KLAIPĖDOS BALDAI AB

FINANCIAL STATEMENTS

31 DECEMBER 2004

CONTENTS

PRICEWATERHOUSECOOPERS

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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 ("the Company") as at 31 December 2004 and the related consolidated and Company stand alone statements of income, cash flows, and changes in shareholders' equity respectively 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. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2004 and of the consolidated and stand alone results of the operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

4. Without qualifying our opinion we draw attention to accounting policy A of these financial statements in which the basis of their preparation is discussed. The Company disposed of its only subsidiary within the reporting period and the Group as defined by IAS 27.4 no longer existed at the end of the reporting period and no consolidated balance sheet has been prepared. The results of the operations and cash flows for the Group have been consolidated up to the moment of disposal.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

Vilnius, Republic of Lithuania
5 April 2005

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

Income statement

		Year ended 31 December			
		GROUP		COMPANY	
	Notes	**2004**	**2003**	**2004**	**2003**
Sales	1	159,255	226,620	117,994	102,457
Cost of sales	2	(133,288)	(176,779)	(98,337)	(81,351)
Gross profit		25,967	49,841	19,657	21,106
Other operating income, net	3	404	2,254	301	101
Selling and distribution expenses	4	(3,741)	(18,591)	(350)	(1,135)
General and administration expenses	5	(18,472)	(26,367)	(11,953)	(11,246)
Gain (loss) on disposal of the subsidiary	7	(541)	285	(541)	-
Profit from operations		3,617	7,422	7,114	8,826
Finance costs, net	6	(544)	(2,530)	(209)	(572)
Profit before the result of associates and subsidiaries		3,073	4,892	6,905	8,254
Result of associates and subsidiaries		223	1,713	(2,101)	(3,206)
Profit before tax		3,296	6,605	4,804	5,048
Income tax	8	(1,271)	(1,981)	(1,218)	(1,071)
Group profit before minority interest		2,025	4,624	3,586	3,977
Minority interest	24	1,561	(647)	-	-
Net profit		3,586	3,977	3,586	3,977
Earnings per share (in LTL)	9	0,44	0,49	0,44	0,49

The general information, accounting policies and notes on pages 8 to 35 form an integral part of these financial statements.

The financial statements on pages 4 to 35 were approved by the Managing Director on 5 April 2005.

Eimuntas Jankauskas
Managing Director

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

Balance sheet

		As at 31 December		
		COMPANY	COMPANY	GROUP
	Notes	2004	2003	2003
ASSETS				
Non-current assets				
Property, plant and equipment	10	31,988	31,245	70,629
Investment property	11	1,292	1,564	1,326
Intangible assets, including goodwill	12	1,111	391	4,474
Investments in subsidiaries and associates	13	84	4,642	5,997
Available-for-sale investments	14	210	210	210
Long-term receivables	15	15,934	11,846	3,235
		50,619	49,898	85,871
Current assets				
Inventories	16	9,717	8,756	25,624
Amounts receivable, prepayments and deferred charges	17	18,823	17,106	25,882
Available-for-sale investments	14	-	153	100
Cash and cash equivalents	18	499	2,605	3,603
		29,039	28,620	55,209
Total assets		79,658	78,518	141,080
SHAREHOLDERS' EQUITY				
Share capital	19	8,166	8,166	8,166
Reserves	20	14,681	15,298	15,298
Retained earnings		18,954	15,777	15,777
Total shareholders' equity		41,801	39,241	39,241
Minority interest	24	-	-	7,820
LIABILITIES				
Non-current liabilities				
Deferred income		7	14	414
Net deferred tax liabilities	21	1,313	1,615	2,469
Borrowings	22	13,701	11,606	25,301
Long-term payables to related parties	26	-	-	2,624
		15,021	13,235	30,808
Current liabilities				
Income tax payable		19	758	1,866
Borrowings	22	4,677	9,176	16,988
Trade and other payables	23	18,140	16,108	44,357
		22,836	26,042	63,211
Total liabilities		37,857	39,277	94,019
Total shareholders' equity and liabilities		79,658	78,518	141,080

The general information, accounting policies and notes on pages 8 to 35 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	Revalua-tion reserve	Legal reserves	Currency translation reserve	Other reserves	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
Decrease in net assets of subsidiary		-	-	-	-	-	(718)	(718)
Currency translation effect		-	-	-	76	-	-	76
Transfer from reserves	20	-	(409)	-	-	-	409	-
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	Revalua-tion reserve	Legal reserves	Currency translation reserve	Other reserves	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
Decrease in net assets of subsidiary		-	-	-	-	-	(718)	(718)
Currency translation effect at subsidiary		-	-	-	76	-	-	76
Transfer from reserves	20	-	(409)	-	-	-	409	-
Net profit		-	-	-	-	-	3,977	3,977
Balance as at 31 December 2003		8,166	6,573	817	210	7,698	15,777	39,241
Year ended 31 December 2004								
Balance as at 1 January 2004		8,166	6,573	817	210	7,698	15,777	39,241
Reserves utilised	20	-	(407)	-	(210)		407	(210)
Dividends		-	-	-	-	-	(816)	(816)
Net profit		-	-	-	-	-	3,586	3,586
Balance as at 31 December 2004		8,166	6,166	817	-	7,698	18,954	41,801

The general information, accounting policies and notes on pages 8 to 35 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	**2004**	**2003**	**2004**	**2003**
Cash flows from operating activities					
Cash flows from operating activities	25	11,216	19,506	9,023	9,669
Interest paid		(1,122)	(2,154)	(694)	(868)
Income tax paid		(3,420)	(975)	(2,259)	(975)
Net cash flows from operating activities		6,674	16,377	6,070	7,826
Cash flows from investing activities					
Purchase of property, plant and equipment	10	(5,126)	(11,903)	(3,500)	(5,650)
Purchase of intangible assets	12	(1,431)	(1,269)	(807)	(362)
Disposal of property, plant and equipment		313	514	313	54
Proceeds from sale of the subsidiary (net of cash and cash equivalents of the subsidiary sold)	7	(693)	388	-	-
Disposal (acquisition) of available-for-sale investments		-	(100)	12	(153)
Interest received		3	376	3	482
Net cash flows used in investing activities		(6,934)	(11,994)	(3,979)	(5,629)
Cash flows from financing activities					
Proceeds from borrowings		3,117	4,407	1,571	872
Repayment of borrowings		(4,389)	(6,604)	(4,389)	(2,401)
Dividends paid		(348)	-	(348)	-
Finance lease principal payments		(1,224)	(2,740)	(1,031)	(898)
Net cash flows used in financing activities		(2,844)	(4,937)	(4,197)	(2,427)
Net (decrease) increase in cash and cash equivalents		(3,104)	(554)	(2,106)	(230)
Cash and cash equivalents at beginning of year		3,603	3,476	2,605	2,835
Cash and cash equivalents at end of year		499	2,922	499	2,605

The general information, accounting policies and notes on pages 8 to 35 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. is AB 93-59. The Company’s registered address is as follows:

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

	Number of shares held	Percentage of share capital
Koncernas SBA UAB	4,373,693	53.56
Gintautas Misiukevičius	1,087,749	13.32
Virgilijus Rančys	446,999	5.47
Other shareholders	2,257,871	27.65
Total	**8,166,312**	**100**

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

The Company’s core line of business is manufacturing of furniture.

The Company‘s subsidiaries and associates are as follows:

Subsidiary/associate	Country	Year of acquisition	The Group’s share as at 31 December, (%) 2004	2003	Profile of activities
Subsidiaries					
Klaipėdos Baldų Prekyba UAB	Lithuania	2001	-	67.00	Trade in furniture
Šilutės Baldai AB	Lithuania	2001	-	40.55	Manufacture of furniture
Karigė AB	Lithuania	2001	-	36.00	Manufacture of furniture
Baldstata UAB	Lithuania	1996	-	75.00	Construction services
KBP SIA	Latvia	2001	-	67.00	Trade in furniture
Associates					
Baldstata UAB	Lithuania	1996	45.00	75.00	Construction services
Akmena AB	Lithuania	2001	-	21.66	Manufacture of furniture
Kauno Baldai AB	Lithuania	2001	-	33.25	Manufacture of furniture

In May 2004, the Company sold 67 per cent of shares of Klaipėdos Baldų Prekyba UAB to its major shareholder Koncernas SBA UAB (Note 7) and with effect from that date, the Group ceased its existence.

In addition, the Company disposed its indirect interest in the following investments: 41 per cent of shares in Šilutės Baldai AB, 33 per cent of shares in Kauno Baldai AB, 36 per cent of shares in Karigė AB, 22 per cent of shares in Akmena AB, and 67 per cent of shares in KBP SIA.

For the purpose of these financial statements, amounts in the income statement and cash flow statement were consolidated up to the date of disposal of investment in subsidiary.

In 2004, the Company‘s average number of employees was 723 (2003: 717). The Group‘s average number of employees in 2003 was 2,224.

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

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 different accounting policies applied to investment property and property, plant and equipment. The Company accounts for buildings at revalued amount, whereas some of the subsidiaries account for the buildings at a historical cost or indexed value.

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.

These financial statements cover the Group's consolidated financial statements up to the date of disposal of investment in the subsidiary.

Adoption of new accounting policies as a result of introduction of new accounting standards with effect from 1 January 2005, will have no material effect on the Company's figures as at 31 December 2004 and on the Group's consolidated figures presented in these financial statements.

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 share in the fair value of assets and liabilities of the subsidiary acquired, accounted for at the date of acquisition, as well as minority's share 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.

C. Foreign currency translation

(1) Reporting 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 reporting currency"). The amounts shown in these financial statements are presented in a local currency, the litas (LTL), which is the reporting currency of the Group.

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 exchange 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

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

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.

I Employee benefits

(1) Social security contributions

The Group pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognised as an expense on an accrual basis and are included in payroll expenses.

(2) Termination benefits

Termination benefits are payable whenever an employee’s employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Termination benefits are recognized in the income statement under payroll expenses and in the balance sheet under liabilities.

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 shareholders.

H. Income tax

(1) Income tax expenses

Profit is taxable at a rate of 15 percent (2003: 15 percent) in accordance with the Lithuanian regulatory legislation on taxation.

Income tax expenses are calculated and accumulated 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

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

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.

(2) Deferred income tax (continued)

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

I. Property, plant and equipment

The Group applies different 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 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 property valuation company Korporacija Matininkai UAB. Other property, plant and equipment of the Company and its subsidiary Šilutės Baldai AB is stated at acquisition cost/indexed value 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.

In 2004, the Group‘s management introduced changes in the useful lives of property, plant and equipment and with effect from 2004, all property, plant and equipment is depreciated over the following newly established useful lives:

	Years
Buildings	15 - 80
Plant and machinery	5 - 15
Motor vehicles	5 - 7
Other fixtures, fitting, tools and equipment	3 - 5
Other property, plant and equipment	4 - 6

Before 2004, the Group‘s property, plant and equipment was depreciated over the following useful lives:

	Years
Buildings	15 - 80
Plant and machinery	2 - 35
Motor vehicles	4 - 7
Other fixtures, fitting, tools and equipment	2 - 5
Other property, plant and equipment	2 - 7

This change in management‘s accounting estimate is described in more detail in Note 10.

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

I. Property, plant and equipment (continued)

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 and accounted for in the income statement..

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 either at historical cost, less accumulated depreciation and impairment losses, or at 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 reclassified property, plant and equipment is included in revaluation reserve.

The Group applies different 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.

Reclassifications to investment property are performed only upon changes in the purpose of assets.

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.

K. Intangible assets (continued)

(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.

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.

O. Leases (continued)

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 a Group 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, less the costs of completion and selling expenses.

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

Q. Trade and other receivables

Amounts receivable after one year are stated at amortised cost. Amounts receivable within one year are carried at net value, less the estimated amounts irrecoverable. Impairment of trade receivables is recognised 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 impairment represents 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 irrecoverable.

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

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

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

T. Subsidies

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

T. Subsidies (continued)

Subsidies received to finance acquisition 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 useful life of the assets concerned.

U. 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.

V. Revaluation reserve

Any increase in value of buildings and constructions 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.

W. Comparatives

Where necessary, comparative figures have been reclassified to conform with changes, if any, in presentation in the current year.

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

Financial risk management

Credit risk
The Group‘s exposure to credit risk is related to concentration of sales to one customer (for more detailed information see in Accounting policies). Credit risks or the risks of counterparties defaulting are controlled by the application of credit terms and monitoring procedures.

Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents necessary to cover the expected expenditures. The Company makes short-term cash flow forecasts. The Company has signed contracts with the banks to ensure the availability of funding upon necessity.

Interest rate risk
The Company’s income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The distribution between fixed rate and variable rate instruments depends on 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 reporting

Primary reporting format – business segments

The Group operates in three business segments: 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 in 2003 was engaged in construction services.

GROUP	Furniture manufacturing	Retail trade in furniture	Construction services	Total
2004				
Sales	150,646	8,609	-	159,255
Operating result	5,505	(1,888)	-	3,617
Result of associates	223	-	-	223
2003				
Sales	193,481	33,123	16	226,620
Operating result	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 property, plant and equipment	16,981	792	22	17,795
Depreciation and amortisation	7,952	764	7	8,723

Secondary reporting format – geographical segments

GROUP	Lithuania	Baltic States	Western Europe	Total
2004				
Sales	157,229	621	1,405	159,255
2003				
Sales	49,566	2,379	174,675	226,620
Assets	140,291	789	-	141,080
Investments in property, plant and equipment	17,795	-	-	17,795

	COMPANY	
	2004	2003
Sales - Western Europe	98	81,023
Sales - Lithuania	117,896	21,434
	117,994	102,457

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

2. Cost of goods sold

	GROUP		COMPANY	
	2004	2003	2004	2003
Raw materials	91,449	117,681	68,117	52,489
Remuneration and social security	26,562	39,614	18,874	17,615
Production overhead costs	15,277	19,484	11,346	11,247
	133,288	176,779	98,337	81,351

3. Other operating income, net

	GROUP		COMPANY	
	2004	2003	2004	2003
Gain on disposal of property, plant and equipment and proceeds from sale of inventories	35	2,126	26	30
Rent income	305	313	184	180
Income from holiday house	108	67	108	79
Other	422	262	372	220
	870	2,768	690	509
Expenses of holiday house	(353)	(408)	(353)	(380)
Rent cost	(102)	(106)	(36)	(28)
Other	(11)	-	-	-
	(466)	(514)	(389)	(408)
	404	2,254	301	101

4. Selling and distribution expenses

	GROUP		COMPANY	
	2004	2003	2004	2003
Remuneration and social security expenses of sales personnel	1,457	7,204	78	222
Transportation expenses	203	2,274	21	500
Rent expenses	753	2,412	-	-
Advertising	547	1,600	214	269
Depreciation	172	394	7	-
Mediation fee	-	79	-	38
Market research services	8	13	-	-
Commission for export services	307	-	-	-
Other expenses	294	4,615	30	106
	3,741	18,591	350	1,135

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

5. General and administration expenses

	GROUP		COMPANY	
	2004	2003	2004	2003
Consulting services	8,515	11,145	5,901	5,375
Remuneration and social security	4,186	6,049	2,728	2,564
Negative revaluation effect and impairment of buildings and investment property	97	62	97	87
Taxes other than income tax	1,233	2,091	843	785
Goodwill amortisation	368	1,104	-	-
Depreciation and amortisation	353	809	183	500
Materials and maintenance expenses	729	724	377	312
Security services	378	666	191	203
Association fees and representation expenses	513	598	403	262
Communication expenses	666	475	366	202
Business trips	131	280	35	107
Inventories write-offs and impairment	53	213	27	99
Doubtful receivables write-offs and impairment	6	282	-	8
Other	1,244	1,869	802	742
	18,472	26,367	11,953	11,246

6. Finance costs, net

	GROUP		COMPANY	
	2004	2003	2004	2003
Interest expenses	(1,122)	(2,215)	(694)	(868)
Net foreign exchange (loss) gain	(30)	(655)	(10)	(340)
Interest income	468	376	468	628
Other finance (costs) income	140	(36)	27	8
	(544)	(2,530)	(209)	(572)

7. Terminated operations

In May 2004, the Company sold 67 per cent of shares of its subsidiary Klaipėdos Baldų Prekyba UAB to the Company‘s major shareholder Koncernas SBA UAB for the total amount of LTL 4,000 thousand.

Non-current portion of amounts receivable for the shares sold (LTL 1,800 thousand) was included in other non-current financial assets, whereas current portion of amounts receivable for the shares sold (LTL 1,400 thousand) was included in other amounts receivable.

Sales, net result, cash flows and net assets of the subsidiary were as follows:

	5 months ended 31 May 2004
Sales	41,581
Operating expenses	(9,542)
Profit (loss) before tax	(2,756)
Income tax	(53)

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

Net profit (loss)	(2,809)

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

7. Terminated operations (continued)

	31 May 2004
Non-current assets	46,413
Current assets	38,976
Total assets	85,389
Total liabilities	(82,693)
Net assets	2,696

Loss on sale of the subsidiary was calculated as follows:

	GROUP
Proceeds from sale – cash received	4,000
Realisation of currency translation reserve	210
Net assets sold	(1,807)
Goodwill written off	(2,944)
Loss on sale	(541)

Net cash flows from sale were as follows:

	GROUP
Proceeds from sale – cash received	4,000
Less: cash and cash equivalents of the subsidiary sold	(693)
Amount receivable for the shares offset against liabilities	(800)
Amount receivable for the shares as at 31 December 2004	(3,200)
Net cash flows from sale	(693)

8. Income tax

	GROUP	COMPANY	
	2003	2004	2003
Current income tax	2,892	1,520	1,732
Deferred income tax (Note 21)	(911)	(302)	(661)
	1,981	1,218	1,071

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	2004	2003
Profit before tax	6,605	4,804	5,048
Income tax at a rate of 15 per cent	991	720	757
Non-taxable income	(673)	-	-
Non-deductible expenses	1,013	516	320
Reduced income tax as a result of charity	(13)	(18)	(6)
Utilisation of tax losses	(2)	-	-
Change in provisions for deferred tax assets	665	-	-
Income tax expense	1,981	1,218	1,071

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

9. Earnings per share

	GROUP		COMPANY	
	2004	**2003**	**2004**	**2003**
Net profit attributable to shareholders	3,586	3,977	3,586	3,977
Weighted average number of shares in issue (thousands)	8,166	8,166	8,166	8,166
Basic earnings per share (LTL)	0.44	0.49	0.44	0.49

The Group has no 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 and machinery	Vehicles	Construction in progress and prepayments	Total
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

COMPANY

	Buildings	Plant and machinery	Vehicles	Construction in progress and prepayments	Total
At 31 December 2003					
Cost or indexation	13,809	28,549	1,286	3,426	47,070
Accumulated depreciation and impairment	(1,087)	(13,706)	(1,032)	-	(15,825)
Net book amount	12,722	14,843	254	3,426	31,245
Year ended 31 December 2004					
Opening net book amount	12,722	14,843	254	3,426	31,245
Additions	-	3,845	227	873	4,945
Reclassification from investment property	176	-	-	-	176
Disposals and write-offs	(1)	(325)	(65)	-	(391)
Reclassifications	-	981	28	(1,009)	-
Depreciation	(909)	(2,977)	(101)	-	(3,987)
Closing net book amount	11,988	16,367	343	3,290	31,988
At 31 December 2004					
Cost or indexation	13,976	32,449	1,399	3,290	51,114
Accumulated depreciation and impairment	(1,988)	(16,082)	(1,056)	-	(19,126)
Net book amount	11,988	16,367	343	3,290	31,988

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

10. Property, plant and equipment (continued)

Additions include assets amounting to LTL 1,445 thousand acquired under finance lease (where the Company is the lessee).

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

	2004	2003
Cost – capitalised finance lease amount		
– equipment	5,436	4,299
Accumulated depreciation		
– equipment	(824)	(428)
Net book value	4,612	3,871

To secure the repayment of borrowings from banks and non-financial institutions, the Company has pledged its property, plant and equipment with the net book value of LTL 16,653 thousand as at 31 December 2004 (2003: LTL 17,333 thousand).

Depreciation expenses of property, plant and equipment are accounted for in selling and distribution expenses, general and administrative expenses, and in cost of sales in the income statement, as well as in work in progress and finished products in the balance sheet.

Information on change in management's accounting estimates

As described in part I *Property, plant and equipment* of the Accounting policies, in 2004 the Company's management introduced changes in useful lives applied to property, plant and equipment. This accounting estimate was changed by the Company's management to reflect more accurately the use of economic benefits derived from assets in the Company's business activities and disclose more accurately the closing net book value of assets.

Both, the previous and newly established useful lives are disclosed in the Accounting policies. The estimation of useful life is applied by management on a prospective basis, therefore, with effect from 1 January 2004, depreciation expenses of all property, plant and equipment are accounted for using the newly established useful lives. The effect of this change in management's accounting estimate on the Company's balance sheet as at 31 December 2004 and income statement for the year then ended is as follows:

Items in the financial statements affected and description of accounting estimate	Amount of accounting estimate	Amount before change in accounting estimate	Amount after change in accounting estimate
Net book value of property, plant and equipment	541	31,447	31,988
Profit before tax for the reporting period	(541)	(4,263)	(4,804)

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

11. Investment property

As described in Accounting policy for investment property, in 2003 the Group companies applied different accounting policies to investment property. The distribution of net book values of investment property stated at revalued amount, indexed value and at cost may be analysed as follows as at 31 December 2003:

	GROUP
	2003
Net book value of investment property stated at fair value	762
Net book value of investment property stated at cost	564
Total net book value of investment property	1,326

In 2004, movement in the Company's investment property stated at fair value may be analysed as follows:

	COMPANY
As at 31 December 2003	
Cost	1,672
Accumulated depreciation	(108)
Net book value	1,564
Year ended 31 December 2004	
Opening net book amount	1,564
Investment property reclassified to property, plant and equipment	(176)
Impairment of fair value	(96)
Closing net book amount	1,292
As at 31 December 2004	
Cost	1,496
Accumulated depreciation	(204)
Net book value	1,292

Depreciation of investment property was accounted for in general and administrative expenses and other operating expenses in the income statement.

As at 31 December 2004 and 2003, there were no restrictions on 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.

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

12. Intangible assets

GROUP	Goodwill	Prepayments	Computer software and other intangible assets	Total
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

COMPANY	Prepayments	Computer software and other intangible assets	Total
At 31 December 2003			
Cost	309	561	870
Accumulated amortisation	-	(479)	(479)
Net book value	309	82	391
Year ended 31 December 2004			
Opening net book amount	309	82	391
Additions	659	148	807
Amortisation	-	(87)	(87)
Closing net book amount	968	143	1,111
At 31 December 2004			
Cost	968	685	1,653
Accumulated amortisation	-	(542)	(542)
Net book value	968	143	1,111

Prepayment for intangible assets represents the project in progress on installation of computer software (MySAP).

Amortisation expenses of intangible assets are accounted for in selling and distribution expenses, general and administrative expenses, and cost of sales in the income statement, as well as in work in progress and finished products in the balance sheet.

13. Investments in subsidiaries and associates

Acquisition cost and carrying amount of investments in associates are analysed below:

GROUP	Acquisition cost	Carrying amount
	2003	2003

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

Kauno Baldai AB	2,679	5,566
Akmena AB	422	431
	3,101	5,997

13. Investments in subsidiaries and associates (continued)

Acquisition cost and carrying amount of investments in subsidiaries are analysed below:

COMPANY	Acquisition cost		Carrying amount	
	2004	2003	2004	2003
Klaipėdos Baldų Prekyba UAB	-	9,501	-	4,567
Baldstata UAB	22	22	84	75
	22	9,523	84	4,642

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, 33 percent of shares of Kauno Baldai AB, 36 percent of shares of Karigė AB, 22 percent of shares of Akmena AB, 67 percent of shares of Autokomercija UAB, and 67 percent of shares of KBP SIA.

In May 2004, the Company sold 67 per cent of shares of Klaipėdos Baldų Prekyba UAB together with the following indirectly controlled investments: 41 percent of shares of Šilutės Baldai AB, 33 percent of shares of Kauno Baldai AB, 36 percent of shares of Karigė AB, 22 percent of shares of Akmena AB, and 67 percent of shares of KBP SIA (Note 7).

14. Available-for-sale investments

	GROUP	COMPANY	
	2003	2004	2003
Cost at beginning of period	288	441	288
Acquisitions	1,803	-	153
Impairment	(78)	(78)	(78)
Disposals	(1,703)	(153)	-
Closing balance	310	210	363
Non-current	210	210	210
Current	100	-	153
	310	210	363

Disposals of investments

In January 2004, the Company disposed of its current investments in Baldstata UAB and SBA Baldų Kompanija UAB carried at acquisition cost of LTL 53 thousand and LTL 100 thousand, respectively, for the amounts of LTL 53 thousand and LTL 120 thousand, respectively.

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

15. Non-current amounts receivable

	GROUP	COMPANY	
	2003	2004	2003
Amounts receivable from and loans granted to related parties (Note 26)	3,077	15,847	11,716
Loans granted to employees	158	87	130
	3,235	15,934	11,846

15. Non-current amounts receivable (continued)

Long-term loans granted to employees amounting to LTL 87 thousand in the Company's financial statements as at 31 December 2004 (31 December 2003: LTL 130 thousand) were not accounted for at amortised cost. This, however, did not have any significant effect on the financial statements as at 31 December 2004 and 31 December 2003.

Current portion of non-current receivables is disclosed in Note 17.

16. Inventories

	GROUP	COMPANY	
	2003	2004	2003
Raw materials (cost)	10,280	6,587	5,574
Work in progress (cost)	9,002	3,492	3,555
Finished products and goods for resale (cost)	7,839	42	-
Other inventories (cost)	32	-	4
Write-down to net realisable value	(1,529)	(404)	(377)
	25,624	9,717	8,756

As at 31 December 2004, the Group has pledged its inventories amounting to LTL 6,183 thousand (31 December 2003: LTL 9,694 thousand) to secure the repayment of its borrowings.

As at 31 December 2004, the cost of inventories carried at net realisable value amounted to LTL 1,027 thousand (31 December 2003: LTL 1,029 thousand).

17. Amounts receivable, prepayments and deferred charges

	GROUP	COMPANY	
	2003	2004	2003
Receivables from related parties, including current portion of long-term debts (Note 26)	13,095	18,249	15,890
Trade receivables	8,571	208	496
VAT receivable	2,285	95	634
Current portion of loans granted to employees	307	129	203
Prepayments and deferred charges	299	311	96
Other amounts receivable	2,802	10	-
Provision for doubtful amounts receivable	(1,477)	(179)	(213)
	25,882	18,823	17,106

18. Cash and cash equivalents

	GROUP	COMPANY

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

	2003	2004	2003
Cash at bank	3,203	489	2,592
Cash in hand	400	10	13
	3,603	499	2,605

18. Cash and cash equivalents (continued)

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

	GROUP	COMPANY	
	2003	2004	2003
Balances of cash in hand and at bank	3,603	499	2,605
Bank overdraft	(681)	-	-
	2,922	499	2,605

19. Share capital

As at 31 December 2004, 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

	COMPANY	COMPANY AND GROUP
	2004	2003
Reserves:		
– revaluation reserve	6,166	6,573
– legal reserve	817	817
– currency translation reserve	-	210
– other reserves	7,698	7,698
	14,681	15,298

Revaluation reserve

As at 31 December 2004, revaluation reserve amounted to LTL 6,166 thousand (2003: LTL 6,573 thousand). This reserve was recognised upon revaluation of property, plant and equipment. The last revaluation was carried out in 2002. By the amount of positive revaluation effect of LTL 6,080 thousand, the balance of revaluation reserve was increased in the balance sheet.

As at 31 December 2004, as a result of depreciation of these revalued assets, revaluation reserve was reduced by LTL 407 thousand (2003: LTL 409 thousand), whereas the retained result for the year then ended was increased by the same amount. This amount was disclosed in the statement of changes in shareholders' equity.

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

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. A part of legal reserve in excess of 10 per cent of the authorised share capital may be redistributed when appropriation of profit for the following financial year is performed.

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.

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 (2003: 15 per cent).

The movement in deferred income tax account was as follows:

	GROUP	COMPANY	
	2003	**2004**	**2003**
At beginning of year	(3,380)	(1,615)	(2,276)
Credited to income statement	911	302	661
At end of year	(2,469)	(1,313)	(1,615)

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		
	2004	**Credited to income statement**	**2003**
Deferred tax assets			
– Inventories	61	(17)	78
– Differences in depreciation rates applied	81	81	-
– Accrued charges	158	14	144
	300	78	222
Deferred tax liabilities			
– Non-current assets	(1,613)	224	(1,837)
Deferred tax liabilities, net	(1,313)	302	(1,615)

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
Deferred tax assets	
– Inventories	245
– Amounts receivable	39
– Accrued charges	490
– Tax losses	1,116

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

– Deferred income	312
	2,202
Provision for deferred tax assets	(1,120)
Deferred tax assets, net	1,082
Deferred tax liabilities	
– Inventories	-
– Non-current assets	(3,551)
Deferred tax liabilities, net	(2,469)

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.

22. Borrowings

	GROUP	COMPANY	
	2003	**2004**	**2003**
Short-term borrowings			
Short-term loans received from banks	5,864	771	4,581
Current portion of long-term loans received from banks and non-financial institutions	7,982	2,750	3,734
Bank overdrafts	681	-	-
Finance lease liabilities	2,461	1,156	861
	16,988	4,677	9,176
Long-term borrowings			
Long-term loans received from banks and non-financial institutions	15,437	11,199	9,223
Finance lease liabilities	9,864	2,502	2,383
	25,301	13,701	11,606
Total borrowings	42,289	18,378	20,782

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.

According to loan agreements signed with Hansabankas AB, the Company has a commitment to ensure that over the validity period of the loan agreements its borrowing costs coverage ratio will be not lower than 3 (three). As at 31 December 2004, the Company has complied with this commitment.

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

	GROUP	COMPANY	
	2003	**2004**	**2003**
Long-term bank loans	5.36	3.33	3.29
Short-term bank loans	4.04	3.48	4.02
Finance lease liabilities	4.28	3.27	3.39
Bank overdrafts	4.30	-	-

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

	GROUP	COMPANY

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

	2003	2004	2003
Between 1 and 2 years	5,808	3,009	4,200
Between 2 and 5 years	9,192	8,190	5,023
After 5 years	437	-	-
	15,437	11,199	9,223

22. Borrowings (continued)

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

	GROUP	COMPANY	
	2003	2004	2003
Subject to fixed interest rate:			
– drawdown term matures within one year	519	2 000	-
Subject to floating interest rate:			
– drawdown term matures within one year	909	-	455
	1,428	2,000	455

Finance lease liabilities – minimum lease payments:

	GROUP	COMPANY	
	2003	2004	2003
Not later than 1 year	2,882	1,260	947
After 1 year but not later than 5 years	7,562	2,595	2,513
After 5 years	3,458	-	-
	13,902	3,855	3,460
Future finance lease charges	(1,577)	(197)	(216)
Present value of finance lease liabilities	12,325	3,658	3,244

Present value of finance lease liabilities:

Not later than 1 year	2,461	1,156	861
After 1 year but not later than 5 years	6,625	2,502	2,383
After 5 years	3,239	-	-
	12,325	3,658	3,244

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

23. Trade and other amounts payable

	GROUP	COMPANY	
	2003	2004	2003
Trade payables	25,842	11,137	10,194
Payables to related parties (Note 26)	7,451	1,711	2,617
Taxes payable, remuneration and social security payable	4,283	2,924	1,931
Deferred income	2,079	-	-
Advance amounts received	501	1,138	4
Other amounts payable and accrued charges	4,201	1,230	1,362
	44,357	18,140	16,108

24. Minority interest

	2003
Opening balance	6,417
Share of net result of subsidiaries	647
Change in net assets recorded under shareholders' equity	38
Shareholders' contribution against losses, attributable to minority	718
Closing balance	7,820

25. Cash flows from operating activities

Reconciliation of net profit with cash flows from operating activities:

	GROUP		COMPANY	
	2004	2003	2004	2003
Net profit	3,586	3,977	3,586	3,977
Adjustments for:				
Goodwill amortisation	368	1,064	-	-
Minority interest	(453)	647	-	-
Income tax expenses	1,573	2,892	1,520	1,732
Result of subsidiaries and associates	(298)	(1,713)	2,101	3,206
Depreciation (Note 10)	5,974	8,640	3,987	4,797
Amortisation (Note 12)	94	83	87	19
Fair value impairment (Note 11)	96	62	96	87
Subsidy amortisation	(13)	(33)	(7)	(6)
(Gain) loss on disposal of property, plant and equipment and write-off	78	(2,103)	78	(30)
Impairment and write-offs of amounts receivable	-	282		8
Reversal of impairment of amounts receivable	(34)	-	(34)	-
Provision for inventories and write-offs	27	884	27	99
Interest expenses (Note 6)	1,122	2,215	694	868
Interest income (Note 6)	(3)	(376)	(3)	(628)
(Gain) loss on disposal of subsidiary (Note 7)	541	(285)	541	-
Gain on disposal of short-term investment	(20)	-	(20)	-
Change in deferred tax liabilities (Note 8)	(302)	(911)	(302)	(661)

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

Change in working capital:				
– amounts receivable and prepayments	(2,471)	(1,482)	(1,610)	(3,079)
– inventories	(5,885)	(4,100)	(988)	(2,614)
– amounts payable	7,234	9,763	(730)	1,894
Cash flows from operating activities	11,216	19,506	9,023	9,669

Non-monetary transactions

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

26. Related party transactions

Group companies of Koncernas SBA UAB and the Company's management are treated as related parties.

	COMPANY	GROUP
Sales of goods and services	**2004**	**2003**
SBA Baldų Kompanija UAB	115,897	15,925
Šilutės Baldai AB	790	-
Karigė AB	415	-
Koncernas SBA UAB	276	14
Klaipėdos Baldų Prekyba UAB	267	-
Kauno Baldai AB	89	435
Akmena AB	32	120
Baldstata UAB	14	-
Baldutura UAB	2	18
Association Industry Marketing and Business Centre	-	1
	117,782	16,513
Interest received		
Koncernas SBA UAB	274	361
Klaipėdos Baldų Prekyba UAB	191	-
	465	361
Purchases of goods and services		
Koncernas SBA UAB	6,756	13,294
Šilutės Baldai AB	2,580	-

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

Baldutura UAB	768	1,592
Baldstata UAB	720	-
Klaipėdos Baldų Prekyba UAB	142	-
Justima UAB	123	198
Karigė AB	88	-
Kauno Baldai AB	76	6,907
SBA Baldų Kompanija UAB	44	23
Akmena AB	35	186
Vega Trading Group LLC	-	1,703
Association Industry Marketing and Business Centre	-	480
Miestprojektas UAB	-	11
Trinyčiai AB	-	3
	11,332	24,397

In 2004 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.

26. Related party transactions (continued)

Amounts receivable within one year	2004	2003
SBA Baldų Kompanija UAB	13,870	6,818
Koncernas SBA UAB (for shares)	1,400	-
Klaipėdos Baldų Prekyba UAB	1,305	-
Koncernas SBA UAB (loan)	1,231	5,080
Karigė AB	333	-
Akmena AB	62	103
Vincas Januška	41	-
Kauno Baldai AB	7	7
Mr. V. Rančys	-	898
Baldutura UAB	-	178
Autokomercija UAB*	-	9
Mr. G. Misiukevičius	-	2
	18,249	13,095

Amounts receivable after one year and non-current portion of loans granted	2004	2003
Klaipėdos Baldų Prekyba UAB (loan)	8,639	-
Koncernas SBA UAB (loan)	5,408	3,077
Koncernas SBA UAB (for shares)	1,800	-
	15,847	3,077

Amounts payable within one year	2004	2003
Šilutės Baldai AB	798	-
Koncernas SBA UAB	698	1,689

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

Baldstata UAB	129	-
Association Industry Marketing and Business Centre	64	164
Justima UAB	12	-
Baldutura UAB	10	124
Kauno Baldai AB	-	5,390
Akmena AB	-	59
SBA Baldų Kompanija UAB	-	23
Mr. G. Misiukevičius	-	2
	1,711	7,451

Amounts payable after one year

Kauno Baldai AB	-	2,624

Sale of shares	**2004**	**2003**
Koncernas SBA UAB	4,000	-
Mr. V. Januška	53	-
Mr. A. Martinkevičius	120	-
	4,173	-

27. Contingent liabilities and commitments

Guarantees issued

The Company has guarantee agreements with the bank NORD/LB Lietuva AB and the bank Hansabankas AB, based on which it has issued a guarantee for the amount of all its assets on behalf of Koncernas SBA UAB and SBA Baldų Kompanija UAB, respectively, to secure their borrowings from the above-mentioned banks.

The Company‘s management believe that Koncernas SBA UAB and SBA Baldų Kompanija UAB will meet their obligations to the banks and other creditors, therefore, no provisions were established for commitments related to the guarantees issued in the financial statements for the year ended 31 December 2004.

28. Post-balance sheet events

Based on the decision of the Company‘s Board meeting dated 31 January 2005, the Company has a commitment against VB Lizingas UAB to repurchase equipment leased by Akmena UAB from VB Lizingas UAB for the amount not higher than EUR 221 thousand in case the lease agreement between VB Lizingas UAB and Akmena AB is terminated prior to its expiry term.

Subsequent to balance sheet date, based on debt transfer agreement dated 3 February 2005, the Company‘s major shareholder Koncernas SBA UAB transferred its liabilities against the Company for loans granted and shares sold amounting to LTL 9,839 thousand to SBA Baldų Kompanija UAB.

Based on the decision of the Company‘s Board meeting dated 9 February 2005, the Company issued to the bank Hansabankas AB a guarantee subject to no exceptions or restrictions for the amount of its assets to secure the increased loan granted to SBA Baldų Kompanija UAB from EUR 900 thousand to EUR 1,500 thousand.

On 3 March 2005, Vilniaus Bankas AB extended the short-term credit line agreement until 3 March 2006.