KLAIPĖDOS BALDAI AB

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

CONTENTS

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF KLAIPĖDOS BALDAI AB

1 We have audited the accompanying balance sheet of Klaipėdos Baldai AB (hereinafter "the Company") and its consolidated subsidiaries (hereinafter collectively "the Group") as at 31 December 2003 and the related statements of income and cash flows for the year 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 audit.

2 Except as discussed in paragraph 5, we conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3 The Group companies apply different accounting policies to buildings reported in property, plant and equipment and investment property. According to the Group accounting policy, the buildings should be carried at revalued amount, whereas some of the subsidiaries are not in compliance with this Group accounting policy and they account for the buildings at a historical cost or indexed value. According to International Financial Reporting Standards, the financial statements shall be prepared using the uniform accounting policies. As at 31 December 2003, the net book value of buildings accounted for not in compliance with the Group accounting policy was equal to LTL 11,535 thousand (as at 31 December 2002: LTL 11,969 thousand). There were no practical audit procedures that we could apply to enable us to estimate the effect of applying different accounting policy on the value of buildings and revaluation reserve in the balance sheet as at 31 December 2003 and 31 December 2002.

4 The Group's associates, which were accounted for using the equity method, applied different accounting policies to investment property and property, plant and equipment from those applied by the Group, which is not in compliance with the requirements of International Financial Reporting Standards. There were no practical audit procedures that we could apply to enable us to estimate the effect of applying different accounting policies on the values of investments in associates, which amounted to LTL 5,997 thousand and LTL 4,284 thousand as at 31 December 2003 and 31 December 2002, respectively, as well as on the results of operations of associates, which amounted to LTL 1,713 thousand and LTL 542 thousand for the years ended 31 December 2003 and 31 December 2002, respectively.

5 Goodwill of LTL 3,312 thousand was accounted for in intangible assets as at 31 December 2003 (as at 31 December 2002: LTL 4,416 thousand) as a result of the Company's investment in Klaipėdos Baldų Prekyba UAB. The Company did not perform a detailed analysis of economic benefit expected from the investment in Klaipėdos Baldų Prekyba UAB. There were no practical audit procedures that we could apply to enable us to obtain reasonable assurance that the value of economic benefit derived from this investment in future was not lower than the carrying amount of goodwill. If it were determined that the carrying amount of goodwill exceeded the economic benefit expected from the investment, appropriate provisions should be established for the value of goodwill in the financial statements as at 31 December 2003, and total assets and shareholders' equity as at 31 December 2003 and net profit for the year then ended should be reduced accordingly.

6 In our opinion, except for the possible effect of the matters referred to in paragraph 3-5, the financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2003 and the results of their operation and cash flows for the year then ended in accordance with International Financial Reporting Standards.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
15 April 2004

(All tabular amounts are in LTL '000 unless otherwise stated)

Income statement

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2003	2002	2003	2002
Sales	1	226,620	174,783	102,457	75,089
Cost of sales	2	(176,779)	(127,021)	(81,351)	(54,499)
Gross profit		49,841	47,762	21,106	20,590
Other operating income, net	3	2,254	191	101	105
Selling and distribution expenses	4	(18,591)	(19,367)	(1,135)	(3,319)
General and administration expenses	5	(26,367)	(26,213)	(11,246)	(10,811)
Gain on disposal of the subsidiary	7	285	-	-	-
Profit from operations		7,422	2,373	8,826	6,565
Finance costs, net	6	(2,530)	(1,967)	(572)	(300)
Profit before the result of associates		4,892	406	8,254	6,265
Result of associates		1,713	542	(3,206)	(3,778)
Profit before tax		6,605	948	5,048	2,487
Income tax	8	(1,981)	(739)	(1,071)	(1,021)
Group profit before minority interest		4,624	209	3,977	1,466
Minority interest	24	(647)	1,257	-	-
Net profit		3,977	1,466	3,977	1,466
Earnings per share (in LTL)	9	0.49	0.18	0.49	0.18

The general information, accounting policies and notes on pages 10 to 42 form an integral part of these financial statements.

The financial statements on pages 5 to 42 were approved by the Managing Director on 15 April 2004.

Eimuntas Jankauskas
Managing Director

(All tabular amounts are in LTL '000 unless otherwise stated)

Balance sheet

		As at 31 December			
		GROUP		COMPANY	
	Notes	2003	2002	2003	2002
ASSETS					
Non-current assets					
Property, plant and equipment	10	70,629	61,960	31,245	25,772
Investment property	11	1,326	2,923	1,564	2,278
Intangible assets, including goodwill	12	4,474	4,392	391	48
Investments in subsidiaries and associates	13	5,997	4,284	4,642	6,313
Available-for-sale investments	14	210	210	210	210
Long-term receivables	15	3,235	8,250	11,846	19,032
		85,871	82,019	49,898	53,653
Current assets					
Inventories	16	25,624	22,408	8,756	6,241
Amounts receivable, prepayments and deferred charges	17	25,882	19,234	17,106	8,880
Available-for-sale investments	14	100	-	153	-
Cash and cash equivalents	18	3,603	4,401	2,605	2,835
		55,209	46,043	28,620	17,956
Total assets		141,080	128,062	78,518	71,609
SHAREHOLDERS' EQUITY					
Share capital	19	8,166	8,166	8,166	8,166
Reserves	20	15,298	15,631	15,298	15,631
Retained earnings		15,777	12,109	15,777	12,109
Total shareholders' equity		39,241	35,906	39,241	35,906
Minority interest	24	7,820	6,417	-	-
LIABILITIES					
Non-current liabilities					
Deferred income		414	447	14	20
Net deferred tax liabilities	21	2,469	3,380	1,615	2,276
Borrowings	22	25,301	33,050	11,606	15,888
Long-term payables to related parties	26	2,624	3,068	-	-
		30,808	39,945	13,235	18,184
Current liabilities					
Income tax payable		1,866	856	758	475
Borrowings	22	16,988	9,787	9,176	3,304
Trade and other payables	23	44,357	35,151	16,108	13,740
		63,211	45,794	26,042	17,519
Total liabilities		94,019	85,739	39,277	35,703
Total shareholders' equity and liabilities		141,080	128,062	78,518	71,609

The general information, accounting policies and notes on pages 10 to 42 form an integral part of these financial statements.

(All tabular amounts are in LTL '000 unless otherwise stated)

Statement of changes in shareholders' equity

GROUP	Notes	Share capital	Revaluation reserve	Legal reserves	Currency translation reserve	Other reserves	Treasury shares	Retained earnings	Total
Year ended 31 December 2002									
Balance as at 1 January 2002		8,166	728	817	-	7,698	(848)	11,580	28,141
Currency translation effect		-	-	-	134	-	-	-	134
Effect of change in deferred tax liabilities		-	-	-	-	-	-	(937)	(937)
Increase in revaluation reserve		-	6,254	-	-	-	-	-	6,254
Disposal of treasury shares		-	-	-	-	-	848	-	848
Net profit		-	-	-	-	-	-	1,466	1,466
Balance as at 31 December 2002		8,166	6,982	817	134	7,698	-	12,109	35,906
Year ended 31 December 2003									
Balance as at 1 January 2003		8,166	6,982	817	134	7,698	-	12,109	35,906
Contribution against losses of the subsidiary	20	-	-	-	-	-	-	(2,177)	(2,177)
Currency translation effect		-	-	-	76	-	-	-	76
Transfer from reserves	20	-	(409)	-	-	-	-	409	-
Increase in net assets of the subsidiary	20	-	-	-	-	-	-	1,459	1,459
Net profit		-	-	-	-	-	-	3,977	3,977
Balance as at 31 December 2003		8,166	6,573	817	210	7,698	-	15,777	39,241

COMPANY	Notes	Share capital	Revaluation reserve	Legal reserves	Currency translation reserve	Other reserves	Treasury shares	Retained earnings	Total
Year ended 31 December 2002									
Balance as at 1 January 2002		8,166	728	817	-	7,698	-	11,580	28,989
Increase in net assets of the subsidiary		-	458	-	-	-	-	(69)	389
Currency translation effect of the subsidiary		-	-	-	134	-	-	-	134
Effect of change in deferred tax liabilities		-	-	-	-	-	-	(868)	(868)
Increase in revaluation reserve		-	5,796	-	-	-	-	-	5,796
Net profit		-	-	-	-	-	-	1,466	1,466
Balance as at 31 December 2002		8,166	6,982	817	134	7,698	-	12,109	35,906

(All tabular amounts are in LTL '000 unless otherwise stated)

Statement of changes in shareholders' equity (continued)

COMPANY	Notes	Share capital	Revaluation reserve	Legal reserves	Currency translation reserve	Other reserves	Treasury shares	Retained earnings	Total
Year ended 31 December 2003									
Balance as at 1 January 2003		8,166	6,982	817	134	7,698	-	12,109	35,906
Contribution against losses of the subsidiary	20	-	-	-	-	-	-	(2,177)	(2,177)
Currency translation effect of the subsidiary		-	-	-	76	-	-	-	76
Transfer from reserves	20	-	(409)	-	-	-	-	409	-
Increase in net assets of the subsidiary	20	-	-	-	-	-	-	1,459	1,459
Net profit		-	-	-	-	-	-	3,977	3,977
Balance as at 31 December 2003		8,166	6,573	817	210	7,698	-	15,777	39,241

The general information, accounting policies and notes on pages 10 to 42 form an integral part of these financial statements.

(All tabular amounts are in LTL '000 unless otherwise stated)

Cash flow statement

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	2003	2002	2003	2002
Cash flows from operating activities					
Cash flows from operating activities	25	19,506	15,074	9,669	9,405
Interest paid		(2,154)	(2,481)	(868)	(975)
Income tax paid		(975)	(885)	(975)	(885)
Net cash flows from operating activities		16,377	11,708	7,826	7,545
Cash flows from investing activities					
Purchase of property, plant and equipment	10	(11,903)	(15,044)	(5,650)	(8,299)
Purchase of intangible assets	12	(1,269)	-	(362)	-
Disposal of property, plant and equipment		514	8,557	54	7
Proceeds from sale of the subsidiary	7	388	-	-	-
Loans granted to related parties		-	(8,000)	-	(8,000)
Repayment of loan of the related party		-	-	-	1,037
Loans granted to employees		-	(290)	-	-
Repayment of loans granted to employees		-	147	-	37
Acquisition of available-for-sale investment		(100)	-	(153)	-
Disposal of the treasury shares		-	898	-	-
Interest received		376	224	482	583
Net cash flows used in investing activities		(11,994)	(13,508)	(5,629)	(14,635)
Cash flows from financing activities					
Proceeds from borrowings		4,407	14,755	872	10,252
Repayment of borrowings		(6,604)	(10,364)	(2,401)	(2,299)
Finance lease principal payments		(2,740)	(1,624)	(898)	(177)
Net cash flows (used in) from financing activities		(4,937)	2,767	(2,427)	7,776
Net (decrease) increase in cash and cash equivalents		(554)	967	(230)	686
Cash and cash equivalents at beginning of year		3,476	2,509	2,835	2,149
Cash and cash equivalents at end of year		2,922	3,476	2,605	2,835

The general information, accounting policies and notes on pages 10 to 42 form an integral part of these financial statements.

(All tabular amounts are in LTL '000 unless otherwise stated)

General information

Klaipėdos Baldai AB (hereinafter "the Company) was registered as a public company on 3 March 1993. The Company's registration No. AB 93-59. The Company's registered address is:

Joniškės g. 21,
LT-91267 Klaipėda,
Republic of Lithuania

The Company's ordinary registered shares are quoted on the Current List of National Stock Exchange.

The Company's principal activity is manufacturing of furniture.

The consolidated group (hereinafter "the Group") comprises the Company – Klaipėdos Baldai AB – and its five subsidiaries and two associate companies (2002: six subsidiaries and two associate companies). The subsidiaries and associates accounted for in the Group's financial statements as at 31 December 2003 were as follows:

Subsidiary/associate	Country	Year of acquisition	The Group's share as at 31 December, (%) 2003	2002	Principal activities
Subsidiaries					
Klaipėdos Baldų Prekyba UAB	Lithuania	2001	67.00	67.00	Trade in furniture
Šilutės Baldai AB	Lithuania	2001	40.55	40.55	Manufacture of furniture
Karigė AB	Lithuania	2001	36.00	36.00	Manufacture of furniture
Baldstata UAB	Lithuania	1996	75.00	75.00	Construction services
KBP SIA	Latvia	2001	67.00	67.00	Trade in furniture
Associates					
Akmena AB	Lithuania	2001	21.66	21.66	Manufacture of furniture
Kauno Baldai AB	Lithuania	2001	33.25	33.25	Manufacture of furniture

In 2003, the Group's average number of employees was 2,224 (2002: 1,981).

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A. Basis of preparation

The financial statements have been prepared in accordance and comply with International Financial Reporting Standards, except for the non-uniform accounting policies applied for investment property and property, plant and equipment. The Company accounts buildings at revalued amount, whereas some of the subsidiaries account for the buildings at a historical cost or indexed value.

In 2003, the Company introduced changes in the accounting policy applied to borrowing costs on loans received to finance the construction of certain property, plant and equipment. With effect from 2003, based on the benchmark treatment specified in IAS 23, all borrowing costs are expensed as incurred. Pursuant to IAS 8, the effect of this change in the accounting policy was accounted for prospectively since the adjustment amount of comparative information for prior period could not be estimated reliably. Consequently, the comparative figures were not subject to any adjustments.

A. Basis of preparation (continued)

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

B. Group accounting policies

(1) Consolidation

Subsidiaries, which are those entities in which the Group has, directly or indirectly, an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Whereas the excess of the fair value over the cost of acquisition of the net assets and liabilities of the subsidiary at the date of acquisition is recorded as negative goodwill. The accounting policy of goodwill is described in accounting policy K. Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(2) Minority interest

Minority interest represents minority's interest in the fair value of assets and liabilities of the subsidiary acquired, accounted for at the date of acquisition, as well as minority's interest in post-acquisition result of the subsidiary.

Minority's share of losses in the subsidiary may exceed minority's share of shareholders' equity in the subsidiary. Such excess and any other losses that may occur in future in relation to the minority's interest are included in majority's interest unless the minority has a commitment and is able to cover those losses. In the event that the subsidiary subsequently earns profit, such profit is included in majority's interest until minority's share of losses previously included in majority interest is reversed.

(3) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20 per cent and 50 per cent of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Any goodwill or negative goodwill, which arises on the acquisition of associates, is included in carrying amount of the investments. The equity method is no longer applied when carrying amount of the investments in associate becomes equal to zero, unless the Group has incurred obligations or issued guarantees on behalf of the associate.

(All tabular amounts are in LTL '000 unless otherwise stated)

C. Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The amounts shown in these financial statements are presented in local currency, the litas (LTL), which is the measurement currency of the Company.

Until 1 February 2002, the litas was fixed to the US dollar at an exchange rate of LTL 4 = USD 1. On 2 February 2002, the base currency of the litas was changed to the euro and the litas was fixed to the euro at an exchange rate of LTL 3.4528 = EUR 1.

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(3) Group entities

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year, whereas their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to the shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

D. Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax and discounts directly related to sales, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when all significant risks and rewards of ownership of the goods are transferred to the buyer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Rental yield on investment property is recognised in equal parts over the lease term.

E. Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

F. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares outstanding during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

G. Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

H. Income tax

(1) Income tax expense

Profit is taxable at a rate of 15 percent (2002: 15 percent) in accordance with the Lithuanian regulatory legislation on taxation.

Income tax expense is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and based on management's estimates of income tax in accordance with the Lithuanian regulatory legislation on taxation.

(2) Deferred income tax

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities may be offset only when permitted under IAS 12.

I. Property, plant and equipment

The Group applies non-uniform accounting policies to its property, plant and equipment, which is not in compliance with the requirements of International Financial Reporting Standards. The Group uses fair value accounting for its buildings, whereas as further described, some of its subsidiaries are not in compliance with this Group accounting policy.

The Company's buildings and plants as well as the buildings of its subsidiary Šilutės Baldai AB are stated at fair value less accumulated depreciation and impairment loss. Independent valuation of assets is carried out on a regular basis. The last valuation of assets was performed as at 31 December 2002 by an independent assets valuation company Korporacija Matininkai UAB. Other property, plant and equipment of the Company and its subsidiary Šilutės Baldai AB is stated at acquisition cost/revalued amount less accumulated depreciation.

All property, plant and equipment of the subsidiary Klaipėdos Baldų Prekyba UAB is stated at acquisition cost less accumulated depreciation and impairment loss.

Property, plant and equipment acquired by the subsidiary Karigė AB before 1 January 1996 is carried at revalued amount less revalued accumulated depreciation. Property, plant and equipment acquired after 1 January 1996 is stated at acquisition cost less accumulated depreciation and impairment loss.

(All tabular amounts are in LTL '000 unless otherwise stated)

I. Property, plant and equipment (continued)

Property, plant and equipment acquired after 1 January 1996 is stated at acquisition cost less accumulated depreciation. Property, plant and equipment acquired before 31 December 1995 is stated at acquisition cost less accumulated depreciation as adjusted for subsequent indexation, using the indexation rates set by the Government of the Republic of Lithuania for different categories of assets.

Depreciation is calculated on the straight-line method to write-off the cost of each asset to its residual value over the following estimated useful lives of assets:

Category of property, plant and equipment	*Depreciation rates*
Buildings	15 – 80 years
Plants	10 – 35 years
Machinery and equipment	2 – 20 years
Motor vehicles	2 – 15 years
Other property, plant and equipment	2 – 10 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the income statement. Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

Construction in progress is transferred to appropriate categories of property, plant and equipment when it is completed and ready for its intended use.

J. Investment property

Investment property, principally comprising buildings, is held for long-term rental yields and is not occupied by the Group. According to IAS 40 *Investment property,* investment property should be carried at either historical cost, less accumulated depreciation and impairment losses, or fair value as determined by independent qualified valuers.

When the item of property, plant and equipment carried at historical cost becomes investment property to be carried at fair value, an increase in value of such property, plant and equipment is included in revaluation reserve.

The Group applies non-uniform accounting policies to its investment property, which is not in compliance with the requirements of International Financial Reporting Standards. The Company's investment property is carried at fair value, while the investment property of the subsidiary Klaipėdos Baldų Prekyba UAB is carried at historical cost less accumulated depreciation.

Transfers to/from investment property are performed only upon changes in the purpose of assets.

(All tabular amounts are in LTL '000 unless otherwise stated)

K. Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in carrying amount of the investment. Goodwill is amortised using the straight-line method over the estimated useful life, which covers 5 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition at the date of acquisition. Negative goodwill is presented in the same balance sheet classifications as positive goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and such losses can be measured reliably but they do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, which does not exceed the fair value of non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of the assets concerned; negative goodwill in excess of the fair value of the assets concerned is recognised in the income statement immediately.

At each balance sheet date the Group assesses whether there is any indication of impairment of its goodwill. If such indications exist an analysis is performed to assess real value of goodwill. When carrying amount of goodwill exceeds its recoverable amount, the carrying amount of such assets is written down to their recoverable amount.

Net book value of goodwill is included in gain (loss) on disposal of the subsidiary.

(2) Other intangible assets

Intangible assets expected to provide economic benefit to the Group in future periods are valued at acquisition cost less subsequent accumulated amortisation. Amortisation is calculated on the straight-line method over estimated economic benefit period of 1-4 years.

L. Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price or value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

M. Investments in subsidiaries

Investments in subsidiaries that are included in separate financial statements of the Company are accounted for using the equity method. Equity accounting involves recognising in the income statement the Company's share of the subsidiaries' results for the period. If under equity method, the Company's share of losses of a subsidiary equals or exceeds the acquisition costs of an investment, the Company does not recognize further losses, unless the Company has incurred obligations or made payments on behalf of the subsidiary to satisfy its obligations.

(All tabular amounts are in LTL '000 unless otherwise stated)

N. Investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management have the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments subsequently are carried at fair value. In assessing the fair value, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Investments, the fair value of which cannot be reliably measured, are carried at acquisition cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

O. Leases

(1) Where the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the asset.

Leases where a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When proceeds from sale and from leaseback transactions of assets exceed the carrying amount of those assets, the excess is recognised as deferred income and is amortised over the useful life of the assets concerned.

(2) Where the Company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

P. Inventories

Raw materials and consumables are carried at cost using the first-in, first-out (FIFO) method. The cost of these inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group from the tax authorities), transportation, and other costs directly attributable to the acquisition of inventories.

Finished goods are stated at the lower of cost or net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, and other direct and indirect costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

The Group establishes a provision for slow moving inventories based on estimation of specific inventories.

(All tabular amounts are in LTL '000 unless otherwise stated)

Q. Trade and other receivables

Amounts receivable after one year are stated at amortised cost. Amounts receivable within one year are carried at original invoice amount less the provision established for impairment of these receivables. The provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cash flows. Bad debts are written off during the period when they are identified as non-recoverable.

R. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and at bank, deposits held with the banks at call, and bank overdrafts. Bank overdrafts are accounted for as borrowings under current liabilities of the balance sheet.

S. Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of borrowings.

T. Subsidies

Subsidies are recognised at their fair value where there is a reasonable assurance that the subsidy will be received and the Group will comply with all attached conditions.

Subsidies received to finance purchase of property, plant and equipment are recognised as non-current deferred income in the balance sheet. In the income statement, such subsidies are recognised as income on a straight-line basis over the expected useful lives of the related assets.

U. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

V. Share capital

Ordinary shares are stated at their par value. Any excess of consideration received for the shares sold over their par value is shown as share premium. Incremental external costs directly attributable to the issue of new shares are accounted for as a deduction from share premium.

Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are sold, reissued, or cancelled. No gain or loss is recognised in the income statement on the sale, issuance, or cancellation of treasury shares. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(All tabular amounts are in LTL '000 unless otherwise stated)

W. Revaluation reserve

Any increase in value of buildings and plants is accounted for in revaluation reserve unless and to the extent it covers any decrease in revaluation of the same assets previously recognised as expenses. In such cases it is recognised as income. Any decrease is initially set off against increase in the value of the same assets during the previous valuation, and only the balance outstanding is recognised as expenses.

Revaluation reserve is realised using the assets: when revalued property, plant and equipment is depreciated, revaluation reserve is reduced by the amount, by which asset depreciation expenses increased as a result of revaluation. When revalued property, plant and equipment is written off, a corresponding amount of revaluation reserve arising as a result of revaluation is transferred from the revaluation reserve directly to retained result.

X. Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year, except as disclosed in the notes 2 and 4 certain reclassifications have not been made.

Financial risk management

Credit risk
The Group has significant concentration of credit risk in relation to trade receivables. The balance of trade receivables from the Group's two major clients - Ikea Trading und Design AG and Francodim S.A.R.L. – amounted to LTL 4,061 thousand or 47.4 percent of total amounts receivable as at 31 December 2003 (as at 31 December 2002 – LTL 5,518 thousand or 47.5 percent of total amounts receivable). Credit risks or the risks of counterparties defaulting are controlled by the application of credit terms and monitoring procedures.

Liquidity risk
To maintain sufficient cash and prudent liquidity risk management, the Group carries out weekly, monthly and annual forecasts of cash flows.

Interest rate risk
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's policy is to maintain diversified debt portfolio. Split between fixed and floating interest rate depends on the actual situation in the market.

Fair value estimation
The face values of financial assets and liabilities are assumed to approximate their fair values.

(All tabular amounts are in LTL '000 unless otherwise stated)

Notes to the financial statements

1. Segment information

Primary reporting format – business segments

The Group is engaged in three types of principal activities: the Company, Karigė AB and Šilutės Baldai AB are engaged in manufacturing of furniture, Klaipėdos Baldų Prekyba UAB and its subsidiary KBP SIA are engaged in trade in furniture, whereas Baldstata UAB is engaged in construction services.

GROUP	Furniture manufacturing	Retail trade in furniture	Construction services	Total
2003				
Sales	193,481	33,123	16	226,620
Result from operations	14,233	(6,812)	1	7,422
Result of associates	1,713	-	-	1,713
Assets	113,803	27,188	89	141,080
Liabilities	80,242	21,525	72	101,839
Investments in non-current assets and intangible assets	16 981	792	22	17,795
Depreciation and amortisation	7,952	764	7	8,723
2002				
Sales	141,776	32,987	20	174,783
Result from operations	7,154	(4,783)	2	2,373
Result of associates	542	-	-	542
Assets	97,183	30,687	192	128,062
Liabilities	69,392	22,707	57	92,156
Investments in property, plant and equipment and intangible assets	14,515	9,149	5	23,669
Depreciation and amortisation	5,690	803	-	6,493

Secondary reporting format – geographical segments

GROUP	Lithuania	CIS count-ries	Baltic states	Western Europe	Total
2003					
Sales	49,566	-	2,379	174,675	226,620
Assets	140,291	-	789	-	141,080
Investments in property, plant and equipment and intangible assets	17,795	-	-	-	17,795
2002					
Sales	31,071	241	4,105	139,366	174,783
Assets	126,953	-	1,109	-	128,062
Investments in property, plant and equipment	23,627	-	42	-	23,669

	COMPANY	
	2003	2002
Sales - Western Europe	81,023	65,661
Sales - Lithuania	21,434	9,428
	102,457	75,089

(All tabular amounts are in LTL '000 unless otherwise stated)

2. Cost of goods sold

	GROUP		COMPANY	
	2003	2002	2003	2002
Raw materials	117,681	86,987	52,489	36,395
Remuneration and social security	39,614	23,974	17,615	10,191
Production overhead costs	19,484	16,060	11,247	7,913
	176,779	127,021	81,351	54,499

Remuneration and social security expenses incurred in relation to production management staff in 2003 totalling LTL 7,777 thousand and LTL 3,875 thousand in the Group's and the Company's financial statements, respectively, were accounted for in the cost of goods sold in the income statement. In the financial statements for the year ended 31 December 2002, these expenses were accounted for in administration expenses of the income statement. Comparative figures of the year 2002 in these financial statements were not subject to any adjustments.

3. Other operating income, net

	GROUP		COMPANY	
	2003	2002	2003	2002
Proceeds from sale of property, plant and equipment and inventories	2,126	28	30	-
Rent income	313	326	180	199
Income from holiday house	67	49	79	49
Other	262	182	220	92
	2,768	585	509	340
Expenses of holiday house	(408)	(233)	(380)	(233)
Rent cost	(106)	(83)	(28)	-
Other	-	(78)	-	(2)
	(514)	(394)	(408)	(235)
	2,254	191	101	105

4. Selling and distribution expenses

	GROUP		COMPANY	
	2003	2002	2003	2002
Remuneration and social security expenses of sales personnel	7,204	5,748	222	-
Transportation expenses	2,274	2,826	500	690
Rent expenses	2,412	1,657	-	-
Advertising	1,600	1,499	269	240
Depreciation	394	757	-	-
Mediation fee	79	1,300	38	-
Market research services	13	2,027	-	396
Commission for export services	-	-	-	1,926
Other expenses	4,615	3,553	106	67
	18,591	19,367	1,135	3,319

Remuneration and social security expenses incurred in relation to sales personnel in 2003 totalling LTL 222 thousand in the Company's financial statements were accounted for in selling and distribution expenses of the income statement. In the financial statements for the year ended 31 December 2002, these expenses were accounted for in administration expenses of the income statement. Comparative figures of the year 2002 were not subject to any adjustments.

(All tabular amounts are in LTL '000 unless otherwise stated)

5. General and administration expenses

	GROUP		COMPANY	
	2003	2002	2003	2002
Consulting services	11,145	3,956	5,375	2,050
Remuneration and social security	6,049	10,765	2,564	5,428
Negative revaluation effect and impairment of buildings and investment property	62	1,922	87	86
Taxes other than income tax	2,091	1,725	785	602
Goodwill amortisation	1,104	1,104	-	-
Depreciation and amortisation	809	821	500	513
Materials and maintenance expenses	724	553	312	405
Security services	666	715	203	239
Taxes and representation expenses	598	369	262	168
Communication expenses	475	426	202	171
Business trips	280	382	107	169
Provisions for inventories	213	91	99	13
Provisions for doubtful receivables and bad debts written off	282	1,314	8	(4)
Other	1,869	2,070	742	971
	26,367	26,213	11,246	10,811

6. Finance costs, net

	GROUP		COMPANY	
	2003	2002	2003	2002
Interest expenses	(2,215)	(2,658)	(868)	(999)
Net foreign exchange (loss) gain	(655)	397	(340)	(20)
Interest income	376	222	628	690
Other finance (expenses) income	(36)	72	8	29
	(2,530)	(1,967)	(572)	(300)

7. Discontinued activities

In May 2003, the Group decided to dispose of its wholly owned subsidiary Autokomercija UAB, which was engaged in rent of advertising space. The subsidiary was sold in May 2003. The subsidiary's sales, net result, cash flows and net assets were as follows:

	Five-month period ended 31 May 2003	Year ended 31 December 2003
Sales	-	40
Operating expenses	(4)	(16)
(Loss) profit before tax	(4)	24
Income tax	-	-
Net (loss) profit	(4)	24

(All tabular amounts are in LTL '000 unless otherwise stated)

7. Discontinued activities (continued)

	As at 31 December 2003	As at 31 December 2002
Property, plant and equipment (Note 10)	85	85
Current assets	4	10
Total assets	89	95
Total liabilities	(24)	(26)
Net assets	65	69

Profit from sale of the subsidiary was calculated as follows:

	GROUP
Proceeds from sale – cash received	390
Net assets sold	(65)
Goodwill written off	(40)
Profit from sale	285

Net cash flows from sale were as follows:

	GROUP
Proceeds from sale – cash received	390
Less: cash and cash equivalents of the subsidiary sold	(2)
Net cash flows from sale	388

8. Income tax

	GROUP		COMPANY	
	2003	2002	2003	2002
Current income tax	2,892	1,747	1,732	1,359
Income tax reimbursed	-	(36)	-	(12)
Deferred income tax (Note 21)	(911)	(972)	(661)	(326)
	1,981	739	1,071	1,021

The tax charge on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	GROUP		COMPANY	
	2003	2002	2003	2002
Profit before tax	6,605	948	5,048	2,487
Income tax at a rate of 15 per cent	991	142	757	373
Income tax reimbursed	-	(36)	-	(12)
Non-taxable income	(673)	(1,047)	-	(2)
Non-deductible expenses	1,013	2,447	320	675
Reduced income tax as a result of charity	(13)	(164)	(6)	(13)
Utilisation of tax losses	(2)	(939)	-	-
Change in provisions for deferred tax assets	665	336	-	-
Income tax expense	1,981	739	1,071	1,021

(All tabular amounts are in LTL '000 unless otherwise stated)

9. Earnings per share

	GROUP		COMPANY	
	2003	2002	2003	2002
Net profit attributable to shareholders	3,977	1,466	3,977	1,466
Weighted average number of shares in issue (thousands)	8,166	7,994	8,166	8,166
Earnings per share (LTL)	0.49	0.18	0.49	0.18

The Group does not have dilutive potential ordinary shares, therefore, the diluted earnings per share are the same as basic earnings per share.

10. Property, plant and equipment

GROUP

	Buildings	Plant, machinery and equipment	Vehicles	Construction in progress and prepayments	Total
At 31 December 2002					
Cost or indexation	35,438	41,496	4,115	3,186	84,235
Accumulated depreciation and impairment	(933)	(19,017)	(2,325)	-	(22,275)
Net book amount	34,505	22,479	1,790	3,186	61,960
Year ended 31 December 2002					
Opening net book amount	34,505	22,479	1,790	3,186	61,960
Additions	393	11,233	242	4,658	16,526
Transfers to investment property	(246)	-	-	-	(246)
Transfers from investment property	1,346	89	-	-	1,435
Disposal of the subsidiary	-	-	-	(85)	(85)
Disposals and write-offs	(212)	(84)	(16)	(30)	(342)
Reclassifications	778	2,374	(94)	(3,058)	-
Depreciation	(1,552)	(6,402)	(665)	-	(8,619)
Closing net book amount	35,012	29,689	1,257	4,671	70,629
At 31 December 2003					
Cost or indexation	38,434	53,739	4,056	4,671	100,900
Accumulated depreciation and impairment	(3,422)	(24,050)	(2,799)	-	(30,271)
Net book amount	35,012	29,689	1,257	4,671	70,629

Additions include assets amounting to LTL 4,623 thousand acquired under finance lease (where the Group is the lessee). The property, plant and equipment acquired by the Group under finance lease comprised as follows as at 31 December:

	2003	2002
Cost – capitalised finance lease amount		
– buildings	8,521	8,521
– equipment	7,796	3,277
– vehicles	689	1,599
	17,006	13,397
Accumulated depreciation		
– buildings	335	124
– equipment	1,554	701
– vehicles	339	614
	2,228	1,439
Net book value	14,778	11,958

(All tabular amounts are in LTL '000 unless otherwise stated)

10. Property, plant and equipment (continued)

The Company's buildings and plants as well as the buildings of its subsidiary Šilutės Baldai AB are carried at revalued/indexed amount. The last independent valuation of the buildings was carried out as at 31 December 2003. Restoration, comparative and income in use values were used for the valuation of assets, taking account of the purpose of buildings.

Positive valuation result of the Company's buildings and plants amounting to LTL 5,106 thousand was accounted for under shareholders' equity in revaluation reserves.

If the Company's buildings were carried at cost less accumulated depreciation, net book value of those buildings would amount to LTL 7,894 thousand as at 31 December 2003 (2002: LTL 7,925 thousand).

The revaluation result for some buildings of Šilutės Baldai AB was negative amounting to LTL 2,073 thousand, whereas for other buildings the revaluation result was positive amounting to LTL 1,406 thousand. Impairment amounting to LTL 279 thousand was offset against revaluation reserves in the balance sheet. The remaining part of impairment amounting to LTL 1,794 thousand was accounted for as administration expenses in the income statement. The total revaluation effect on shareholders' equity in 2002 amounted to LTL 1,127 thousand, which comprised an increase by LTL 1,406 thousand as a result of positive revaluation effect and decrease by LTL 279 thousand as a result of negative revaluation effect.

If Šilutės Baldai AB's buildings were carried at cost less accumulated depreciation and taking account of long-term impairment effect, the net book value of those buildings would amount to LTL 2,207 thousand as at 31 December 2003 (2002: LTL 2,449 thousand).

As further described in accounting policy for property, plant and equipment, the Group applies non-uniform accounting policies to its property, plant and equipment. The carrying amounts of property, plant and equipment may be analysed as follows as at 31 December:

	2003	2002
Carrying amount of revalued property, plant an equipment	23,802	22,936
Carrying amount of property, plant and equipment stated at cost	46,709	38,886
Carrying amount of indexed property, plant and equipment	118	138
Total carrying amount of property, plant and equipment	70,629	61,960

Depreciation expenses of property, plant and equipment are accounted for in operating expenses and cost of goods sold in the income statement, as well as in work in progress and finished products of the balance sheet.

To secure the repayment of borrowings from banks and non-financial institutions, the Group pledged its property, plant and equipment with carrying amount of LTL 35,448 thousand as at 31 December 2003 (2002: LTL 29,794 thousand).

(All tabular amounts are in LTL '000 unless otherwise stated)

10. Property, plant and equipment (continued)

COMPANY

	Buildings	Plant, machinery and equipment	Vehicles	Construction in progress and prepayments	Total
At 31 December 2002					
Cost or indexation	12,632	20,665	1,334	2,748	37,379
Accumulated depreciation and impairment	-	(10,737)	(870)	-	(11,607)
Net book value	12,632	9,928	464	2,748	25,772
Year ended 31 December 2003					
Opening net book amount	12,632	9,928	464	2,748	25,772
Additions	-	6,460	-	3,207	9,667
Transfers to investment property	(400)	-	-	-	(400)
Transfers from investment property	1,027	-	-	-	1,027
Disposals and write-offs	-	(24)	-	-	(24)
Reclassifications	-	1,459	-	(1,459)	-
Depreciation	(863)	(3,722)	(212)	-	(4,797)
Closing net book amount	12,396	14,101	252	4,496	31,245
At 31 December 2003					
Cost or indexation	13,238	28,020	1,316	4,496	47,070
Accumulated depreciation and impairment	(842)	(13,919)	(1,064)	-	(15,825)
Net book value	12,396	14,101	252	4,496	31,245

Additions include assets of LTL 4,017 thousand acquired under finance lease (where the Company is the lessee).

The Company's property, plant and equipment acquired under finance lease comprised as follows as at 31 December:

	2003	2002
Cost – capitalised finance lease amount		
– equipment	4,299	141
– vehicles	-	141
	4,299	282
Accumulated depreciation		
– equipment	(428)	(33)
– vehicles	-	(38)
	(428)	(71)
Net book value	3,871	211

To secure the repayment of its borrowings from banks and non-financial institutions, the Company pledged its property, plant and equipment with carrying amount LTL 17,333 thousand as at 31 December 2003 (2002: LTL 11,926 thousand).

(All tabular amounts are in LTL '000 unless otherwise stated)

11. Investment property

As described in the accounting policy for investment property, the Group companies apply non-uniform accounting policies to investment property. The carrying amounts of investment property stated at revalued amount, indexed value and at cost may be analysed as follows as at 31 December:

	GROUP	
	2003	2002
Carrying amount of investment property stated at fair value	762	2,259
Carrying amount of investment property stated at indexed value	-	339
Carrying amount of investment property stated at cost	564	325
Total carrying amount of investment property	1,326	2,923

In 2003, movement in investment property stated at cost/indexed value may be analysed as follows:

	GROUP
As at 31 December 2002	
Cost	938
Accumulated depreciation	(274)
Net book value	664
Year ended 31 December 2003	
Opening net book amount	664
Transfers from property, plant and equipment	246
Investment property transferred to property, plant and equipment	-
Disposal of investment property	(325)
Depreciation	(21)
Closing net book amount	564
At 31 December 2003	
Cost	595
Accumulated depreciation	(31)
Net book value	564

In 2003, the subsidiary Karigė AB disposed of all its investment property. The balance of investment property stated at cost/indexed value as at 31 December 2003 comprised investment property of the subsidiary Klaipėdos Baldų Prekyba UAB carried at cost. The subsidiary Klaipėdos Baldų Prekyba UAB did not perform an independent valuation of investment property, however, the Group's management believe that the fair value of those assets as at 31 December 2003 was approximate to their carrying amount.

In 2003, movement in investment property stated at fair value may be analysed as follows:

	GROUP	COMPANY
At beginning of year	2,259	2,278
Transfers from property, plant and equipment	-	400
Investment property transferred to property, plant and equipment	(1,435)	(1,027)
Disposal of investment property	-	-
Impairment of fair value	(62)	(87)
At end of year	762	1,564

(All tabular amounts are in LTL '000 unless otherwise stated)

11. Investment property (continued)

On 31 December 2002, independent valuation company Korporacija Matininkai UAB determined the value of investment property of the Company and its subsidiary Šilutės Baldai AB. Investment property was valued using the comparative value method.

In 2003, Šilutės Baldai AB transferred all its investment property to property, plant and equipment. The Group's investment property stated at fair value as at 31 December 2003 comprised the Company's investment property leased to other than Group companies.

Depreciation of investment property is included in general and administration expenses and other operating expenses in the income statement.

As at 31 December 2003 and 2002, there were no restrictions in relation to realisation of investment property or utilisation of proceeds received from sale of such property. At the year-end, there were no contractual commitments to purchase, build, develop or perform repairs, maintenance and improvements of the investment property.

12. Intangible assets

GROUP	Goodwill	Prepayments	Computer software and other intangible assets	Total
At 31 December 2002				
Cost	4,644	-	978	5,622
Accumulated amortisation	(388)	-	(842)	(1,230)
Net book value	4,256	-	136	4,392
Year ended 31 December 2003				
Opening net book amount	4,256	-	136	4,392
Additions	-	1,010	259	1,269
Disposal of the subsidiary	(40)	-	-	(40)
Amortisation	(1,064)	-	(83)	(1,147)
Closing net book amount	3,152	1,010	312	4,474
At 31 December 2003				
Cost	4,247	1,010	1,123	6,380
Accumulated amortisation	(1,095)	-	(811)	(1,906)
Net book value	3,152	1,010	312	4,474

(All tabular amounts are in LTL '000 unless otherwise stated)

12. Intangible assets (continued)

COMPANY	Prepayments	Computer software and other intangible assets	Total
At 31 December 2002			
Cost	-	525	525
Accumulated amortisation	-	(477)	(477)
Net book value	-	48	48
Year ended 31 December 2003			
Opening net book amount	-	48	48
Additions	309	53	362
Amortisation	-	(19)	(19)
Closing net book amount	309	82	391
At 31 December 2003			
Cost	309	561	870
Accumulated amortisation	-	(479)	(479)
Net book value	309	82	391

Prepayments for intangible assets represent capitalised costs of computer software installation.

Amortisation expenses of intangible assets are accounted for in operating expenses and cost of goods sold in the income statement, as well as in work in progress and finished products in the balance sheet.

13. Investments in subsidiaries and associates

	GROUP		COMPANY	
	2003	2002	2003	2002
Opening net book amount	2,075	2,036	7,392	9,543
Reporting period's equity method	1,210	39	(567)	(2,151)
Closing cost balance	3,285	2,075	6,825	7,392
Opening balance of accumulated amortisation of negative goodwill (goodwill)	2,209	1,706	(1,079)	25
Amortisation of the reporting period	503	503	(1,104)	(1,104)
Closing balance of accumulated amortisation of negative goodwill (goodwill)	2,712	2,209	(2,183)	(1,079)
Closing net book amount	5,997	4,284	4,642	6,313

Information about the cost and carrying amount of investments in associates may be analysed as follows:

GROUP	Cost		Carrying amount	
	2003	2002	2003	2002
Kauno Baldai AB	2,679	2,679	5,566	3,784
Akmena AB	422	422	431	500
	3,101	3,101	5,997	4,284

(All tabular amounts are in LTL '000 unless otherwise stated)

13. Investments in subsidiaries and associates (continued)

As described in Note 27 to the financial statements, as at 31 December 2003 the shares of Kauno Baldai AB were seized as a result of legal proceedings with Estinos Arka UAB, the former contractor of Klaipėdos Baldų Prekyba UAB.

Information about the cost and carrying amount of investments in the subsidiaries may be analysed as follows:

COMPANY	Cost		Carrying amount	
	2003	2002	2003	2002
Klaipėdos Baldų Prekyba UAB	9,501	9,501	4,567	6,246
Baldstata UAB	22	22	75	67
	9,523	9,523	4,642	6,313

With investments in Klaipėdos Baldų Prekyba UAB on 31 December 2001, the Company indirectly acquired the following investments: 41 percent of shares of Šilutės Baldai AB, 34 percent of shares of Kauno Baldai AB, 36 percent of shares of Karigė AB, 21 percent of shares of Akmena AB, 67 percent of shares of Autokomercija UAB, and 67 percent of shares of KBP SIA.

In May 2003, the Company made a contribution of LTL 2,177 thousand against the losses of its subsidiary Klaipėdos Baldų Prekyba UAB to be in compliance with the requirements of the Law on Companies. This amount is accounted for in the statement of changes in shareholders' equity. With the contribution against the subsidiary's losses, the Company also covered the minority's share of losses (Note 24). The statement of changes in shareholders' equity includes an increase in retained earnings by LTL 1,459 thousand related to the above-mentioned contribution against the losses.

In May 2003, the subsidiary Klaipėdos Baldų Prekyba UAB sold 2,500 shares of Autokomercija UAB to Koncernas SBA UAB for total consideration of LTL 390 thousand.

On 5 December 2003, the shareholders of the subsidiary Klaipėdos Baldų Prekyba UAB decided to cover the losses of LTL 1,815 thousand of KBP SIA by capitalising the amount payable to Klaipėdos Baldų Prekyba UAB.

The subsidiary's (Klaipėdos Baldų Prekyba UAB) share of accumulated losses of KBP SIA amounted to LTL 216 thousand as at 31 December 2003 (31 December 2002: LTL 1,810 thousand). The amount by which the subsidiary's share of losses exceeds the cost of the investment is accounted for as accrued charges in the balance sheet as at 31 December 2003 since management of the subsidiary Klaipėdos Baldų Prekyba UAB intends to continue to support KBP SIA.

As further described in Note 27, the shares of Šilutės Baldai AB were pledged in favour of Vilniaus Bankas AB to secure the repayment of a loan granted by this bank to Šilutės Baldai AB.

As at 31 December 2003, the carrying amount of goodwill related to the investment in Klaipėdos Baldų Prekyba UAB was LTL 3,312 thousand (31 December 2002: LTL 4,416 thousand). Impairment of goodwill, which resulted from uncertainty in relation to implementation of strategic changes in Klaipėdos Baldų Prekyba UAB, was not accounted for in these financial statements. The Company's management believes that in the near future the subsidiary will successfully implement its strategic changes, and operating results of this subsidiary and other manufacturers of furniture owned by it will pay off the acquisition cost of these shares.

(All tabular amounts are in LTL '000 unless otherwise stated)

13. Investments in subsidiaries and associates (continued)

The subsidiaries, the investments wherein are accounted for in the Company's financial statements using the equity method, apply different accounting policies to investment property and property, plant and equipment, which is not in compliance with International Financial Reporting Standards. The Company cannot measure the effect of different accounting policies on the carrying amount of investments in the subsidiaries as at 31 December 2003 and 31 December 2002, as well as on the results of operations of the subsidiaries for the years then ended.

14. Available-for-sale investments

	GROUP		COMPANY	
	2003	2002	2003	2002
Cost at beginning of period	288	288	288	288
Acquisitions	1,803	-	153	-
Impairment	(78)	(78)	(78)	(78)
Disposals	(1,703)	-	-	-
Closing net book amount	310	210	363	210
Non-current	210	210	210	210
Current	100	-	153	-
	310	210	363	210

Acquisitions and disposals of investments

In May 2003, the Company established a subsidiary SBA Baldų Kompanija UAB with registered share capital amounting to LTL 100 thousand. As further described in Note 28, in January 2004 the Company disposed of all the shares of this subsidiary.

On 22 December 2003, the Company acquired 225 ordinary registered shares of Baldstada UAB from its subsidiary Klaipėdos Baldų Prekyba UAB with par value of LTL 100 each for the total amount of LTL 53 thousand. As further described in Note 28, in January 2004 the Company disposed of these shares.

On 1 December 2003, the subsidiary Klaipėdos Baldų Prekyba UAB acquired 980,114 ordinary registered shares of Koncernas SBA UAB from Vega Trading Group LLC for the total amount of LTL 1,703 thousand, which subsequently on 5 December were sold to Mr. A.Martinkevičius for the acquisition cost.

15. Long-term receivables

	GROUP		COMPANY	
	2003	2002	2003	2002
Loans granted to related parties (Note 26)	3,077	8,000	11,716	18,896
Loans granted to employees	158	250	130	136
	3,235	8,250	11,846	19,032

Long-term loans granted to employees amounting to LTL 130 thousand in the Group's and the Company's financial statements as at 31 December 2003 (31 December 2002: LTL 136 thousand) were not accounted for at amortised cost. This, however, did not have any significant effect on the financial statements as at 31 December 2003 and 31 December 2002.

Current portion of long-term receivables is indicated in Note 17.

(All tabular amounts are in LTL '000 unless otherwise stated)

16. Inventories

	GROUP		COMPANY	
	2003	2002	2003	2002
Raw materials (cost)	10,280	7,513	5,574	3,801
Work in progress (cost)	9,002	6,774	3,555	2,707
Finished products and goods for resale (cost)	7,839	9,060	-	-
Other inventories (cost)	32	20	4	11
Provisions for slow moving inventories	(1,529)	(959)	(377)	(278)
	25,624	22,408	8,756	6,241

As at 31 December 2003, the Group had pledged its inventories amounting to LTL 9,694 thousand to secure the repayment of its borrowings.

17. Amounts receivable, prepayments and deferred charges

	GROUP		COMPANY	
	2003	2002	2003	2002
Receivables from related parties, including current portion of long-term debts (Note 26)	13,095	2,999	15,890	2,783
Trade receivables	8,571	13,872	496	3,591
VAT receivable	2,285	3,232	634	2,099
Current portion of loans granted to employees	307	367	203	165
Prepayments and deferred charges	299	620	96	353
Other amounts receivable	2,802	473	-	112
Provision for doubtful amounts receivable	(1,477)	(2,329)	(213)	(223)
	25,882	19,234	17,106	8,880

18. Cash and cash equivalents

	GROUP		COMPANY	
	2003	2002	2003	2002
Cash at bank	3,203	4,215	2,592	2,833
Cash in hand	400	186	13	2
	3,603	4,401	2,605	2,835

To secure the repayment of its borrowings, the Company has pledged current and future cash inflows of maximum LTL 5,000 thousand to its bank account with Vilniaus Bankas AB, as well as current and future cash inflows of maximum LTL 8,000 thousand to its bank account with Bankas Hansabankas AB.

Current and future cash inflows in the bank account of Šilutės Baldai AB with Vilniaus Bankas AB were pledged to secure the repayment of loans granted by this bank to Šilutės Baldai AB.

(All tabular amounts are in LTL '000 unless otherwise stated)

18. Cash and cash equivalents (continued)

For the purpose of cash flow statement, cash and cash equivalents comprise:

	GROUP		COMPANY	
	2003	2002	2003	2002
Balances of cash in hand and at bank	3,603	4,401	2,605	2,835
Bank overdraft	(681)	(925)	-	-
	2,922	3,476	2,605	2,835

19. Share capital

As at 31 December 2003, the share capital comprised 8,166,312 ordinary registered shares with par value of LTL 1 each. All the shares are fully paid. There were no changes in share capital during the year.

20. Reserves

	GROUP AND COMPANY	
	2003	2002
Reserves:		
– revaluation reserve	6,573	6,982
– legal reserve	817	817
– currency translation reserve	210	134
– other reserves	7,698	7,698
	15,298	15,631

Revaluation reserve

The financial statements as at 31 December 2003 include revaluation reserve of LTL 6,573 thousand. This reserve was recognised upon revaluation of property, plant and equipment and investment property. The last revaluation was carried out on 31 December 2002 (Note 10). As at 31 December 2003, as a result of depreciation of those revalued assets, revaluation reserve was reduced by LTL 409 thousand, whereas the retained result for the year then ended was increased by the same amount. This amount is disclosed in the statement of changes in shareholders' equity.

Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfer of 5 per cent of net profit of the reporting period is compulsory until the reserve reaches 10 per cent of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses.

Other reserves

Other reserves are established following the decision made during the annual general meeting of shareholders in relation to distribution of profit available for appropriation. This reserve may be used only for the purposes approved by annual general meeting of shareholders.

(All tabular amounts are in LTL '000 unless otherwise stated)

21. Deferred income tax

Deferred income taxes are calculated in full on temporary differences under the liability method using a basic tax rate of 15 per cent (2002: 15 per cent).

The movement in deferred income tax account was as follows:

	GROUP		COMPANY	
	2003	2002	2003	2002
At beginning of year	(3,380)	(3,415)	(2,276)	(1,733)
Credited to income statement	911	972	661	326
Accounted for directly in shareholders' equity	-	(937)	-	(869)
At end of year	(2,469)	(3,380)	(1,615)	(2,276)

In 2002, the Group and the Company accounted for the effect of deferred tax liabilities, which arose as a result of revaluation of buildings and plants, directly in shareholders' equity.

The movement in the Company's deferred tax assets and liabilities (prior to and after offsetting the balances) during the period was as follows:

	COMPANY		
	2003	Credited to income statement	2002
Deferred tax assets			
– Inventories	78	18	60
– Accrued charges	144	7	137
	222	25	197
Deferred tax liabilities			
– Inventories	-	218	(218)
– Non-current assets	(1,837)	418	(2,255)
Deferred tax liabilities, net	(1,615)	661	(2,276)

The movement in the Group's deferred tax assets and liabilities (prior to and after offsetting the balances) during the period was as follows:

	GROUP		
	2003	(Charged)/credited to income statement	2002
Deferred tax assets			
– Inventories	245	2	243
– Amounts receivable	39	(256)	295
– Accrued charges	490	129	361
– Tax losses	1,116	1,116	-
– Deferred income	312	(100)	412
	2,202	891	1,311
Provision for deferred tax assets	(1,120)	(664)	(456)
Deferred tax assets, net	1,082	227	855
Deferred tax liabilities			
– Inventories	-	218	(218)
– Non-current assets	(3,551)	466	(4,017)
Deferred tax liabilities, net	(2,469)	911	(3,380)

(All tabular amounts are in LTL '000 unless otherwise stated)

21. Deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

As at 31 December 2003, tax losses previously unrecognised by the subsidiary and carried forward against future taxable profit amounted to LTL 7,440 thousand (there were no such tax losses in 2002). Tax losses may be carried forward until 2008.

22. Borrowings

	GROUP		COMPANY	
	2003	**2002**	**2003**	**2002**
Short-term borrowings				
Short-term loans received from banks	5,864	1,194	4,581	676
Current portion of long-term loans received from banks and non-financial institutions	7,982	5,940	3,734	2,539
Bank overdrafts	681	925	-	-
Finance lease liabilities	2,461	1,728	861	89
	16,988	9,787	9,176	3,304
Long-term borrowings				
Long-term loans received from banks and non-financial institutions	15,437	24,346	9,223	15,852
Finance lease liabilities	9,864	8,704	2,383	36
	25,301	33,050	11,606	15,888
Total borrowings	42,289	42,837	20,782	19,192

To secure the repayment of bank loans, certain property, plant and equipment (Note 10), inventories (Note 16), cash at bank (Note 18), and investments in associates (Note 13) were pledged. The fulfilment of finance lease liabilities is substantially secured since the title to assets acquired under finance lease automatically reverts to the lessor in the event of default.

The weighted average interest rates were as follows as at 31 December:

	GROUP		COMPANY	
	2003	**2002**	**2003**	**2002**
Long-term bank loans	5.36	7.56	3.29	8.89
Short-term bank loans	4.04	6.03	4.02	6.15
Finance lease liabilities	4.28	6.71	3.39	7.94
Bank overdrafts	4.30	6.00	-	-

(All tabular amounts are in LTL '000 unless otherwise stated)

22. Borrowings (continued)

Maturity terms of long-term borrowings (excluding finance lease liabilities):

	GROUP		COMPANY	
	2003	2002	2003	2002
Between 1 and 2 years	5,808	23,508	4,200	7,941
Between 2 and 5 years	9,192	838	5,023	7,911
After 5 years	437	-	-	-
	15,437	24,346	9,223	15,852

Borrowing facilities contracted but undrawn as at the date of the balance sheet were as follows:

	GROUP		COMPANY	
	2003	2002	2003	2002
Subject to fixed interest rate:				
– drawdown term matures within one year	519	275	-	-
Subject to floating interest rate:				
– drawdown term matures within one year	909	360	455	360
	1,428	635	455	360

The borrowings with drawdown terms maturing within one year represent short-term loans reviewed at various dates in 2004.

The information on exposure of borrowings to interest rate changes and the periods of such exposure is given below:

GROUP

	6 -12 months and less	1-5 years	Total
As at 31 December 2003			
Total borrowings	27,351	-	27,351
As at 31 December 2002			
Total borrowings	27,240	-	27,240

COMPANY

	6 -12 months and less	1-5 years	Total
As at 31 December 2003			
Total borrowings	17,021	-	17,021
As at 31 December 2002			
Total borrowings	18,823	-	18,823

Under a long-term loan agreement concluded with Sodim A/S, the Group committed itself to pledge the shares of its subsidiary Šilutės Baldai AB. As at the date of approval of these financial statements, those shares were not pledged. As further described in Note 27, the shares of Šilutės Baldai AB were pledged in favour of Vilniaus Bankas AB to secure the repayment of loan granted by this bank to Šilutės Baldai AB. The Group's management believe that Sodim A/S will take no sanctions in relation to default of these contractual obligations.

(All tabular amounts are in LTL '000 unless otherwise stated)

22. Borrowings (continued)

Under the loan agreements, the Group was subject to certain covenants, such as maintaining certain levels of its financial indicators and cash turnover in its bank accounts with the crediting bank. As at 31 December 2003, the Group acted in compliance with those covenants, except for its subsidiary Šilutės Baldai AB, which did not meet the agreed current liquidity ratio. The Group's management believe that the crediting bank will neither take any sanctions nor impose fines in relation to non-compliance with this covenant, and the loan agreements will likely be extended.

The Group committed itself to use the assets acquired for the loan received from Ikea Trading und Design AG only for Ikea Trading und Design AG production purposes.

Finance lease liabilities – minimum lease payments:

	GROUP		COMPANY	
	2003	2002	2003	2002
Up to 1 year	2,882	2,338	947	94
Between 1 and 5 years	7,562	5,896	2,513	39
After 5 years	3,458	4,788	-	-
	13,902	13,022	3,460	133
Future finance lease charges	(1,577)	(2,590)	(216)	(8)
Present value of finance lease liabilities	12,325	10,432	3,244	125

Present value of finance lease liabilities:

	GROUP		COMPANY	
	2003	2002	2003	2002
Up to 1 year	2,461	1,728	861	89
Between 1 and 5 years	6,625	5,326	2,383	36
After 5 years	3,239	3,378	-	-
	12,325	10,432	3,244	125

23. Trade and other amounts payable

	GROUP		COMPANY	
	2003	2002	2003	2002
Trade payables	25,842	19,593	10,194	8,556
Payables to related parties (Note 26)	7,451	4,802	2,617	2,554
Taxes payable, remuneration and social security payable	4,283	3,509	1,931	1,557
Deferred income	2,079	2,746	-	-
Advance amounts received	501	396	4	55
Other amounts payable and accrued charges	4,201	4,105	1,362	1,018
	44,357	35,151	16,108	13,740

In 2002, the subsidiary Klaipėdos Baldų Prekyba UAB sold its building located at Laisvės Ave. 62, Vilnius to VB Lizingas UAB and acquired this building under leaseback arrangement. Deferred income includes an amount, by which proceeds from sale of the building exceeded the carrying amount of building acquired under leaseback arrangement.

(All tabular amounts are in LTL '000 unless otherwise stated)

24. Minority interest

	2003	2002
At beginning of year	6,417	7,214
Subsidiaries' share of net result	647	(1,257)
Change in net assets accounted for directly in shareholders' equity	38	460
Shareholders' contribution against losses of the minority (Note 20)	718	-
At end of year	7,820	6,417

25. Cash flows from operating activities

Reconciliation of net profit with cash flows from operating activities:

	GROUP		COMPANY	
	2003	2002	2003	2002
Net profit	3,977	1,466	3,977	1,466
Adjustments for:				
Goodwill amortisation (Note 12)	1,064	1,104	-	-
Minority interest (Note 24)	647	(1,257)	-	-
Income tax expenses (Note 8)	2,892	1,711	1,732	1,347
Result of subsidiaries and associates	(1,713)	(542)	3,206	3,778
Depreciation (Note 10)	8,640	6,498	4,797	3,271
Amortisation (Note 12)	83	105	19	89
Fair value impairment (Note 11)	62	128	87	86
Subsidy amortisation	(33)	(34)	(6)	-
Negative revaluation reserve of property, plant and equipment	-	1,794	-	-
(Gain) loss on disposal of property, plant and equipment and write-off	(2,103)	17	(30)	(5)
Provisions for amounts receivable and write-offs	282	1,584	8	(4)
Provision for inventories and write-offs	884	91	99	13
Other adjustments	-	(50)	-	-
Interest expenses (Note 6)	2,215	2,658	868	999
Interest income (Note 6)	(376)	(222)	(628)	(690)
Gain on disposal of subsidiary (Note 7)	(285)	-	-	-
Unrealised foreign exchange net gain	-	(892)	-	(238)
Change in deferred tax liabilities (Note 8)	(911)	(972)	(661)	(326)
Change in working capital:				
– amounts receivable and prepayments	(1,482)	(6,618)	(3,079)	(1,277)
– inventories	(4,100)	(106)	(2,614)	(1,621)
– amounts payable	9,763	8,611	1,894	2,517
Cash flows from operating activities	19,506	15,074	9,669	9,405

Non-cash transactions

The principal non-cash transactions included the acquisition of property, plant and equipment under finance lease terms.

(All tabular amounts are in LTL '000 unless otherwise stated)

26. Related party transactions

The Company is the founder of SBA Baldų Kompanija UAB. Koncernas SBA UAB is the major shareholder of the Company and the founder of the association Industry Marketing and Business Centre. In addition, Koncernas SBA UAB has control over Utenos Trikotažas AB, Vega Trading Group LLC, Trinyčiai AB, Justima UAB and Miestprojektas UAB. Kauno Baldai AB and Akmena AB are associates of Klaipėdos Baldų Prekyba UAB. During 2003, the Group had transactions with Mr. G.Misiukevičius, the shareholder of Klaipėdos Baldų Prekyba UAB, Mr. A.Vainauskas, the former shareholder of Koncernas SBA UAB, and Mr. A.Rančys, the employee of Koncernas SBA UAB.

Sales of goods and services	2003	2002
SBA Baldų Kompanija UAB	15,925	-
Kauno Baldai AB	435	1,335
Akmena AB	120	198
Baldutura UAB	18	-
Koncernas SBA UAB	14	365
Association Industry Marketing and Business Centre	1	13
Utenos Trikotažas AB	-	19
Trinyčiai AB	-	3
	16,513	1,933

Interest received		
Koncernas SBA UAB	361	-

Purchases of goods and services		
Koncernas SBA UAB	13,294	5,295
Kauno Baldai AB	6,907	7,997
Vega Trading Group LLC	1,703	-
Baldutura UAB	1,592	1,372
Assoiation Industry Marketing and Business Centre	480	372
Justima UAB	198	54
Akmena AB	186	139
Miestprojektas UAB	11	249
Baldų Kompanija UAB SBA	23	-
Trinyčiai AB	3	-
Utenos Trikotažas AB	-	11
	24,397	15,489

Until September 2002, the subsidiary Klaipėdos Baldų Prekyba UAB provided export documentation arrangement services to Kauno Baldai AB and Akmena AB. With effect from September 2002, the agreements on the provision of these services were terminated.

With effect from May 2003, export sales are performed by the Company mostly through SBA Baldų Kompanija UAB.

In 2002 and 2003, the Group companies made payments to Koncernas SBA UAB for consulting services on issues related to the Group's finances, human resources, implementation of information technologies, as well as on legal and other strategic matters.

Other related party transactions mostly comprise sales and purchases of furniture and materials.

(All tabular amounts are in LTL '000 unless otherwise stated)

26. Related party transactions (continued)

Amounts receivable	**2003**	**2002**
SBA Baldų Kompanija UAB	6,818	-
Koncernas SBA UAB	5,080	-
Mr. V. Rančys	898	-
Baldutura UAB	178	-
Akmena AB	103	24
Autokomercija UAB	9	-
Kauno Baldai AB	7	3
Mr. G. Misiukevičius	2	898
Trinyčiai AB	-	4
Vega Trading Group LLC	-	2,070
	13,095	2,999

Long-term receivables

As at 31 December 2003, the loans granted by the Group to related parties were as follows:

Borrower	**Interest rate (%)**	**Loan amount (thousand)**	**Maturity date**	**Balance as at 31 December 2003**	**Balance as at 31 December 2002**
Koncernas SBA UAB	3.392	EUR 1,158	1 June 2007	4,000	4,000
Koncernas SBA UAB	4.13	LTL 4,000	1 June 2004	3,817	4,000
				7,817	8,000
		Current portion of long-term receivables		(4,740)	-
				3,077	8,000

Short-term payables	**2003**	**2002**
Kauno Baldai AB	5,390	2,654
Koncernas SBA UAB	1,689	1,915
Association Industry Marketing and Business Centre	164	123
Baldutura UAB	124	49
Akmena AB	59	61
SBA Baldų Kompanija UAB	23	-
Mr. G. Misiukevičius	2	-
	7,451	4,802

Long-term payables

Kauno Baldai AB	2,624	3,068

* - until May 2003, Autokomercija UAB was the subsidiary of Klaipėdos Baldų Prekyba UAB and was consolidated until the date of its disposal. In May 2003, Klaipėdos Baldų Prekyba UAB sold these shares to Koncernas SBA UAB (Note 7). As a result, with effect from May 2003, Autokomercija UAB is considered to be a related party and information provided covers only those transactions that were concluded after that date.

(All tabular amounts are in LTL '000 unless otherwise stated)

26. Related party transactions (continued)

On 1 March 2002, the subsidiary Klaipėdos Baldų Prekyba UAB signed an agreement with Kauno Baldai AB on the repayment of debt. Based on this agreement, a debt of LTL 3,000 thousand should be repaid in equal annual installments of LTL 600 thousand during the period from January 2003 to January 2007. These long-term payables are subject to an annual interest rate equal to the weighted average annual interest rate payable on treasury bills issued by the Republic of Lithuania in the previous quarter. As at 31 December 2003, the current portion of this loan amounting to LTL 600 thousand was accounted for in short-term payables to related parties in the balance sheet, whereas the long-term portion of this loan amounting to LTL 1,800 thousand as at 31 December 2003 (31 December 2002: LTL 400 thousand) was accounted for in long-term payables to related parties.

Long-term payables to related parties include the amount of LTL 612 thousand (31 December 2002: LTL 668 thousand) payable by the subsidiary Karigė AB to Kauno Baldai AB for property, plant and equipment which was acquired for the total amount of LTL 1,200 thousand. This amount will be covered in equal quarterly payments to be made until 2011. The loan is subject to interest at a rate of 4 percent per annum. Current portion of this loan amounting to LTL 117 thousand (31 December 2002: LTL 114 thousand) was accounted for in short-term payables to related parties in the balance sheet.

Long-term payables to related parties include an amount of LTL 212 thousand (31 December 2002: nil) payable by the subsidiary Karigė AB to Kauno Baldai AB for property, plant and equipment acquired for the total amount of LTL 346 thousand. This amount will be covered in monthly payments to be made until 2008. The loan is subject to interest at a rate of 4 percent. Current portion of this loan amounting to LTL 68 thousand was accounted for in short-term payables to related parties in the balance sheet.

In 2001, the subsidiary Klaipėdos Baldų Prekyba UAB granted a short-term loan of LTL 1,440 thousand to Mrs. R.Sajienė, who at the time of granting the loan was the shareholder of this company. The term of repayment of the loan set at 17 April 2002 was extended until 17 April 2003 upon the shareholders' decision. In addition, in 2002 the subsidiary Klaipėdos Baldų Prekyba UAB granted another short-term loan of LTL 630 thousand to Mrs. R. Sajienė. The total amount of the loans should be repaid within one year after the date of granting the whole amount of the loan. The last portion of the loan was paid to Klaipėdos Baldų Prekyba UAB by 29 April 2002. These loans are non-interest-bearing. Based on tripartite agreement, signed on 23 May 2002 between Mrs. R. Sajienė, Mr. A. Vainauskas and Klaipėdos Baldų Prekyba UAB, Mrs. R.Sajienė's liabilities related to her borrowings were transferred to Mr. A.Vainauskas, the shareholder of Koncernas SBA UAB.

On 3 November 2002, Vega Trading Group LLC, Mr. A.Vainauskas and the subsidiary Klaipėdos Baldų Prekyba UAB signed an agreement based on which the above-mentioned liabilities of Mr. A. Vainauskas were transferred to Vega Trading Group LLC.

On 26 May 2003, Vega Trading Group LLC, Koncernas SBA UAB and the subsidiary Klaipėdos Baldų Prekyba UAB signed an agreement based on which the liabilities of Vega Trading Group LLC amounting to LTL 1,702 thousand were transferred to Koncernas SBA UAB. According to the agreement on offsetting mutual claims signed on the same date between Koncernas SBA UAB and the subsidiary Klaipėdos Baldų Prekyba UAB, the debt of LTL 946 thousand to Koncernas SBA UAB and the debt of Koncernas SBA UAB of LTL 340 thousand to the subsidiary Klaipėdos Baldų Prekyba UAB were offset.

As described in more detail in Note 14, the subsidiary Klaipėdos Baldų Prekyba UAB acquired from Vega Trading Group LLC 980,111 ordinary shares of Koncernas SBA UAB for total value of LTL 1,703 thousand, which afterwards were sold to Mr. A.Martinkevičius. On 17 December 2003, the subsidiary Klaipėdos Baldų Prekyba UAB transferred the debt of LTL 1,703 thousand of Mr. A.Martinkevičius to Koncernas SBA UAB. On the same date Vega Trading Group LLC, Koncernas SBA UAB and the Company signed an agreement on offsetting mutual claims based on which the debt of the subsidiary Klaipėdos Baldų Prekyba UAB to Vega Trading Group LLC for the shares of Koncernas SBA UAB acquired and the debt of Koncernas SBA UAB to the subsidiary Klaipėdos Baldų Prekyba UAB were offset.

(All tabular amounts are in LTL '000 unless otherwise stated)

26. Related party transactions (continued)

On 3 April 2002, the subsidiary Klaipėdos Baldų Prekyba UAB sold 690,504 shares of the Company with the carrying amount of LTL 848 thousand to Mr. G.Misiukevičius for the total consideration of LTL 898 thousand. Based on the agreement between Mr. G.Misiukevičius, the subsidiary Klaipėdos Baldų Prekyba UAB, and Mr. V.Rančys, dated 22 January 2003, the liabilities of Mr. G.Misiukevičius against the subsidiary Klaipėdos Baldų Prekyba UAB in relation to the shares of the Company were transferred to Mr. V.Rančys.

Long-term loans granted to employees

As at 31 December 2003, long-term loans granted to employees amounted to LTL 465 thousand (31 December 2002: LTL 617 thousand), from which LTL 307 thousand (31 December 2002: LTL 367 thousand) has to be repaid within one year.

In addition, as further described in Note 27, as at 31 December 2003 the Group issued a guarantee on behalf of related parties.

27. Contingent liabilities and commitments

Guarantees issued

Guarantee issued by	Guarantee issued on behalf of	Guarantee issued in favour of	Guarantee amount	Guarantee amount in LTL at 31 December 2003
Klaipėdos Baldų Prekyba UAB	Kauno Baldai AB	Vilniaus Bankas AB	LTL 1,000	1,000
Klaipėdos Baldų Prekyba UAB	Kauno Baldai AB	Vilniaus Bankas AB	EUR 150	518
Klaipėdos Baldų Prekyba UAB	Šilutės Baldai AB	Vilniaus Bankas AB	LTL 7,661	7,661
Klaipėdos Baldų Prekyba UAB	Klaipėdos Baldai AB	Bankas Hansabankas AB	EUR 1,158	4,000
Klaipėdos Baldų Prekyba UAB	Koncernas SBA UAB	Šatrija AB	LTL 1,200	1,200
Klaipėdos Baldų Prekyba UAB	Mr. A. Vainauskas	Lucija Dubicka and Krestina Bovgerd	LTL 2,008	2,008
Karigė AB	Koncernas SBA UAB	Nord/LB Lietuva AB	LTL 1,702	1,702
			Total guarantees issued	18,089

* - on 7 December 2001 the subsidiary Klaipėdos Baldų Prekyba UAB pledged all shares of Šilutės Baldai AB to Vilniaus Bankas AB as a guarantee for the loan of LTL 2,635 thousand granted by the bank to the subsidiary Šilutės Baldai AB. As at 31 December 2003, the carrying amount of those shares (adjusted by equity method) was LTL 7,661 thousand (31 December 2002: LTL 5,367 thousand). The outstanding balance of the loan as at 31 December 2003 was LTL 1,976 thousand.

As indicated above, the total amount of guarantees issued by the Group as at 31 December 2003 was equal to LTL 18,089 thousand (31 December 2002: LTL 27,715 thousand). The Group's management believe that Kauno Baldai AB, Šilutės Baldai AB, Koncernas SBA UAB and Mr. A. Vainauskas will meet their obligations to the banks and other creditors as they fall due. Therefore, no provision for liabilities associated with these guarantees was established in the financial statements as of 31 December 2003.

(All tabular amounts are in LTL '000 unless otherwise stated)

27. Contingent liabilities and commitments (continued)

Other commitments

The shares of the associate Kauno Baldai AB with carrying amount of LTL 5,566 thousand as at 31 December 2003 (31 December 2002: LTL 3,784 thousand) were seized in relation to legal proceedings with Estinos Arka UAB, the former contractor of the subsidiary Klaipėdos Baldų Prekyba UAB. For this reason, the subsidiary Klaipėdos Baldų Prekyba UAB was not able to sell or otherwise dispose of ownership in these assets. In 2003, the Court awarded LTL 326 thousand to be paid by the subsidiary Klaipėdos Baldų Prekyba UAB to Estinos Arka UAB. As at the date of approval of these financial statements, the shares remained seized.

As described in Note 22, according to the long–term loan agreement signed with Sodim A/S, the Group agreed to pledge its shares of Šilutės Baldai AB. These shares were not pledged as of the date of the release of these financial statements. As described above, the shares of Šilutės Baldai AB were pledged to Vilniaus Bankas AB as a guarantee for the loan granted by the bank to Šilutės Baldai AB. The Group's management does not expect that this non-compliance with the loan agreement will result in sanctions on the part of Sodim A/S.

Operating lease liabilities

The Company's subsidiary Klaipėdos Baldų Prekyba UAB leases commercial premises and warehouses from third parties and related parties under operating lease terms. Future minimum payments under operating lease are as follows:

	2003	2002
Up to 1 year	1,992	296
Between 1 and 5 years	7,536	7,680
After 5 years	3,388	5,236
	12,916	13,212

28. Post balance sheet events

In January 2004, the Company disposed of its short-term investments in Baldstata UAB and SBA Baldų Kompanija UAB amounting to LTL 53 thousand and LTL 120 thousand, respectively.

On 23 February 2004, based on the agreement with the subsidiary Klaipėdos Baldų Prekyba UAB, Koncernas SBA UAB and Mr. V.Rančys, the liability of Mr. V. Rančys in relation to the shares of Klaipėdos Baldai AB (Note 26) was transferred to Koncernas SBA UAB. This liability has to be repaid by 31 December 2004.

In January 2004, the subsidiary Karigė AB signed an amendment to the agreement on short-term credit limit amounting to LTL 800 thousand. According to this amendment, the credit limit was increased up to LTL 1,800 thousand, and it was subject to interest at a rate of 6 months' VILIBOR plus 1.5 percent. The loan has to be repaid by 2 February 2005. To secure the repayment of this loan, the company pledged additional inventories in warehouse amounting to LTL 1,522 thousand and technological equipment with carrying amount of LTL 363 thousand as at 31 December 2003.