ALYTAUS TEKSTILĖ AB

Independent Auditor's Report,
Annual Report and
Financial Statements
for the year ended 31 December 2006

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Alytaus Tekstilė AB:

Report on the Financial Statements

We have audited the accompanying financial statements (page 7 to 30) of AB Alytaus Tekstilė (thereafter – the Company), which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the following section, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for the Qualified Opinion
As was the case for the year ended 31 December 2005, the Company's property, plant and equipment, with the carrying value of LTL'000 60,933 as of 31 December 2006 (LTL'000 66,414 as of 31 December 2005) are accounted for using historical cost adjusted for indexation, by application of indices regulated and approved by the Government of the Republic of Lithuania, less subsequent depreciation and impairment loss. In accordance with International Financial Reporting Standards, property, plant and equipment must be measured either at fair value or at historical cost less subsequent depreciation and impairment losses. We have not been able to satisfy ourselves whether property, plant and equipment referred to above, are fairly stated in accordance with International Financial Reporting Standards.

As was the case for the year ended 31 December 2005, in our judgment, there are indications that the Company's property, plant and equipment might be impaired, e.g. the Company has incurred significant operating losses during 2006 and during the proceeding years and the Company's utilization of certain production capacity is 50% or less. The Company has not made an estimate of the recoverable amount of it's property, plant and equipment, as required by International Financial Reporting Standards, when such indications exist. Accordingly, we were unable to satisfy ourselves whether the Company's property, plant and equipment as of 31 December 2006 and 2005, carried at a value of LTL'000 60,993 and LTL'000 66,414, respectively, are properly stated in accordance with International Financial Reporting Standards.

Qualified Opinion
In our opinion, except for the impact, if any, on the financial statements of the matters referred to in the section Basis for the Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 26 of the financial statements. For the years ended 31 December 2006 and 2005, the Company incurred a loss of LTL'000 8,327 and LTL'000 15,994, respectively, and as of 31 December 2006 and 2005 the current liabilities exceeded current assets by LTL'000 20,581 and LTL'000 23,527, respectively. The Company's continued operations are significantly reliant upon additional financing from third parties, including potential new shareholders, since the Company is unable to generate sufficient working capital by itself, as further described in note 26. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Report on Other Legal and Regulatory Requirements
Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2006 (page 5 to 6) and have not noted any material inconsistencies between the historical financial information included in it and the financial statements for the year ended 31 December 2006.

Deloitte Lietuva UAB
Partner Torben Pedersen

Certified auditor Juozas Kabašinskas
Auditor's Certificate No. 000106

Vilnius, Lithuania
3 April 2007

Alytaus Tekstilė AB (the Company) proceeds further on implementing the program of renovation of production technology, optimizing management with the final goal to become a stable company of European level which could successfully compete in target markets by increasing the confidence of the clients and secure the expansion of the business. Unfortunately year 2006 was not a brake-through year for the company though much has been done in accommodation to the market changes and in restructuring of all activities of the company.

During 2006 sales and production rates has declined. In comparison with the year 2005 the sales of ready made fabrics have decreased by 1.621 million meters; marketable yarns – by 162 ton. We are proud of sewing production – we have sold 145,000 meters more (increase in 3%), and that is million LTL 2.894 more (increase in 11.3%). It was sewed advanced production – hangings: in 2005 it was 25% and in 2006 it was 31% of all sewing production.

Main sales countries were the same: Lithuania (25.01%), Sweden (29.46%), Finland (14.15%), Italy, Germany. We increased sales to Finland and Sweden.

As production capacity has decreased in 2006 390 employees were shelved and there were 1,388 employees at the end of 2006. With changes in work specialization part of the employees has changed their qualifications and were shifted to the new working places. Implementation of the new technologies gave a possibility to hire 38 employees. Also, average salary increased by 12% (2006: 1,010 Lt per month, 2005: 902 Lt per month).

The financial rates for 2006 show the losses from the Company's main activities. According to the signed contracts for 2006, it was planned to sell production for the amount of MLTL 74.304, that was 6.2% more than during 2005 (MLTL 69.991), however the actual sales amounted to MLTL 66.201 (that was 8.103 millions Lt less that it was planned). The incurred loss amounted to MLTL 8.327 for the year 2006. The rates of Company's profitability remained negative in the year of 2006, but, if we compare them with the ones of 2005, they became better: 2006: (12.58%), 2005: (22.85%).

The golden balance rule's coefficient has improved from 1.55 till 1.51, but it is still too big. The others rates of the financial lever have improved also:

- Current liquidity (solvency) has increased from 0.47 till 0.42.
- Critical liquidity has decreased form 0.11 till 0.08.
- Equity and liabilities ratio has increased form 0.77 till 0.84.
- The debt ratio has decreased from 0.56 till 0.54.
- The debts and equity ratio has decreased from 1.29 till 1.19.

Labor resource management ratios have improved too. The operating revenues per employee have increased from LTL'000 39.6 Lt till LTL'000 44.2.

Main causes of decrease of the sales volume:

Due to the constant shortage of working capital, the contracts for sewing, draperies and yarns have not been executed. The Company had not executed contracts for the amount of MLTL 6 during the second half of 2006. Part of the customers has started to work with other producers due to the fact that the Company delays contracts execution.

Main causes of annual loss:

- Decrease of the sales volume forced to pay employees for downtime and pay shelving compensations (compensation payment – LTL'000 706; minimum salary payment for downtime – LTL'000 328);
- Shortage of working capital forced cuts in ordered production volumes. Delays in salary payment and raised the volume of nonproductive expenditures (penalties for delayed salaries – LTL'000 505);
- Increase of thermal energy and gas supply tariffs – LTL'000 1,314.
- Formed provisions and write offs, also stocks evaluated to the market value – LTL'000 5,722 (impairment provided for property, plant and equipment, work in progress, raw materials and finished goods – LTL'000 5,222; provisions formed to the bad debts – LTL'000 500).

Summarizing, the constant lack of working capital which determined the fitful work in production, not implemented planned investments in 2006, increase in raw material prices, decrease in sales volumes and high production costs struck the annual loss to LTL'000 8,327, that includes provisions and write-off in the amount of LTL 5,722.

The share capital of the Company was LTL'000 51,509 at the end of the current financial year. It was divided into 51,509,472 common shares at par value of LTL 1. As of 31 December 2006 69.56% of shares belonged to the Government of the Republic of Lithuania, the representative of which was (by the right of trust) Ministry of Economy, 8.52% belonged to the Estonian company Tolaram Investments AS, the rest 21.92% belonged to other small shareholders. During the current year the Company has not acquired it's own shares.

Company follows the provisions of administrative code, which was approved by Vilnius Stock Exchange.

THE PLANS AND PROGNOSES FOR ACTIVITY

Due the constant shortage of working capital assets, the Company can not proceed further its activity. It was the reason why company prepared business plan for 2007 - 2011 year, in which the management of the Company has foreseen the perspectives and action plan which would assure profitable operations of the Company in the future:

- We plan to proceed in manufacturing of traditional textile, by saving competitive subdivisions;
- To sell buildings and equipment which are not necessary for the Company;
- To start a new geo-textile production;
- To construct own boiler-house.
- To decrease the amount of employees till the optimal.

The Company needs MLTL 34.5 for the implementation of this action plan and to settle overdue debts in 2007. This financial support could be provided by share capital increase or by entering into new borrowing agreements. The shareholders decision is required for the matter.

According to the resolution No 228 (27 February 2007), the Government of the Republic of Lithuanian decided to transfer (by the right of thrust) to the Valstybės Turto Fondas VĮ 35,828,133 ordinary shares of Alytaus Tekstilė AB (at par value of 1 LTL) with voting rights of 69.56%. Valstybės Turto Fondas VĮ has already prepared the program for the privatization of state owned Alytaus Tekstilė AB shares. This program is approved by the Commission of Privatization. It is planned that privatization will be completed by the end of May 2007.

Interim General Director Neringa Pažūsienė

ALYTAUS TEKSTILĖ AB

BALANCE SHEET
AS OF 31 DECEMBER 2006

	Notes	2006 LTL'000	2005 LTL'000
ASSETS			
Non-current assets:			
Property, plant and equipment	**4**	60,993	66,414
Intangible assets	**5**	4	8
Total non-current assets		**60,997**	**66,422**
Current assets:			
Inventories	**6**	12,353	16,191
Accounts receivable and other current assets	**7**	2,799	4,649
Cash and cash equivalents	**8**	34	170
Total current assets		**15,186**	**21,010**
TOTAL ASSETS		**76,183**	**87,432**
EQUITY AND LIABILITIES			
Equity:			
Share capital	**9**	51,509	46,505
Revaluation reserve	**10**	45,587	45,587
Accumulated deficit		(62,281)	(53,954)
Total equity		**34,815**	**38,138**
Non-current liabilities:			
Long-term borrowings	**12**	-	1,196
Long-term trade payables		-	1,851
Other long-term liabilities	**13**	5,544	1,706
Obligations under finance lease	**14**	57	4
Total non-current liabilities		**5,601**	**4,757**
Current liabilities:			
Short-term borrowings	**15**	14,707	10,136
Current portion of long-term borrowings	**12**	-	2,300
Current portion of obligations under finance leases	**14**	19	9
Trade notes payable		3,009	1,167
Accounts payable and other current liabilities	**16**	18,032	30,925
Total current liabilities		**35,767**	**44,537**
Total liabilities		**41,368**	**49,294**
TOTAL EQUITY AND LIABILITIES		**76,183**	**87,432**

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

These financial statements were approved on 3 April 2007 and signed by:

Interim General Director Neringa Pažūsienė	Chief Financial Officer Gražina Ludavičienė

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 LTL'000	2005 LTL'000
Sales	**17**	66,201	69,991
Cost of sales	**17**	(67,311)	(74,995)
GROSS LOSS		**(1,110)**	**(5,004)**
Sales and distribution expenses	**18**	(4,278)	(4,884)
Operating expenses	**19**	(8,726)	(8,738)
Other operating income	**20**	7,005	5,793
Other operating expenses		(334)	(1,843)
OPERATING LOSS		**(7,443)**	**(14,676)**
Finance costs		(908)	(1,033)
Net foreign currency exchange loss		24	(285)
Net loss before taxes		**(8,327)**	**(15,994)**
Income tax	**21**	-	-
NET LOSS		**(8,327)**	**(15,994)**
Basic and diluted loss per share (in LTL)		**(0.17)**	**(0.16)**

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

These financial statements were approved on 3 April 2007 and signed by:

Interim General Director Neringa Pažūsienė	Chief Financial Officer Gražina Ludavičienė

ALYTAUS TEKSTILĖ AB

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital LTL'000	Revaluation reserve LTL'000	Accumulated deficit LTL'000	Total LTL'000
As of 31 December 2004	**103,946**	**45,587**	**(95,401)**	**54,132**
Reduction of share capital to cover accumulated deficit (note 9)	(57,441)	-	57,441	-
Net loss	-	-	(15,994)	(15,994)
As of 31 December 2005	**46,505**	**45,587**	**(53,954)**	**38,138**
Shareholders' contribution in cash (note 9)	5,004	-	-	**5,004**
Net loss	-	-	(8,327)	**(8,327)**
As of 31 December 2006	**51,509**	**45,587**	**(62,281)**	**34,815**

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

These financial statements were approved 3 April 2007 and signed by:

Interim General Director Neringa Pažūsienė	Chief Financial Officer Gražina Ludavičienė

ALYTAUS TEKSTILĖ AB

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 LTL'000	2005 LTL'000
CASH FLOWS FROM (TO) OPERATING ACTIVITIES		
Net loss	**(8,327)**	**(15,994)**
Adjustments for:		
Depreciation and amortization	3,639	4,964
Gain on disposal of fixed assets	(6,657)	(4,139)
Write off of fixed assets	881	-
Provision for doubtful receivables	500	264
Proceeds from accounts receivable previously provided for	(243)	(346)
Write off of obsolete and slow moving inventory	4,341	4,423
Use of inventory previously written-off	(1,352)	(560)
Other non-cash items	(48)	380
Interest expense	908	1,033
	(6,358)	**(9,975)**
Changes in operating assets and liabilities:		
Accounts receivable and other current assets	1,625	1,060
Inventory	849	1,734
Accounts payable and other current liabilities	6,101	488
Cash from (used in) operating activities	**2,217**	**(6,693)**
Interest paid	(908)	(1,149)
Net cash from (used in) operating activities	**1,309**	**(7,842)**
CASH FLOWS FROM (TO) INVESTING ACTIVITIES		
Purchase of tangible and intangible fixed assets	(1,668)	(210)
Proceeds from sales of tangible fixed assets	9,325	6,810
Net cash from investing activities	**7,657**	**6,600**
CASH FLOWS FROM (TO) FINANCING ACTIVITIES		
Contribution to share capital in cash	4	5,000
Repayment of borrowings	(2,538)	(3,281)
Repayment of trade bills	(6,536)	(746)
Repayments of finance leases	(32)	(8)
Net cash (used in) from financing activities	**(9,102)**	**965**
Net decrease in cash	**(136)**	**(277)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**170**	**447**
CASH AND CASH EQUIVALENTS, END OF YEAR	**34**	**170**

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

These financial statements were approved 3 April 2007 and signed by:

Interim General Director
Neringa Pažūsienė

Chief Financial Officer
Gražina Ludavičienė

1. GENERAL INFORMATION

The Company was incorporated and commenced its' operations in 1968. The Company's main location is Pramonės str. 1, Alytaus, Lithuania. The Company's principal business activity is the production of yarn, textile fabrics and sewn goods.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and except for certain property, plant and equipment acquired before 1 January 1996, which are revalued in accordance with indexations set by the Lithuanian Government, and which does not correspond to cost or fair value. For details see Note 4.

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has resulted in no changes to the Company's accounting policies.

a) Standards, amendments and interpretations effective in 2006, but not relevant to the Company's accounting policies

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), The Fair Value Option (effective for annual periods beginning on or after 1 January 2006);
- IAS 21 (Amendment), Net Investments in a Foreign Operation (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions (effective for annual periods beginning on or after 1 January 2006);
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective for annual periods beginning on or after 1 January 2006);
- IFRS 6, Exploration for and evaluation of mineral resources (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 4, Determining Whether an Arrangement Contains a Lease (effective for annual periods beginning on or after 1 January 2006);
- IFRIC 5, Rights To Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective for annual periods beginning on or after 1 January 2006); and
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005).

b) Standards, amendments and interpretations that are not effective in 2006 and have not been early adopted by the Company.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 (Amendment), Capital disclosures (effective for annual periods beginning on or after 1 January 2007);
- IFRS 7, Financial Instruments: Disclosure (supersedes IAS 30) (effective for annual periods beginning on or after 1 January 2007);
- IFRS 8, Operating segments (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2, Group Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

The management of the Company anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statement of the Company.

The accompanying financial statements are presented in the national currency of Lithuania, the Litas (LTL).

3. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment and intangible assets
Property, plant and equipment and intangible assets are stated at acquisition cost as adjusted for the indexation of certain fixed assets less accumulated depreciation or amortization and accumulated impairment losses, as further described in Note 4. Depreciation/amortization is charged so as to write-off the cost of fixed assets over their estimated useful lives, using the straight–line method, on the following basis:

Buildings and structures	40 - 100 years
Equipment, machinery tools, fixtures and fittings	5 - 33 years
Vehicles	7 - 8 years
IT equipment and software	1 - 5 years

All assets in excess of LTL 1,000 are capitalized. Gains and losses on disposal of fixed assets are recognized in the year of disposal.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee
Assets held under finance leases are recognized as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to expenses as incurred on a straight-line basis over the term of the relevant lease.

Foreign Currencies

The Company performs the majority of transactions in the national currency. Transactions denominated in foreign currency are translated into LTL at the official Bank of Lithuania exchange rate on the date of the transaction, which approximates the prevailing market rates. Monetary assets and liabilities are translated at the rate of exchange on the balance sheet date. The applicable rates used for the principal currencies as of 31 December 2006 and 2005 were as follows:

	2006	**2005**
1 USD	2.6304 LTL	2.9102 LTL
1 EUR	3.4528 LTL	3.4528 LTL

All resulting gains and losses relating to cash settlement are recorded in the income statement in the period in which they arise. Gains and losses on translation are credited or charged to the income statement by application of the foreign exchange rates prevailing at the year-end.

Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories
Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Appropriate consideration is given to deterioration, obsolescence and other factors when evaluating net realizable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of work in progress and finished goods comprises of raw materials, direct labor, other direct costs and related production overheads.

Financial assets
Financial assets are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument and initially measured at fair value, net of transaction cost.

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method less impairment loss recognized to reflect irrecoverable amounts.

Effective interest method
The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and in bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities
A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavorable, or a derivative or non-derivative contract that will or may be settled in the Company's own equity instruments.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Segment reporting
A business segment is a distinguishable component of an entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of components operating in other economic environments.

Financial risk management
The principal financial risk management policies of the Company are set out below:

Credit risk
The Company's credit risk is primarily attributable to its trade receivables and loans granted. The amounts presented in the balance sheet are net of allowances for doubtful receivables and loans, estimated by the Company's management based on objective evidence of events occurred after the initial recognition of the amounts.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

Foreign exchange risk
The Company's borrowings are in LTL. Major accounts receivable and payable are denominated at LTL or EUR. For these reasons, the Company's foreign exchange risk exposure is considered low.

Interest rate risk
The Company's borrowings are arranged at the fixed interest rates.

Revenue recognition and related expenses
Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided net of value-added tax, rebates and discounts.

Sale of goods
Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of services
Sales of services are recognised on performance of the services.

Expenses are charged to operations as incurred.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. In 2006 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law has come 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 has 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.

Deferred tax
Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

Related parties
Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

Critical judgments in applying the entity's accounting policies

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fixed assets depreciation rates

In making its judgment for the remaining useful life of property plant and equipment, management considered the conclusions from employees responsible for technical maintenance of assets.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Recoverability of property, plant and equipment

The management of the Company is confident that the Company is able to continue as a going concern and that the carrying amount of property, plant and equipment will be recovered in full. The recoverability of tangible assets depends upon satisfactory resolution of the going concern issues mentioned in note 26. The situation will be closely monitored, and adjustment made in the future if the Company is not able to continue as going concern.

4. PROPERTY, PLANT AND EQUIPMENT

At 31 December property, plant and equipment consisted of the following:

	Buildings LTL'000	Machinery and equipment LTL'000	Vehicles LTL'000	Other assets LTL'000	Construction in progress LTL'000	Total LTL'000
Modified historical cost						
31 December 2004	100,350	152,707	3,970	4,785	1,078	262,890
Additions	42	144	-	22	-	208
Disposals	(5,366)	(11,412)	(442)	(963)	-	(18,183)
Transfers	-	164	-	-	(164)	-
31 December 2005	95,026	141,603	3,528	3,844	914	244,915
Additions	-	1,597	122	43	-	1,762
Disposals	(4,979)	(12,655)	(46)	(551)	(546)	(18,777)
Transfers	-	263	-	-	(263)	-
31 December 2006	90,047	130,808	3,604	3,336	105	227,900
Accumulated depreciation						
31 December 2004	42,383	139,391	3,198	3,997	-	188,969
Charge for the year	1,092	3,289	371	197	-	4,949
Disposals	(2,711)	(11,366)	(439)	(901)	-	(15,417)
31 December 2005	40,764	131,314	3,130	3,293	-	178,501
Charge for the year	1,048	2,160	250	176	-	3,634
Disposals	(2,570)	(12,095)	(46)	(517)	-	(15,228)
31 December 2006	39,242	121,379	3,334	2,952	-	166,907
Net book value						
31 December 2005	**54,262**	**10,289**	**398**	**551**	**914**	**66,414**
31 December 2006	**50,805**	**9,429**	**270**	**384**	**105**	**60,993**

As of 31 December 2006 property, plant and equipment with the net book value of LTL'000 36,565 (2005: LTL'000 38,152) have been pledged as security against outstanding borrowings (see notes 12, 15 and 16).

As of 31 December 2006 property, plant and equipment include assets with a net book value of LTL'000 116 (2005: LTL'000 32) that were acquired under finance lease.

Property, plant and equipment with a net book value of LTL'000 49 as of 31 December 2006 (2005: LTL'000 2,800) have been arrested in connection with legal disputes (note 24).

According to Lithuanian Government Regulations four revaluations (indexations) of property, plant and equipment were performed prior to 31 December 1995.

The indexations of property, plant and equipment were performed in the following stages:

The first indexation was performed on 1 July 1991 increasing the value of property, plant and equipment acquired up to that date by 2.2 times.

The second indexation was performed on 1 May 1992 and the indexation rates stated by Lithuanian Government were from 2 to 5 times.

The third indexation was performed on 1 May 1994 and the indexation rates were different for buildings (1-14) and for machinery and equipment (1-10).

The fourth indexation was performed at 31 December 1995 and again the indexation rates were different for buildings (1-1.68) and for machinery and equipment (1-1.593).

During the second, the third, and the fourth indexations the indexation was performed for the property, plant and equipment that had been revalued during the previous indexations.

As of 31 December 2006 property, plant and equipment include assets acquired before 1996 and which were revaluated (indexed) in accordance with regulations mentioned above with a net book value of LTL'000 51,653 million (2005: LTL'000 55,434).

5. INTANGIBLE ASSETS

At 31 December intangible assets consisted of the following:

	Software LTL'000
Historical cost	
31 December 2005	106
31 December 2006	106
Accumulated amortization	
31 December 2005	98
Charge for year	4
31 December 2006	102
Net book value	
31 December 2005	**8**
31 December 2006	**4**

6. INVENTORIES

As of 31 December inventories consisted of the following:

	2006 LTL'000	2005 LTL'000
Work in progress	10,573	13,993
Finished goods	5,763	5,473
Raw material and consumables	1,303	3,433
	17,639	**22,899**
Less: net realizable value provision for inventory	(5,286)	(6,708)
Total	**12,353**	**16,191**

As of 31 December 2006 the inventories in the amount of LTL'000 20,000 (2005: LTL'000 20,000) have been pledged as security against borrowings outstanding (see note 15).

7. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

As of 31 December accounts receivable and other current assets consisted of the following:

	2006 LTL'000	2005 LTL'000
Trade accounts receivable	4,688	5,764
Other accounts receivable	194	529
Prepayments and deferred expenses	171	353
	5,053	**6,646**
Less: provision for doubtful accounts receivable	(2,254)	(1,997)
Total	**2,799**	**4,649**

For the years ended 31 December movements in provision for doubtful accounts receivable were as follow:

	2006 LTL'000	2005 LTL'000
Opening balance	1,997	2,079
Repayment of accounts receivable previously provided for	(243)	(346)
Charge for the year	500	264
Closing balance	**2,254**	**1,997**

8. CASH AND CASH EQUIVALENTS

As of 31 December cash and cash equivalents consisted of the following:

	2006 LTL'000	2005 LTL'000
Cash on hand	22	61
Cash at bank	12	109
Total	**34**	**170**

As of 31 December 2006 cash inflows into the Company's current accounts at bank up to LTL'000 12,700 (2005: LTL'000 14,000) have been pledged as security against outstanding borrowings (see note 15).

9. SHARE CAPITAL

At 31 December 2006 and 2005 authorized share capital consisted of 51,509,472 and 46,504,972 common shares respectively at par value of LTL 1.

All shares are outstanding and fully paid.

During the year ended 31 December 2005 the share capital of the Company was decreased by LTL 57,441 to LTL'000 46,505. 57,440,839 common shares at a par value of LTL 1 each were canceled.

During the year ended 31 December 2006 the share capital of the Company was increased up to LTL'000 51,509. The share capital was increased by issuing 5,004,500 shares with a par value of LTL 1.

As of 31 December 2006 the shareholders of the Company are as follows:

	Number	%
Government of the Republic of Lithuania	35,828,133	69.56
Tolaram Investments AS, Estonia	4,390,239	8.52
Other	11,291,100	21.92
Total	**51,509,472**	**100.00**

10. RESERVES

The revaluation reserve represents the increase in the value of property, plant and equipment created through revaluation performed based on government indexation rates (see note 4).

11. EARNINGS PER SHARE

For the purpose of calculating earnings per share the weighted average number of common shares outstanding during 2006 and 2005 was 49,366,550 and 102,087,306 respectively. The Company had no dilutive share options outstanding during 2006 and 2005 and as of 31 December 2006 and 2005.

12. LONG-TERM BORROWINGS

As of 31 December long-term borrowings consisted of the following:

	2006 LTL'000	2005 LTL'000
Loan granted by AB Bankas Snoras, denominated in LTL, with maturity in 2007 (the loan was reclassified from short term borrowings)	-	3,496
Less: amount due for settlement within 12 months	-	(2,300)
Total long-term borrowings	**-**	**1,196**

In the year 2005 the interest rate for the loan was 5.5%.

As of 31 December 2005 the Company had pledged property, plant and equipment with the net book value of LTL'000 13,486 to secure the loan received.

The fair value of the Company's long term borrowings approximates their carrying amount.

13. OTHER LONG-TERM LIABILITIES

As of 31 December other long-term liabilities consisted of the following:

	2006 LTL'000	2005 LTL'000
Deferred social insurance tax	-	3,273
Deferred personal income tax	-	2,872
Rytų Skirstomieji Tinklai AB	6,504	246
	6,504	**6,391**
Less: amount due for settlement within 12 months	(960)	(4,685)
Total long-term borrowings	**5,544**	**1,706**

The fair value of the Company's other long term borrowings approximates their carrying amount.

14. OBLIGATIONS UNDER FINANCE LEASE

As of 31 December 2006 the Company has outstanding obligations of LTL'000 76 (2005: LTL'000 13) for acquired fixed assets under finance lease.

Net book value of fixed assets under finance lease was LTL'000 116 as of 31 December 2006 (2005: LTL'000 32).

As of 31 December the future annual minimum obligations under finance leases of fixed assets were as follows:

	2006		2005	
	Minimum lease payments LTL'000	**Present value of minimum lease payments LTL'000**	**Minimum lease payments LTL'000**	**Present value of minimum lease payments LTL'000**
Amounts payable under finance leases in:				
2006	-	-	10	9
2007	22	19	4	4
2008	18	16	-	-
2009	18	16	-	-
2010	18	16	-	-
2011	10	9	-	-
Minimum lease payments	**86**	**76**	**14**	**13**
Less: future finance charges	(10)		(1)	
Present value of lease obligations	**76**		**13**	

The fair value of the Company's obligations under finance lease approximates their carrying amount.

15. SHORT-TERM BORROWINGS

At 31 December short-term borrowings consisted of the following:

	2006 LTL'000	2005 LTL'000
Loan granted by SEB Vilniaus Bankas AB, denominated in LTL, with maturity in 2007	8,780	11,822
Loan granted by Turto Bankas AB, denominated in LTL, matured	3,631	-
Loan granted by Bankas Snoras AB, denominated in LTL, matured	2,296	-
Total	**14,707**	**11,822**

As of 31 December 2006 the Company has pledged cash inflows into current accounts up to LTL'000 12,700 (2005: LTL'000 14,000), finished goods and other inventories in the amount of LTL'000 20,000 (2005: LTL'000 20,000), and property, plant and equipment with the net book value of LTL'000 36,565 (2005: LTL'000 24,181) to secure loans received.

As of 31 December 2006 the weighted average interest rate was 5% (2005: 5%).

The fair value of the Company's short term borrowings approximates their carrying amount.

16. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

At 31 December accounts payable and other current liabilities consisted of the following:

	2006 LTL'000	2005 LTL'000
Trade payable	7,669	9,765
Salaries payable	4,090	4,002
Other taxes payable	1,970	5,912
Vacation reserve	1,445	1,487
Social insurance payable	1,288	2,984
Accrued expenses	112	444
Shareholder's contribution	-	5,000
Other accounts payable	1,458	1,331
Total	**18,032**	**30,925**

As of 31 December 2006 the Company has pledged fixed assets with the net book value of LTL'000 14,149 to secure accounts payable to UAB Litesko (2005: None).

17. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Company has divided its business into four main groups – yarn, fabrics, sewing goods, services and spare parts. These groups are the basis on which the Company reports its primary segment information. Segment information about these groups is presented below.

	2006 LTL'000			2005 LTL'000		
	Sales	**Cost of sales**	**Segment result**	**Sales**	**Cost of sales**	**Segment result**
Fabrics	33,641	34,240	(599)	39,437	(43,152)	(3,715)
Sewing Goods	28,578	29,422	(844)	25,684	(27,148)	(1,464)
Yarn	2,548	2,399	149	3,736	(3,671)	65
Other Services and spare parts	1,434	1,250	184	1,134	(1,024)	110
Total	**66,201**	**67,311**	**(1,110)**	**69,991**	**(74,995)**	**(5,004)**

All business segments use most of the Company's assets and liabilities and no reasonable basis exists to allocate the Company's assets, capital expenditure and liabilities to different segments.

Geographic segments

For the years ended 31 December sales by geographical segments consisted of the following:

	2006 LTL'000	%	2005 LTL'000	%
Sweden	19,502	29.46	17,545	25.07
Lithuania	16,556	25.01	18,544	26.49
Finland	9,367	14.15	8,676	12.4
Italy	8,508	12.85	10,468	14.96
Germany	4,647	7.02	5,949	8.50
Estonia	2,025	3.06	929	1.32
Holland	277	0.42	617	0.89
England	100	0.15	1,872	2.67
Other countries	5,219	7.88	5,391	7.70
Total	**66,201**	**100.00**	**69,991**	**100.00**

All geographic segments use most of the Company's assets and liabilities and no reasonable basis exists to allocate the Company's assets, capital expenditure and liabilities to different segments.

18. SALES AND DISTRIBUTION EXPENSES

For the years ended 31 December sales and distribution expenses consisted of the following:

	2006 LTL'000	2005 LTL'000
Commissions	2,485	2,283
Salaries and related taxes	676	843
Transportation and railway services	271	667
Representation and fairs expenses	165	351
Production shipment expenses	107	149
Business trips	90	109
Other distribution expenses	484	482
Total	**4,278**	**4,884**

19. OPERATING EXPENSES

For the years ended 31 December operating expenses consisted of the following:

	2006 LTL'000	2005 LTL'000
Write off of obsolete and slow moving inventory	4,341	4,294
Salaries and social security	2,119	2,041
Use of inventory previously written off	(1,353)	(560)
Write off of fixed assets	881	-
Taxes other than income tax	637	934
Penalties	604	1,154
Provision for doubtful trade receivables	500	264
Repayment of accounts receivable previously provided for	(291)	(346)
Insurance expenses	143	181
Bank charges	106	145
Depreciation and amortization	67	108
Transportation expenses	7	84
Professional services	-	66
Other expenses	965	373
Total	**8,726**	**8,738**

As of 31 December 2006 the Company employed 1,388 people (2005: 1,668).

20. OTHER OPERATING INCOME

For the years ended 31 December Other operating income and expenses consisted of the following:

	2006 LTL'000	2005 LTL'000
Gain from sales of property, plant and equipment	6,657	4,682
Sales of inventory	-	938
Other income	348	173
Total	**7,005**	**5,793**

21. INCOME TAX

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 LTL'000	%	2005 LTL'000	%
Loss before taxes	(8,327)		(15,994)	
Tax at the statutory income tax rate	(1,582)	19	(2,399)	15
Tax effect of expenses that are not deductible in determining taxable profit	1,128	(13)	209	(1)
Decrease in unrealised tax loss carry forward	880	(11)	272	(2)
Change in deferred tax due to change in income tax rate (2006 – 19%, 2007 – 18%)	96	(1)		
Change in deferred tax valuation allowance	(522)	6	1,918	(12)
Income tax expense	**-**	**-**	**-**	**-**

In accordance with IAS 12, the Company recognizes a deferred tax liability or asset for temporary differences where amounts of income taxes are probable for payment or recovery in future periods. At each balance sheet date the Company re-assesses all unrecognized deferred tax assets and recognizes the previously unrecognized portion to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

22. DEFERRED TAX

The management has recorded a valuation allowance in the amount it believes is necessary to reduce the deferred tax asset to the amount that will most likely be realized. The components of deferred income tax assets are summarized as follows:

	2006 LTL'000	2005 LTL'000
Deferred tax asset:		
Tax loss carry forward	5,891	6,231
Provision for inventory	794	1,006
Provisions and accrued expenses	554	523
Total deferred tax asset	**7,239**	**7,760**
Less: valuation allowance	(7,239)	(7,760)
Net position at 31 December	**-**	**-**

Lithuanian income tax law allows carrying forward tax losses of prior periods for deduction against future periods tax profits for not more than five years after the origin of the tax loss.

Maturity of tax loss carried forward is as follows:

Maturity	**Tax loss carried forward LTL'000**
2008	877
2009	531
2010	2,016
2011	1,927
2012	540
Total	**5,891**

23. RELATED PARTY TRANSACTIONS

As of 31 December 2006 and for the year then ended related party transactions were as follows:

Related parties	Payable to related party LTL'000	Receivable from related party LTL'000	Purchases from related party LTL'000	Sales to related party LTL'000
State controlled entities	7,388	-	5,057	-
Total	**7,388**	**-**	**5,057**	**-**

As of 31 December 2005 and for the year then ended related party transactions were as follows:

Related parties	Payable to related party LTL'000	Receivable from related party LTL'000	Purchases from related party LTL'000	Sales to related party LTL'000
Toloram Investeeringute AS	275	-	-	-
State controlled entities	5,062	-	5,818	-
Total	**5,337**	**-**	**5,818**	**-**

The transactions with related parties were concluded on an arm's length basis.

Toloram Investeeringute AS is a related party of Tolaram Investments AS (one of the Company's shareholders).

The average number of management in 2006 was 3 (2005: 3). The management remuneration for 2006 amounted to LTL 228,067 (2005: LTL 216,036).

24. COMMITMENTS AND CONTINGENCIES

As of 31 December 2006 the Company is involved in 4 legal disputes:

- Rima Rudzinskienė claims for debts from the Company in the amount of LTL 13,784;
- Dzūkijos Vandenys UAB claims for debts from the Company in the amount of LTL 114,730;
- Algol Chemicals UAB claims for debts from the Company in the amount of LTL 48,936;
- Gahlert Tekstilė UAB claims for debts from the Company in the amount of LTL 14,605.

All the liabilities related with the legal disputes mentioned above are provided for in the financial statements.

As of 31 December 2006 due to the legal disputes buildings of the Company with the net book value of LTL'000 49 were arrested.

25. EVENTS AFTER THE BALANCE SHEET DATE

All the bank accounts of the Company were arrested on 27 February 2007. The bank accounts have been arrested by bailiff on the basis of received claims from:

1. Bankas Snoras AB in the amount of LTL'000 2,355;
2. SODRA in the amount of LTL'000 665;
3. Litesko UAB in the amount of LTL'000 225;
4. Rytų Skirstomieji Tinklai AB in the amount of LTL'000 191.

Due to this the operations of the Company were partially stopped. Only a part of sublimation workshop, sewing workshop, administration and security is working on the date of these financial statements.

Due to legal claims from Teksdeta UAB the property, plant and equipment with the net book value of LTL'000 257 as of 31 December 2006 was arrested on 26 March 2007.

The Company received loan from Bankas Snoras AB in the amount of LTL'000 5,200 on 9 March 2007 with the purpose to pay payroll debts to the employees. The annual interest rate for this loan is 6% with the maturity in 2009. The loan was secured by the guarantee in the amount of LTL'000 5,200 issued by Investicijų ir Verslo Garantijos UAB. The Company has obliged to pledge real estate with net book value of LTL'000 1,668 as of 31 December 2006.

On 7 March 2007 Ministry of Economy of the Republic of Lithuania has transferred control of owned 35,828,133 common shares of Alytaus Tekstile AB (at par value of LTL 1) with the voting rights of 69.56% to VĮ Valstybės Turto Fondas on the basis of the resolution No 228 of the Government of the Republic of Lithuania dated 27 February 2007 Regarding Transfer of Alytaus Tekstilė AB Shares Owned by the State.

VĮ Valstybės Turto Fondas approved Alytaus Tekstilė AB privatization program on 30 March 2007. A public sale of shares through Vilnius Stock Exchange will be completed by the end of May 2007. Initial price of the shares portfolio will be in the amount of LTL'000 358 (shares portfolio will not be decomposed).

26. GOING CONCERN

For the years ended 31 December 2006 and 2005, the Company incurred loss of LTL'000 8,327 and LTL'000 15,994, respectively, and as of 31 December 2006 and 2005 the current liabilities exceeded current assets by LTL'000 20,581 and LTL'000 23,527, respectively.

The working capital of the Company is insufficient. During the months subsequent to year-end the Company incurred gross loss and continued to generate negative cash flows from operating activities.

The Company's going concern depends on additional financing. The Company is planning to sell real estate, however at the date of financial statements the management of the Company does not have any formal arrangements.

The management of the Company has prepared a business plan for 2007 – 2011. The Company's future perspectives and action plan which is necessary to assure profitable operations in the future are foreseen in this business plan. The management of the Company according to the business plan is planning:

- to continue textile production;
- to sell not used property, plant and equipment;
- to sell of obsolete and discounted inventory;
- to start a new geo-textile business;
- to construct own boiler-house;
- to decrease the number of employees to the optimal number.

In order to implement this business plant the Company needs additional financing in the amount of MLTL 34.5. According to the management, the additional financing could be obtained from the Government of the Republic of Lithuania or new shareholders by increasing share capital or by entering into new borrowing agreements.

As it was described in the Note 25, the Company is under privatization process. The current priority of the management is to privatize the Company as soon as possible is order new investors would restore the Company's continued operations.

The Company's continued operations depend on the results of the Company's privatization and new investor's financial abilities.

The financial statements are prepared assuming that the Company will continue as going concern. No adjustments have been made to these financial statements that may be deemed necessary if the Company would not continue as going concern.

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