002 LTL'000
Net foreign currency exchange gain	693	2,901
Bank interest income	-	2
Interest on borrowings	(2,967)	(3,419)
Total	**(2,274)**	**(516)**

16. INCOME TAX

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003 LTL'000	%	2002 LTL'000	%
(Loss) before taxes	(12,759)		(8,659)	
Tax at the statutory income tax rate	(1,914)	(15.00)	(1,299)	(15.00)
Tax effect of non taxable income	-	-	(37)	(0.42)
Tax effect of expenses that are not deductible in determining taxable profit	670	5.25	478	5.52
Change in deferred tax valuation allowance	1,244	9.75	858	9.9
Income tax expense	-	-	-	-

In accordance with IAS 12, the Company recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each balance sheet date the Company re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

17. DEFERRED TAX

The management has recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. The components of deferred income tax assets are summarized as follows:

	2003 LTL'000	2002 LTL'000
Deferred tax asset:		
Provisions and accrued expenses	431	380
Provision for inventory	238	117
Accrued expenses	-	8
Tax loss carry forward	9,841	9,313
Total deferred tax asset	**10,510**	**9,818**
Deferred tax liability	**-**	**(552)**
Net deferred tax asset	**10,510**	**9,266**
Less: valuation allowance	(10,510)	(9,266)
Net position at 31 December	**-**	**-**

18. RELATED PARTY TRANSACTIONS

As of 31 December 2003 and for the year then ended related party transactions were as follows:

Related parties	Payable to related party LTL'000	Receivable from related party LTL'000	Purchases from related party LTL'000	Sales to related party LTL'000
Sindi Qualitex AS, Estonia	1	45	16	698
Baltex 2000 AS, Estonia	565	31	14	500
Toloram Investeeringute AS, Estonia	663	-	-	9

Tolaram Investments, Estonia is a related party as it is one of the Company's shareholders. AS Sindi Qualitex, Estonia, and Baltex 2000, Estonia, are related parties of the Company as Tolaram Corporation, a subsidiary of Asean Interest Ltd. owns shares in these companies.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

At 31 December the estimated fair values of financial instruments that do not approximate the carrying values in the financial statements are as follows:

	2003		2002	
	Carrying Amount LTL'000	Estimated Fair Value LTL'000	Carrying Amount LTL'000	Estimated Fair Value LTL'000
Short-term borrowings	19,901	20,350	22,005	22,801
Long-term borrowings	12,086	12,313	11,699	12,453
Long-term trade payables	37	34	1,080	997
Trade notes	1,392	1,333	1,419	1,340

The fair value of debt was based on discounting the future payments at prevailing market rates.

20. COMMITMENTS AND CONTINGENCIES

Litigation and claims - At 31 December 2003 the Company was not involved in any legal proceedings, which in the opinion of management would have a material impact on the financial statements, apart from those related to recovery of accounts receivable.

21. GOING CONCERN

For the year ended 31 December 2003 and 2002, the Company incurred a loss of LTL'000 12,759 and LTL'000 8,659, respectively, and as of 31 December 2003 and 2002 net current liability exceeded current assets by LTL'000 22,168 and LTL'000 9,598, respectively.

By the court decision on 25th February 2004 AB Alytaus Tekstilė shares held by Asean Interests LTD (47%), Honkong, were transferred to the Government of Lithuania.

On 29th January 2004 the Parliament of Lithuania passed a law No IX-1991 on AB Alytaus Tekstilė restoration. According to the Law the accounts payable for personal income, social security tax and private pension funds approximating LTL'000 2,111 were deferred until the 1st May 2005. The Company was also exempted from paying late payment fines on personal income and social security taxes. According to the law mentioned above, the loan granted by the Ministry of Finance and related interest should be capitalized into share capital of the Company.

The general shareholders' meeting held on 30th March 2004 approved a new share emission of 30,780,381 with the sale price of 1 Litas. The main shareholder of the Company will purchase 18,201,668 Litas. 13,201,668 Litas will be contributed in kind by capitalizing the loan granted by the Ministry of Finance and related interest, and the remaining 5,000,000 Litas will be contributed in cash. The rest of the new share emission is to be purchased by other private shareholders in contributing in cash.

Management of the Company is renegotiating its' short term loans obtained from AB Vilniaus Bankas in the amount of LTL'000 14,143 and AB Bankas Snoras in the amount of USD'000 847 according to the contract No 031 - 97037 and has reached an oral agreement with the lenders regarding extension of the maturities of the loans.

The financial statements are prepared assuming that the Company will continue as going concern. No adjustments have been made to these financial statements that may be deemed necessary if the Company would not continue as going concern.

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