AB UTENOS TRIKOTAŽAS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AB UTENOS TRIKOTAŽAS

We have audited the accompanying balance sheet of AB Utenos Trikotažas (a joint stock company registered in the Republic of Lithuania, "the Company") and consolidated balance sheet of AB Utenos Trikotažas and subsidiaries ("the Group") as of 31 December 2004 and the related statements of income, cash flows and changes in equity 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.

We conducted our audit in accordance with International Standards on Auditing as set forth 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 the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 344

Jonas Akelis Auditor's licence No. 000003	Inga Gudinaitė Auditor's licence No. 000366

The audit was completed on 31 January 2005.

Balance sheets

		Notes	Group		Company	
			As of 31 December 2004	**As of 31 December 2003**	**As of 31 December 2004**	**As of 31 December 2003**
	ASSETS					
A	**Non-current assets**					
I.	Intangible assets	5				
I.1.	Goodwill		(704)	(2,626)	-	-
I.2.	Other intangible assets		258	480	143	217
I.3.	Prepayments for non-current intangible assets		428	-	428	-
	Total intangible assets		(18)	(2,146)	571	217
II.	Property, plant and equipment	7				
II.1.	Land and buildings		10,705	10,888	4,785	4,896
II.2.	Structures and equipment		482	462	365	346
II.3.	Vehicles and other property, plant and equipment		32,382	32,275	26,830	26,176
II.4.	Construction in progress and prepayments		156	1,134	9	1,134
	Total property, plant and equipment		43,725	44,759	31,989	32,552
III.	Investment property	6	995	1,069	5,240	5,348
IV.	Non-current financial assets					
IV.1.	Investments into subsidiaries	1, 8	-	-	8,615	8,414
IV.2.	Prepayments for other financial assets		146	-	146	-
IV.3.	Non-current receivables	11	-	1,200	-	-
	Total non-current financial assets		146	1,200	8,761	8,414
V.	Deferred income tax asset	22	973	1,033	523	635
	Total non-current assets		**45,821**	**45,915**	**47,084**	**47,166**
B	**Current assets**					
I.	Inventories, prepayments and contracts in progress					
I.1.	Inventories	9	16,702	17,684	9,660	10,011
I.2.	Prepayments		823	137	268	61
	Total inventories, prepayments and contracts in progress		17,525	17,821	9,928	10,072
II.	Accounts receivable					
II.1.	Trade receivables	10	17,618	22,036	11,393	17,453
II.2.	Receivables from subsidiaries	25	-	-	5,704	6,195
II.3.	Prepaid income tax		81	-	78	-
II.4.	Other taxes receivable		1,078	3,073	551	1,750
II.5.	Other receivables	11	1,627	534	370	522
	Total accounts receivable		20,404	25,643	18,096	25,920
III.	Other current assets		303	267	71	91
IV.	Cash and cash equivalents	12	2,079	3,066	1,121	1,343
	Total current assets		**40,311**	**46,797**	**29,216**	**37,426**
	Total assets		**86,132**	**92,712**	**76,300**	**84,592**

Balance sheets (cont'd)

		Notes	Group		Company	
			As of 31 December 2004	As of 31 December 2003	As of 31 December 2004	As of 31 December 2003
	EQUITY AND LIABILITIES					
C.	**Equity**					
I.	Share capital	13	19,834	19,834	19,834	19,834
II.	Reserves	14				
II.1.	Foreign currency translation reserve		20	175	20	175
II.2.	Other reserves		11,983	4,507	11,983	4,507
	Total reserves		12,003	4,682	12,003	4,682
III.	Retained earnings (deficit)		11,004	20,348	11,004	20,348
	Total equity		**42,841**	**44,864**	**42,841**	**44,864**
	Minority interest		**1,908**	**1,951**	**-**	**-**
D.	**Liabilities**					
I.	**Non-current liabilities**					
I.1.	Non-current borrowings	15	23,244	23,558	23,244	23,558
I.2.	Financial lease liabilities		18	-	-	-
I.3.	Grants and subsidies		2	-	-	-
	Total non-current liabilities		**23,264**	**23,558**	**23,244**	**23,558**
II.	**Current liabilities**					
II.1.	Current portion of non-current borrowings	15	183	4,009	183	4,009
II.2.	Current portion of non-current financial lease liabilities		22	-	-	-
II.3.	Trade payables		10,665	6,320	5,920	3,473
II.4.	Income tax payable		-	2,054	-	2,045
II.5.	Other taxes payable		680	1,153	340	665
II.6.	Accrued expenses and other current liabilities	16	6,569	8,803	3,772	5,978
	Total current liabilities		**18,119**	**22,339**	**10,215**	**16,170**
	Total equity and liabilities		**86,132**	**92,712**	**76,300**	**84,592**

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

General Manager	Regina Sajienė	(date and signature)
Chief Accountant	Valda Gylienė	(date and signature)

Income statements

		Notes	Group		Company	
			2004	**2003**	**2004**	**2003**
I.	Sales	17	174,691	180,855	129,794	134,191
II.	Cost of sales	18	(132,616)	(135,744)	(97,811)	(100,759)
III.	**Gross profit (loss)**		**42,075**	**45,111**	**31,983**	**33,432**
IV.	Operating expenses	19	(28,552)	(28,251)	(14,462)	(13,988)
V.	**Profit (loss) from operations**		**13,523**	**16,860**	**17,521**	**19,444**
VI.	Other operating income (expenses), net	20	(74)	(24)	366	445
VII.	Income (expenses) from financial and investment activities, net	21	(1,230)	(1,186)	(1,059)	(506)
VIII.	**Profit (loss) from ordinary activities**		**12,219**	**15,650**	**16,828**	**19,383**
IX.	Result from subsidiaries	1	-	-	(4,474)	(4,256)
X.	**Profit (loss) before tax**		**12,219**	**15,650**	**12,354**	**15,127**
XI.	Income tax	22	(2,273)	(2,002)	(2,322)	(1,965)
XII.	**Profit (loss) before minority interest**		**9,946**	**13,648**	**10,032**	**13,162**
XIII.	Minority interest		86	(486)	-	-
XIV.	**Net profit (loss)**		**10,032**	**13,162**	**10,032**	**13,162**
	Basic and diluted earnings per share (in LTL)	23	0.51	0.66	0.51	0.66

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

General Manager	Regina Sajienė	(date and signature)
Chief Accountant	Valda Gylienė	(date and signature)

Statements of changes in equity

Group and Company	Notes	Share capital	Foreign currency translation reserve	Other reserves	Retained earnings	Total
Balance as of 31 December 2002		**35,334**	**-**	**4,507**	**19,913**	**59,754**
Decrease of share capital	13	(15,500)	-	-	-	(15,500)
Dividends paid		-	-	-	(12,367)	(12,367)
Bonuses paid		-	-	-	(360)	(360)
Transfer to foreign currency translation reserve	1	-	175	-	-	175
Net profit for the year		-	-	-	13,162	13,162
Balance as of 31 December 2003		**19,834**	**175**	**4,507**	**20,348**	**44,864**
Dividends paid	14	-	-	-	(11,900)	(11,900)
Reduction of reserves	14	-	-	(2,524)	2,524	-
Reserve for acquisition of own shares	14	-	-	10,000	(10,000)	-
Transfers to (from) foreign currency translation reserve	14	-	(155)	-	-	(155)
Net profit for the year		-	-	-	10,032	10,032
Balance as of 31 December 2004		**19,834**	**20**	**11,983**	**11,004**	**42,841**

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

General Manager	Regina Sajienė	(date and signature)
Chief Accountant	Valda Gylienė	(date and signature)

Cash flow statements

		Notes	Group		Company	
			2004	2003	2004	2003
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit for the year		10,032	13,162	10,032	13,162
	Adjustments for non-cash items:					
I.2.	Result from subsidiaries		-	-	4,474	4,256
I.3.	Depreciation and amortisation		7,748	8,546	5,714	5,962
I.4.	Impairment of property, plant and equipment and investment property		(118)	2	(110)	390
I.5.	Amortisation and impairment of goodwill		(400)	(511)	-	-
I.6.	Change in minority interest		(86)	486	-	-
I.7.	(Gain) loss from disposal of property, plant and equipment and write-off of property, plant and equipment and inventories		831	114	591	(18)
I.8.	Impairment and write-off of accounts receivable		(343)	(310)	(334)	(274)
I.9.	Impairment of inventories		729	252	44	(44)
I.10.	Interest (income)		(87)	(138)	(165)	(316)
I.11.	Interest expenses		892	963	886	963
I.12.	Change in deferred income tax		60	(27)	112	(61)
			19,258	22,539	21,244	24,020
	Changes in working capital:					
I.13.	Decrease in inventories		97	1,855	269	458
I.14.	Decrease (increase) in trade receivables		4,582	(3,846)	6,214	(3,734)
I.15.	Decrease in other receivables		1,944	-	1,199	-
I.16.	(Increase) in receivables from subsidiaries		-	-	(4,242)	(2,094)
I.17.	(Increase) decrease in other current assets		(888)	111	(265)	43
I.18.	Increase in trade and other accounts payable		4,345	372	2,447	883
I.19.	(Decrease) in taxes payable and other current liabilities		(5,424)	(2,772)	(5,225)	(2,667)
	Net cash flows from (to) operating activities		**23,914**	**18,259**	**21,641**	**16,909**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of non-current tangible assets (except investments)		(7,158)	(5,556)	(5,406)	(3,898)
II.2.	Prepayments for and (acquisition) of intangible assets		(412)	(323)	(470)	(120)
II.3.	Proceeds from sale of non-current assets (except investments)		53	195	49	49
II.4.	(Acquisition) of subsidiaries, net of cash acquired (in the Group)	8	(1,393)	(1,028)	(43)	(1,373)
II.5.	(Prepayments) for financial assets		(146)	-	(146)	-
II.6.	Collection of loans granted		337	490	331	402
II.7.	Interest received		99	138	99	316
	Net cash flows from (to) investing activities		**(8,620)**	**(6,084)**	**(5,586)**	**(4,624)**

Cash flow statements (cont'd)

		Notes	Group		Company	
			2004	**2003**	**2004**	**2003**
III.	**Cash flows from (to) financing activities**					
III.1.	Cash flows related to company shareholders					
III.1.1.	Decrease of share capital		-	(15,500)	-	(15,500)
III.1.2.	Dividends (paid)		(11,251)	(11,494)	(11,251)	(11,494)
			(11,251)	(26,994)	(11,251)	(26,994)
III.2.	Cash flows related to other sources of financing					
III.2.1.	Proceeds from loans		-	14,822	-	14,822
III.2.2.	(Repayment) of loans		(4,140)	(4,454)	(4,140)	(4,454)
III.2.3.	Interest (paid)		(890)	(963)	(886)	(963)
			(5,030)	9,405	(5,026)	9,405
	Net cash flows from (to) financial activities		**(16,281)**	**(17,589)**	**(16,277)**	**(17,589)**
IV.	**Net (decrease) in cash and cash equivalents**		**(987)**	**(5,414)**	**(222)**	**(5,304)**
V.	**Cash and cash equivalents at the beginning of the year**		**3,066**	**8,480**	**1,343**	**6,647**
VI.	**Cash and cash equivalents at the end of the year**		**2,079**	**3,066**	**1,121**	**1,343**

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

General Manager	Regina Sajienė	(date and signature)
Chief Accountant	Valda Gylienė	(date and signature)

1 General information

AB Utenos Trikotažas (hereinafter – "the Company") is a joint stock company registered in the Republic of Lithuania. The address of its registered office is as follows:

Basanavičiaus Str. 122,
Utena,
Lithuania

The Company is engaged in production of knitted articles. The Company was registered on 6 December 1994. The Company 's shares are traded on the Official List of the National Stock Exchange.

As of 31 December 2004 and 2003 the shareholders of the Company were:

	2004		2003	
	Number of shares held	**Equity (percentage)**	**Number of shares held**	**Equity (percentage)**
UAB Koncernas SBA	10,679	53.84	9,219	46.48
The European Bank for Reconstruction and Development (EBRD), represented by Scandinavian Baltic Development Ltd. fund	-	-	5,672	28.60
Investment fund Amber Trust	3,278	16.52	-	-
KIB Koncerno SBA Investicija	937	4.72	937	4.72
Employees of the Company	412	2.08	1,800	9.19
Other shareholders	4,528	22.84	2,206	11.01
	19,834	100.00	19,834	100.00

All the shares of the Company are registered ordinary shares with a par value of LTL 1 each. As of 31 December 2004 and 2003 all the shares are fully paid. In 2003 the Company has reduced its share capital by LTL 15,500 thousand (from LTL 35,334 thousand to LTL 19,834 thousand). The reduction is disclosed in Note 13. Subsidiaries did not hold any shares of the Company as of 31 December 2004 and 2003. The Company did not hold its own shares as of 31 December 2004 and 2003, too.

The Group consists of AB Utenos Trikotažas and the following subsidiaries (hereinafter "the Group"):

		Share of the stock held by the Group (percentage)					
	Registration address	**31 December 2004**	**31 December 2003**	**Cost of investment**	**Profit (loss) for the reporting year**	**Total equity**	**Main activities**
AB Šatrija group	Vilniaus Str. 5, Raseiniai	89.45	88.70	4,916	(785)	15,928	Sewing of clothes
UAB Gotija	Laisvės Ave 33, Kaunas	90.50	90.50	240	17	286	Retail
UAB Utenos Trikotažo Prekyba group	Basanavičiaus Str. 122, Utena	100.00	100.00	11,339	(4,329)	(3,339)	Retail

AB Šatrija group consists of AB Šatrija and its subsidiary UAB Justima. UAB Utenos Trikotažo Prekyba group consists of UAB Utenos Trikotažo Prekyba and its subsidiaries ZAO UTP Ukraine and SIA UTP Riga.

1 General information (cont'd)

On 6 September 2004 the Company additionally purchased shares of AB Šatrija. This acquisition and the related goodwill is disclosed in Note 5.

On 26 July 2004 the Company's subsidiary AB Šatrija purchased 100% of the shares of UAB Justima. The goodwill related to this acquisition is disclosed in Note 5. In 2005 the management of the Group and the Company is planning to start reorganisation procedures regulated by the Law on Companies' Reorganisation. After these procedures, UAB Justima should be incorporated into AB Šatrija, whereupon UAB Justima should discontinue its activity as a separate legal entity.

Because of the loss-making activities of SIA UTP Riga, the subsidiary of UAB Utenos Trikotažo Prekyba, on 27 February 2004 UAB Utenos Trikotažo Prekyba made a decision to liquidate SIA UTP Riga. SIA UTP Riga terminated its activities in December 2004, however, was not yet finally deregistered from the register of legal entities of the Republic of Latvia as of 31 December 2004.

In 2004 the average number of employees of the Company was 1,211 (1,296 in 2003). In 2004 the average number of employees of the Group was 2,047 (2,194 in 2003).

The shareholders of the Company have the statutory right to amend the financial statements after issue.

2 Form and contents of the financial statements

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB (International Accounting Standards Board), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC (International Accounting Standards Committee) that remain in effect.

2.1. Basis of accounting

The Company and the Group maintains its books and records in accordance with Business Accounting Standards (BAS) of the Republic of Lithuania. These financial statements reflect certain reclassifications not recorded in the books of the Company and the Group made in order to conform them to financial statements prepared in accordance with International Financial Reporting Standards.

2.2. Changes in accounting policies

The Company and the Group applied IFRS 3, "*Business Combinations"*, IAS 36, "*Impairment of Assets"* and IAS 38, "*Intangible Assets for the Business Combinations"* for the business combinations for which the agreement date is on or after 31 March 2004.

The effect of the adoption of IFRS 3 for business combinations on or after 31 March 2004 upon the Company's and the Group's accounting policies has no impact on the retained earnings. Negative goodwill arising on the acquisition before 31 March 2004 will be written off and accounted directly in the shareholder's equity from 1 January 2005.

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing annual goodwill, arising on or after 31 March 2004, amortisation and to test for impairment annually at the cash generating unit level.

Moreover, the useful life of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortised over its useful life. Amortisation periods and methods for intangible assets with finite useful lives are reviewed annually or earlier where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortised as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company and the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

2 Form and contents of the financial statements (cont'd)

2.3. Consolidation

Consolidated financial statements are composed of AB Utenos Trikotažas and its subsidiaries' financial statements, which are stated at uniform accounting principles.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and the income statement.

2.4. Measurement currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL).

Starting from 2 February 2002, Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

3 Significant accounting policies

The principal accounting policies adopted in preparing the Company's and the Group's financial statements for the year 2004 are as follows:

3.1. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Sewing services

Revenue from sewing services is recognised when the service has been completed.

Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset).

Rental income

Rental income arising on investment property is accounted for on a straight-line basis over the lease term on ongoing leases.

3 Significant accounting policies (cont'd)

3.2. Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Negative goodwill represents an excess of the net identifiable assets of the acquired subsidiary at the date of acquisition over the cost of the acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life, generally over 5 years. Goodwill arising on the acquisition after 31 March 2004 is not amortised but rather is considered for impairment annually. Negative goodwill arising on the acquisition before 31 March 2004, not exceeding fair value of the subsidiary's non-monetary assets at the date of acquisition is amortised using straight-line method over the period equal to the weighted average of acquired amortisable/depreciable assets' remaining useful lives. Negative goodwill exceeding fair value of the subsidiary's non-monetary assets at the date of acquisition is recognised as income in the statement of income immediately. Negative goodwill is presented in the same balance sheet classification as goodwill.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost arising on acquisitions on or after 31 March 2004 is recognized in the income statement immediately.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

The value of goodwill is reviewed if new information about the fair value of acquired assets at the date of acquisition becomes available during the first annual accounting period after goodwill recognition. The difference is accounted as goodwill adjustment.

On a disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of income.

3.3. Intangible non-current assets

Intangible non-current assets are stated at cost less accumulated amortisation and any accumulated impairment losses. Intangible non-current assets are amortised using the straight-line method over their useful lives.

The cost of acquisition of new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. The Company and Group's software is amortised on a straight-line basis over 2-5 years.

Intangible assets are tested for impairment annually either individually or at the cash generating unit level. Where an indicator of impairment exists, the Company and the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

3 Significant accounting policies (cont'd)

3.4. Property, plant and equipment

Property, plant and equipment is accounted at cost less accumulated depreciation and any accumulated impairment losses. Straight-line depreciation is provided over the estimated useful lives of the assets.

If an item of property, plant and equipment is impaired, it is stated at the higher of value in use and net selling price.

The Company and the Group capitalises property, plant and equipment improvements and purchases with an estimated useful life of more than one year. Presented below are useful lives of the Company's and the Group's property, plant and equipment:

Buildings	10 – 80 years
Structures and equipment	4 – 25 years
Vehicles	4 – 7 years
Other property, plant and equipment	2 – 20 years

Repairs are charged to the statement of income in the period they are incurred.

Renewals are added to the carrying amount of the property, plant and equipment when it is probable that the future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company and the Group.

3.5. Investment property

Investment property of the Company and the Group consist of investments in land and buildings that are held to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of business. In accordance with IAS 40, Investment Property, investment property are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently all investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Management believes that carrying values of investment property approximate their fair values.

Transfers to, or from, investment property are made when and only when, there is an evidence of a change in use.

3.6. Financial instruments

Investments are classified into the following categories: trading, held-for-maturity, and available-for-sale. Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are not current assets. Investments intended to be held for the indefinite period of time, which may be sold in response to needs of liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the expressed 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 working capital, in which case they are included in current assets. The management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

3.7. Investments in subsidiaries (the Company)

The Company's investments in subsidiaries (i.e. where the Company has a control) are stated in accordance with the equity method, so that the Company includes its proportionate share of post-acquisition results of operations of such subsidiaries in the statement of income. As a result, the recorded value of the investment corresponds to the Company's proportionate share of the equity of the subsidiaries, and in the Group's accounts the consolidated net result and equity correspond to those of the Company.

3 Significant accounting policies (cont'd)

3.8. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is an estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

3.9. Accounts receivable

The Company and the Group provides a reserve for potential losses based on an evaluation of specific doubtful accounts.

3.10. Cash and cash equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

3.11. Non-current accounts receivable and accounts payable

Non-current accounts receivable and non-current accounts payable are carried at amortised cost.

3.12. Transactions in foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions: 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 statement of income. Such balances are translated at the balance sheet date exchange rate.

The foreign consolidated subsidiaries operating in Ukraine and Latvia are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their measurement currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at the average exchange rates for the year with respect to the statement of income. The exchange differences arising on the translation are taken directly to equity.

3.13. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

3.14. Borrowing costs

Borrowing costs are expensed as incurred.

3 Significant accounting policies (cont'd)

3.15. Income tax

The Group companies are taxed individually irrespective of the overall results of the Group.

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia and the Republic of Ukraine.

Starting from 1 January 2002 income tax rate applied for the Company and subsidiaries operating in Lithuania is 15%. Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature. Up to 1 January 2002 companies also applied an investment incentive, which allowed to expense immediately acquisition costs of tangible non-current assets for corporate profit tax calculation purposes, however, depreciation expenses subsequently charged on these assets are not tax deductible.

Income tax rate in Ukraine and Latvia is 30% and 19% respectively.

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax asset is also recognised for the carry forward of unused tax losses.

Deferred tax assets have been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3.16. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3.17. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards, as published by the International Accounting Standards Board requires management of the Company and the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation, allowances for bad debts and impairment evaluation. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

3.18. Segments

For management purposes the Group is organised into four major businesses. The Group reports its primary segment information based on these businesses. Financial information on business and geographical segments is presented in Note 4.

3.19. Subsequent events

Post-year-end events that provide additional information about the Company's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3 Significant accounting policies (cont'd)

3.20. Corresponding figures

The Company and the Group reviewed their prepaid expenses attributable to the captions of the financial statements and made certain reclassifications. Where necessary, the corresponding figures have been adjusted to conform to changes in presentation in the current year.

4 Segment information

Business segments

The Company's main business segments are production of knitted articles, knitted and other clothes. The Group additionally provides sewing services (subsidiaries AB Šatrija and UAB Justima) and is engaged in retail and wholesale trade of its own production (subsidiaries UAB Utenos trikotažo prekyba, ZAO UTP Ukraina, and UAB Gotija). The segment of other activities involves activities, other than those mentioned above.

2004	**Production**	**Services**	**Retail and whole sale trading**	**Other activities**	**Elimination**	**Total**
Sales						
External sales of the Group	144,824	9,756	19,583	528	-	174,691
Internal sales of the Group	12,516	-	2,326	-	(14,842)	-
	157,340	9,756	21,909	528	(14,842)	174,691
Profit from operations	17,628	755	(3,755)	44	(1,149)	13,523
Assets	79,827	4,962	11,143	291	(10,091)	86,132
Liabilities	42,716	2,650	5,950	156	(10,091)	41,381
Capital expenditure	6,029	374	840	20	-	7,263
Depreciation and amortisation (excluding goodwill)	6,431	399	896	22	-	7,748
Impairment loss (reversal)	(118)	-	-	-	-	(118)

2003	**Production**	**Services**	**Retail and whole sale trading**	**Other activities**	**Elimination**	**Total**
Sales						
External sales of the Group	156,667	460	23,205	523	-	180,855
Internal sales of the Group	12,392	-	2,623	-	(15,015)	-
	169,059	460	25,828	523	(15,015)	180,855
Profit from operations	23,064	43	(4,705)	49	(1,591)	16,860
Assets	90,297	245	13,795	279	(11,904)	92,712
Liabilities	47,988	131	7,331	148	(11,904)	43,694
Capital expenditure	5,186	14	792	16	-	6,008
Depreciation and amortisation (excluding goodwill)	7,376	20	1,127	23	-	8,546
Impairment loss	2	-	-	-	-	2

4 Segment information (cont'd)

Geographical segments

Grouping into different geographical segments is based on the Group's internal management accounting information system. Management believes that these geographical segments have certain common characteristics.

2004	**Western Europe**	**Lithuania and the Baltic states**	**Other regions**	**Elimination**	**Total**
Sales					
External sales of the Group	152,506	21,971	214	-	174,691
Internal sales of the Group	-	12,819	2,023	(14,842)	-
	152,506	34,790	2,237	(14,842)	174,691
Assets (accounts receivable)	24,473	5,663	359	(10,091)	20,404

2003	**Western Europe**	**Lithuania and the Baltic states**	**Other regions**	**Elimination**	**Total**
Sales					
External sales of the Group	152,449	28,205	201	-	180,855
Internal sales of the Group	-	13,653	1,361	(15,014)	-
	152,449	41,858	1,562	(15,014)	180,855
Assets (accounts receivable)	29,224	8,024	299	(11,904)	25,643

In 2004 the Company's sales in Western Europe, Lithuania and other regions amounted to LTL 117,282 thousand, LTL 12,437 thousand and LTL 75 thousand, respectively (LTL 122,488 thousand, LTL 11,618 thousand and LTL 85 thousand in 2003).

The Group's assets, except for the assets of subsidiary ZAO UTP Ukraina, which is located in the Republic of Ukraine, are located in the Republic of Lithuania. Management believes that it is not practical to allocate assets, other than accounts receivable to certain geographical segments.

Intersegment transactions include transfers among business and among geographical segments. Such transactions are accounted at cost price plus certain margin. These transfers are eliminated in consolidation.

The Company's revenues from one client exceeding 10% of all sales in 2004 are as follows:

Client	**Geographical segment**	**Percentage from total revenue (%)**
AB Hennes Mauritz	Western Europe	17
AB Kappahl	Western Europe	13
French Connection	Western Europe	13

The Company's revenues from one client exceeding 10 % of all sales in 2003 are as follows:

Client	**Geographical segment**	**Percentage from total revenue (%)**
AB Hennes Mauritz	Western Europe	39

5 Intangible assets

Group	Negative goodwill, related to AB Šatrija	Goodwill, related to UAB Justima	Other intangible assets	Total
Cost:				
Balance as of 31 December 2003	(8,559)	-	2,904	(5,655)
Additions	-	1,522	55	1,577
Assets related to the acquisition of UAB Justima	-	-	83	83
Disposals	-	-	(123)	(123)
Balance as of 31 December 2004	(8,559)	1,522	2,919	(4,118)
Amortisation:				
Balance as of 31 December 2003	(5,933)	-	2,424	(3,509)
Charge for the year	(529)	-	208	(321)
Impairment	-	129	-	129
Accumulated amortisation related to the acquisition of UAB Justima	-	-	33	33
Disposals	-	-	(4)	(4)
Balance as of 31 December 2004	(6,462)	129	2,661	(3,672)
Net book value as of 31 December 2004	**(2,097)**	**1,393**	**258**	**(446)**
Net book value as of 31 December 2003	**(2,626)**	**-**	**480**	**(2,146)**

Company	Intangible assets
Cost:	
Balance as of 31 December 2003	1,896
Additions	42
Balance as of 31 December 2004	1,938
Amortisation:	
Balance as of 31 December 2003	1,679
Charge for the year	116
Balance as of 31 December 2004	1,795
Net book value as of 31 December 2004	**143**
Net book value as of 31 December 2003	**217**

The Company and the Group have no internally generated intangible assets. Amortisation expenses of intangible assets are included within operating expenses in the income statement.

As of 31 December 2004 part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 1,978 thousand and LTL 1,520 thousand respectively (LTL 1,943 thousand and LTL 1,485 thousand as of 31 December 2003) was fully amortised but still in use.

Prepayment for intangible assets in the Company's and the Group's balance sheets amounting to LTL 428 thousand is made for installation works of accounting system software.

5 Intangible assets (cont'd)

Goodwill

On 31 December 2003 the Company purchased 23.8% of the shares of AB Šatrija and controlled 88.7% of AB Šatrija shares as of 31 December 2003. The Company paid LTL 1,373 thousand for 827,515 AB Šatrija shares with par value of LTL 3 each. The fair value of the net asset acquired amounted to LTL 3,999 thousand at the time of acquisition; therefore, the amount of LTL 2,626 thousand was accounted in the financial statements as negative goodwill.

On 6 September 2004 the Company purchased 0.75% of the shares of AB Šatrija and controlled 89.45% of AB Šatrija shares as of 31 December 2004 (Note 1). The Company paid LTL 43 thousand for 26,171 AB Šatrija shares with par value of LTL 3 each. The carrying value of the net asset acquired amounted to LTL 128 thousand at the time of acquisition.

On 26 July 2004 the subsidiary AB Šatrija, controlled by the Company, purchased 100% of the shares of UAB Justima and took control over this company; therefore, starting with this date, the financial statements of UAB Justima are included into the consolidated financial statements of the Group (Note 1). According to the terms of the share purchase agreement, UAB Šatrija paid LTL 1,565 thousand for those shares. The fair value of the net asset acquired amounted to LTL 43 thousand at the time of acquisition; therefore, the amount of LTL 1,522 thousand was accounted in the financial statements as goodwill.

In the Company's income statement, the amortisation of goodwill is included into the result of subsidiaries.

In the Group's financial statements the amortisation of goodwill is included into operating expenses in the income statement together with the amortisation of other intangible assets.

6 Investment property

	Group	Company
Cost:		
Balance as of 31 December 2003	1,455	6,906
Transfer to property, plant and equipment	(46)	(46)
Balance as of 31 December 2004	1,409	6,860
Accumulated depreciation:		
Balance as of 31 December 2003	272	728
Charge for the year	30	97
Transfer to property, plant and equipment	3	(19)
Balance as of 31 December 2004	305	806
Impairment:		
Balance as of 31 December 2003	114	830
Reversal of impairment	(5)	(16)
Balance as of 31 December 2004	109	814
Net book value as of 31 December 2004	**995**	**5,240**
Net book value as of 31 December 2003	**1,069**	**5,348**

6 Investment property (cont'd)

The Company

Depreciation of investment property amounting to LTL 97 thousand in 2004 (LTL 145 thousand in year 2003) is included into other income (expenses) caption in the income statement. Depreciation rate of investment property equals to 2% – 3%.

The accumulated impairment of the investment property amounting to LTL 814 thousand as of 31 December 2004 (LTL 830 thousand as of 31 December 2003) reflects the reduction of the value of rented premises to its net realisable value. Net realisable value is defined as an amount, for which these assets can be sold through a transaction between the interested parties under the actual market conditions, less selling expenses.

Investment property of the Company consists of shops, a warehouse and other buildings rented under contractual commitments. The major part of investment property is rented to the subsidiary UAB Utenos Trikotažo Prekyba.

As of 31 December 2004 there were no restrictions on the realisation of the investment property or the use of income from the sale of the property.

No material contractual obligations to purchase, construct, develop, repair or increase the investment property existed at the year-end.

Impairment of investment property as well as reversals for the year are included into operating expenses in the Company's income statement.

Investment property was valuated by independent valuators in 2003. The fair value of investment property approximates their net book value.

The Group

Investment property of the Group consists of buildings rented to third parties under contractual commitments.

Depreciation rate of investment property equals to 1.5% – 2%.

As of 31 December 2004 there were no restrictions on the realisation of the investment property or the use of income from the sale of the property.

Impairment losses of investment property as well as their reversals during the year are included into operating expenses caption in the Group's income statement.

7 Property, plant and equipment

Group	Land and buildings	Structures and equipment	Vehicles and other property, plant and equipment	Construction in progress and prepayments	Total
Cost:					
Balance as of 31 December 2003	19,110	1,174	79,382	1,134	100,800
Additions	25	59	6,918	156	7,158
Assets related to acquisition of UAB Justima	-	-	161	-	161
Retirements and write-offs	-	-	(4,626)	-	(4,626)
Reclassifications	46	-	1,134	(1,134)	46
Balance as of 31 December 2004	19,181	1,233	82,969	156	103,539
Accumulated depreciation:					
Balance as of 31 December 2003	7,421	712	46,994	-	55,127
Charge for the year	377	39	7,094	-	7,510
Retirements and write-offs	(98)	-	(3,616)	-	(3,714)
Accumulated depreciation of assets related to acquisition of UAB Justima	-	-	100	-	100
Reclassifications	(10)	-	-	-	(10)
Balance as of 31 December 2004	7,690	751	50,572	-	59,013
Impairment:					
Balance as of 31 December 2003	801	-	113	-	914
Charge for the year	-		15		15
Reversal	(15)	-	(113)	-	(128)
Balance as of 31 December 2004	786	-	15	-	801
Net book value as of 31 December 2004	**10,705**	**482**	**32,382**	**156**	**43,725**
Net book value as of 31 December 2003	**10,888**	**462**	**32,275**	**1,134**	**44,759**

7 Property, plant and equipment (cont'd)

Company	Land and buildings	Structures and equipment	Vehicles and other property, plant and equipment	Construction in progress and prepayments	Total
Cost:					
Balance as of 31 December 2003	7,457	522	57,738	1,134	66,851
Additions	-	47	5,350	9	5,406
Retirements and write-offs	-	-	(3,220)	-	(3,220)
Reclassifications	46	-	1,134	(1,134)	46
Balance as of 31 December 2004	7,503	569	61,002	9	69,083
Accumulated depreciation:					
Balance as of 31 December 2003	2,269	176	31,464	-	33,909
Charge for the year	134	28	5,339	-	5,501
Retirements and write-offs	-	-	(2,631)	-	(2,631)
Reclassifications	19	-	-	-	19
Balance as of 31 December 2004	2,422	204	34,172	-	36,798
Impairment:					
Balance as of 31 December 2003	292	-	98	-	390
Charge for the year	4	-	-	-	4
Reversal	-	-	(98)	-	(98)
Balance as of 31 December 2004	296	-	-	-	296
Net book value as of 31 December 2004	**4,785**	**365**	**26,830**	**9**	**31,989**
Net book value as of 31 December 2003	**4,896**	**346**	**26,176**	**1,134**	**32,552**

The depreciation charge of the Group's and the Company's property, plant and equipment in 2004 amounts to LTL 7,510 thousand and LTL 5,501 thousand respectively (LTL 8,321 thousand and LTL 5,709 thousand in 2003). The respective amounts of LTL 6,233 thousand and LTL 4,994 thousand in 2004 (LTL 6,474 thousand and LTL 5,113 thousand in 2003) are included into cost of sales in the Group's and the Company's income statement. The remaining amounts are included into operating expenses in the income statement and inventories in the balance sheet.

Property, plant and equipment of the Company with the net book value of LTL 20,085 thousand as of 31 December 2004 (LTL 23,858 thousand as of 31 December 2003) was pledged to the bank as a collateral for the loan (Note 15). Other companies of the Group have no pledged property, plant and equipment as of 31 December 2004 and 2003.

Property, plant and equipment of the Group and the Company with the acquisition cost amounting to LTL 12,667 thousand and LTL 18,787 thousand respectively were fully depreciated as of 31 December 2004 (LTL 22,936 thousand and LTL 14,688 thousand as of 31 December 2003), but were still in active use.

Impairment of property, plant and equipment as well as reversals of impairment during the year are included into operating expenses caption in the income statement.

8 Investments into subsidiaries

The Company's investments into subsidiaries as of 31 December 2004 and 2003 can be specified as follows:

		2004	2003
Acquisition costs adjusted for prior periods equity method		6,311	8,323
Result of subsidiaries		(5,016)	(4,714)
Additional investment into UAB Utenos Trikotažo Prekyba subgroup	a)	4,800	1,104
Additional acquisition of AB Šatrija shares		43	1,373
Foreign currency translation effect		(155)	175
Reversal (elimination) of unrealised gain in inventories, net		-	50
		5,983	6,311
Accumulated amortisation of goodwill (opening)		2,103	1,592
Charge for the year		529	511
Accumulated amortisation of goodwill (closing)		2,632	2,103
Total investments into subsidiaries		8,615	8,414

a) During 2004 the Company made additional shareholder's contributions to cover accumulated loses of UAB Utenos Trikotažo Prekyba.

Reconciliation of the Company's proportional share in subsidiaries with the result reported in the income statements.

	2004	2003
Proportional share of result in subsidiaries	(5,016)	(4,714)
Amortisation of goodwill	529	511
Unrealised gain in inventories	13	(53)
Total result from subsidiaries	(4,474)	(4,256)

As it is written in Note 1, AB Šatrija, the subsidiary of the Company, purchased 100% of the shares of UAB Justima in 2004. Assets and liabilities of UAB Justima as of 31 July 2004 (the date close to the acquisition date) were as follows:

	July 31 2004
Non-current assets	112
Current assets	1,356
Total assets	**1,468**
Equity	43
Non-current liabilities and subsidies	23
Current liabilities	1,402
Total liabilities and shareholders equity	**1,468**

The fair value of the net asset acquired was LTL 43 thousand at the date of acquisition. The fair value of the identifiable assets and liabilities recognised on acquisition approximated their carrying value. AB Šatrija paid LTL 1,565 thousand for 100% of the shares. Cash balance of UAB Justima amounted to LTL 172 thousand on 31 July 2004.

8 Investment into subsidiaries (cont'd)

The difference between the amount paid and the fair value of the acquired assets and liabilities assumed amounting to LTL 1,522 thousand was accounted as goodwill:

	July 31 2004
Fair value of acquired assets	43
Goodwill	1,522
Amount of cash paid	**1,565**
Cash acquired	(172)
Amount of cash paid, net	**1,393**

The goodwill is arising due to the expected synergies and after benefits from combining the acquiree's net assets with those of the acquirer. The Group as well expects to gain other benefits from factors related to market imperfections.

From the date of acquisition UAB Justima has incurred net loss of LTL 40 thousand. If the combination had taken place at the beginning of the year, the net profit for the Group would have been LTL 9,916 thousand and revenues from continuing operations would have been LTL 177,507 thousand.

9 Inventories

	Group		**Company**	
	2004	**2003**	**2004**	**2003**
Raw materials	9,133	8,086	4,961	4,534
Work in progress	3,318	3,802	2,837	3,251
Finished goods	2,225	2,822	2,012	2,382
Goods for resale	3,337	3,617	-	-
	18,013	18,327	9,810	10,167
Net realisable value allowance at the beginning of the year	(643)	(883)	(156)	(200)
Change in net realisable value allowance	(668)	240	6	44
Net realisable value allowance at the end of the year	(1,311)	(643)	(150)	(156)
	16,702	17,684	9,660	10,011

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2004 amounted to LTL 7,075 thousand and LTL 605 thousand respectively (LTL 5,518 thousand and LTL 217 thousand as of 31 December 2003). Changes in the allowance for inventories in 2004 and 2003 have been included into operating expenses in the Group's and the Company's income statement.

Inventories of the Company with the acquisition cost of LTL 9,660 thousand as of 31 December 2004 (LTL 10,011 thousand as of 31 December 2003) were pledged to the bank as a collateral for the loan. Additional information is presented in Note 15.

10 Trade receivables

	Group		Company	
	2004	**2003**	**2004**	**2003**
Trade receivables, gross	17,916	22,249	11,393	17,453
Realisable value allowance at the beginning of the year	(213)	(732)	-	(396)
Change in realisable value allowance	(85)	519	-	396
Realisable value allowance at the end of the year	(298)	(213)	-	-
	17,618	22,036	11,393	17,453

Changes in allowance for doubtful trade receivables for the year 2004 and 2003 have been included into operating expenses in the Group's and the Company's income statements.

The Company's foreign trade accounts receivable amounting to LTL 11,189 thousand as of 31 December 2004 (LTL 17,198 thousand as of 31 December 2003) are insured against debtors' insolvency with an insurance company Atradius Sweden for a maximum recoverable amount of LTL 8,632 thousand as of 31 December 2004 (LTL 8,632 thousand as of 31 December 2003). The insurance agreement expires on 1 July 2005.

The Group's trade accounts receivable amounting to LTL 17,169 thousand as of 31 December 2004 (LTL 21,579 thousand as of 31 December 2003) are insured against debtors' insolvency with insurance companies UAB Lietuvos Draudimo Kreditų Draudimas and Atradius Sweden for a maximum recoverable amount of LTL 10,832 thousand (LTL 10,932 thousand as of 31 December 2003).

11 Other accounts receivable

The Company

Loan to AB Trinyčiai

On 10 April 2000 the Company signed a loan agreement with the related party AB Trinyčiai and granted a loan of LTL 1,500 thousand bearing 7% annual interest. Following a court's ruling, the bankruptcy procedure was started against AB Trinyčiai in 2003. As the loan was secured by inventories of AB Trinyčiai, the Company received yarn in the amount of LTL 179 thousand. In 2003 the Company decided to make a full realisation allowance for the remaining outstanding loan balance amounting to LTL 402 thousand as of 31 December 2004 (LTL 580 thousand as of 31 December 2003). The allowance is included into operating expenses in the income statement.

Loan to the association Pramonės ir Marketingo Biznio Centras

On 8 October 2001 the Company signed a loan agreement with a related party, the association Pramonės ir Marketingo Biznio Centras, and granted a non-interest bearing loan of up to LTL 1,000 thousand. On 8 October 2003 the repayment term of the loan was extended until 8 October 2004 and the annual interest rate of 3.2% was agreed. On 8 October 2004 the repayment term of the loan was extended to 8 October 2005, leaving the previous annual interest rate. The loan is not secured. The outstanding balance of the loan granted to the association Pramonės ir Marketingo Biznio Centras amounted to LTL 370 thousand as of 31 December 2004 (LTL 522 thousand as of 31 December 2003). Information on the loan is also provided in Note 25.

11 Other accounts receivable (cont'd)

The Group

Loan to UAB Koncernas SBA

On 16 October 2001 AB Šatrija (the subsidiary) granted a loan amounting to LTL 1,300 thousand to UAB Koncernas SBA, the shareholder of the Company. According to the amendment to the loan agreement signed on 16 October 2003, the loan bears 4% annual interest rate and has to be repaid until 16 October 2005. The loan has no specific payment schedule and may be repaid by one instalment at any time before the maturity date. The repayment of the loan is guaranteed by UAB Klaipėdos Baldų Prekyba (a related party). The outstanding balance of the loan amounts to LTL 1,200 thousand as of 31 December 2004 and 2003. Information on the loan is also provided in Note 25.

12 Cash and cash equivalents

	Group		Company	
	2004	**2003**	**2004**	**2003**
Cash in bank and on hand	1,646	2,385	688	962
Deposits with a term of less than three months	433	681	433	381
	2,079	3,066	1,121	1,343

On 16 January 2003 the Company signed an overnight deposit agreement valid until 16 January 2023. The annual interest rate of the overnight deposit is 0.6%. The outstanding balance of the overnight deposit amounted to LTL 433 thousand as of 31 December 2004.

The Company's foreign and national currency cash inflows into its accounts in AB Bankas Hansabankas are pledged to the bank as collateral for the loan (Note 15).

As of 31 December 2004 and 2003 the Group and the Company had no restrictions for the use of cash and cash equivalents.

13 Share capital

Decrease of the share capital

On 16 January 2003 Lithuanian National Securities Commission satisfied the Company's request to decrease the share capital of the Company by LTL 15,500 thousand by cancelling 15,500 thousand shares and proportionally decreasing the number of shares owned by each shareholder (Note 1). After the cancellation of the shares, the free funds were paid out in cash to all Company's shareholders in proportion to the par value of the shares held. The funds were paid out to the persons that were registered as shareholders on the day of registration of the changed by-laws of the Company in the Company Register of the Republic of Lithuania. The share capital was reduced from LTL 35,334 thousand to LTL 19,834 thousand. On 24 February 2003 the State Enterprise of Land and Real Property Cadastre and Register registered the amendment to the by-laws of AB Utenos Trikotažas in connection with the change of the share capital.

14 Reserves

Foreign currency translation reserve

The foreign currency translation reserve is used for translation differences arising on consolidation of financial statements of foreign subsidiaries.

14 Reserves (cont'd)

Exchange differences are classified as equity in the consolidated financial statements until disposal of the investment.

Upon disposal of the corresponding assets, the cumulative revaluation of translation reserves is recognised as income or expenses in the same period when the gain or loss on disposal is recognised.

Other reserves

The outstanding balances of reserves as of 31 December 2004 and 2003 are as follows:

	31 December 2004	31 December 2003
Reserve for acquisition of own shares	10,000	-
Legal reserve	1,983	3,533
Other reserves	-	974
	11,983	4,507

Reserve for acquisition of own shares

On 20 April 2004 the shareholders of the Company decided to form a reserve amounting to LTL 10,000 thousand for acquisition of 1,983,444 own shares. According to the Law on Stock Companies of the Republic of Lithuania, the reserve must be used within 18-month term. The reserve was not used in 2004; therefore, the management of the Company will suggest the shareholders to transfer the reserve to the retained earnings.

Legal reserve

Legal reserve is a compulsory reserve under the legislation of the Republic of Lithuania. Annual transfers of 5% of distributable retained earnings calculated in accordance with the Business Accounting Standards of the Republic of Lithuania are required until the legal reserve and share surplus reach 10% of the share capital. As of 31 December 2003 the legal reserve exceeded 10% of the share capital; therefore, on 20 April 2004 the shareholders of the Company made a decision to reduce the legal reserve to LTL 1,983 thousand.

Profit distribution

On 26 March 2003 the Company's Shareholders' meeting decided to pay out LTL 12,367 thousand in dividends. Also, it was decided to pay LTL 360 thousand in bonuses to the Board members.

On 20 April 2004 the Company's Shareholders' meeting decided to pay out LTL 11,900 thousand in dividends.

On the date of the issue of these financial statements the Company had not yet prepared draft of profit distribution for 2004.

15 Borrowings

On 17 January 2002 the Company signed a credit agreement with AB Bankas Hansabankas amounting to EUR 9,274 thousand (equal to LTL 32,021 thousand). According to the amendment to the loan agreement signed on 1 March 2004, the loan repayment term expires on 31 December 2008. The loan bears interest rate of 6-month LIBOR plus 1.05%.

In 2004 the Company repaid a portion of the loan before the term. As of 31 December 2004 the outstanding balance of the loan and the current portion of the loan amounted to LTL 23,427 thousand and LTL 183 thousand respectively (LTL 27,567 thousand and LTL 4,009 thousand as of 31 December 2003).

15 Borrowings (cont'd)

Terms of repayment of non-current debts are as follows:

	Group	Company
2005	183	183
2006	6,242	6,242
2007	6,241	6,241
2008	10,761	10,761
	23,427	23,427

The Company and the Group pledged the property, plant and equipment with the net book value of LTL 20,085 thousand as of 31 December 2004 (LTL 23,858 thousand as of 31 December 2003), inventories amounting to LTL 9,660 thousand as of 31 December 2004 (LTL 10,011 thousand as of 31 December 2003), current and future proceeds in the Company's accounts in AB Bankas Hansabankas.

According to the loan agreement, the Company pledged its inventories in order to secure the repayment of the loan and the outstanding balance of inventories must be equal or exceed LTL 10,000 thousand during the term of the loan. The balance of inventories as of 31 December 2004 amounted to LTL 9,660 thousand. The management of the Company received the confirmation that the bank will not apply any sanctions provided for in the agreement if the outstanding balance of inventories is equal or exceeds LTL 10,000 thousand at the end of the first quarter of 2005. Yet, the bank reserves the right of claim provided for in the agreement for the future. The management of the Company is certain that the Company will accumulate the required balance of inventories by the end of the first quarter of 2005; therefore, the classification of the loan has not been changed in the balance sheet as of 31 December 2004.

16 Accrued expenses and other current liabilities

	Group		Company	
	2004	2003	2004	2003
Payables for services and non-current assets	2,068	3,153	577	1,812
Wages, salaries and social security	1,802	3,076	1,215	2,293
Vacation pay accrual	1,710	1,898	1,214	1,417
Bonuses for employees	178	177	178	177
Other liabilities	811	499	588	279
	6,569	8,803	3,772	5,978

17 Sales

	Group		Company	
	2004	2003	2004	2003
Sale of goods and services	164,366	179,825	129,492	133,789
Sewing services	9,753	532	-	-
Sale of materials	572	498	302	402
	174,691	180,855	129,794	134,191

18 Cost of sales

	Group		Company	
	2004	**2003**	**2004**	**2003**
Materials	64,836	66,374	49,505	50,353
Wages and salaries	35,330	38,253	25,850	28,633
Other overhead expenses	31,985	30,731	22,257	21,482
Cost of materials sold	465	386	199	291
	132,616	135,744	97,811	100,759

19 Operating expenses

	Group		Company	
	2004	**2003**	**2004**	**2003**
Selling expenses				
Maintenance costs of retail outlets	2,791	3,550	-	3
Wages, salaries and social security	4,758	4,616	1,843	1,714
Other selling expenses	3,504	3,194	1,873	1,973
Total selling expenses	11,053	11,360	3,716	3,690
General and administrative expenses				
Wages, salaries and social security	6,440	6,318	4,152	3,721
Communications and consulting services	3,827	4,827	2,375	2,635
Taxes, other than income tax	1,263	1,523	935	951
Depreciation and amortisation	901	1,135	528	735
Changes in allowance for inventories	668	(240)	(6)	(44)
Bonuses	460	-	360	-
Business trips	422	525	228	328
Charity and sponsorship	338	451	322	383
Impairment and amortisation of goodwill	(400)	(511)	-	-
Other	3,580	2,863	1,852	1,589
Total general and administrative expenses	17,499	16,891	10,746	10,298
	28,552	28,251	14,462	13,988

20 Other operating income (expenses), net

	Group		Company	
	2004	**2003**	**2004**	**2003**
Income from rent	329	285	616	628
Expenses of rent	(338)	(311)	(276)	(262)
Other income (expenses)	(65)	2	26	79
	(74)	(24)	366	445

21 Income (expenses) from financial and investment activities, net

	Group		Company	
	2004	**2003**	**2004**	**2003**
Foreign currency exchange gain	448	379	226	106
Other income	287	257	262	239
Interest income	87	138	165	316
Interest (expenses)	(892)	(963)	(886)	(963)
Foreign currency exchange (loss)	(669)	(995)	(336)	(204)
Other financial (expenses)	(491)	(2)	(490)	-
	(1,230)	(1,186)	(1,059)	(506)

22 Income tax

	Group		Company	
	2004	**2003**	**2004**	**2003**
Components of the income tax (expense)				
Current income tax expense	(2,729)	(3,262)	(2,726)	(3,259)
Change in deferred income tax	(60)	27	(112)	61
Adjustments of income tax for the previous years	(133)	-	(133)	-
Reimbursed income tax on dividends	649	1,233	649	1,233
Income tax expenses recorded in income statement	(2,273)	(2,002)	(2,322)	(1,965)

		Group		Company	
		2004	**2003**	**2004**	**2003**
Deferred income tax asset					
Tax loss carry forward		1,387	1,033	-	-
Valuation allowances and impairment		790	756	224	286
Accruals		291	321	216	256
Inventories		59	38	26	38
Property, plant and equipment		26	55	57	55
Deferred income tax asset before valuation allowance		2,553	2,203	523	635
Less: valuation allowance	a)	(1,330)	(832)	-	-
Deferred income tax asset, net		1,223	1,371	523	635
Deferred income tax liability					
Amortisation of goodwill		(6)	-	-	-
Investment incentive		(244)	(338)	-	-
Deferred income tax liability		(250)	(338)	-	-
Deferred income tax, net		973	1,033	523	635

22 Income tax (cont'd)

a) Deferred income tax asset has not been recognised in the amount of accumulated tax losses, as this loss cannot be used in full to reduce the taxable profit by other companies of the Group. Furthermore, the majority of loss was incurred by the subsidiaries that are loss-making for a long period; therefore, the deferred income tax asset is not likely to be realised.

Deferred income tax asset and liability were accounted at 15% rate. The changes in the Company's and the Group's temporary differences before the tax effect were as follows:

Group	**Balance as of 31 December 2003**	**Recognised in income statement**	**Balance as of 31 December 2004**
Tax loss carry forward	6,887	2,360	9,247
Valuation allowances and impairment	5,040	227	5,267
Accruals	2,140	(200)	1,940
Inventories	253	140	393
Property, plant and equipment	367	(194)	173
Amortisation of goodwill	-	(40)	(40)
Investment incentive	(2,253)	626	(1,627)
	12,434	2,919	15,353
Less: valuation allowance	(5,547)	(3,320)	(8,867)
Total temporary differences	6,887	(401)	6,486
Deferred income tax, net	1,033	(60)	973

Company	**Balance as of 31 December 2003**	**Recognised in income statement**	**Balance as of 31 December 2004**
Valuation allowances and impairment	1,906	(412)	1,494
Accruals	1,707	(267)	1,440
Inventories	253	(80)	173
Property, plant and equipment	367	13	380
Total temporary differences	4,233	(746)	3,487
Deferred income tax, net	635	(112)	523

22 Income tax (cont'd)

The Group's tax losses to be carried forward against future taxable income amounted to LTL 9,247 thousand as of 31 December 2004 (LTL 6,887 thousand as of 31 December 2003). The Group's tax losses may be carried forward as follows:

Group	
Year	**Amount**
2006	372
2007	2,016
2008	3,873
2009	2,986
	9,247

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre tax income as follows:

	Group		**Company**	
	2004	**2003**	**2004**	**2003**
Income tax (expenses) computed at 15% in 2004 and 2003	(1,833)	(2,348)	(1,853)	(2,269)
Tax loss expired	-	255	-	-
Adjustment for income tax for previous years	(133)	-	(133)	-
Effect of loss-making subsidiaries	300	586	-	-
Reimbursed income tax on dividends	649	1,233	649	1,233
Change in deferred tax valuation allowance	(498)	(531)	-	-
Tax non-deductible expenses	(758)	(1,197)	(985)	(929)
Income tax expenses reported in the income statement	(2,273)	(2,002)	(2,322)	(1,965)

23 Basic and diluted earnings per share

Basic earnings per share reflect the Group's and the Company's net profit, divided by the outstanding number of shares. Calculation of the basic and diluted earnings per share is presented below:

	Group		**Company**	
	2004	**2003**	**2004**	**2003**
Net profit, attributable to the shareholders	10,032	13,162	10,032	13,162
Weighted average number of shares outstanding (in thousand items)	19,834	19,834	19,834	19,834
Basic and diluted earnings per share (in LTL)	0.51	0.66	0.51	0.66

24 Financial assets and liabilities and risk management

Credit risk

The Company's and the Group's procedures are in force to permanently ensure that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Additionally, the procedures of credit insurance are applied. The standard payment terms applied for accounts receivable and accounts payable vary from 30 to 60 days.

The Company's foreign trade accounts receivable amounting to LTL 11,189 thousand as of 31 December 2004 (LTL 17,198 thousand as of 31 December 2003) are insured against debtors' insolvency with insurance company Atradius Sweden for a maximum recoverable amount of LTL 8,632 thousand as of 31 December 2004 (LTL 8,632 thousand as of 31 December 2003), as disclosed in Note 10. The insurance agreement expires on 1 July 2005.

The Group's trade accounts receivable amounting to LTL 17,169 thousand as of 31 December 2004 (LTL 21,579 thousand as of 31 December 2003) are insured against debtors' insolvency with insurance companies UAB Lietuvos Draudimo Kreditų Draudimas and Atradius Sweden for a maximum recoverable amount of LTL 10,832 thousand (LTL 10,932 thousand in2003), as disclosed in Note 10.

The Company and the Group does not issue guarantees for the obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Consequently, the management of the Company and the Group considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

Interest rate risk

The Company's and the Group's loan bears a variable interest rate, related to 6-month LIBOR, which creates an interest rate risk (Note 15). The Group and the Company have no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2004 and 2003.

Liquidity risk

The Company's and the Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Company's current and quick ratios were 2.86 and 1.91 respectively as of 31 December 2004. The Group's current and quick ratios were 2.23 and 1.31 respectively as of 31 December 2004.

Foreign exchange risk

Only a minor part of the Company's and the Group's transactions are made and, respectively, the outstanding balances of monetary assets and liabilities as of 31 December 2004 and 2003 are denominated, in currencies other than LTL and EUR. As LTL is pegged to EUR, neither the Company nor the Group is exposed to any significant foreign exchange risk.

24 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other long-term and short-term receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current trade accounts payable and short-term borrowings approximates fair value.
(b) The fair value of non-current borrowings and non-current accounts receivable is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

25 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- UAB Koncernas SBA (one of the major shareholders of the Company);
- The association Pramonės ir Marketingo Biznio Centras (director of the association is the general manager of the Company; the Company is a member of the association).

Related party transactions are priced at cost plus certain margin.

The Group's and the Company's related party transactions in 2004 and 2003 are as follows:

UAB Koncernas SBA

AB Šatrija (the Company's subsidiary) has granted a loan amounting to LTL 1,300 thousand to UAB Koncernas SBA (Note 11). The outstanding balance of the loan amounts to LTL 1,200 thousand as of 31 December 2004. The repayment of the loan is guaranteed by UAB Klaipėdos Baldų Prekyba, which is indirectly owned by UAB Koncernas SBA.

In 2004 the Company paid LTL 1,945 thousand to UAB Koncernas SBA for consulting and other services (LTL 1,957 thousand in 2003).

In 2004 the Group paid LTL 2,718 thousand to UAB Koncernas SBA for consulting and other services (LTL 3,511 thousand in 2003).

The association Pramonės ir Marketingo Biznio Centras

In 2004 membership fees paid by the Company to the association Pramonės ir Marketingo Biznio Centras amounted to LTL 252 thousand (LTL 270 thousand in 2003). General manager of the Company R. Sajienė is a director of this association.

As of 31 December 2004 the outstanding balance of the loan granted by the Company to the association Pramonės ir Marketingo Biznio Centras amounted to LTL 370 thousand (LTL 522 thousand as of 31 December 2003). More information is provided in Note 11.

25 Related party transactions (cont'd)

Accounts receivable from subsidiaries are as follows:

	2004	2003
UAB Utenos Trikotažo Prekyba	5,656	6,177
UAB Gotija	48	18
	5,704	6,195

Remuneration of the management and other payments

The remuneration of the Company's management amounted to LTL 1,862 thousand in 2004 (LTL 2,020 thousand in 2003). In 2004 and 2003 the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.

The remuneration of the Group's management amounted to LTL 2,982 thousand in 2004 (LTL 3,047 thousand in 2003).

The bonuses paid to the Board of the Group and the Company in 2004 amounted to LTL 460 thousand and LTL 360 thousand respectively. The bonuses paid to the Board of the Company in 2003 amounted to LTL 360 thousand.

26 Subsequent events

The Company is in the process of negotiation regarding the acquisition of a manufacturing entity located in the Republic of Ukraine. As the final terms of the transaction have not yet been determined, the agreements on acquisition of the shares of the entity were not signed by the date of the release of these financial statements.