

AB UTENOS TRIKOTAŽAS

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

Balance sheets

	Notes	Group		Company	
		As of 31 December 2005	As of 31 December 2004	As of 31 December 2005	As of 31 December 2004 (restated)
ASSETS					
Non-current assets					
Intangible assets	5				
Goodwill		2,622	(704)	-	-
Other intangible assets		137	258	36	143
Prepayments for non-current intangible assets		641	428	641	428
Total intangible assets		3,400	(18)	677	571
Property, plant and equipment	7				
Land and buildings		13,605	10,705	4,706	4,785
Structures and equipment		498	482	334	365
Vehicles and other property, plant and equipment		35,403	32,382	27,051	26,830
Construction in progress and prepayments		1,359	156	155	9
Total property, plant and equipment		50,865	43,725	32,246	31,989
Investment property	6	931	995	5,098	5,240
Non-current financial assets					
Investments into subsidiaries	1, 8	-	-	10,750	5,156
Prepayments for other financial assets		-	146	-	146
Non-current receivables	11	1,151	-	-	-
Total non-current financial assets		1,151	146	10,750	5,302
Deferred income tax asset	20	811	973	467	523
Total non-current assets		57,158	45,821	49,238	43,625
Current assets					
Inventories, prepayments and contracts in progress					
Inventories	9	23,878	16,702	14,377	9,660
Prepayments		385	823	1,235	268
Total inventories, prepayments and contracts in progress		24,263	17,525	15,612	9,928
Accounts receivable					
Trade receivables	10	16,262	17,618	11,556	11,393
Receivables from subsidiaries	24	-	-	4,862	5,704
Prepaid income tax		1,156	81	1,156	78
Other taxes receivable		1,451	1,078	699	551
Other receivables	11	74	1,627	-	370
Total accounts receivable		18,943	20,404	18,273	18,096
Other current assets		328	303	55	71
Cash and cash equivalents	12	1,790	2,079	891	1,121
Total current assets		45,324	40,311	34,831	29,216
Total assets		102,482	86,132	84,069	72,841

Balance sheets (cont'd)

	Notes	Group		Company	
		As of 31 December 2005	As of 31 December 2004	As of 31 December 2005	As of 31 December 2004 (restated)
EQUITY AND LIABILITIES					
Equity attributable to the Company's shareholders					
Share capital	1	19,834	19,834	19,834	19,834
Reserves	13				
Foreign currency translation reserve		(84)	20	-	-
Other reserves		1,983	11,983	1,983	11,983
Total reserves		1,899	12,003	1,983	11,983
Retained earnings (deficit)		13,552	11,004	11,101	7,565
		35,285	42,841	32,918	39,382
Minority interest		1,206	1,908	-	-
Total equity		36,491	44,749	32,918	39,382
Liabilities					
Non-current liabilities					
Non-current borrowings	14	25,892	23,244	23,947	23,244
Financial lease liabilities		-	18	-	-
Grants and subsidies		-	2	-	-
Total non-current liabilities		25,892	23,264	23,947	23,244
Current liabilities					
Current portion of non-current borrowings	14	11,048	183	8,908	183
Financial debts to credit institutions	14	1,267	-	922	-
Current portion of non-current financial lease liabilities		18	22	-	-
Trade payables		18,488	10,665	12,022	5,920
Other taxes payable		1,058	680	366	340
Accrued expenses and other current liabilities	14	8,220	6,569	4,986	3,772
Total current liabilities		40,099	18,119	27,204	10,215
Total equity and liabilities		102,482	86,132	84,069	72,841

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

<u>General manager</u>	<u>Regina Sajienė</u>	<u>27 February 2006</u>
<u>Chief accountant</u>	<u>Valda Gylienė</u>	<u>27 February 2006</u>

Statements of changes in equity

<u>Group</u>	Notes	Attributable to the Company's shareholders				Total	Minority interest	Total equity
		Share capital	Foreign currency translation reserve	Other reserves	Retained earnings			
Balance as of 31 December 2003		19,834	175	4,507	20,348	44,864	1,951	46,815
Dividends paid	13	-	-	-	(11,900)	(11,900)	-	(11,900)
Reduction of reserves	13	-	-	(2,524)	2,524	-	-	-
Reserve for acquisition of own shares	13	-	-	10,000	(10,000)	-	-	-
Transfers to (from) foreign currency translation reserve	13	-	(155)	-	-	(155)	-	(155)
Interest sold		-	-	-	-	-	43	43
Net profit for the year		-	-	-	10,032	10,032	(86)	9,946
Balance as of 31 December 2004		19,834	20	11,983	11,004	42,841	1,908	44,749
Application of IFRS 3 (write-off negative goodwill of UAB Šatrija)	2.2	-	-	-	2,097	2,097	-	2,097
Balance as of 1 January 2005 as (restated)		19,834	20	11,983	13,101	44,938	1,908	46,846
Dividends paid	13	-	-	-	(17,851)	(17,851)	(672)	(18,523)
Reserve for acquisition of own shares	13	-	-	(10,000)	10,000	-	-	-
Transfers to (from) foreign currency translation reserve		-	(104)	-	-	(104)	-	(104)
Interest sold		-	-	-	-	-	43	43
Acquisition of minority interest in subsidiaries		-	-	-	554	554	-	554
Net profit for the year		-	-	-	7,748	7,748	(73)	7,675
Balance as of 31 December 2005		19,834	(84)	1,983	13,552	35,285	1,206	36,491

Cash flow statements

	Notes	Group		Company	
		2005	2004	2005	2004 (restated)
Cash flows from operating activities					
Net profit for the year		7,675	9,946	11,387	9,706
Adjustments for non-cash items:					
Impairment of investment		-	-	3,918	4,800
Depreciation and amortisation		7,629	7,748	5,792	5,714
Impairment of property, plant and equipment and investment property		(54)	(118)	(39)	(110)
Amortisation and impairment of goodwill		-	(400)	-	-
Negative goodwill		(457)	-	-	-
(Gain) loss from disposal of property, plant and equipment and write-off of property, plant and equipment and inventories		(912)	831	(344)	591
Impairment and write-off of accounts receivable		(81)	(343)	-	(334)
Impairment of inventories		(168)	729	198	44
Interest (income)		(64)	(87)	(59)	(165)
Interest expenses		1,376	892	1,090	886
Change in deferred income tax		162	60	56	112
		<u>15,106</u>	<u>19,258</u>	<u>21,999</u>	<u>21,244</u>
Changes in working capital:					
(Increase) decrease in inventories		(6,603)	97	(4,915)	269
Decrease (increase) in trade receivables		1,676	4,582	(163)	6,214
(Increase) in receivables from subsidiaries		-	-	(3,084)	(4,242)
Decrease (increase) in other receivables and other current assets		730	1,056	(1,781)	934
Increase in trade and other accounts payable		7,823	4,345	6,102	2,447
(Decrease) increase in taxes payable and other current liabilities		(891)	(5,424)	1,214	(5,225)
		<u>(891)</u>	<u>(5,424)</u>	<u>1,214</u>	<u>(5,225)</u>
Net cash flows from operating activities		<u>17,841</u>	<u>23,914</u>	<u>19,372</u>	<u>21,641</u>
Cash flows from investing activities					
(Acquisition) of non-current tangible assets		(11,774)	(7,158)	(6,943)	(5,406)
Prepayments for and (acquisition) of intangible assets		(213)	(412)	(213)	(470)
Proceeds from sale of non-current assets		1,878	53	1,526	49
(Acquisition) of subsidiaries, net of cash acquired (in the Group)	8	(2,841)	(1,393)	(5,440)	(43)
(Prepayments) for financial assets		-	(146)	-	(146)
Collection of loans granted		100	337	-	331
Interest received		64	99	59	99
		<u>64</u>	<u>99</u>	<u>59</u>	<u>99</u>
Net cash flows from investing activities		<u>(12,786)</u>	<u>(8,620)</u>	<u>(11,011)</u>	<u>(5,586)</u>

Cash flow statements (cont'd)

	Notes	Group		Company	
		2005	2004	2005	2004 (restated)
Cash flows (to) financing activities					
Cash flows related to company shareholders					
Dividends (paid)		(18,523)	(11,251)	(17,851)	(11,251)
		(18,523)	(11,251)	(17,851)	(11,251)
Cash flows related to other sources of financing					
Loans received		22,891	-	17,480	-
(Repayment) of loans		(8,336)	(4,140)	(7,130)	(4,140)
Interest (paid)		(1,376)	(890)	(1,090)	(886)
		13,179	(5,030)	9,260	(5,026)
Net cash flows (to) financial activities		(5,344)	(16,281)	(8,591)	(16,277)
Net (decrease) in cash and cash equivalents		(289)	(987)	(230)	(222)
Cash and cash equivalents at the beginning of the year		2,079	3,066	1,121	1,343
Cash and cash equivalents at the end of the year		1,790	2,079	891	1,121
Supplemental cash flow information:					
Income tax paid		3,136	2,803	3,125	2,803
Non-monetary investing activity (investment into subsidiary set-off against receivable from the subsidiary)	8	-	-	3,926	4,800

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

<u>General manager</u>	<u>Regina Sajienė</u>	<u>27 February 2006</u>
<u>Chief accountant</u>	<u>Valda Gylienė</u>	<u>27 February 2006</u>

AB UTENOS TRIKOTAŽAS
NOTES TO THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005
(all amounts are in LTL thousand unless otherwise stated)

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 2005 and 2004 the shareholders of the Company were:

	2005		2004	
	Number of shares held	Equity (percentage)	Number of shares held	Equity (percentage)
UAB Koncernas SBA	10,115	51.00	10,679	53.84
Investment fund Amber Trust	3,000	15.13	3,278	16.52
East Capital Asset	1,991	10.04	-	-
KIB Koncerno SBA Investicija	-	-	937	4.72
Employees of the Company	403	2.03	412	2.08
Other shareholders	4,325	21.44	4,528	22.84
	<u>19,834</u>	<u>100.00</u>	<u>19,834</u>	<u>100.00</u>

All the shares of the Company are registered ordinary shares with a par value of LTL 1 each. As of 31 December 2005 and 2004 all the shares are fully paid. Subsidiaries did not hold any shares of the Company as of 31 December 2005 and 2004. The Company did not hold its own shares as of 31 December 2005 and 2004.

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

	Registration address	Share of the stock held by the Group (percentage)		Cost of investment	Profit (loss) for the reporting year	Total equity	Main activities
		31 December 2005	31 December 2004				
AB Šatrija group	Vilniaus Str. 5, Raseiniai	89.78	89.45	4,935	612	9,863	Sewing of clothes
UAB Gotija	Laisvės Ave 33, Kaunas	90.50	90.50	240	23	298	Retail
OAO MTF Mrija	Motroso 13, Mukačiov, Ukraine	91.85	-	5,567	(1,683)*	4,059	Sewing of clothes
UAB Utenos Trikotažo Prekyba group	Basanavičiaus Str. 122, Utena	100.00	100.00	15,266	(923)	(427)	Retail

*The amount reflects net loss incurred by the subsidiary since the date of its acquisition, i.e. 30 June 2005.

On 31 December 2005 UAB Utenos Trikotažo Prekyba group consists of UAB Utenos Trikotažo Prekyba and its subsidiary ZAO UTP Ukraine. In 2004 UAB Utenos Trikotažo Prekyba also owned a subsidiary operating in Latvia, SIA UTP Riga, which discontinued its activity in December 2004 and was liquidated.

AB UTENOS TRIKOTAŽAS

NOTES TO THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

(all amounts are in LTL thousand unless otherwise stated)

1 General information (cont'd)

On 25 April 2005 the Company additionally purchased 0.33% of AB Šatrija shares from minority shareholders for LTL 19 thousand. The fair value of the acquired net asset was LTL 53 thousand at the time of acquisition.

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 UAB Justima was merged with AB Šatrija and on 1 July 2005 discontinued its activity as a separate legal entity.

On 30 June 2005 the Company purchased 67% of shares of OAO MTF Mrija operating in Ukraine. The Company paid LTL 2,998 thousand for 8,740,734 OAO MTF Mrija shares with par value of UAH 0.01 each. Subsequent to this acquisition, the subsidiary increased its share capital by a new emission of shares and the Company purchased part of minority interest share in the new emission, increasing its ownership share to 91.85% as of 31 December 2005 by contributing additional LTL 2,569 thousand to the subsidiary's share capital.

In 2005 the average number of employees of the Company was 1,065 (1,211 in 2004). In 2005 the average number of employees of the Group was 2,185 (2,047 in 2004).

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) as adopted by the EU.

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, as adopted by the EU.

2.2. Changes in accounting policies

IFRS 3 Business Combinations has been applied for business combinations for which the agreement date is on or after 31 March 2004. The adoption of IFRS 3 and IAS 36 Impairment of Assets (revised) has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2005.

Further, no negative goodwill is accounted in the balance sheet: the 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 recognised in the income statement immediately. Negative goodwill arising on the acquisitions before 31 March 2004 and amounting to LTL 2,097 thousand was written off and accounted directly in the shareholders' equity on 1 January 2005.

Moreover, the useful lives of intangible assets are now assessed at the individual asset level as having either a finite or indefinite life. Until the end of the last year, intangible assets were considered to have a finite useful life with a rebuttable presumption that that life would not exceed twenty years from the date when the asset was available for use. In accordance with the revised IAS 38 Intangible Assets, some of the intangible assets are regarded to have an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for 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.

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FOR THE YEAR ENDED 31 DECEMBER 2005
(all amounts are in LTL thousand unless otherwise stated)

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

2.2 Changes in accounting policies (cont'd)

Consolidated and Separate Financial Statements

In addition, in 2005 the Company has adopted revised IAS 27 and changed its accounting method for subsidiaries in the Parent company financial statements from equity method to cost method. The change in accounting principle was applied retrospectively and the effect of adopting revised IAS 27 of LTL 3,288 thousand on the opening balance of equity has been accounted directly in the Company's statement of changes in equity. The comparative figures have been restated accordingly: as a result of adopting revised IAS 27 the carrying value of the investments into subsidiaries in the Parent company financial statements as of 31 December 2004 have been reduced by LTL 3,459 thousand, net profit for the year ending 31 December 2004 has been decreased by LTL 326 thousand and retained earnings balance as of 31 December 2004 has decreased by LTL 3,439 as compared to the amounts previously reported.

IFRSs and IFRIC Interpretations not yet effective

The Company and Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006);
- IFRS 1 - amendments to IFRS 1 First-time Adoption of IFRS and the Basis for Conclusions of IFRS 7 - Financial instruments: Disclosures (effective from 27 January 2006);
- IAS 1 - Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
- IAS 39 & IFRS 4 - Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);
- IFRIC 6 - IFRIC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 27 January 2006).

The Company and Group expect that adoption of the pronouncements listed above as they become effective will have no impact on their financial statements.

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.

Acquisition of minority interest of a subsidiary is reflected using "Parent entity method" - partly as goodwill measured using IFRS 3 Business Combinations principles and partly as equity.

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.

AB UTENOS TRIKOTAŽAS
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(all amounts are in LTL thousand unless otherwise stated)

3 Significant accounting policies

The principal accounting policies adopted in preparing the Company's and the Group's financial statements for the year 2005 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.

3.2. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the 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 is 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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

3.3. Other 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.

AB UTENOS TRIKOTAŽAS
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3 Significant accounting policies (cont'd)

3.3 Other intangible non-current assets (cont'd)

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.

3.4. Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the asset recognition criteria are met.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

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

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

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

According to IAS 39 Financial Instruments: Recognition and Measurement investments are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, or available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Investments that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as financial assets through profit and loss and included in current assets. Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in financial assets at fair value through profit or loss and held-to-maturity categories.

AB UTENOS TRIKOTAŽAS

**NOTES TO THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS
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(all amounts are in LTL thousand unless otherwise stated)

3 Significant accounting policies (cont'd)

3.7. Investments in subsidiaries (the Company)

The Company's investments in subsidiaries (i.e. where the Company has a control) are stated at cost, less impairment.

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 using the effective interest rate method.

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 functional currency of the foreign consolidated subsidiaries operating in Ukraine is the respective local currency. 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 recognized directly in equity as a separate component.

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.

AB UTENOS TRIKOTAŽAS

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3 Significant accounting policies (cont'd)

3.14. Borrowing costs

Borrowing costs are expensed as incurred.

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%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies will have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 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 25% and 15% 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.

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3 Significant accounting policies (cont'd)**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 are 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.

4 Segment informationBusiness 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 OAO MTF Mrija, and in 2004 also 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.

2005	Production	Services	Retail and whole sale trading	Other activities	Elimination	Total
Sales						
External sales of the Group	143,193	7,445	21,927	762	-	173,327
Internal sales of the Group	9,652	1,720	259	544	(12,175)	-
	152,845	9,165	22,186	1,306	(12,175)	173,327
Profit from operations	12,023	(1,408)	(1,210)	20	140	9,565
Assets	95,272	8,256	6,143	-	(7,189)	102,482
Liabilities	62,713	4,197	6,270	-	(7,189)	65,991
Capital expenditure	8,774	3,455	982	-	(1,594)	11,617
Depreciation and amortisation	7,219	160	250	-	-	7,629
Impairment loss (reversal)	(54)	-	-	-	-	(54)
2004						
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	42,718	2,650	5,950	156	(10,091)	41,383
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)

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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.

2005	Western Europe	Lithuania and the Baltic states	Other regions	Elimination	Total
Sales					
External sales of the Group	141,293	28,358	3,676	-	173,327
Internal sales of the Group	-	12,103	72	(12,175)	-
	<u>141,293</u>	<u>40,461</u>	<u>3,748</u>	<u>(12,175)</u>	<u>173,327</u>
Assets (accounts receivable)	16,057	8,470	467	(6,051)	18,943
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)	-
	<u>152,506</u>	<u>34,790</u>	<u>2,237</u>	<u>(14,842)</u>	<u>174,691</u>
Assets (accounts receivable)	24,473	5,663	359	(10,091)	20,404

In 2005 the Company's sales in Western Europe, Lithuania and other regions amounted to LTL 108,317 thousand, LTL 12,913 thousand and LTL 193 thousand, respectively (LTL 117,282 thousand, LTL 12,437 thousand and LTL 75 thousand in 2004).

The management believes that it is not practical to allocate assets, other than accounts receivable to these geographical segments. The Group's assets, except for the assets of subsidiaries ZAO UTP Ukraina and OAO MTF Mrija, which are located in the Republic of Ukraine, are located in the Republic of Lithuania. The carrying value of the property, plant and equipment located in Ukraine was LTL 6.7 million as of 31 December 2005 (immaterial as of 31 December 2004). Capital expenditures related property, plant and equipment in Ukraine amounted to LTL 3 million in 2005 (including LTL 1.6 million intercompany purchases of property, plant and equipment) (immaterial in 2004) and in Lithuania - to LTL 10 million (LTL 7 million in 2004).

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 2005 are as follows:

Client	Geographical segment	Percentage from total revenue (%)
AB Hennes Mauritz	Western Europe	25
AB Kappahl	Western Europe	17
French Connection	Western Europe	17

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4 Segment information (cont'd)

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

5 Intangible assets

Group	Negative goodwill, related to AB Šatrija	Goodwill, related to OAO MTF Mrija	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)
Additions	-	1,229	-	157	1,386
Write-off due to application of IFRS 3 (Note 3)	8,559	-	-	-	8,559
Disposals	-	-	-	(616)	(616)
Balance as of 31 December 2005	-	1,229	1,522	2,460	5,211
Amortisation and impairment:					
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)
Charge for the year	-	-	-	243	243
Write-off due to application of IFRS 3 (Note 3)	6,462	-	-	-	6,462
Disposals	-	-	-	(581)	(581)
Balance as of 31 December 2005	-	-	129	2,323	2,452
Net book value as of 31 December 2005	-	1,229	1,393	137	2,759
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)

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5 Intangible assets (cont'd)

<u>Company</u>	<u>Intangible assets</u>
Cost:	
Balance as of 31 December 2003	1,896
Additions	42
Balance as of 31 December 2004	1,938
Additions	2
Disposals	(165)
Balance as of 31 December 2005	1,775
Amortisation:	
Balance as of 31 December 2003	1,679
Charge for the year	116
Balance as of 31 December 2004	1,795
Charge for the year	109
Disposals	(165)
Balance as of 31 December 2005	1,739
Net book value as of 31 December 2005	36
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 2005 part of the non-current intangible assets of the Group and the Company with the acquisition cost of LTL 1,978 thousand and LTL 1,469 thousand respectively (LTL 1,978 thousand and LTL 1,520 thousand as of 31 December 2004) was fully amortised but still in use.

Prepayment for intangible assets in the Company's and the Group's balance sheets amounting to LTL 641 thousand (as of 31 December 2004 – LTL 428 thousand) is made for installation works of accounting system software.

Goodwill

As discussed in Note 2.2, the carrying value of the negative goodwill from AB Šatrija acquisition has been written-off directly to retained earnings as of 1 January 2005.

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. This goodwill has been allocated to AB Šatrija as a cash generating unit for an impairment testing purposes. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 9% and cash flows beyond 5-year period are extrapolated using a 1.5% growth rate that reflects the best estimate of the management based on current industry situation.

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5 Intangible assets (cont'd)

On 30 July 2005 the Company purchased 67% of shares of OAO MTF Mrija operating in Ukraine. The Company paid LTL 2,998 thousand for 8,740,734 OAO MTF Mrija shares with par value of UAH 0.01 each and has recorded a goodwill of LTL 1,229 thousand on the transaction as described in Note 8 in detail. This goodwill has been allocated to Ukrainian operations (OAO MTF Mrija) as a cash generating unit for an impairment testing purposes. The recoverable amount of the cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 20% and cash flows beyond 5-year period are extrapolated using a 1.5% growth rate that reflects the best estimate of the management based on current industry situation.

6 Investment property

	<u>Group</u>	<u>Company</u>
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
Transfer to property, plant and equipment	(48)	-
Balance as of 31 December 2005	1,361	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
Charge for the year	28	160
Transfer to property, plant and equipment	(7)	-
Balance as of 31 December 2005	326	966
Impairment:		
Balance as of 31 December 2003	114	830
Reversal of impairment	(5)	(16)
Balance as of 31 December 2004	109	814
Reversal of impairment	(5)	(18)
Balance as of 31 December 2005	104	796
Net book value as of 31 December 2005	931	5,098
Net book value as of 31 December 2004	995	5,240
Net book value as of 31 December 2003	1,069	5,348

Rental income and associated costs have been disclosed in Note 18.

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6 Investment property (cont'd)

The Company

Depreciation of investment property amounting to LTL 160 thousand in 2005 (LTL 97 thousand in year 2004) is included into other income (expenses) caption in the income statement. Investment property is depreciated using a straight-line method and applying 2% – 3% depreciation rate.

The accumulated impairment of the investment property amounting to LTL 796 thousand as of 31 December 2005 (LTL 814 thousand as of 31 December 2004) 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 2005 and 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 valued by independent valuers in 2003, subsequently no independent valuation was performed. 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.

Investment property is depreciated using a straight-line method and applying 1.5% – 2% depreciation rate.

As of 31 December 2005 and 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.

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7 Property, plant and equipment

<u>Group</u>	<u>Land and buildings</u>	<u>Structures and equipment</u>	<u>Vehicles and other property, plant and equipment</u>	<u>Construction in progress and prepayments</u>	<u>Total</u>
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
Assets related to acquisition of OAO MTF Mrija	1,637	26	1,018	1,041	3,722
Additions	1,514	39	8,706	1,358	11,617
Retirements and write-offs	(295)	(35)	(6,420)	-	(6,750)
Reclassifications	200	-	1,044	(1,196)	48
Balance as of 31 December 2005	22,237	1,263	87,317	1,359	112,176
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
Charge for the year	308	44	7,006	-	7,358
Retirements and write-offs	(125)	(30)	(5,664)	-	(5,819)
Reclassifications	7	-	-	-	7
Balance as of 31 December 2005	7,880	765	51,914	-	60,559
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
Reversal	(34)	-	(15)	-	(49)
Balance as of 31 December 2005	752	-	-	-	752
Net book value as of 31 December 2005	13,605	498	35,403	1,359	50,865
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

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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
Additions	-	2	6,785	154	6,941
Retirements and write-offs	(68)	-	(4,164)	-	(4,232)
Reclassifications	-	-	8	(8)	-
Balance as of 31 December 2005	7,435	571	63,631	155	71,792
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
Charge for the year	88	33	5,402	-	5,523
Retirements and write-offs	(56)	-	(2,994)	-	(3,050)
Balance as of 31 December 2005	2,454	237	36,580	-	39,271
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
Reversal	(21)	-	-	-	(21)
Balance as of 31 December 2005	275	-	-	-	275
Net book value as of 31 December 2005	4,706	334	27,051	155	32,246
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

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7 Property, plant and equipment (cont'd)

The depreciation charge of the Group's and the Company's property, plant and equipment in 2005 amounts to LTL 7,358 thousand and LTL 5,523 thousand respectively (LTL 7,510 thousand and LTL 5,501 thousand in 2004). The respective amounts of LTL 6,233 thousand and LTL 5,060 thousand in 2005 (LTL 6,233 thousand and LTL 4,994 thousand in 2004) 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 29,318 thousand as of 31 December 2005 (LTL 20,085 thousand as of 31 December 2004) was pledged to the bank as a collateral for the loan (Note 14). UAB Šatrija pledged to AB SEB Vilniaus bankas property, plant and equipment with the net book value amounting to LTL 6,101 thousand as of 31 December 2005. OAO MTF Mrija pledged to Prominvest bank property, plant and equipment with the net book value amounting to UAH 678 thousand (equivalent to LTL 391 thousand as of 31 December 2005). Subsidiaries of the Group have no pledged property, plant and equipment as of 31 December 2004.

Property, plant and equipment of the Group and the Company with the acquisition cost amounting to LTL 30,540 thousand and LTL 18,123 thousand respectively were fully depreciated as of 31 December 2005 (LTL 29,934 thousand and LTL 17,267 thousand respectively as of 31 December 2004), 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 2005 and 2004 can be specified as follows:

	<u>2005</u>	<u>2004</u>
Cost of investments in the beginning of the year	16,495	11,652
Additional investment into UAB Utenos Trikotažo Prekyba subgroup a)	3,926	4,800
Additional acquisition of AB Šatrija shares	19	43
Acquisition of subsidiary OAO MTF Mrija	<u>5,567</u>	<u>-</u>
Cost of acquisition in the end of the year	26,007	16,495
Impairment:		
Impairment in the beginning of the year	11,339	6,539
Impairment change for the period	<u>3,918</u>	<u>4,800</u>
Impairment in the end of the year	<u>15,257</u>	<u>11,339</u>
Carrying value of investments into subsidiaries	<u>10,750</u>	<u>5,156</u>

a) During 2005 the Company made additional shareholder's contributions amounting to LTL 3,926 thousand (2004 – LTL 4,800 thousand) to cover accumulated losses of UAB Utenos Trikotažo Prekyba.

Impairment losses accumulated as of 31 December 2005 and 2004 reflect management's estimate in respect of the impairment of investment into UAB Utenos Trikotažo Prekyba. As discussed in Note 27, in January 2006 the shares held in the subsidiary were sold for LTL 9 thousand to UAB Koncernas SBA, a shareholder of the Company.

On 25 April 2005 the Company additionally purchased 0.33% of AB Šatrija shares from minority shareholders for LTL 19 thousand. The fair value of the acquired net asset was LTL 53 thousand at the time of acquisition and negative goodwill of LTL 34 thousand resulting from the acquisition of minority was recorded in other income in the Group's income statement for the year ended 31 December 2005.

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8 Investments into subsidiaries (cont'd)

As it is written in Note 1, the Company acquired 67% of OAO MTF Mrija in June 2005. Assets and liabilities of subsidiary acquired as of 30 June 2005 (the date close to the acquisition date) were as follows:

	<u>30 June 2005</u>
Non-current assets	3,790
Current assets	963
Total assets	<u>4,753</u>
Equity	2,641
Non-current liabilities and subsidies	236
Current liabilities	1,876
Total liabilities and shareholders equity	<u>4,753</u>

The fair value of the net asset acquired was LTL 1,769 thousand at the date of acquisition. The fair value of the identifiable assets and liabilities recognised on acquisition approximated their carrying value. The Company paid LTL 2,998 thousand for 67% of the shares. Cash balance of OAO MTF Mrija amounted to LTL 30 thousand on 30 June 2005.

The difference between the amount paid and the fair value of the acquired assets and liabilities assumed amounting to LTL 1,229 thousand was accounted as goodwill:

	<u>30 June 2005</u>
Fair value of acquired assets, liabilities and contingent liabilities	1,769
Goodwill	1,229
Amount of cash paid	<u>2,998</u>
Cash acquired	(30)
Amount of cash paid, net	<u>2,968</u>

The goodwill is arising due to expected synergies from the acquisition and other benefits related to market imperfections.

Subsequent to this acquisition, the Company acquired additional 24.85% shares of OAO MTF Mrija from the minority shareholders in the new emission of shares made by subsidiary. The total cost paid for the new emission was LTL 2,569 thousand, out of which LTL 736 thousand were paid for minority shares for the net assets (at fair value) of LTL 1,159 thousand. Negative goodwill of LTL 423 thousand resulting from the acquisition of minority was recorded in other income in the Group's income statement for the year ended 31 December 2005.

OAO MTF Mrija has earned a loss of LTL 1,683 thousand since the acquisition date. The revenue and net result of the Group for the year as though the acquisition date for this business combination had been 1 January 2005 is not presented as no audited information on the subsidiary's activities before the date of acquisition is available.

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8 Investment into subsidiaries (cont'd)

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:

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

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.

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:

	<u>31 July 2004</u>
Fair value of acquired assets, liabilities and contingent liabilities	43
Goodwill	1,522
Amount of cash paid	<u>1,565</u>
Cash acquired	(172)
Amount of cash paid, net	<u>1,393</u>

9 Inventories

	<u>Group</u>		<u>Company</u>	
	2005	2004	2005	2004
Raw materials	11,606	9,133	5,966	4,961
Work in progress	6,259	3,318	5,476	2,837
Finished goods	4,161	2,225	3,230	2,012
Goods for resale	3,101	3,337	-	-
	<u>25,127</u>	<u>18,013</u>	<u>14,672</u>	<u>9,810</u>
Net realisable value allowance at the beginning of the year	(1,311)	(643)	(150)	(156)
Change in net realisable value allowance	62	(668)	(145)	6
Net realisable value allowance at the end of the year	<u>(1,249)</u>	<u>(1,311)</u>	<u>(295)</u>	<u>(150)</u>
	<u>23,878</u>	<u>16,702</u>	<u>14,377</u>	<u>9,660</u>

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9 Inventories (cont'd)

The acquisition cost of the Group's and the Company's inventories accounted for at net realisable value as of 31 December 2005 amounted to LTL 23,878 thousand and LTL 14,378 thousand respectively (LTL 16,702 thousand and LTL 9,660 thousand as of 31 December 2004). Changes in the allowance for inventories in 2005 and 2004 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 10,000 thousand as of 31 December 2005 (LTL 9,660 thousand as of 31 December 2004) were pledged to the bank as a collateral for the loan. Additional information is presented in Note 14.

10 Trade receivables

	Group		Company	
	2005	2004	2005	2004
Trade receivables, gross	16,479	17,916	11,556	11,393
Realisable value allowance at the beginning of the year	(298)	(213)	-	-
Change in realisable value allowance	81	(85)	-	-
Realisable value allowance at the end of the year	(217)	(298)	-	-
	<u>16,262</u>	<u>17,618</u>	<u>11,556</u>	<u>11,393</u>

Changes in allowance for doubtful trade receivables for the year 2005 and 2004 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 10,672 thousand as of 31 December 2005 (LTL 11,189 thousand as of 31 December 2004) are insured against debtors' insolvency with an insurance company Atradius Sweden for a maximum recoverable amount of LTL 8,632 thousand (LTL 8,632 thousand as of 31 December 2004). The insurance agreement expires on 1 July 2006. Lithuanian trade accounts receivable as of 31 December 2005 are insured with an insurance company UAB Euler Hermes Services Baltic for a maximum recoverable amount of LTL 720 thousand, this insurance policy is valid till 19 August 2006.

The Group's trade accounts receivable amounting to LTL 16,362 thousand as of 31 December 2005 (LTL 17,169 thousand as of 31 December 2004) are insured against debtors' insolvency with insurance companies Atradius Sweden, Euler Hermes Kreditversicherung and Euler Hermes Services Baltic for a maximum recoverable amount of LTL 37,352 thousand (LTL 10,832 thousand as of 31 December 2004).

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11 Other accounts receivable

The Company

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 outstanding balance of the loan granted to the association Pramonės ir Marketingo Biznio Centras amounted to LTL 370 thousand as of 31 December 2004. On 4 October 2005 the last portion of the debt was repaid. Information on the loan is also provided in Note 24.

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 had to be repaid until 16 October 2005, however the loan repayment term was extended till 16 October 2007 in 2005 and the loan was reclassified to non-current receivables as of 31 December 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 Baldu Prekyba (a related party). The outstanding balance of the loan amounts to LTL 1,100 thousand as of 31 December 2005 (LTL 1,200 thousand as of 31 December 2004). Information on the loan is also provided in Note 24.

12 Cash and cash equivalents

	Group		Company	
	2005	2004	2005	2004
Cash in bank and on hand	1,019	1,646	140	688
Deposits with a term of less than three months	771	433	751	433
	<u>1,790</u>	<u>2,079</u>	<u>891</u>	<u>1,121</u>

On 16 January 2003 the Company signed an agreement with AB bankas Hansabankas valid until 16 January 2023 for overnight deposits. The annual interest rate of the overnight deposit is 0.6%. The outstanding balance of the overnight deposit amounted to LTL 751 thousand as of 31 December 2005 (as of 31 December 2004 – LTL 433 thousand).

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 14).

As of 31 December 2005 and 2004 the Group and the Company had no restrictions for the use of cash and cash equivalents.

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13 Reserves

Foreign currency translation reserve

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

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 Company's reserves as of 31 December 2005 and 2004 are as follows:

	31 December 2005	31 December 2004
Reserve for acquisition of own shares	-	10,000
Legal reserve	1,983	1,983
Other reserves	-	-
	<u>1,983</u>	<u>11,983</u>

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 and on 30 March 2005 the shareholders decided to transfer the reserve balance 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 for a statutory reporting purposes 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 20 April 2004 the Company's Shareholders' meeting decided to pay out LTL 11,900 thousand in dividends. On 30 March 2005 the Company's Shareholders' meeting decided to pay out LTL 17,851 thousand in dividends.

On the date of the issue of these financial statements the Company had not yet prepared a draft of profit distribution for 2005.

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14 Borrowings

Non-current 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 an interest rate of 6-month LIBOR plus 1.05%. On 21 February 2005 the terms of the credit agreement were changed one more time: the credit amount was increased by additional EUR 724 thousand (LTL 2,500 thousand), and the final loan repayment term extended till 30 June 2009.

As of 31 December 2005 the outstanding balance of the loan and the current portion of the loan amounted to LTL 25,744 thousand and LTL 6,241 thousand respectively (LTL 23,427 thousand and LTL 183 thousand as of 31 December 2004).

On 15 April 2005 the Company signed a credit agreement with AB SEB Vilniaus bankas amounting to EUR 2,317 thousand (LTL 8,000 thousand). The loan repayment term expires on 15 April 2008. The loan bears an interest rate of 12-month EURLIBOR plus 1.05%. As of 31 December 2005 the outstanding balance of the loan and the current portion of the loan amounted to LTL 7,111 thousand and LTL 2,667 thousand respectively.

In addition to the loans listed above, the Group has 3 more loans outstanding taken by the subsidiaries. In April 2005 AB Šatrija signed a credit line agreement with AB SEB Vilniaus bankas. The loan bears an interest rate of 6-month EURLIBOR + 1.05%. As of 31 December 2005 the outstanding balance of the utilized credit line amounted to LTL 3,990 thousand. The credit line shall be fully paid till 13 April 2007.

As of 31 December 2005 OAO MTF Mrija has a non-current loan amounting to UAH 70 thousand (equivalent to LTL 40 thousand) with the interest rate of 16% and non-current loan amounting to UAH 95 thousand (equivalent to LTL 55 thousand) with the interest rate of 12%.

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

	<u>Group</u>	<u>Company</u>
2006	11,048	8,908
2007	10,836	8,908
2008	8,036	8,019
2009	<u>7,020</u>	<u>7,020</u>
	<u>36,940</u>	<u>32,855</u>

Current borrowings

On 12 October 2005 the Company signed a credit agreement with AB SEB Vilniaus bankas amounting to LTL 1,000 thousand credit limit. The loan repayment term expires on 12 April 2006. The loan bears an interest rate of 6-month VILIBOR + 1.05%. The outstanding balance of the loan amounted to LTL 913 thousand as of 31 December 2005 and has been classified as financial debts to credit institutions in the Company's balance sheet.

OAO MTF Mrija also has current loan amounting to UAH 597 thousand (equivalent to LTL 345 thousand) with the interest rate of 12%, which is due in June 2006.

The Company pledged property, plant and equipment to banks with the net book value of LTL 29,318 thousand as of 31 December 2005 (LTL 20,085 thousand as of 31 December 2004), inventories amounting to LTL 10,000 thousand as of 31 December 2005 (LTL 9,660 thousand as of 31 December 2004), current and future proceeds in the Company's accounts in AB Bankas Hansabankas for the borrowings.

The subsidiary UAB Šatrija additionally pledged to AB SEB Vilniaus bankas property, plant and equipment with the net book value amounting to LTL 6,101 thousand as of 31 December 2005. OAO MTF Mrija pledged to Prominvest bank property, plant and equipment with the net book value amounting to UAH 678 thousand (LTL 391 thousand). Subsidiaries of the Group had no pledged property, plant and equipment as of 31 December 2004.

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14 Accrued expenses and other current liabilities

	Group		Company	
	2005	2004	2005	2004
Payables for services and non-current assets	2,304	2,068	2,082	577
Wages, salaries and social security	2,362	1,802	1,361	1,215
Vacation pay accrual	2,297	1,710	1,198	1,214
Bonuses for employees	144	178	144	178
Other liabilities	1,113	811	201	588
	<u>8,220</u>	<u>6,569</u>	<u>4,986</u>	<u>3,772</u>

15 Sales

	Group		Company	
	2005	2004	2005	2004
Sale of goods and services	170,944	164,366	120,781	129,492
Sewing services	1,720	9,753	-	-
Sale of materials	663	572	642	302
	<u>173,327</u>	<u>174,691</u>	<u>121,423</u>	<u>129,794</u>

16 Cost of sales

	Group		Company	
	2005	2004	2005	2004
Materials	62,709	64,836	42,854	49,505
Wages and salaries	34,322	35,330	25,310	25,850
Other overhead expenses	38,196	31,985	27,345	22,257
Cost of materials sold	725	465	635	199
	<u>135,952</u>	<u>132,616</u>	<u>96,144</u>	<u>97,811</u>

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17 Operating expenses

	Group		Company	
	2005	2004	2005	2004
Selling expenses				
Maintenance costs of retail outlets	2,989	2,791	-	-
Wages, salaries and social security	4,578	4,758	1,244	1,843
Other selling expenses	3,586	3,504	2,123	1,873
Total selling expenses	11,153	11,053	3,367	3,716
General and administrative expenses				
Wages, salaries and social security	5,812	6,440	3,708	4,152
Communications and consulting services	3,495	3,827	2,296	2,375
Taxes, other than income tax	1,301	1,263	865	935
Depreciation and amortisation	712	901	415	528
Changes in allowance for inventories and inventory write-off	(31)	668	198	(6)
Bonuses	360	460	360	360
Business trips	148	422	77	228
Charity and sponsorship	157	338	133	322
Impairment and amortisation of goodwill	-	(400)	-	-
Other	4,703	3,580	1,889	1,852
Total general and administrative expenses	16,657	17,499	9,941	10,746
	<u>27,810</u>	<u>28,552</u>	<u>13,308</u>	<u>14,462</u>

18 Other operating income (expenses), net

	Group		Company	
	2005	2004	2005	2004
Income from rent	345	329	646	616
Expenses of rent	(459)	(338)	(392)	(276)
Negative goodwill (Note 8)	457	-	-	-
Other income (expenses)	925	(65)	438	26
	<u>1,268</u>	<u>(74)</u>	<u>692</u>	<u>366</u>

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

	Group		Company	
	2005	2004	2005	2004
Foreign currency exchange gain	440	448	71	226
Other income	320	287	158	262
Dividends from subsidiaries	-	-	5,832	-
Interest income	64	87	59	165
Interest (expenses)	(1,376)	(892)	(1,090)	(886)
Foreign currency exchange (loss)	(197)	(669)	(86)	(336)
Impairment of investment (Note 8)	-	-	(3,918)	(4,800)
Other financial (expenses)	(307)	(491)	(361)	(490)
	(1,056)	(1,230)	665	(5,859)

20 Income tax

	Group		Company	
	2005	2004	2005	2004
Components of the income tax (expense)				
Current income tax expense	(2,024)	(2,729)	(1,969)	(2,726)
Change in deferred income tax	(162)	(60)	(56)	(112)
Adjustments of income tax for the previous years	-	(133)	-	(133)
Reimbursed income tax on dividends	84	649	84	649
Income tax expenses recorded in income statement	(2,102)	(2,273)	(1,941)	(2,322)

	Group		Company	
	2005	2004	2005	2004
Deferred income tax asset				
Tax loss carry forward	1,444	1,387	-	-
Impairment of investment in subsidiary	1,032	815	1,032	815
Receivables	128	184	-	60
Accruals	388	291	209	216
Inventories	145	108	34	23
Advances received	290	-	-	-
Property, plant and equipment and investment property	566	583	224	224
Deferred income tax asset before valuation allowance	3,993	3,368	1,499	1,338
Less: valuation allowance a)	(2,564)	(2,145)	(1,032)	(815)
Deferred income tax asset, net	1,429	1,223	467	523
Deferred income tax liability				
Amortisation of goodwill	(65)	(6)	-	-
Investment incentive	(146)	(244)	-	-
Other property, plant and equipment differences	(407)	-	-	-
Deferred income tax liability	(618)	(250)	-	-
Deferred income tax, net	811	973	467	523

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21 Income tax (cont'd)

- a) Deferred income tax asset has not been recognised in the amount of accumulated tax losses in the Group 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 has not been recognized for an impairment of the investment into subsidiary in the Parent company financial statements as there is uncertainty related to the Company's ability to earn sufficient future taxable profits from investing activity necessary to realize this asset.

In 2005 deferred income tax asset and liability related to the entities operating in Lithuania were accounted at 15 - 19% rate, depending on the estimated timing of the realization of temporary differences, and related to the entities operating in Ukraine – at 25% rate. The changes in the Company's and the Group's temporary differences before the tax effect were as follows:

<u>Group</u>	Balance as of 31 December 2004	Recognised in income statement	Balance as of 31 December 2005
Tax loss carry forward	9,247	124	9,371
Impairment of investment into subsidiary	5,435	-	5,435
Receivables	1,228	(401)	827
Accruals	1,940	327	2,267
Inventories	722	94	816
Advances received	-	1,160	1,160
Property, plant and equipment and investment property	3,883	(108)	3,775
Amortisation of goodwill	(40)	(394)	(434)
Investment incentive	(1,627)	811	(816)
Other property, plant and equipment differences	-	(1,628)	(1,628)
	20,788	(15)	20,773
Less: valuation allowance	(14,302)	(966)	(15,268)
Total temporary differences	6,486	(981)	5,505
Deferred income tax, net	973	(162)	811
 <u>Company</u>			
	Balance as of 31 December 2004	Recognised in income statement	Balance as of 31 December 2005
Impairment of investment into subsidiary	5,435	-	5,435
Receivables	401	(401)	-
Accruals	1,440	(50)	1,390
Inventories	156	71	227
Property, plant and equipment and investment property	1,490	6	1,496
	8,922	(374)	8,548
Less: valuation allowance	(5,435)	-	(5,435)
Total temporary differences	3,487	(374)	3,113
Deferred income tax, net	523	(56)	467

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21 Income tax (cont'd)

The Group's tax losses to be carried forward against future taxable income amounted to LTL 9,371 thousand as of 31 December 2005 (LTL 9,247 thousand as of 31 December 2004). The Group's tax losses may be carried forward as follows:

	Group
	Year Amount
2007	1,288
2008	3,873
2009	2,986
2010	1,224
	<u>9,371</u>

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	
	2005	2004	2005	2004
Income tax (expenses) computed at 15% in 2005 and 2004	(1,467)	(1,833)	(1,999)	(1,804)
Adjustment for income tax for previous years	-	(133)	-	(133)
Effect of different tax rate applicable to Ukrainian subsidiaries	164	-	-	-
Reimbursed income tax on dividends	84	649	84	649
Change in deferred tax valuation allowance	(419)	(498)	(217)	-
Change in income tax rate	277	-	217	-
Tax non-deductible expenses	(741)	(458)	(26)	(1,034)
Income tax (expenses) reported in the income statement	<u>(2,102)</u>	<u>(2,273)</u>	<u>(1,941)</u>	<u>(2,322)</u>

There are no material income tax consequences for AB Utenos Trikotažas associated with the payment of dividends by AB Utenos Trikotažas to its shareholders.

21 Basic and diluted earnings per share

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

	Group	
	2005	2004
Net profit, attributable to the shareholders	7,748	10,032
Weighted average number of shares outstanding (in thousand items)	<u>19,834</u>	<u>19,834</u>
Basic and diluted earnings per share (in LTL)	<u>0.39</u>	<u>0.51</u>

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22 Dividends per share

	<u>2005*</u>	<u>2004*</u>
Approved dividends	17,851	11,900
Weighted average number of shares (in thousand items)	<u>19,834</u>	<u>19,834</u>
Approved dividends per share (LTL)	<u>0.90</u>	<u>0.60</u>

* The year when the dividends are approved.

23 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 10,672 thousand as of 31 December 2005 (LTL 11,189 thousand as of 31 December 2004) are insured against debtors' insolvency with an insurance company Atradius Sweden for a maximum recoverable amount of LTL 8,632 thousand (LTL 8,632 thousand as of 31 December 2004). The insurance agreement expires on 1 July 2006. Lithuanian trade accounts receivable are insured with an insurance company UAB Euler Hermes Services Baltic for a maximum recoverable amount of LTL 720 thousand, this insurance policy is valid till 19 August 2006.

AB Šatrija foreign trade accounts receivable amounting to LTL 27,000 thousand and Lithuanian customers for amount of LTL 1,000 thousand are insured against debtors' insolvency with an insurance company UAB Euler Hermes Kreditversicherung.

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 loans bear a variable interest rate which creates an interest rate risk (Note 14). The Group and the Company have no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2005 and 2004.

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 1.28 and 0.75 respectively as of 31 December 2005. The Group's current and quick ratios were 1.13 and 0.53 respectively as of 31 December 2005.

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 2005 and 2004 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.

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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.

24 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 2005 and 2004 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 1,100 as of 31 December 2005 (LTL 1,200 thousand as of 31 December 2004) and has to be repaid in cash by 16 October 2007. The repayment of the loan is guaranteed by UAB Klaipėdos Baldu Prekyba, which is indirectly owned by UAB Koncernas SBA.

In 2005 the Company paid LTL 1,962 thousand to UAB Koncernas SBA for consulting and other services (LTL 1,945 thousand in 2004).

In 2005 the Group paid LTL 2,856 thousand to UAB Koncernas SBA for consulting and other services (LTL 2,718 thousand in 2004).

The association Pramonės ir Marketingo Biznio Centras

In 2005 membership fees paid by the Company to the association Pramonės ir Marketingo Biznio Centras amounted to LTL 246 thousand (LTL 252 thousand in 2004). General manager of the Company R. Sajienė is a director of this association.

On 4 October 2005 the outstanding balance of the loan granted by the Company to the association Pramonės ir Marketingo Biznio Centras amounting to LTL 142 thousand was repaid (the outstanding balance as of 31 December 2004 LTL 370 thousand). More information is provided in Note 11.

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24 Related party transactions (cont'd)

Accounts receivable from subsidiaries by the Company are as follows:

	<u>2005</u>	<u>2004</u>
UAB Utenos Trikotažo Prekyba	3,158	5,656
OAo MTF Mrija	1,666	-
AB Šatrija	8	-
UAB Gotija	30	48
	<u>4,862</u>	<u>5,704</u>

Remuneration of the management and other payments

The remuneration of the Company's management amounted to LTL 1,610 thousand in 2005 (LTL 1,862 thousand in 2004). In 2005 and 2004 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 2,749 thousand in 2005 (LTL 2,982 thousand in 2004).

The bonuses paid to the Board of the Group and the Company in 2005 amounted to LTL 360 thousand and LTL 360 thousand respectively. The bonuses paid to the Board of the Group and the Company in 2004 amounted to LTL 460 thousand and LTL 360 thousand respectively.

25 Commitments and contingencies

As of 31 December 2005 the subsidiary OAo MTF Mrija had a contractual commitment to acquire equipment in the amount of UAH 4,527 thousand (equivalent to LTL 2,613 thousand as of 31 December 2005) based on the contract signed with the supplier of the equipment.

26 Subsequent events

In January 2006 the subsidiary UAB Utenos Trikotažo Prekyba was sold to the shareholder of the Company UAB Konkemas SBA for LTL 9 thousand. The carrying value of this investment in the Parent company balance sheet was LTL 9 thousand as of 31 December 2005. Accounts of UAB Utenos Trikotažo Prekyba included in the Group's 2005 consolidated financial statement were as follows:

Current assets	4,408
Long-term assets	1,371
Current liabilities	6,206
Net assets	<u>(427)</u>
Sales revenue	21,272
Net (loss)	<u>(923)</u>