

**AB DVARČIONIŲ KERAMIKA**

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

# AB DVARČIONIŲ KERAMIKA

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## INDEPENDENT AUDITORS' REPORT

To the shareholders of AB Dvarčionių keramika:

- 1 We have audited the accompanying balance sheets of AB Dvarčionių Keramika (the Company) at 31 December 2003 and 2002 and the related statements of income, changes in equity and cash flows 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 We conducted our audits in accordance with International Standards on Auditing except for the matters referred to in paragraph 3 below. These 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 At 31 December 2003 Company accounts for investment in subsidiary company SIA Dvarcionių keramika at cost in the amount of kLTL 14. The Company does not prepare consolidated financial statements incorporating its foreign subsidiary since in the opinion of management the financial data of the subsidiary is not material to the financial statements of the Company. The subsidiary has incurred losses for the years ended 31 December 2003, 2002 and previous reporting periods. In our opinion, there is a risk that at 31 December 2003 the recoverable amount of the investment and the account receivable from the subsidiary in the amount of kLTL 2,172 might have decreased. International Accounting Standard No. 36 requires that the recoverable amount of an asset should be estimated whenever there is an indication that the value of asset might be impaired. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. The Company has not assessed the recoverability of the investment and account receivable from subsidiary and has not reduced the value of investment and made no provisions for the receivable from the subsidiary. There were no practical audit procedures that we could apply to enable us to obtain reasonable assurance whether investments and accounts receivable from the subsidiary are fairly stated at 31 December 2003. If it was determined that the value of investment should be reduced and provisions for accounts receivable should be established, investments, receivables, net result and shareholders' equity in the financial statements for the year ended 31 December 2003 would decrease.

- 4 In our opinion, except for the possible effect of the matters referred to in paragraph 3 above, the financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2003 and 2002 and the results of its operations, changes in equity and cash flows for the years then ended in accordance with International Financial Reporting Standards.
- 5 Without qualifying our opinion, we draw attention to note 22 to the financial statement on the Company's liquidity.

*Deloitte Touche*

Deloitte & Touche  
Vilnius, Lithuania  
23 April 2004

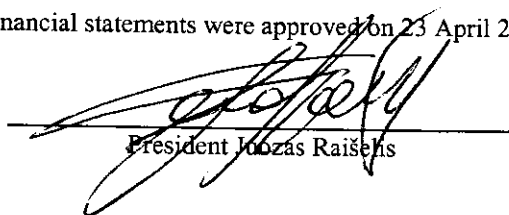
# AB DVARČIONIŲ KERAMIKA

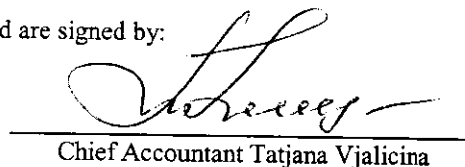
## BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible fixed assets	2	81,797	68,049
Intangible fixed assets	3	275	86
Investments	4	351	351
Loans to employees		36	41
<b>Total non-current assets</b>		<b>82,459</b>	<b>68,527</b>
<b>Current assets</b>			
Cash at bank and on hand	5	43	609
Inventories	6	14,069	16,851
Accounts receivable and other current assets	7	11,489	9,846
<b>Total current assets</b>		<b>25,601</b>	<b>27,306</b>
<b>TOTAL ASSETS</b>		<b>108,060</b>	<b>95,833</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	8	49,527	49,527
Revaluation reserve		2,054	2,575
Legal reserve	8	125	-
Accumulated deficit		(11,784)	(12,229)
<b>Total equity</b>		<b>39,922</b>	<b>39,873</b>
<b>Non-current liabilities</b>			
Long-term debts	9	27,670	27,156
Debt securities issued	10	6,463	-
Finance lease liabilities	11	131	151
Trade payables	12	285	401
Deferred tax liability	19	3,529	3,665
<b>Total non-current liabilities</b>		<b>38,078</b>	<b>31,373</b>
<b>Current liabilities</b>			
Short-term debts	9	5,990	6,738
Current portion of finance lease liabilities	11	83	54
Debt securities issued	10	3,639	300
Trade payables	12	16,469	14,814
Advances received		153	88
Other payables and accrued expenses	13	3,726	2,593
<b>Total current liabilities</b>		<b>30,060</b>	<b>24,587</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>108,060</b>	<b>95,833</b>

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

These financial statements were approved on 23 April 2004 and are signed by:

  
President Jozas Raišėlis

  
Chief Accountant Tatjana Vjalicina

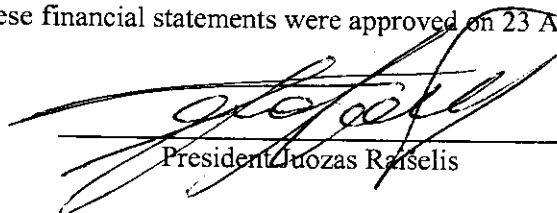
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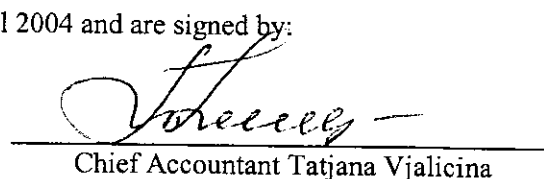
## STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 LTL'000	2002 LTL'000
Sales	14	48,578	46,294
Cost of sales	15	(35,440)	(34,022)
<b>GROSS PROFIT</b>		<b>13,138</b>	<b>12,272</b>
Selling expenses	16	(8,402)	(7,295)
Administrative expenses	17	(6,239)	(5,198)
Net other income		180	14
<b>LOSS FROM OPERATIONS</b>		<b>(1,323)</b>	<b>(207)</b>
Net financial income	18	1,437	2,235
<b>PROFIT BEFORE TAXES</b>		<b>114</b>	<b>2,208</b>
Income tax expense	19	(50)	(166)
<b>NET PROFIT FOR THE YEAR</b>		<b>64</b>	<b>1,862</b>
<b>Basic earnings per share (in LTL)</b>		<b>0.006</b>	<b>0.19</b>

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

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President Juozas Ranselis

  
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Chief Accountant Tatjana Vjalicina

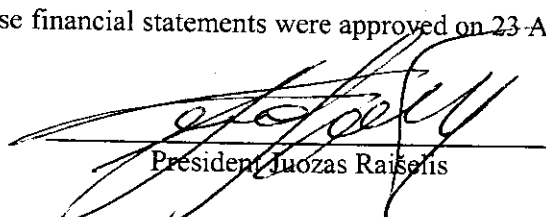
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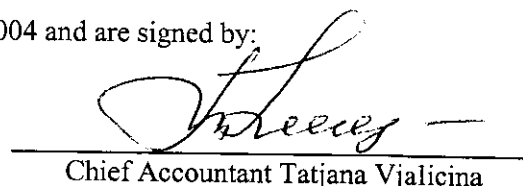
## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital LTL'000	Legal reserve LTL'000	Revalua- tion reserve LTL'000	Accumulated deficit LTL'000	Total LTL'000
At 31 December 2001	49,527	-	3,138	(14,654)	38,011
Transfer of current period depreciation of revalued fixed assets	-	-	(506)	506	-
Disposal of revalued fixed assets	-	-	(57)	57	-
Net profit for the year	-	-	-	1,862	1,862
At 31 December 2002	49,527	-	2,575	(12,229)	39,873
Transfer to reserves	-	125	-	(125)	-
Transfer of current period depreciation of revalued fixed assets	-	-	(506)	506	-
Disposal of revalued fixed assets	-	-	(15)	-	(15)
Net profit for the year	-	-	-	64	64
At 31 December 2003	49,527	125	2,054	(11,784)	39,922

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These financial statements were approved on 23 April 2004 and are signed by:

  
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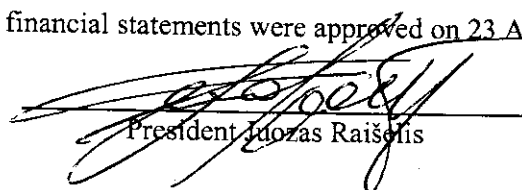
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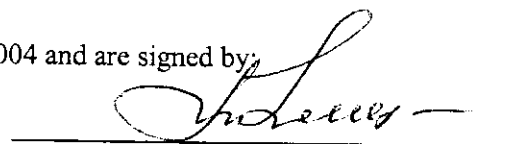
## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 LTL'000	2002 LTL'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before taxes</b>	114	2,028
Adjustments to reconcile profit to net cash provided by operating activities:		
Depreciation and amortization	6,031	6,108
(Gain) loss from disposals and write-off of fixed assets	(4)	92
(Decrease) increase in provision for doubtful accounts receivable	(101)	149
Value adjustment of inventories	(637)	(208)
Net foreign exchange gain	(4,004)	(4,209)
Interest expenses, net	2,568	2,571
	3,967	6,531
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	(1,951)	(1,140)
Inventories	3,419	(1,665)
Payables and other current liabilities	2,428	4,048
Net cash provided by ordinary activities	7,863	7,774
Interest paid	(2,445)	(2,353)
<b>Net cash provided by operating activities</b>	<b>5,418</b>	<b>5,421</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of tangible and intangible fixed assets	(19,938)	(4,979)
Proceeds from sale of tangible fixed assets	13	57
<b>Net cash used in investing activities</b>	<b>(19,925)</b>	<b>(4,922)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings, net of repayments	4,184	(243)
Proceeds on issue of securities, net of repayments	9,802	300
Repayments of obligations under finance leases	(45)	(96)
<b>Net cash from (used in) financing activities</b>	<b>13,941</b>	<b>(39)</b>
<b>Net (decrease) increase in cash</b>	<b>(566)</b>	<b>460</b>
<b>CASH AT THE BEGINNING OF YEAR</b>	<b>609</b>	<b>149</b>
<b>CASH AT THE END OF YEAR</b>	<b>43</b>	<b>609</b>

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

These financial statements were approved on 23 April 2004 and are signed by:

  
President Juozas Raišelis

  
Chief Accountant Tatjana Vjalicina



# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 1. ACCOUNTING POLICY

#### *General information*

The Company was registered on 10 June 1994. The Company's head office is located Keramiku str. 2, 2056 Vilnius, Lithuania.

The Company is the largest and most advanced producer of ceramic tiles in the Baltic countries.

The Company is continuously investing in the latest technologies. In October 2003, a new Italian Sacmi production line for glazed porcelain stoneware tiles was put in operation to expand the production volume and the range significantly by adding new products and the expanding choice of sizes.

At 31 December 2003 there were 466 employees in the Company (2002: 432).

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

#### *Basis of preparation*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties. The following summarises the more significant of these policies.

#### *Consolidation*

The Company has a wholly owned subsidiary in Riga, Latvia. No consolidated financial statements have been prepared due to the immateriality of the subsidiary.

#### *Cash*

Cash include cash on hand and current accounts in banks.

#### *Inventories*

Inventories are stated at the lower of cost or market value. The First-In, First-Out method is used as a basis for calculating the cost. The cost of work in progress and finished goods comprises of raw materials, direct labor cost, other direct costs and related production overheads.

#### *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 lessor*

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

#### *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

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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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 income on a straight-line basis over the term of the relevant lease.

### *Foreign 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. Gains and losses on translation and payment transactions are recorded in the statement of income. The applicable rates used for the principal currencies at 31 December 2003 and 2002 were as follows:

	2003	2002
USD	2.7621	3.3114
EUR	3.4528	3.4528
PLN	0.7351	0.8622
LVL	5.1629	5.6369

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.

### *Tangible Assets*

Tangible fixed assets acquired prior to June 2000 are stated at estimated fair market value, as of that date and additions from June 2000 are stated at cost, less accumulated depreciation and impairment. Depreciation, including amortization of leasehold improvements, is computed using the straight-line method over the estimated useful lives of the related asset. Revalued assets are depreciated over their remaining lives.

Depreciation is provided in equal monthly installments except for the month placed in service over the expected useful lives as follows:

Plant and buildings	10 – 40 years
Machinery and equipment, office equipment	2 – 20 years
Transport means	5– 10 years
IT equipment	5 years

Gains and losses on disposal of fixed assets are recognized in the income statement in the year of disposal.

### *Impairment*

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets, 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.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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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 (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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets.

### ***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***

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

### ***Investments***

Investments are recognized on a trade-date basis and are initially stated at cost.

Investments in equity instruments available for sale are measured at fair value. Gain and loss on equity instruments available for sale are included in the statement of income for the accounting period.

Long-term investments, where the Company is not in a position to exercise significant influence or joint control, are stated at cost less impairment losses recognized, where the investment's carrying amount exceeds its estimated recoverable amount.

### ***Bank borrowings***

Bank loans and overdrafts are recorded at their nominal value.

### ***Trade payables***

Trade payables are stated at their nominal value.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### *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.

### *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.

### *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 9,905,460. The Company had no dilutive options outstanding during 2003 and 2002 and at 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 or substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. 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 is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### *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 party.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

### *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:

	<u>Buildings</u> <u>LTL'000</u>	<u>Machinery</u> <u>and</u> <u>equipment</u> <u>LTL'000</u>	<u>Vehicles</u> <u>LTL'000</u>	<u>Other</u> <u>equipment</u> <u>LTL'000</u>	<u>Construction</u> <u>in progress</u> <u>and</u> <u>prepayment</u> <u>LTL'000</u>	<u>Total</u> <u>LTL'000</u>
<b>Cost or valuation</b>						
31 December 2002	36,582	56,800	1,662	1,619	4,694	101,357
Acquisitions	268	9,105	54	203	10,125	19,755
Disposals	-	(43)	(33)	-	-	(76)
Transfers	9,486	4,608	-	(78)	(14,016)	-
31 December 2003	46,336	70,470	1,683	1,744	803	121,036
<b>Accumulated depreciation</b>						
31 December 2002	6,165	25,520	588	1,035	-	33,308
Charge for period	1,418	4,365	107	93	-	5,983
Disposals	-	(33)	(19)	-	-	(52)
31 December 2003	7,583	29,852	676	1,128	-	39,239
<b>Carrying amount</b>						
31 December 2002	30,417	31,280	1,074	584	4,694	68,049
31 December 2003	38,753	40,618	1,007	616	803	81,797

All of the Company's' fixed assets are held for own use.

The carrying amount of the Company's vehicles includes an amount of LTL'000 304 (2002: LTL'000 280) in respect of assets held under finance leases (Note 11).

The Company has pledged tangible fixed assets having a carrying amount of approximately LTL'000 72,870 (LTL'000 46,114 are pledged as a second security), (2002: LTL'000 51,243 (LTL'000 34,891 are pledged as a second security)) to secure banking facilities granted to the Company.

# AB DVARČIONIŪ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 3. INTANGIBLE FIXED ASSETS

At 31 December intangible fixed assets consisted of the following:

	Software and prepayments LTL'000
<b>Historical cost</b>	
31 December 2002	235
Acquisitions	237
31 December 2003	472
<b>Accumulated depreciation</b>	
31 December 2002	149
Charge for the year	48
31 December 2003	197
<b>Carrying amount</b>	
31 December 2002	86
31 December 2003	275

### 4. INVESTMENTS

At 31 December investments consisted of the following:

	2003		2002	
	Carrying amount LTL'000	Owner- ship %	Carrying amount LTL'000	Owner- ship %
Dvarcioniu keramika SIA (Riga, Latvia)	14	100	14	100
UAB Baltijos keramika	300	31	300	31
Other	37	<1	37	<1
<b>Total</b>	<b>351</b>		<b>351</b>	

The Company did not prepare consolidated financial statements incorporating its foreign subsidiary Dvarcioniu keramika SIA since in the opinion of the management the financial data of the subsidiary is not material to the financial statements of the Company.

Financial data of the subsidiary at 31 December consisted of the following:

	2003 LTL'000	2002 LTL'000
Total assets	1,489	1,314
Shareholder's equity	(806)	(561)
Net loss for the year	(292)	(276)
Payable to the parent company	2,172	1,691

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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The management of the Company believe that accumulated loss is related to the expenses incurred when entering new Latvian market and will be offset against expected future profit.

### 5. CASH AT BANK AND ON HAND

At 31 December cash at bank and on hand consisted of the following:

	<b>2003</b> <b>LTL'000</b>	<b>2002</b> <b>LTL'000</b>
Cash at bank	16	593
Cash on hand	23	30
Cash in transit	18	-
Total	<u>57</u>	<u>623</u>
Less: provision for cash held in bankrupt bank	(14)	(14)
<b>Total</b>	<b><u>43</u></b>	<b><u>609</u></b>

The Company's bankers have a floating charge over the Company's cash inflows to bank accounts to secure loans granted to the Company.

### 6. INVENTORIES

At 31 December inventories consisted of the following:

	<b>2003</b> <b>LTL'000</b>	<b>2002</b> <b>LTL'000</b>
Raw materials	4,025	3,387
Work in progress	219	243
Finished goods	7,786	9,010
Goods for resale	2,039	4,211
<b>Total</b>	<b><u>14,069</u></b>	<b><u>16,851</u></b>

Finished goods with the estimated sales value of LTL'000 9,500 are pledged (LTL'000 6,000 are pledged as a second security) (2002: LTL'000 17,100 (LTL'000 13,500 are pledged as a second security)) to secure banking facilities granted to the Company.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 7. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

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

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Trade accounts receivable	13,823	14,081
Other accounts receivable	657	49
Deferred expenses	647	222
Prepayments	240	140
Total	<u>15,367</u>	<u>14,492</u>
Less: provision for doubtful accounts receivable	<u>(3,878)</u>	<u>(4,646)</u>
<b>Total</b>	<b><u>11,489</u></b>	<b><u>9,846</u></b>

The movement for the years ended 31 December in the provision for doubtful accounts receivable consisted of the following:

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
<b>At 1 January</b>	<b>4,646</b>	<b>4,812</b>
Charge for the year	117	745
Write-off of bad debt	(10)	(315)
Recovery of accounts receivable previously provided for	(218)	-
Gain on foreign exchange	(657)	(596)
<b>At 31 December</b>	<b><u>3,878</u></b>	<b><u>4,646</u></b>

### 8. SHARE CAPITAL AND LEGAL RESERVE

At 31 December 2003 and 2002 the Company's share capital consisted of 9,905,460 ordinary shares at par value of LTL 5 each. All shares are fully paid.

There were no movements in the share capital of the Company in either the 2003 or 2002 reporting periods.

The Company has one class of ordinary shares, which carry no right to fixed income.

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual contributions of minimum 5% of the net distributable profit are required until the legal reserve reaches 10% of the registered share capital. The appropriation is restricted to reduction of the accumulated deficit.



# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 9. BORROWINGS

At 31 December borrowings consisted of the following:

	2003 LTL'000	2002 LTL'000
The borrowings are repayable as follows:		
Within one year	5,990	6,738
In the second year	4,096	1,716
In the third to fifth years inclusive	16,800	13,047
After five years	6,774	12,393
	<u>33,660</u>	<u>33,894</u>
Less: amount due for settlement within 12 months	(5,990)	(6,738)
<b>Amount due for settlement after 12 months</b>	<u><b>27,670</b></u>	<u><b>27,156</b></u>
Analysis of borrowings by currency:		
LTL	8,053	5,122
EUR	4,810	1,484
USD	20,797	27,288
<b>Total</b>	<u><b>33,660</b></u>	<u><b>33,894</b></u>

Borrowings of LTL'000 33,207 were arranged at fixed interest rates averaging between 5.4% - 8.0% (2002: LTL'000 33,281 at 0.00% to 8.90%).

Borrowings of LTL'000 453 were arranged at floating interest rates averaging between 7.30 % – 8.00% (2002: LTL'000 613 at 7.30 % to 8.90%).

The fair value of the Company's long term and short term loans at 31 December 2003 approximated LTL'000 36,140.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 10. DEBT SECURITIES ISSUED

At 31 December promissory notes consisted of the following:

	2003 LTL'000	2002 LTL'000
The promissory notes are repayable as follows:		
Within one year	3,639	300
In the second year	1,847	-
In the third to fifth years inclusive	4,616	-
	<u>10,102</u>	<u>300</u>
Less: amount due for settlement within 12 months	(3,639)	(300)
<b>Amount due for settlement after 12 months</b>	<u><b>6,463</b></u>	<u><b>-</b></u>
Analysis of promissory notes by currency:		
LTL	797	300
EUR	9,142	-
USD	163	-
<b>Total</b>	<u><b>10,102</b></u>	<u><b>300</b></u>

At 21 March 2003 the Company issued 9 promissory notes with par value of LTL'000 9,992 (EUR'000 2,894) in favour of SACMI Cooperativa Meccanici IMOLA (Italy) following the contract signed in 19 July 2002 for an acquisition of glazed ceramic tile manufacturing line with a warranty of AB bankas Snoras, signed at 23 October 2002. Promissory notes are repayable in 2004 through 2008 with an annual interest rate of 6.75%. The annual interest for a warranty was 2.5%. The fixed maturity promissory notes are sold at a discount and their carrying value was LTL'000 8,801.

The Company issued other fixed maturity promissory notes with par value of LTL'000 511 (2002: LTL'000 300) in favour of bank and LTL'000 805 in favour of suppliers. The average annual interest rate for varies from 6.5% to 7.0%.

The fair value of the Company's promissory notes at 31 December 2003 approximated LTL'000 10,673.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 11. FINANCE LEASE LIABILITIES

The Company has outstanding finance lease commitments of LTL'000 214 in connection with the acquisition of vehicles.

At 31 December the future annual minimum commitments under finance leases of fixed assets are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2003 LTL'000	2002 LTL'000	2003 LTL'000	2002 LTL'000
Amounts payable under finance leases:				
Within one year	95	68	83	54
In the second to fifth years inclusive	147	169	131	151
Sub-total	<u>242</u>	<u>237</u>	<u>214</u>	<u>205</u>
Less: future finance charges	<u>(28)</u>	<u>(32)</u>	N/A	N/A
<b>Present value of lease liabilities</b>	<u>214</u>	<u>205</u>	<u>214</u>	<u>205</u>

The Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair value of the Company's finance lease obligations approximates their carrying amount.

### 12. TRADE PAYABLES

At 31 December trade payables consisted of the following:

	2003 LTL'000	2002 LTL'000
Payables to:		
Lithuanian suppliers	9,834	4,710
Foreign suppliers	6,920	10,505
	<u>16,754</u>	<u>15,215</u>
Less: amount due for settlement within 12 months	<u>(16,469)</u>	<u>(14,814)</u>
<b>Amount due for settlement after 12 months</b>	<u>285</u>	<u>401</u>

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 13. OTHER PAYABLES AND ACCRUED EXPENSES

At 31 December other payables and accrued expenses consisted of the following:

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Salaries payable and social security	1,197	1,051
Taxes payable	1,339	505
Vacation reserve	467	466
Accrued expenses	661	520
Other accounts payable	62	51
<b>Total</b>	<b>3,726</b>	<b>2,593</b>

### 14. SALES

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

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Lithuania	22,023	21,120
Ukraine	15,533	15,665
Russia	6,335	5,734
Other Baltic States	1,923	1,557
Poland	192	1,997
Other countries	2,572	221
<b>Total</b>	<b>48,578</b>	<b>46,294</b>

### 15. COST OF SALES

For the year ended 31 December cost of sales consisted of the following:

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Cost of finished goods	25,856	23,508
Cost of goods for resale	9,004	9,625
Other	580	889
<b>Total</b>	<b>35,440</b>	<b>34,022</b>

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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### 16. SELLING EXPENSES

For the year ended 31 December selling expenses consisted of the following:

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Personnel expenses	3,252	2,682
Advertising and exhibitions expenses	1,925	1,607
Transportation expenses	1,686	1,348
Rent	409	405
Leasehold improvements	80	168
Other	1,050	1,085
<b>Total</b>	<b>8,402</b>	<b>7,295</b>

### 17. ADMINISTRATIVE EXPENSES

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

	<b>2003</b>	<b>2002</b>
	<b>LTL'000</b>	<b>LTL'000</b>
Personnel expenses	1,985	2,142
Repair and maintenance of assets	472	551
Depreciation and amortization	490	428
Business trips	448	423
Communication expenses	512	402
Security expenses	355	357
Taxes	712	343
(Decrease) / increase in provision for doubtful account receivables	(101)	745
Representation expenses	315	147
Fines (reversal)	21	(1,504)
Other expenses	1,030	1,164
<b>Total</b>	<b>6,239</b>	<b>5,198</b>

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

### 18. NET FINANCIAL INCOME

For the year ended 31 December net financial income consisted of the following:

	<u>2003</u> <u>LTL'000</u>	<u>2002</u> <u>LTL'000</u>
Gain from foreign currency	6,171	7,293
Loss from foreign currency	(2,167)	(2,488)
Dividends received	1	1
Interest income	1	1
Interest expenses	(2,569)	(2,572)
<b>Total</b>	<u><b>1,437</b></u>	<u><b>2,235</b></u>

### 19. INCOME TAX

A reconciliation of income tax at the statutory rate 15% to income taxes expense at the Company's effective rate is as follows:

	<u>2003</u> <u>LTL'000</u>	%	<u>2002</u> <u>LTL'000</u>	%
Profit before tax	114		2,028	
Tax at the statutory income taxes rate 15%	17	15	304	15
Tax effect of items that are not deductible or taxable in determining taxable profit	175	154	(73)	(4)
Adjusted 2002 income tax	(6)	(5)	-	-
Net decrease in deferred tax liability	(136)	(120)	(65)	(3)
<b>Income tax expenses</b>	<u><b>50</b></u>	<b>44</b>	<u><b>166</b></u>	<b>8</b>

The components of income tax are as follows:

Current income tax expense	192	231
Adjusted 2002 income tax	(6)	-
Deferred income tax benefit	(136)	(65)
<b>Income tax expense</b>	<u><b>50</b></u>	<u><b>166</b></u>

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.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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At 31 December the components of deferred income tax were as follows:

	2003 LTL'000	2002 LTL'000
<b>Deferred tax assets:</b>		
Provisions and write-offs	276	487
Vacation provision	-	70
Accrued expenses	-	8
<b>Total deferred tax asset</b>	<u>276</u>	<u>565</u>
<b>Total deferred tax liability</b>	<u>(3,805)</u>	<u>(4,230)</u>
<b>Total deferred tax liability, net</b>	<u>(3,529)</u>	<u>(3,665)</u>

## 20. RELATED PARTY TRANSACTIONS

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

Related parties	Payable	Receivable	Purchases	Sales
	LTL'000	LTL'000	LTL'000	LTL'000
UAB Baltijos Keramika, Lithuania	-	131	1.631	623
Dvarčionių Keramika SIA, Latvia	-	2,172	-	1,562
UAB Dvarčia	-	174	723	63

Dvarčionių Keramika SIA is a subsidiary of the Company and UAB Baltijos keramika is an associate of the Company. UAB Dvarčia is related to the Company's management.

## 21. LITIGATION AND CLAIMS

**Litigation and claims** – At 31 December 2003 and 2002 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.

## 22. THE COMPANY'S SOLVENCY

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements current liabilities of the Company exceeded current assets by LTL'000 4,459.

# AB DVARČIONIŲ KERAMIKA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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The Management of the Company has prepared business plan for next six years. At present the Company is renegotiating loan portfolio. At 31 March 2004 the Company has signed amendment to the loan agreement with the Lithuanian Ministry of Finance to reduce interest rate on the borrowings outstanding (at 31 December 2003 borrowing outstanding to the Ministry of Finance amounted to LTL'000 19,999) from 8% to 6 months Libor + 4%. The Company is also implementing cost saving program.

The management of the Company believes, that future cash flows will be sufficient to meet Company's current obligations.

### 23. SUBSEQUENT EVENTS

The Company has sold bills of Medicinos Bankas, UAB for a total value of USD'000 132 and EUR'000 24.6.

At 31 March 2004 the Company has signed amendment to the loan agreement with the Ministry of Finance to reduce interest rate on the borrowings outstanding (at 31 December 2003 borrowing outstanding to the Ministry of Finance amounted to LTL'000 19,999) from 8% to 6 months Libor + 4%. Other loan agreement conditions remain unchanged.

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