AB ALYTAUS TEKSTILĖ

Independent Auditors' Report and
Financial Statements
for the year ended 31 December 2004

TABLE OF CONTENTS

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 2004 and 2003 and the related statements of income, cash flow and changes in 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 judgment, there are indications that the Company's fixed assets might be impaired, e.g. the Company has incurred significant operating losses during 2004 and 2003 and the Company's utilization of production capacity is 50% or less. The Company has not made an estimate of the recoverable amount of the fixed 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 2004 and 2003, carried at a value of LTL'000 73,921 and LTL'000 79,139 respectively, 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 2004 and 2003 and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

5. Without further qualifying our opinion, we draw attention to note 23 to the financial statements. For the years ended 31 December 2004 and 2003, the Company incurred a loss of LTL'000 15,673 and LTL'000 12,759, respectively, and as of 31 December 2004 and 2003 current liabilities exceeded current assets by LTL'000 9,926 and LTL'000 22,168, respectively. The Company's continued operations are significantly reliant upon sales of real estate and on a successful outcome of negotiation with the banks regarding the continued granting of borrowings, as further described in note 23. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche
Vilnius, Lithuania
14 March 2005

AB ALYTAUS TEKSTILĖ

BALANCE SHEET
AS OF 31 DECEMBER 2004

	Notes	2004 LTL'000	2003 LTL'000
ASSETS			
Non-current assets:			
Tangible fixed assets	**2**	73,921	79,139
Intangible fixed assets	**3**	21	13
Total non-current assets		**73,942**	**79,152**
Current assets:			
Cash and cash equivalents	**4**	447	140
Inventories	**5**	21,788	21,053
Accounts receivable and other current assets	**6**	5,627	10,543
Total current assets		**27,862**	**31,736**
TOTAL ASSETS		**101,804**	**110,888**
EQUITY AND LIABILITIES			
Equity:			
Share capital	**12**	103,946	85,744
Revaluation reserve	**13**	45,587	45,587
Legal reserve		-	1,365
Accumulated deficit		(95,401)	(81,093)
Total equity		**54,132**	**51,603**
Non-current liabilities:			
Long-term borrowings	**7**	3,116	5,323
Long-term trade payables		334	37
Other long-term liabilities	**8**	6,421	-
Obligations under finance lease	**9**	13	21
Total non-current liabilities		**9,884**	**5,381**
Current liabilities:			
Short-term borrowings	**10**	11,822	19,901
Current portion of long-term borrowings	**7**	1,975	6,763
Current portion of obligations under finance leases	**9**	8	170
Trade notes payable		1,913	1,392
Accounts payable and other current liabilities	**11**	22,070	25,678
Total current liabilities		**37,788**	**53,904**
TOTAL EQUITY AND LIABILITIES		**101,804**	**110,888**

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

These financial statements were approved on 14 March 2005 and signed by:

General Director	Chief Financial Officer
Albinas Jasiulevičius	Gražina Ludavičienė

AB ALYTAUS TEKSTILĖ

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 LTL'000	2003 LTL'000
Sales	**14**	76,277	109,468
Cost of sales	**14**	(78,663)	(106,521)
GROSS (LOSS) PROFIT		**(2,386)**	**2,947**
Sales and distribution expenses	**15**	(4,480)	(5,369)
Operating expenses	**16**	(7,823)	(8,179)
Other operating income		2,761	589
Other operating expenses		(1,606)	(473)
OPERATING LOSS		**(13,534)**	**(10,485)**
Net financial expenses	**17**	(2,139)	(2,274)
Net loss before taxes		**(15,673)**	**(12,759)**
Income tax	**18**	-	-
NET LOSS		**(15,673)**	**(12,759)**
Basic loss per share (in LTL)		**(0.16)**	**(0.15)**

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

These financial statements were approved on 14 March 2005 and signed by:

General Director	Chief Financial Officer
Albinas Jasiulevičius	Gražina Ludavičienė

AB ALYTAUS TEKSTILĖ

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital LTL'000	Revaluation reserve LTL'000	Legal reserve LTL'000	Accumulated deficit LTL'000	Total LTL'000
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**
Shareholders' contribution in cash (note 12)	5,000	-	-	-	5,000
Shareholders' contribution by conversion of loan and accrued interest (note 12)	13,202	-	-	-	13,202
Use of reserves	-	-	(1,365)	1,365	-
Net loss	-	-	-	(15,673)	(15,673)
As of 31 December 2004	**103,946**	**45,587**	**-**	**(95,401)**	**54,132**

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

These financial statements were approved 14 March 2005 and signed by:

General Director
Albinas Jasiulevičius

Chief Financial Officer
Gražina Ludavičienė

AB ALYTAUS TEKSTILĖ

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	2004 LTL'000	2003 LTL'000
CASH FLOWS FROM (TO) OPERATING ACTIVITIES		
Net loss before taxes	**(15,673)**	**(12,759)**
Adjustments to reconcile net loss before taxes to net cash provided by operating activities:		
Depreciation and amortization	5,340	5,621
Gain of fixed assets sold	(1,261)	-
Provision for doubtful receivables	347	455
Write off of obsolete and slow moving inventory	2,623	1,586
Use of inventory previously written-off	(348)	(839)
Proceeds from accounts receivable previously provided for	(36)	(93)
Interest expense	1,836	2,967
Interest income	(4)	-
	(7,176)	**(3,062)**
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	4,607	3,523
Inventory	(3,010)	5,176
Accounts payable and other current liabilities	4,919	(1,112)
Cash generated from (to) operations	**(660)**	**4,525**
Interest paid	(1,665)	(1,568)
Net cash (used) provided by operating activities	**(2,325)**	**2,957**
CASH FLOWS FROM (TO) INVESTING ACTIVITIES		
Purchase of tangible and intangible fixed assets	(2,595)	(1,304)
Proceeds from sales of tangible fixed assets	3,724	-
Interest received	4	-
Net cash from (used in) investing activities	**1,133**	**(1,304)**
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Contribution to share capital in cash	5,000	-
Repayment of borrowings	(3,852)	(1,717)
proceeds from / (repayment of) trade bills	521	(27)
Repayments of finance leases	(170)	(190)
Net cash from (used in) financing activities	**1,499**	**(1,934)**
Net increase / (decrease) in cash	**307**	**(281)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**140**	**421**
CASH AND CASH EQUIVALENTS, END OF YEAR	**447**	**140**

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

These financial statements were approved 14 March 2005 and signed by:

General Director
Albinas Jasiulevičius

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, 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), except for certain tangible fixed assets acquired before 1 January 1996, which are revalued in accordance with indexations set by the Lithuanian Government, and which does not correspond to cost or fair value. See Note 2.

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

The following summarises the more significant of these policies.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits in banks and highly liquid investments with an original maturity of three months or less when purchased.

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 2004 and 2003 were as follows:

	2004	**2003**
1 USD	2.5345 LTL	2.7621 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 income statement 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, as further described in Note 2. 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 payables, other payables and trade notes payable 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 2004 and 2003 was 96,914,482 and 85,744,143 respectively. The Company had no dilutive share options outstanding during 2004 and 2003 and as of 31 December 2004 and 2003.

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 2003 amounts have been reclassified to conform to the 2004 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
Modified historical cost						
31 December 2003	105,574	158,638	4,433	4,939	957	274,541
Additions	15	2,385	3	41	163	2,607
Disposals	(5,239)	(8,269)	(513)	(195)	(42)	(14,258)
Transfers	-	(47)	47	-	-	-
31 December 2004	100,350	152,707	3,970	4,785	1,078	262,890
Accumulated depreciation						
31 December 2003	43,926	144,340	3,198	3,938	-	195,402
Charge for the year	1,284	3,310	464	250	-	5,308
Disposals	(2,827)	(8,259)	(464)	(191)	-	(11,741)
31 December 2004	42,383	139,391	3,198	3,997	-	188,969
Net book value						
31 December 2003	**61,648**	**14,298**	**1,235**	**1,001**	**957**	**79,139**
31 December 2004	**57,967**	**13,316**	**772**	**788**	**1,078**	**73,921**

As of 31 December 2004 tangible fixed assets with the net book value of LTL'000 38,152 (2003: LTL'000 60,238) have been pledged as security against outstanding borrowings (see notes 7 and 10).

As of 31 December 2004 fixed assets include assets with the net book value of LTL'000 36 (2003: LTL'000 604) 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 indexations 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 Lithuanian company UAB Korporacija Matininkai performed valuation of buildings, constructions and utility equipment as of 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. INTANGIBLE FIXED ASSETS

At 31 December intangible assets consisted of the following:

	Software LTL'000
Historical cost	
31 December 2003	65
Additions	40
31 December 2004	105
Accumulated amortization	
31 December 2003	52
Charge for year	32
31 December 2004	84
Net book value	
31 December 2003	**13**
31 December 2004	**21**

4. 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	343	90
Payment cheque	81	-
Cash on hand	23	50
Total	**447**	**140**

As of 31 December 2004 cash inflows into current Company's accounts at bank up to LTL'000 14,000 (2003: LTL'000 17,840) have been pledged as security against borrowings outstanding (see note 10).

5. INVENTORIES

As of 31 December inventories consisted of the following:

	2004 LTL'000	2003 LTL'000
Work in progress	13,609	12,738
Finished goods	7,897	5,996
Raw material and consumables	4,096	4,455
Less: net realizable value provision for inventory	(3,814)	(2,136)
Total	**21,788**	**21,053**

As of 31 December 2003 the inventories in the amount of LTL'000 20,000 (2003: LTL'000 20,000) have been pledged as security against borrowings outstanding (see note 10).

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

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

	2004 LTL'000	2003 LTL'000
Trade accounts receivable	7,153	10,110
Other accounts receivable	268	2,651
Prepayments and deferred expenses	285	655
	7,706	**13,416**
Less: provision for doubtful accounts receivable	(2,079)	(2,873)
Total	**5,627**	**10,543**

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

	2004 LTL'000	2003 LTL'000
Opening balance	2,873	2,531
Repayment of accounts receivable previously provided for	(36)	(93)
Written off accounts receivable previously provided for	(1,105)	(20)
Charge for the year	347	455
Closing balance	**2,079**	**2,873**

7. LONG-TERM BORROWINGS

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

	2004 LTL'000	2003 LTL'000
Loan granted by AB Bankas Snoras denominated in LTL, with maturity in 2007 (the loan was reclassified from short term borrowings)	5,036	-
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)	55	387
Loan granted by Ministry of Finance denominated in EUR, with maturity in 2007	-	11,699
Less: amount due for settlement within 12 months	(1,975)	(6,763)
Total long-term borrowings	**3,116**	**5,323**

The interest rate for the loans ranged from 3% to 5.5%.

As of 31 December 2004 the Company has pledged fixed assets with the net book value of LTL'000 14,773 to secure the loans received.

The future aggregate loan repayments are as follows:

	LTL'000
2005	1,975
2006	1,920
2007	1,196
Total	**5,091**

8. OTHER LONG-TERM LIABILITIES

As of 31 December other long-term liabilities consisted of the following:

	2004 LTL'000	2003 LTL'000
Deferred social insurance tax	4,910	-
Deferred personal income tax	4,308	-
UAB Dzūkijos Vandenys	1,066	-
Tolaram Investeeiringute AS	556	-
	10,840	**-**
Less: amount due for settlement within 12 months	(4,419)	-
Total long-term borrowings	**6,421**	**-**

9. OBLIGATIONS UNDER FINANCE LEASE

The Company has outstanding obligations of LTL’000 21 (2003: LTL’000 191) in connection with the acquisition of fixed assets under finance lease.

Net book value of fixed assets under financial lease was LTL’000 36 as of 31 December 2004 (2003: LTL’000 604).

As of 31 December 2004 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:		
2005	9	8
2006	10	9
2007	4	4
Minimum lease payments	**23**	**21**
Less: future finance charges	(2)	
Present value of lease obligations	**21**	

10. SHORT-TERM BORROWINGS

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

	2004 LTL’000	**2003 LTL’000**
Loan granted by AB Vilniaus Bankas denominated in LTL, with maturity in 2005 (the loan granted in 2000 was renewed reducing the limit)	10,865	12,409
Loan granted by AB Vilniaus Bankas denominated in LTL, with maturity in 2005 (the loan granted in 2001 was renewed reducing the limit)	957	1,735
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
Loan granted by AB Bankas Snoras denominated in USD, with maturity in 2004	-	2,338
Total	**11,822**	**19,901**

The Company has pledged cash inflows into current accounts up to LTL’000 14,000, finished goods and other inventories in the amount of LTL’000 20,000, and fixed assets with the net book value of LTL’000 23,379 to secure loans received.

As of 31 December 2004 the weighted average interest rate was 5% (2003: 7.8%).

11. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

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

	2004 LTL'000	2003 LTL'000
Trade accounts payable	9,324	10,080
Salaries payable	4,069	4,826
Other taxes payable	3,727	3,232
Social insurance payable	2,362	909
Vacation reserve	725	1,351
Accrued expenses	429	2,074
Other accounts payable	1,434	3,206
Total	**22,070**	**25,678**

12. SHARE CAPITAL

At 31 December 2004 and 2003 authorized share capital consisted of 103,945,811 and 85,744,143 common shares respectively at par value of LTL 1.

During the year ended 31 December 2004 share capital of the Company was increased up to LTL'000 103,946. Share capital was increased by issuing 18,201,668 shares with nominal value of LTL 1 each.

All shares are outstanding and fully paid.

The shareholders of the Company are as follows:

	Number	%
Government of the Republic of Lithuania	68,905,603	66.29
Tolaram Investments AS, Estonia	23,038,006	22.16
Other	12,002,202	11.55
Total	**103,945,811**	**100.00**

13. 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).

14. 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.

	2004			2003		
	Sales	Cost of sales	Segment result	Sales	Cost of sales	Segment result
Yarn	5,707	(5,663)	44	12,927	(11,405)	1,522
Fabrics	47,652	(49,497)	(1,845)	66,601	(65,648)	953
Sewing Goods	20,983	(21,501)	(518)	27,033	(26,569)	464
Other Services and spare parts	1,935	(2,002)	(67)	2,907	(2,899)	8
Total	**76,277**	**(78,663)**	**(2,386)**	**109,468**	**(106,521)**	**2,947**

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:

	2004 LTL'000	%	2003 LTL'000	%
Lithuania	25,430	33.34	30,049	27.45
Sweden	14,380	18.85	16,544	15.11
Italy	12,268	16.08	25,046	22.88
Finland	6,974	9.14	9,141	8.35
Germany	4,757	6.24	6,715	6.13
England	3,391	4.45	3,855	3.52
Estonia	1,635	2.14	3,449	3.15
Holland	702	0.92	5,099	4.66
Other countries	6,740	8.84	9,570	8.75
Total	**76,277**	**100.00**	**109,468**	**100.00**

15. SALES AND DISTRIBUTION EXPENSES

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

	2004 LTL'000	2003 LTL'000
Commission	2,179	2,602
Transportation and railway services	891	1,200
Salaries and social security	788	829
Representation and fairs expenses	185	254
Business trips	151	113
Other distribution expenses	286	371
Total	**4,480**	**5,369**

16. OPERATING EXPENSES

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

	2004 LTL'000	2003 LTL'000
Write off of obsolete and slow moving inventory	2,623	1,586
Salaries and social security	2,085	3,047
Taxes other than income tax	1,039	1,224
Penalties	488	1,195
Use of inventory previously written off	(348)	(839)
Provision for doubtful trade receivables	347	455
Depreciation and amortization	242	233
Insurance expenses	174	198
Bank charges	173	299
Professional services	133	123
Transportation expenses	114	127
Repayment of accounts receivable previously provided for	(36)	(93)
Other expenses	789	624
Total	**7,823**	**8,179**

As of 31 December 2004 the Company employed 2,248 people (2003: 2,457).

17. NET FINANCIAL EXPENSES

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

	2004 LTL'000	2003 LTL'000
Interest on borrowings	(1,836)	(2,967)
Net foreign currency exchange gain	(307)	693
Bank interest income	4	-
Total	**(2,139)**	**(2,274)**

18. INCOME TAX

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

	2004 LTL'000	%	2003 LTL'000	%
(Loss) before taxes	(15,673)		(12,759)	
Tax at the statutory income tax rate	(2,351)	15	(1,914)	15
Tax effect of expenses that are not deductible in determining taxable profit	120	(1)	670	(5)
Decrease in unrealised tax loss carry forward	6,899	(44)	-	-
Change in deferred tax valuation allowance	(4,668)	30	1,244	(10)
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.

19. 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:

	2004 LTL'000	2003 LTL'000
Deferred tax asset:		
Provisions and accrued expenses	312	431
Provision for inventory	572	238
Tax loss carry forward	4,958	9,841
Total deferred tax asset	**5,842**	**10,510**

Less: valuation allowance	(5,842)	(10,510)
Net position at 31 December	**-**	**-**

20. RELATED PARTY TRANSACTIONS

As of 31 December 2004 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
Toloram Investeeringute AS	556	-	-	-

Toloram Investeeringute AS is a related party of Tolaram Investments AS (one of the Company's shareholders).

21. 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:

	2004		2003	
	Carrying Amount LTL'000	Estimated Fair Value LTL'000	Carrying Amount LTL'000	Estimated Fair Value LTL'000
Short-term borrowings	11,822	11,746	19,901	20,350
Long-term borrowings	5,091	5,038	12,086	12,313
Long-term trade payables	334	318	37	34
Trade notes	1,913	1,788	1,392	1,333

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

22. COMMITMENTS AND CONTINGENCIES

Litigation and claims – At 31 December 2004 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.

23. GOING CONCERN

For the years ended 31 December 2004 and 2003, the Company incurred loss of LTL'000 15,673 and LTL'000 12,759, respectively, and as of 31 December 2004 and 2003 net current liabilities exceeded current assets by LTL'000 9,926 and LTL'000 22,168, respectively.

The working capital of the Company is insufficient and during the months subsequent to year-end the Company is continuing to generate negative cash flows.

The management of the Company is negotiating with the banks regarding the additional financing for the purpose of investing in new machinery and equipment.

Also the Company is negotiation with a potential buyer regarding sale of certain real estate in the approximate amount of LTL'000 7,000.

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.

* * * * *