

AB VILNIAUS BALDŲ KOMBINATAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

■ Ernst & Young Baltic UAB

Subačiaus g. 7
A/d 2849
LT-2000 Vilnius Lietuva
Tel. 8 (5) 2742-200
Faks. 8 (5) 2742-333
www.ey.com/lt
Vilnius@lt.ey.com

Įmonės kodas 1087844
PVM mokėtojo kodas
Registras – LR Įmonių registras

■ Ernst & Young Baltic UAB

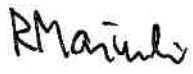
Subačiaus 7
P.O. Box 2849
LT-2000 Vilnius Lithuania
Tel. 370 (5) 2742-200
Fax 370 (5) 2742-333
www.ey.com/lt
Vilnius@lt.ey.com

Enterprise code 1087844
VAT payer code 108784411
Register of Enterprises of the Republic of
Lithuania

Independent auditors' report to the shareholders of AB Vilniaus Baldų Kombinas

1. We have audited the accompanying balance sheet of AB Vilniaus Baldų Kombinas (a joint stock company registered in the Republic of Lithuania, the "Company") as of 31 December 2003, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC) and Lithuanian National Auditing Standards as set forth by the Lithuanian Chamber of Auditors. 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.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AB Vilniaus Baldų Kombinas as of 31 December 2003 and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.
4. Without qualifying our report we draw attention to Note 18, which describes sales to the main Company's customer that account for some 91% of total sales of the Company for the year ended 31 December 2003 (94% for the year ended 31 December 2002).

UAB Ernst & Young Baltic
Audit company's licence No. 344


Per Moeller
Rokas Masiulis
Auditor's licence
No. 000186

The audit was completed on 3 March 2004.

Balance sheets as of 31 December 2003 and 2002
(thousand Lit)

Notes		2003	2002
	ASSETS		
	Non-current assets		
	Intangible assets	200	146
3	Property, plant and equipment		
	Buildings	18,878	19,810
	Machinery and equipment	19,605	15,079
	Vehicles	623	560
	Other property, plant and equipment	1,206	1,265
	Construction in progress	49	26
	Total property, plant and equipment	40,361	36,740
1,20	Prepayments for non-current assets	280	930
	Investment	501	13
	Total non-current assets	41,342	37,829
	Current assets		
4	Inventories	9,577	9,235
5	Trade accounts receivable	3,540	1,836
20	Accounts receivable from related party	-	47
6	Other accounts receivable and current assets	2,305	1,584
7	Cash and cash equivalents	102	1,028
	Total current assets	15,524	13,730
	TOTAL ASSETS	56,866	51,559

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

Balance sheets as of 31 December 2003 and 2002
(thousand Litas)

Notes		2003	2002
	LIABILITIES AND SHAREHOLDERS' EQUITY		
	Shareholders' equity		
1	Share capital	15,545	15,545
2	Legal reserve	326	234
8	Revaluation reserve	9,482	11,145
	Retained earnings	6,828	861
	Total shareholders' equity	32,181	27,785
	Non-current liabilities		
9	Non-current loans and lease liabilities	10,603	8,413
10	Deferred income	-	187
15	Deferred income tax liability	2,348	886
	Total non-current liabilities	12,951	9,486
	Current liabilities		
9	Current portion of non-current loans and lease liabilities	-	410
	Trade accounts payable	8,292	11,609
	Income tax payable	1,597	383
11	Other current and accrued liabilities	1,845	1,886
	Total current liabilities	11,734	14,288
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	56,866	51,559
17	Subsequent events		
18	Segment information		
19	Financial instruments		
20	Related parties transactions		

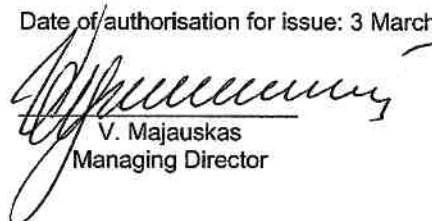
The accompanying notes are an integral part of these financial statements.

Statements of income for the years ended 31 December 2003 and 2002
(thousand Litass)

<u>Notes</u>		<u>2003</u>	<u>2002</u>
18	Net sales	88,509	82,175
	Cost of sales	<u>(72,226)</u>	<u>(67,512)</u>
	Gross profit	16,283	14,663
12	Selling and distribution expenses	(1,507)	(1,640)
13	General and administrative expenses	(6,194)	(5,736)
	Other operating income	336	413
	Other operating expenses	<u>(85)</u>	<u>(42)</u>
	Operating profit	8,833	7,658
14	Financial (expenses), net	<u>(304)</u>	<u>(576)</u>
	Profit before income tax	8,529	7,082
15	Income tax expenses	<u>(1,294)</u>	<u>(1,313)</u>
	Net profit for the year	<u>7,235</u>	<u>5,769</u>
16	Basic earnings per share (Litas)	1.86	1.48

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

Date of authorisation for issue: 3 March, 2004.



V. Majauskas
Managing Director

Statements of changes in equity for the years ended 31 December 2003
and 2002 (thousand Lit)

Note		Share capital	Legal reserve	Revalua- tion reserve	Retained earnings (deficit)	Total equity
	Balance as of 31 December 2001	15,545	234	12,229	(5,992)	22,016
2	Transfers from revaluation reserve	-	-	(850)	850	-
	Net profit for 2002	-	-	-	5,769	5,769
	Balance as of 31 December 2002	15,545	234	11,379	627	27,785
	Dividends paid	-	-	-	(1,166)	(1,166)
2	Change in accounting principle	-	-	(1,673)	-	(1,673)
2	Transfers from revaluation reserve	-	-	(224)	224	-
	Transfer to legal reserve	-	92	-	(92)	-
	Net profit for 2003	-	-	-	7,235	7,235
	Balance as of 31 December 2003	15,545	326	9,482	6,828	32,181

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

Statements of cash flows for the years ended 31 December 2003 and 2002
(thousand Litass)

	<u>2003</u>	<u>2002</u>
Cash flow from (to) operating activities		
Operating profit for the year	8,833	7,658
Adjustments for:		
Depreciation and amortisation of non-current assets	4,260	3,274
(Reversal of) allowance for obsolete and slow moving inventories	(75)	35
(Reversal of) / additional vacation pay accrual	170	(227)
Loss on non-current assets sales and write-offs	77	7
Currency exchange gain (loss)	(6)	72
Other non-cash items	180	145
	<u>13,439</u>	<u>10,964</u>
Income tax paid	(291)	-
Changes in current assets and current liabilities:		
(Increase) in inventories	(267)	(2,816)
(Increase) in trade accounts receivable, other accounts receivable and current assets	(2,425)	(869)
Decrease in accounts receivable from related party	47	36
Decrease (increase) in trade accounts payable	(3,317)	5,678
Decrease (increase) in other current and accrued liabilities	(429)	329
	<u>(6,352)</u>	<u>(1,198)</u>
Net cash from operating activities	<u>6,757</u>	<u>13,322</u>
Cash flow from (to) investing activities		
(Acquisition) of intangible assets, property, plant and equipment and change in prepayment for non-current assets	(7,584)	(5,079)
Proceeds from sale of tangible non-current assets	222	66
(Acquisition) of investments	(498)	-
	<u>(7,860)</u>	<u>(5,013)</u>
Cash flow from (to) financing activities		
Proceeds from loans	11,762	-
(Repaid) loans	(9,982)	(6,733)
Change in other long-term liabilities	-	(76)
Interest (paid)	(474)	(661)
Dividends (paid)	(1,129)	-
	<u>(1,823)</u>	<u>(7,470)</u>
Net cash (to) provided by financing activities	<u>177</u>	<u>(7,470)</u>
Net increase / (decrease) in cash and cash equivalents	<u>(926)</u>	<u>839</u>
Cash and cash equivalents at the beginning of the year	<u>1,028</u>	<u>189</u>
Cash and cash equivalents at the end of the year	<u>102</u>	<u>1,028</u>

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

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

1. Formation and organisation

AB Vilniaus Baldų Kombinas (the "Company") was initially established in 1961. In 1992 the Company was privatised by the way of open share subscription and re-registered as a joint stock company on 9 February 1993.

The Company's main activity is furniture manufacturing.

AB Vilniaus Baldų Kombinas is registered at Savanorių 178, Vilnius, Lithuania. The average number of employees in the Company was 863 in 2003 and 907 in 2002.

At the end of 1998 in accordance with the decision of the general shareholders' meeting UAB Vilbaldas was merged with AB Vilniaus Baldų Kombinas and AB Vilniaus Baldų Kombinas took over all assets and liabilities of UAB Vilbaldas (see Note 10).

In 2000 the Company established a 100 percent owned subsidiary SIA Vilnas Mebeles, which has been operating as the Company's retailer in Latvia. The share capital of the subsidiary was Litas 13 thousand (Lats 2 thousand) that represents the contribution in cash. In 2003 the Company sold this subsidiary.

As of 31 December 2003 the shareholders of the Company were as follows:

	Number of shares held	Percentage
KIB Invalda	2,592,888	66.7
Other shareholders (less than 5% each)	1,293,379	33.3
	3,886,267	100.0

All shares are ordinary with a par value of Litas 4 each and are fully paid as of 31 December 2003 and 2002.

The Company's shareholders have the power to amend the financial statements after issue.

2. Significant accounting policies

The principal accounting policies adopted in preparing the Company's financial statements as of 31 December 2003 are as follows:

Basis of preparation

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

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

2. Significant accounting policies (cont'd)

Preparation and measurement currency

The amounts shown in these financial statements are presented in the local currency, Litass.

From 2 February 2002 the Litass is pegged to EUR at the rate of Litass 3.4528 to EUR 1. The exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

Change in accounting policy

Deferred tax

In 2003 the Company changed its accounting policy with respect to the deferred tax related to the revaluation effect on property, plant and equipment.

In order to comply with International Accounting Standard (IAS) 12 starting in the financial statements for the year ended 31 December 2003 the Company calculated and accounted for deferred tax on revaluation effect on property, plant and equipment. Following IAS 12 requirements, which states that current tax and deferred tax should be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, therefore the deferred tax liability was recorded by proportionally reducing the Company's equity. Furthermore, the IFRS require to transfer the amounts from revaluation reserve to retained earnings net of any related deferred taxes. Therefore, the deferred tax liability related to the revaluation reserve is decreased by depreciating, retiring or disposing the assets to which the revaluation reserve is related.

The total effect of change in the accounting policy in the amount of Litass 1,673 thousand was deducted from the revaluation reserve in the statement of changes in equity for the year ended 31 December 2003 in accordance with the allowed alternative treatment of IAS 8. Corresponding figures were not restated.

Restated pro forma information for 2003 and 2002 is presented as if the accounting policy had been applied retrospectively:

Statement of changes in equity (Pro forma)

	Share capital	Legal reserve	Revaluation reserve (restated)	Retained earnings (deficit) (restated)	Total equity (restated)
Balance as of 31 December 2001	15,545	234	12,229	(5,992)	22,016
Change in accounting principle	-	-	(1,834)	-	(1,834)
Balance as of 31 December 2001 (restated)	15,545	234	10,395	(5,992)	20,182
Transfers from revaluation reserve	-	-	(723)	850	127
Net profit for 2002	-	-	-	5,769	5,769
Balance as of 31 December 2002	15,545	234	9,672	627	26,078

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

2. Significant accounting policies (cont'd)

Change in accounting policy (cont'd)

	Share capital	Legal reserve	Revalua- tion reserve (restated)	Retained earnings (deficit) (restated)	Total equity (restated)
Balance as of 31 December 2002	15,545	234	9,672	627	26,078
Dividends paid	-	-	-	(1,166)	(1,166)
Transfers from revaluation reserve	-	-	(190)	224	34
Transfer to legal reserve	-	92	-	(92)	-
Net profit for 2003	-	-	-	7,235	7,235
Balance as of 31 December 2003	<u>15,545</u>	<u>326</u>	<u>9,482</u>	<u>6,828</u>	<u>32,181</u>

Revaluation reserve

In 2002 the Company changed its accounting policy with respect to the revaluation reserve accounted for in the shareholders' equity.

In order to conform with the Lithuanian legislation and in accordance with International Accounting Standard (IAS) 16 starting 1 January 2002 the Company transfers the revaluation reserve included in equity to retained earnings when the revaluation reserve is realised. The whole reserve amount related to a particular asset is realised on the retirement or disposal of the asset. A portion of the reserve is realised as the asset is used by the Company; in such a case, the amount of the reserve realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

The total effect of change in the accounting policy in the amount of Litass 850 thousand was accounted for as a transfer from the revaluation reserve to the retained earnings in the statement of changes in equity for the year ended 31 December 2002 in accordance with the allowed alternative treatment of IAS 8.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight – line basis over the best estimate of their useful lives.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight – line basis not exceeding a period of 5 years.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

2. Significant accounting policies (cont'd)

Property, plant and equipment

The Company's property, plant and equipment, except for buildings, are stated at cost less accumulated depreciation and accumulated impairment losses.

Buildings are stated at revalued amounts less accumulated depreciation and accumulated impairment losses (Note 3). Revaluations of buildings are performed periodically every 5 years.

When assets are sold or retired, their cost and accumulated depreciation and impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operations, such as repair and maintenance costs, are normally charged to the statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

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

Buildings	40 years
Machinery and equipment	6 -10 years
Vehicles	5 -10 years
Other fixed assets	2 - 6 years

The useful lives are reviewed periodically to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items in property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Finance lease

The Company recognises financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine it; otherwise, the Company's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability for each period.

A finance lease gives rise to depreciation expenses for the assets as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

2. Significant accounting policies (cont'd)

Investments

Pursuant to IAS 39, Financial Instruments: Recognition and Measurement, 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 income from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the company are classified as held-to-maturity investments. Held to maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. 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.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

Inventories

Inventories, including work in progress, are valued at the lower of cost or net realisable value, after provision for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity. Unrealisable inventory has been fully written-off.

Receivables

Accounts receivable are stated at their estimated recoverable value. The Company provides a reserve for potential losses based on evaluation of specific doubtful accounts.

Cash and cash equivalents

Cash includes cash on hand and cash with 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, other short-term highly liquid investments.

Business combinations

A business combination resulting from the acquisition by the Company of UAB Vilbaldas by the end of 1998, is accounted for by use of the acquisition method. Individual assets and liabilities acquired were measured at the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction to the extent of the acquirer's interest obtained in the exchange transaction. The excess of AB Vilniaus Baldų Kombinas investment in UAB Vilbaldas over the cost of the acquisition is accounted as deferred income (negative goodwill), and is recognised as income on a straight-line basis over a period of five years.

2. Significant accounting policies (cont'd)

Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value (proceeds received), net of transaction costs. They are subsequently carried at amortised cost using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

The borrowings are classified as long-term if the completion of a refinancing agreement before authorisation of the financial statements for issue provides evidence that the substance of the liability at the balance sheet was long-term.

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of 5% of net profit for the year calculated in accordance with the Lithuanian accounting principles are required until the legal reserve reaches 10% of the share capital. The legal reserve cannot be distributed to the shareholders.

Revaluation reserve

As mandated by the Lithuanian Republic Law on Joint Stock Companies revaluation reserve can only be utilised to increase the share capital of the Company and to settle disposals, retirements and depreciation of revalued property, plant and equipment against retained earnings.

Income tax

Income tax charge is based on taxable income for the year and considers deferred taxation. Income tax is calculated based on Lithuanian tax legislation.

The standard corporate income tax rate in Lithuania is 15%. Until 1 January 2002 the Company could subtract the reinvestments directly in the calculation of taxable result in the current year, where reinvestment was defined as acquisition of tangible asset financed by internal or external resources. Tax losses can be carried forward for 5 consecutive years.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable result in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and price discounts directly related to sales.

Revenue from sales of goods are recognised when delivery has taken place and transfer of risks and rewards has been completed.

2. Significant accounting policies (cont'd)

Transactions in foreign currencies

Transactions denominated in foreign currencies are recorded at the official exchange rate prevailing at the date of transaction. Monetary items denominated in foreign currencies are stated at the official exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses are recognized as financial income or expense for the period.

Segments

For management purposes the Company is organised into one major operating business segment – manufacture of furniture. Financial information on business and geographical segments is presented in Note 18 to these financial statements.

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 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, bad debt and inventory provisions and impairments 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.

Impairment of assets

Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of income. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exists or have decreased. The reversal is recorded as income.

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 recognized in the financial statements but disclosed when an inflow or economic benefits is probable.

Subsequent events

Post-year-end events that provide additional information about the Company'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.

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

3. Property, plant and equipment

	Buildings	Machinery and equip- ment	Vehicles	Other property, plant and equip- ment	Constru- ction in progress	Total property, plant and equip- ment
CARRYING VALUE:						
Balance as of 31 December 2002	26,073	23,264	795	1,932	26	52,090
Additions	-	7,548	154	349	23	8,074
Retirements	(488)	(701)	(68)	(136)	-	(1,393)
Transfers between captions	-	(3)	(1)	4	-	-
Balance as of 31 December 2003	<u>25,585</u>	<u>30,108</u>	<u>880</u>	<u>2,149</u>	<u>49</u>	<u>58,771</u>
ACCUMULATED DEPRECIATION:						
Balance as of 31 December 2002	6,263	8,185	235	667	-	15,350
Charge for the year	742	2,961	85	366	-	4,154
Retirements	(298)	(643)	(63)	(90)	-	(1,094)
Balance as of 31 December 2003	<u>6,707</u>	<u>10,503</u>	<u>257</u>	<u>943</u>	<u>-</u>	<u>18,410</u>
NET BOOK VALUE as of 31 December 2003	<u>18,878</u>	<u>19,605</u>	<u>623</u>	<u>1,206</u>	<u>49</u>	<u>40,361</u>
NET BOOK VALUE as of 31 December 2002	<u>19,810</u>	<u>15,079</u>	<u>560</u>	<u>1,265</u>	<u>26</u>	<u>36,740</u>

Starting 1 January 2002 the Company has reviewed the useful lives of property, plant and equipment and accordingly changed depreciation rates, which better represents the economic useful life of the property, plant and equipment. This change has increased depreciation of property, plant and equipment for the year 2002 by approximately Litas 1,500 thousand compared to the previously applied estimates.

Buildings with the net book value of Litas 17,990 thousand as of 31 December 2003 (Litas 10,843 thousand as of 31 December 2002) are collateralised for the long-term loans (see Note 9).

The depreciation charge of the Company's property, plant and equipment for the year 2003 amounts to Litas 4,154 thousand (Litas 3,239 thousand in the year 2002). An amount of Litas 554 thousand for the year 2003 (Litas 558 thousand for the year 2002) has been included into general and administrative expenses and an amount of Litas 149 thousand for the year 2003 (Litas 143 thousand for the year 2002) has been included into selling expenses in the statement of income. The remaining amounts have been included into production cost for the year.

Certain property, plant and equipment items of the Company with gross carrying amounts of Litas 3,810 thousand are fully depreciated as of 31 December 2003 (Litas 3,798 as of 31 December 2002) but are still in active use.

In December 1998 and December 1999 UAB Korporacija Matininkai made an appraisal of all of the Company's buildings to reflect their current market value. The total effect of the revaluation resulted in an increase in value of Litas 11,319 thousand and was accounted for as a revaluation reserve in the balance sheet.

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

4. Inventories

Inventories can be specified as follows:

	2003	2002
Raw materials	4,623	4,098
Work in progress	1,807	1,670
Finished goods	3,160	3,478
Goods for resale	93	140
Less: impairment loss for obsolete and slow moving inventories	(106)	(151)
Total inventories, net	9,577	9,235

The value before impairment loss of inventories, which were adjusted to net realisable value amounts to Litas 205 thousand as of 31 December 2003 (Litas 225 thousand as of 31 December 2002).

5. Trade accounts receivable

Total trade accounts receivable as of 31 December 2003 amounted to Litas 3,540 thousand (Litas 1,836 thousand as of 31 December 2002). No allowances for doubtful trade accounts receivable was accounted for in financial statements for the year ended 31 December 2003 and 2002, as there were no bad or doubtful debts.

6. Other accounts receivable and current assets

Other accounts receivable and current assets as of 31 December 2003 and 2002 mainly include VAT receivable from the State budget of Litas 2,094 thousand and Litas 1,053 thousand respectively.

7. Cash and cash equivalents

Cash and cash equivalents can be specified as follows:

	2003	2002
Cash in banks	87	1,003
Cash on hand	9	14
Cash in transit	6	11
Total cash and cash equivalents, net	102	1,028

As described in Note 9, the cash and future cash inflows in Company's accounts in AB Vilniaus Bankas and UAB Sampo Bankas are pledged to secure the repayment of loans to UAB Sampo Bankas.

8. Revaluation reserve

The revaluation reserve balance as of 31 December 2003 and 2002 mainly represents the remaining effect of an independent appraisal of buildings in the amount of Litas 8,572 thousand and Litas 10,469 thousand respectively (see Note 3).

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

9. Non-current loans and lease liabilities

Non-current loans

Non-current loans and finance lease obligations as of 31 December 2003 and 2002 can be specified as follows:

Lending agency	Ref.	Purpose	Balance as of 31/12/2003	Balance as of 31/12/2002
UAB Sampo Bankas	a)	Working capital	5,078	-
UAB Sampo Bankas	b)	Refinancing of borrowings	5,525	1,569
AB Vilniaus Bankas		Working capital	-	3,350
UAB VB Lizingas		Financing of production equipment acquisition	-	3,904
Less: current portion of non-current borrowings			-	(410)
Non-current borrowings, net of current maturities			10,603	8,413

- a) On 25 February 2003 the Company signed an overdraft agreement with UAB Sampo Bankas, which replaced the previously signed agreement with AB Vilniaus Bankas. The maximum overdraft amounts to Litass 7,456 thousand and the whole amount must be repaid by 25 February 2005. The overdraft bears an interest of 6-month VILIBOR+1.3 %. The overdraft is granted for the purpose to refinance AB Vilniaus Bankas credits, to finance working capital and to provide guarantees for participation in tenders. The interest rate on this loan applicable at the year end was 4%.
- b) On 25 February 2003 the Company signed the non-current loan agreement with UAB Sampo Bankas. The loan amount in original currency is EUR 1,600 thousand (Litass 5,524 thousand). The loan bears interest equal to 6-month EURIBOR plus 1.3%. The maturity of the loan is 25 February 2008. The loan was granted to refinance the outstanding finance lease obligations to UAB VB Lizingas and the loan received in accordance with a previously signed agreement with UAB Sampo Bankas. The loan is repayable in quarterly installments starting from 25 February 2005. The interest rate on this loan applicable at the year end was 3.4%.

Property, plant and equipment of the Company with a net book value of Litass 17,990 thousand (Litass 10,843 thousand as of 31 December 2002) is pledged to the bank as a collateral for the loans. In addition to that, in order to secure the repayment of loans the Company pledged cash and future cash inflows in UAB Sampo Bankas and AB Vilniaus Bankas accounts.

10. Deferred income and other non-current liabilities

In 1998, as described in Note 1, UAB Vilbaldas was merged with the Company and its assets and liabilities were consolidated with those of the Company. The excess of the Company's investment in UAB Vilbaldas over the cost of acquisition in the amount of Litass 469 thousand was accounted for as deferred income as of 31 December 1998, which is amortised to income on a straight-line basis over a period of five years.

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

11. Other current and accrued liabilities

Other current and accrued liabilities can be specified as follows:

	2003	2002
Accrued vacation pay	500	330
Accrued social security tax	352	303
Accrued taxes, other than income tax	95	654
Advances received	63	69
Accrued payroll	-	353
Other current and accrued liabilities	835	177
Total other current assets and accrued liabilities	1,845	1,886

12. Selling and distribution expenses

Selling and distribution expenses can be specified as follows:

	2003	2002
Payroll	612	643
Social security tax	191	197
Advertising	178	214
Depreciation	149	143
Utilities, communication and rent expenses	94	156
Other selling and distribution expenses	283	287
Total selling and distribution expenses	1,507	1,640

13. General and administrative expenses

General and administrative expenses can be specified as follows:

	2003	2002
Payroll	a) 1,640	1,788
Taxes other than income tax	741	723
Depreciation	554	558
Social security tax	a) 512	550
Professional services	310	355
Utilities and communication expenses	255	234
Repair and maintenance expenses	191	201
Amortisation	106	35
Business trips	56	43
Insurance	47	33
Trainings and other employees related expenses	44	73
Bank charges	35	35
Other general and administrative expenses	1,703	1,108
Total general and administrative expenses	6,194	5,736

- a) Total staff costs for the year 2003 amounted to Litas 15,723 thousand (Litas 14,155 thousand for the year 2002). An amount of Litas 803 thousand for the year 2003 (Litas 840 thousand for the year 2002) was included in selling and distribution expenses, Litas 2,152 thousand (Litas 2,338 thousand for the year 2002) was included in general and administrative expenses and the remaining amount was included in cost of sales for the period and year-end inventories' balance.

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

14. Financial income (expenses), net

Financial income and expenses can be specified as follows:

	2003	2002
Deferred income amortisation	187	-
Interest on borrowings	(474)	(661)
Currency exchange gain (loss), net	(6)	72
Other financial income (expenses)	(11)	13
Total financial expenses, net	(304)	(576)

15. Income tax expenses

Movements in income tax accounts of the Company during 2003 and 2002 can be specified as follows:

	2003	2002
Income tax expenses		
Net profit for the year before income tax according to IFRS	8,529	7,082
Changes in temporary differences	1,386	1,975
Tax non-deductible expenses	1,121	860
Tax loss carry forward realised	-	(7,361)
Taxable income for the year	11,036	2,556
Current income tax	1,655	383
Prior period correction	(150)	-
Change in deferred income tax charged to income statement	(211)	930
Income tax expense charged to the statement of income	1,294	1,313
Deferred tax charged directly to equity	c) (1,673)	-
Temporary differences	b) (4,448)	(5,834)
	(4,448)	(5,834)
Components of deferred income tax asset		
Depreciation	146	132
Accruals	103	50
Provision for accounts receivable and write-offs	8	23
Deferred income	-	28
Other	20	22
Deferred income tax asset before valuation allowance	277	255
Less: valuation allowance	(8)	(11)
Deferred income tax asset, net	269	244
Components of deferred income tax liability		
Revaluation of property, plant and equipment	c) (1,673)	-
Investment	a) (944)	(1,130)
Deferred income tax liability	(2,617)	(1,130)
Deferred income tax liability, net	(2,348)	(886)

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litass unless otherwise stated)

15. Income tax expenses (cont'd)

	<u>2003</u>	<u>2002</u>
Deferred income tax valuation allowance at the beginning of the year	(11)	(16)
Change in deferred income tax valuation allowance	<u>3</u>	<u>5</u>
Deferred income tax valuation allowance at the end of the year	<u>(8)</u>	<u>(11)</u>

- a) Deferred income tax liability is related to the application of the investment incentive that is described under significant accounting policies above.
- b) Temporary differences represent differences between tax and financial books arising from different principles applied in accounting for property, plant and equipment depreciation, allowances and accrued expenses.
- c) As more fully discussed in Note 2 to these financial statements, in 2003 the Company changed the accounting principle applied for the revaluation of property, plant and equipment surplus. The Company implemented IAS 12 requirements and accounted for the related deferred tax liability. Deferred tax liability was recorded by deducting a respective amount from equity due to the fact that revaluation surplus was credited directly to equity.

Deferred income tax asset and deferred income tax liability are netted off in the balance sheets of the Company as of 31 December 2003 and 2002 to the extent that deferred income tax liability will be realized simultaneously with the deferred income tax asset and they are both related to the same tax authority.

16. Basic earnings per share

	<u>2003</u>	<u>2002</u>
Net profit attributable to the shareholders (thousand Litass)	7,235	5,769
Number of shares (thousands)	<u>3,886</u>	<u>3,886</u>
Basic earnings per share (Litass)	<u>1.86</u>	<u>1.48</u>

17. Subsequent events

The Company's management took a decision to propose to the General Shareholders' Meeting to approve the dividends for the year 2003 amounting to Litass 3,886 thousand, which is Litass 1 per share.

Dividends are taxed on actual payments; therefore deferred tax effect is not practicably determinable.

Notes to the financial statements for the year ended 31 December 2003
(All amounts in thousand Litas unless otherwise stated)

18. Segment information

Primary reporting format – business segments

The Company's only business segment is the manufacturing of furniture.

Secondary reporting format – geographical segments

The Company's sales are to Lithuania, Latvia and other European countries. All of the Company's assets are located in Lithuania.

	<u>Sales</u>		<u>Total assets</u>	
	2003	2002	2003	2002
Lithuania	3,591	3,828	56,866	51,546
Latvia	80	212	-	13
Other Europe countries	84,838	78,135	-	-
Total	88,509	82,175	56,866	51,559

Total costs incurred by the Company during the year 2003 to acquire segment property, plant and equipment and intangible assets are Litas 8,234 thousand (Litas 5,079 thousand during the year 2002 respectively). As all of the Company's property, plant and equipment as well as intangible assets are located in Lithuania, all additions are related to the Lithuanian geographical segment.

Sales to IKEA Trading accounted approximately to 91% of total sales of the Company for 2003 (94% in 2002).

19. Financial instruments

Credit risk

The Company has significant concentration of trading counterparties. The main customer of the Company – IKEA Trading for 2003 accounts for approximately 91% (94% for 2002) of the total Company's sales.

The Company's procedures are in force to ensure on permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables (Note 5) and other current assets, net of provisions for impairment recognised at the balance sheet date.

Interest rate risk

The major part of the Company's borrowings are with variable rates, which creates an interest rate risk. There are no financial instruments designated to manage its exposure to fluctuation in interest rates outstanding as of 31 December 2003 and 2002.

Liquidity risk

The Company'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.

19. Financial instruments (cont'd)

Foreign exchange risk

The Company's policy is to match cash flows arising from highly probable future revenues and purchases and other expenditures in each foreign currency.

The Company tends to make more contracts in EUR, as EUR and Litas exchange rate is fixed.

Fair value of financial instruments

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

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction 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 and current accounts payable approximates fair value.
- b) The fair value of the non-current debt 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.

20. Related parties transactions

Transactions with subsidiary

In 2002 the Company had transactions with its subsidiary SIA Vilnas Mebeles. The total sales for the year ended 31 December 2002 amounted to Litas 33 thousand and year-end receivable – Litas 182 thousand. Furthermore an allowance amounting to Litas 135 thousand was accounted for in the financial statements for the year ended 31 December 2002.

As described in Note 1, in 2003 the Company sold the shares of SIA Vilnas Mebeles to non-related private person. In 2003 the Company had no transactions with SIA Vilnas Mebeles before the sale of shares.

The management believes that all transactions in 2002 with related party took place on an arm's length basis.

Transactions with other related parties

On 6 November 2003 the Company signed the bonds acquisition agreement with AB FMI Finasta, a related party (common ultimate controlling shareholder). Based on this agreement, the Company acquired 5,000 AB FMI Finasta bonds with a par value of Litas 100 each. The total amount paid for these bonds amounts to 498 thousand Litas. Bonds bear 5% annual interest and are repayable on 5 December 2005. The bonds are accounted for in investments caption in the balance sheet as of 31 December 2003.

20. Related parties transactions (cont'd)

Emoluments of the management

In 2003 total remunerations paid to the management (which were 6 as of 31 December 2003 and 2002) of the Company were Litas 759 thousand (Litas 638 thousand in 2002). Total emoluments paid to the Supervisory Board of the Company in 2003 amounted to Litas 90 thousand (nill in 2002). No loans were granted to the management of the Company during the years 2003 and 2002.