

**A/S SAF TEHNIKA**

(Enterprise Register number 000347410)

ANNUAL REPORT FOR THE PERIOD  
1 JULY 2001 THROUGH 30 JUNE 2002  
(3<sup>rd</sup> financial year)

To the shareholders of  
a/s SAF Tehnika

We have audited the financial statements (pages 2 to 18) of a/s SAF Tehnika (a joint stock company registered in the Republic of Latvia) for the period from 1 July 2001 to 30 June 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give, in all material respects, a true and fair view of the financial position of a/s SAF Tehnika as of 30 June 2002 and the result of its operations and cash flows for the year then ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies and International Financial Reporting Standards, as published by the International Accounting Standards Board.

Ernst & Young



Per Møller



Gundars Ruža  
Personal ID code: 310375-10517  
Latvian Sworn Auditor  
Certificate no. 137

The audit was completed on 25 August 2002.

## A/s SAF Tehnika

## Management Report for the period from 1 July 2001 to 30 June 2002

SIA SAF Tehnika is a subsidiary of Microlink AS that is one of the leading telecommunication equipment developers and producers in the Republic of Latvia. The Company was founded in December 1999, by consolidating the competence, resources and personnel of IU SAF and SIA Fortech.

Since its foundation, the Company has developed successfully, and this reporting year is the second year, when the Company has gained profit. In the financial year 2001/ 2002, the Company's profit was LVL 42,102.

This financial year is characterised by an increase in net sales by 67 % due to the expansion of the production and research activities. Net sales for the reporting period has reached LVL 1,582,877.

Another significant turn in the development of the Company is its entrance in the international market. During the reporting period, the income from the export sales reached already 60% of the total sales. A/s SAF Tehnika has proved itself as a recognised supplier in the Baltic states, Scandinavia, Great Britain and Eastern European countries, as well as in Russia, Kazakhstan and China.

Good perspectives for the next years are ensured by the Company's enhanced focus on the development of new products and improvement of the existing ones, thus offering to the customers more versatile and qualitative products.

Subsequent to the year-end there have been no events that might have a impact on the Company's financial statements for the period 1 July 2001 through 30 June 2002.

Based on the prior year investments, as well as the investments made this year, the Management of a/s SAF Tehnika believes that the Company has enabled itself to continue its development, increase sales and gain profit during the next years.



Normunds Bergs  
Chairman of  
the Board of Directors

Riga,  
26 August 2002

**A/s SAF Tehnika****Board of Directors**

On 18 July 2001, SIA SAF Tehnika was reorganised into a joint stock company (the reorganization registered with the Enterprise Register of the Republic of Latvia on 9 August 2001) and the Board of Directors was elected in the following composition:

|                                     |                |
|-------------------------------------|----------------|
| Chairman of the Board of Directors: | Normunds Bergs |
|-------------------------------------|----------------|

|                                            |                  |
|--------------------------------------------|------------------|
| Deputy Chairman of the Board of Directors: | Didzis Liepkaļns |
|--------------------------------------------|------------------|

|                                   |             |
|-----------------------------------|-------------|
| Member of the Board of Directors: | Ramona Ūdre |
|-----------------------------------|-------------|

During the period 18 August 2001 through the date of signing the financial statements there have been no changes in the Board of Directors of the Company.

## A/s SAF Tehnika

Balance Sheets as at 30 June 2002 and 2001  
(LVL)ASSETS

| Note |                                          | 30/06/2002     | 30/06/2001     |
|------|------------------------------------------|----------------|----------------|
|      | <b>LONG-TERM ASSETS</b>                  |                |                |
| 3    | Intangible fixed assets                  | 28,429         | 35,141         |
| 3    | Tangible fixed assets:                   |                |                |
|      | EDP equipment                            | 158,305        | 80,633         |
|      | Other tangible fixed assets              | 25,812         | 10,388         |
|      | Leasehold improvements                   | -              | 1,602          |
|      | Total tangible fixed assets              | 184,117        | 92,623         |
|      | Prepayments for fixed assets             | 3,047          | -              |
|      | Total long-term assets                   | 215,593        | 127,764        |
|      | <b>CURRENT ASSETS</b>                    |                |                |
|      | Inventory:                               |                |                |
|      | Raw materials                            | 178,377        | 496,525        |
|      | Work in progress                         | 221,897        | -              |
|      | Goods for sale                           | 46,700         | 80,511         |
|      | Prepayments for goods                    | 18,076         | 20,490         |
|      | Total inventory                          | 465,050        | 597,526        |
|      | Accounts receivable:                     |                |                |
| 4    | Trade accounts receivable, net           | 79,383         | 40,044         |
| 14   | Accounts receivable from related parties | 149,294        | 69,632         |
| 5    | Other accounts receivable                | 8,151          | 67,312         |
|      | Prepaid expense                          | 3,162          | 3,690          |
|      | Total accounts receivable                | 239,990        | 180,678        |
|      | Cash                                     | 51,115         | 8,145          |
|      | Total current assets                     | 756,155        | 786,349        |
|      | <b>Total assets</b>                      | <b>971,748</b> | <b>914,113</b> |



Normunds Bergs  
Chairman of  
the Board of Directors

Riga,  
26 August 2002

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

## A/s SAF Tehnika

Balance Sheets as at 30 June 2002 and 2001  
(LVL)**LIABILITIES AND SHAREHOLDERS' EQUITY**

| Note |                                                   | 30/06/2002     | 30/06/2001     |
|------|---------------------------------------------------|----------------|----------------|
|      | <b>SHAREHOLDERS' EQUITY</b>                       |                |                |
| 1    | Share capital                                     | 200,103        | 200,003        |
|      | Share premium                                     | 171,717        | -              |
|      | Retained earnings/ (deficit)                      | 28,543         | (17,231)       |
|      | Current period unappropriated profit              | 42,102         | 45,774         |
|      | <b>Total shareholders' equity</b>                 | <b>442,465</b> | <b>228,546</b> |
|      | <b>PROVISIONS</b>                                 |                |                |
| 15   | Deferred corporate income tax                     | 14,925         | 8,518          |
|      | <b>LONG-TERM LIABILITIES</b>                      |                |                |
|      | Long-term finance lease liabilities               | 24,315         | -              |
|      | <b>CURRENT LIABILITIES</b>                        |                |                |
|      | Short-term portion of finance lease liabilities   | 20,205         | -              |
| 6    | Short-term loans                                  | 27,058         | 341,411        |
|      | Trade accounts payable                            | 71,821         | 147,304        |
| 14   | Accounts payable to related parties               | 332,928        | 159,225        |
| 7    | Taxes and social security contributions           | 11,372         | 6,541          |
| 8    | Other current liabilities                         | 26,659         | 22,568         |
|      | <b>Total current liabilities</b>                  | <b>490,043</b> | <b>677,049</b> |
|      | <b>Total liabilities and shareholders' equity</b> | <b>971,748</b> | <b>914,113</b> |
| 19   | Contingent liabilities                            |                |                |




Normunds Bergs  
Chairman of

## A/s SAF Tehnika

**Statements of Income for the periods 1 July 2001 through 30 June 2002  
and 1 July 2000 through 30 June 2001  
(LVL)**

| Note      |                                    | <u>01/07/2001 -<br/>30/06/2002</u> | <u>01/07/2000 -<br/>30/06/2001</u> |
|-----------|------------------------------------|------------------------------------|------------------------------------|
|           | <b>NET SALES</b>                   | <b>1,582,877</b>                   | <b>948,285</b>                     |
| 3, 9, 12  | Cost of sales                      | <u>(999,539)</u>                   | <u>(674,304)</u>                   |
|           | <b>GROSS PROFIT</b>                | <b>583,338</b>                     | <b>273,981</b>                     |
| 3, 10, 12 | Sales and distribution expense     | (418,744)                          | (149,655)                          |
| 3, 11, 12 | General and administrative expense | (73,881)                           | (50,075)                           |
|           | Other operating income             | <u>62</u>                          | <u>-</u>                           |
|           | <b>PROFIT FROM OPERATIONS</b>      | <b>90,775</b>                      | <b>74,251</b>                      |
| 13        | Financial expense, net             | <u>(38,749)</u>                    | <u>(19,959)</u>                    |
|           | <b>PROFIT BEFORE TAXES</b>         | <b>52,026</b>                      | <b>54,292</b>                      |
| 15        | Corporate income tax               | <u>(9,924)</u>                     | <u>(8,518)</u>                     |
|           | <b>NET PROFIT FOR THE PERIOD</b>   | <u><b>42,102</b></u>               | <u><b>45,774</b></u>               |

  
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 Normunds Bergrs  
 Chairman of  
 the Board of Directors

Riga,  
26 August 2002

## A/s SAF Tehnika

**Statement of Changes in Shareholders' Equity for the periods**  
**1 July 2001 through 30 June 2002**  
**and 1 July 2000 through 30 June 2001**  
**(LVL)**

|                                                                                   | Share<br>capital | Share<br>premium | Retained<br>earnings/<br>(deficit) | Current period<br>unappropriated<br>profit/ (loss) | Total<br>shareholders'<br>equity |
|-----------------------------------------------------------------------------------|------------------|------------------|------------------------------------|----------------------------------------------------|----------------------------------|
| <b>As at 1 July 2000</b>                                                          | 100,000          | -                | -                                  | (17,231)                                           | 82,769                           |
| Transferred to<br>accumulated (deficit)                                           | -                | -                | (17,231)                           | 17,231                                             | -                                |
| Transferred to share<br>capital*                                                  | 100,003          | -                | -                                  | -                                                  | 100,003                          |
| Net profit for the period<br>1 July 2000 through<br>30 June 2001                  | -                | -                | -                                  | 45,774                                             | 45,774                           |
| <b>As at 30 June 2001</b>                                                         | 200,003          | -                | (17,231)                           | 45,774                                             | 228,546                          |
| Distribution of net loss<br>for the period<br>1 July 2000 through<br>30 June 2001 | -                | -                | 45,774                             | (45,774)                                           | -                                |
| Paid-in share capital                                                             | 100              | 171,717          | -                                  | -                                                  | 171,817                          |
| Net profit for the period<br>1 July 2001 through<br>30 June 2002                  | -                | -                | -                                  | 42,102                                             | 42,102                           |
| <b>As at 30 June 2002</b>                                                         | <u>200,103</u>   | <u>171,717</u>   | <u>28,543</u>                      | <u>42,102</u>                                      | <u>442,465</u>                   |

\*On 19 June 2001, the shareholders of the Company decided to increase the share capital by LVL 100,003. On 26 June 2001, this amount was transferred to the Company's bank account. The increase of the share capital in the amount of LVL 100,003 was registered with the Enterprise Register of the Republic of Latvia on 9 August 2001.



## A/s SAF Tehnika

**Statements of Cash Flows for the periods**  
**1 July 2001 through 30 June 2002**  
**and 1 July 2000 through 30 June 2001**  
**(LVL)**

|                                                                                   | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|-----------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| <b>Net profit for the period before taxes</b>                                     | <b>52,026</b>                      | <b>54,292</b>                      |
| Adjustments to reconcile net profit to net cash provided by operating activities: |                                    |                                    |
| Amortisation and depreciation charge                                              | 55,336                             | 21,831                             |
| Vacation reserve                                                                  | 1,614                              | 7,837                              |
| Provision for doubtful debts                                                      | (652)                              | 652                                |
|                                                                                   | <u>108,324</u>                     | <u>84,612</u>                      |
| Decrease/ (increase) in inventory                                                 | 132,476                            | (482,591)                          |
| (Increase) in trade accounts receivable                                           | (58,660)                           | (109,820)                          |
| Increase in trade accounts payable                                                | <u>102,011</u>                     | <u>194,728</u>                     |
| <b>Net cash from (to) operating activities</b>                                    | <u>284,151</u>                     | <u>(313,071)</u>                   |
| <b>Cash flow from (to) investment activities:</b>                                 |                                    |                                    |
| (Purchase) of intangible and tangible fixed assets                                | <u>(98,645)</u>                    | <u>(106,796)</u>                   |
| <b>Net cash (to) investing activities</b>                                         | <u>(98,645)</u>                    | <u>(106,796)</u>                   |
| <b>Cash flow from (to) financing activities:</b>                                  |                                    |                                    |
| Paid-in share capital                                                             | 100                                | 100,003                            |
| Share premium                                                                     | 171,717                            | -                                  |
| (Decrease)/ increase in loans                                                     | <u>(314,353)</u>                   | <u>284,411</u>                     |
| <b>Net cash from (to) financing activities</b>                                    | <u>(142,536)</u>                   | <u>384,414</u>                     |
| <b>Net increase/ (decrease) in cash</b>                                           | <u>42,970</u>                      | <u>(35,453)</u>                    |
| <b>Cash at the beginning of the period</b>                                        | <u>8,145</u>                       | <u>43,598</u>                      |
| <b>Cash at the end of the period</b>                                              | <u><u>51,115</u></u>               | <u><u>8,145</u></u>                |

## A/s SAF Tehnika

### Notes to the Financial Statements (All amounts in LVL unless otherwise stated)

#### 1. Organisation and Foundation

A/s SAF Tehnika (the Company) was registered with the Enterprise Register of the Republic of Latvia on 27 December 1999 as a limited liability company. On 18 July 2001, the Company was reorganised into a joint stock company (the reorganization registered with the Enterprise Register of the Republic of Latvia on 9 August 2001).

The main activities of the Company are telecommunication equipment development and production.

As at 30 June 2002, the share capital of the Company was LVL 200,103 consisting of 200,100 ordinary registered shares with voting rights and 3 ordinary registered shares without voting rights.

During the reporting period, 100 ordinary registered shares with a nominal value of LVL 1 each were issued and proportionally distributed to the existing shareholders.

As at 30 June 2002 the shares were distributed as follows:

|                        | Number of<br>shares | %             | Nominal value<br>(LVL) |
|------------------------|---------------------|---------------|------------------------|
| MicroLink AS (Estonia) | 102,051             | 51.00         | 102,051                |
| D. Liepkalns           | 39,227              | 19.60         | 39,227                 |
| A. Grišāns             | 23,532              | 11.76         | 23,532                 |
| J. Zieme               | 20,590              | 10.29         | 20,590                 |
| V. Lācars              | 14,700              | 7.35          | 14,700                 |
| Board                  | 3                   | -             | 3                      |
|                        | <u>200,103</u>      | <u>100.00</u> | <u>200,103</u>         |

The legal address of the Company is Dzirnau street 91, Riga, LV 1011, Latvia.

#### 2. Significant Accounting Policies

The Company's financial statements are prepared in accordance with the law of the Republic of Latvia On Financial Statements of Companies and International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board.

##### *Changes in Accounting Policies*

On 1 January 2001, there was adopted International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement. The adopting of IAS 39 did not have an effect on the financial statements.

##### *Income Recognition*

Net sales include the value of goods sold and services rendered during the period, net of value added tax and discounts directly related to the sales.

Income is recognised on an accrual basis.

**A/s SAF Tehnika****Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)**2. Significant Accounting Policies (cont'd)*****Corporate Income Tax***

The Latvian corporate income tax rate in accordance with the Latvian tax regulations effective for the Company may be specified as follows:

- until 1 July 2002 – 25%;
- until 1 July 2003 – 22%;
- until 1 July 2004 – 19%;
- starting from 1 July 2004 – 15%.

In accordance with the Law On Corporate Income Tax, the corporate income tax loss carried forward may be offset against the future taxable income of the five subsequent taxation periods.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred taxation liability is determined based on the future tax rates expected when the asset is to be realised. The principal timing differences arise from differing rates and methods of accounting and tax depreciation on tangible fixed assets and vacation pay reserve and provisions for doubtful accounts that have been utilised as tax assets.

***Vacation Pay Reserve***

The vacation pay reserve is estimated, based on the average remuneration for work during the last six months of the financial year and the number of holidays.

***Subsequent events***

Post period 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 period end events that are not adjusting events are disclosed in the notes when material.

***Finance Leases***

Assets held under finance lease are initially recorded at the fair value of the asset, with an equivalent liability under long- and short-term liabilities. The assets are depreciated over their estimated useful life. Rentals are apportioned between finance charges and reduction of the liability. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance, and included in the statement of income as interest expense.

The depreciation for the assets held under lease is calculated on the same basis as for the assets owned by the Company.

**A/s SAF Tehnika****Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)**2. Significant Accounting Policies (cont'd)*****Contingencies***

Contingent liabilities and guarantees issued are not recognized 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 of economic benefits is probable.

***Related Parties***

Related parties are defined as shareholders that have significant influence over the Company, members of the Council and the Board of Directors, key management personnel, their close relatives and companies in which they have controlling interest as well as associated companies.

## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**3. Intangible and tangible fixed assets**

|                                                              | <u>Intangible<br/>fixed assets</u> | <u>EDP<br/>equipment</u> | <u>Other<br/>tangible<br/>fixed assets</u> | <u>Leasehold<br/>improvements</u> | <u>Total<br/>tangible<br/>fixed assets</u> |
|--------------------------------------------------------------|------------------------------------|--------------------------|--------------------------------------------|-----------------------------------|--------------------------------------------|
| <b>COST:</b>                                                 |                                    |                          |                                            |                                   |                                            |
| Balance as at 1 July 2001                                    | 38,505                             | 94,587                   | 13,201                                     | 5,472                             | 113,260                                    |
| Additions                                                    | 3,363                              | 117,587                  | 19,168                                     | -                                 | 136,755                                    |
| Balance as at 30 June 2002                                   | 41,868                             | 212,174                  | 32,369                                     | 5,472                             | 250,015                                    |
| <b>ACCUMULATED AMORTISATION/<br/>DEPRECIATION:</b>           |                                    |                          |                                            |                                   |                                            |
| Balance as at 1 July 2001                                    | 3,364                              | 13,954                   | 2,813                                      | 3,870                             | 20,637                                     |
| Charge for the year                                          | 10,075                             | 39,915                   | 3,744                                      | 1,602                             | 45,261                                     |
| Balance as at 30 June 2002                                   | 13,439                             | 53,869                   | 6,557                                      | 5,472                             | 65,898                                     |
| <b>NET BOOK VALUE:</b>                                       |                                    |                          |                                            |                                   |                                            |
| As at 1 July 2001                                            | 35,141                             | 80,633                   | 10,388                                     | 1,602                             | 92,623                                     |
| As at 30 June 2002                                           | 28,429                             | 158,305                  | 25,812                                     | -                                 | 184,117                                    |
| Amortisation and depreciation<br>rate (straight-line method) | 25%                                | 25%                      | 20%                                        | Lease period                      |                                            |

The total amortisation and depreciation charge for the periods 1 July 2001 through 30 June 2002 and 1 July 2000 through 30 June 2001 in the amount of LVL 55,336 and LVL 21,831, respectively, has been included in the statement of income as follows:

|                                    | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|------------------------------------|------------------------------------|------------------------------------|
| Cost of sales                      | 45,639                             | 18,229                             |
| Sales and distribution expense     | 2,280                              | 1,763                              |
| General and administrative expense | 7,417                              | 1,839                              |
|                                    | <u>55,336</u>                      | <u>21,831</u>                      |

In accordance with the general agreement on the provision of the group's credit limit to MicroLink AS group companies, the Company has pledged all its assets as collateral with a/s Hansabanka (see Note 17).

As at 30 June 2002, the net book value of the tangible fixed assets purchased under the finance lease was LVL 66,386.

## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**4. Trade accounts receivable, net**

|                                         | <u>30/06/2002</u> | <u>30/06/2001</u> |
|-----------------------------------------|-------------------|-------------------|
| Trade accounts receivable, gross        | 79,383            | 40,696            |
| (Less) provisions for doubtful accounts | -                 | (652)             |
| Trade accounts receivable, net          | <u>79,383</u>     | <u>40,044</u>     |

**5. Other receivables**

|                    | <u>30/06/2002</u> | <u>30/06/2001</u> |
|--------------------|-------------------|-------------------|
| Deferred VAT       | 7,755             | 41,996            |
| Advance import VAT | 21                | 237               |
| VAT receivable     | -                 | 22,757            |
| Other receivables  | 375               | 2,322             |
|                    | <u>8,151</u>      | <u>67,312</u>     |

**6. Short-term loans**

The balances of the short-term loans as at 30 June 2002 can be specified as follows:

| <u>Lender</u>          | <u>Maturity</u> | <u>Principal amount</u> | <u>Interest rate</u> | <u>Balance (LVL)</u> |
|------------------------|-----------------|-------------------------|----------------------|----------------------|
| Normunds Bergs         | 31/12/2002      | USD 10,000              | 0%                   | 6,050                |
| Normunds Bergs         | 31/12/2002      | USD 10,000              | 0%                   | 1,008                |
| Normunds Bergs         | 31/12/2002      | LVL 85,616              | 0%                   | 20,000               |
| Total short-term loans |                 |                         |                      | <u>27,058</u>        |

**7. Taxes and social security contributions**

| <u>Receivable/ (payable)</u>  | <u>30.06.2001.</u> | <u>Calculated</u> | <u>Paid</u>    | <u>30.06.2002.</u> |
|-------------------------------|--------------------|-------------------|----------------|--------------------|
| Value added tax (VAT)         | 22,757             | (42,294)          | 19,125         | (412)              |
| Social security contributions | (4,018)            | (51,167)          | 50,596         | (4,589)            |
| Personal income tax           | (2,523)            | (32,300)          | 31,969         | (2,854)            |
| Corporate income tax          | -                  | (3,517)           | -              | (3,517)            |
| Natural resource tax          | -                  | (125)             | 125            | 484                |
| Receivable/ (payable), net    | <u>16,216</u>      | <u>(129,403)</u>  | <u>101,815</u> | <u>(11,372)</u>    |

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**8. Other current liabilities**

|                           | 30/06/2002    | 30/06/2001    |
|---------------------------|---------------|---------------|
| Vacation pay reserve      | 12,337        | 10,723        |
| Remuneration for work     | 9,003         | 7,988         |
| Other current liabilities | 5,319         | 3,857         |
|                           | <u>26,659</u> | <u>22,568</u> |

**9. Cost of sales**

|                                      | 01/07/2001 –<br>30/06/2002 | 01/07/2000 –<br>30/06/2001 |
|--------------------------------------|----------------------------|----------------------------|
| Cost of goods sold                   | 723,729                    | 456,556                    |
| Remuneration for work                | 116,977                    | 105,578                    |
| Amortisation and depreciation charge | 45,639                     | 18,229                     |
| Social security contributions        | 29,921                     | 27,881                     |
| Rent expense                         | 32,376                     | 34,705                     |
| Delivery expense                     | 19,749                     | 8,131                      |
| Utility expense                      | 10,942                     | 7,732                      |
| Transportation expense               | 9,136                      | 6,420                      |
| Communication expense                | 4,725                      | 1,731                      |
| Low value items                      | 2,395                      | 3,580                      |
| Insurance                            | 1,693                      | -                          |
| Office expense                       | 1,033                      | 554                        |
| Business trip expense                | 883                        | 861                        |
| Customs and import duties            | 341                        | 2,081                      |
| Other cost of sales                  | -                          | 265                        |
|                                      | <u>999,539</u>             | <u>674,304</u>             |

**10. Sales and distribution expense**

|                                         | 01/07/2001 –<br>30/06/2002 | 01/07/2000 –<br>30/06/2001 |
|-----------------------------------------|----------------------------|----------------------------|
| Advertising/ marketing expense          | 359,198                    | 120,564                    |
| Remuneration for work                   | 25,843                     | 15,964                     |
| Social security contributions           | 6,657                      | 4,242                      |
| Business trip expense                   | 10,789                     | 1,828                      |
| Communication expense                   | 6,150                      | 696                        |
| Rent expense                            | 2,351                      | 1,207                      |
| Transportation expense                  | 2,462                      | 2,064                      |
| Utility expense                         | 2,273                      | 920                        |
| Amortisation and depreciation on charge | 2,280                      | 1,763                      |
| Other sales and distribution expense    | 741                        | 407                        |
|                                         | <u>418,744</u>             | <u>149,655</u>             |

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**11. General and administrative expense**

|                                          | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|------------------------------------------|------------------------------------|------------------------------------|
| Finance consulting and management fees   | 31,232                             | 3,500                              |
| Business trip expense                    | 7,978                              | 3,692                              |
| Amortisation and depreciation charge     | 7,417                              | 1,839                              |
| Remuneration for work                    | 6,646                              | 2,886                              |
| Social security contributions            | 1,733                              | 767                                |
| Representation expense                   | 3,291                              | 626                                |
| Bank charges                             | 2,976                              | 3,028                              |
| Security expense                         | 2,613                              | 2,017                              |
| IT services                              | 2,502                              | 6,275                              |
| Communication expense                    | 1,230                              | 2,570                              |
| Professional service fees                | 1,223                              | 1,100                              |
| Insurance                                | 1,164                              | 408                                |
| Information materials                    | 1,107                              | -                                  |
| Office expense                           | 1,001                              | 842                                |
| Accounting services                      | 774                                | 3,099                              |
| Provision for doubtful accounts          | (652)                              | 652                                |
| Legal services                           | -                                  | 9,288                              |
| Written-off debts                        | -                                  | 6,389                              |
| Other general and administrative expense | 1,646                              | 1,097                              |
|                                          | <u>73,881</u>                      | <u>50,075</u>                      |

**12. Personnel expense**

|                               | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|-------------------------------|------------------------------------|------------------------------------|
| Remuneration for work         | 149,466                            | 124,428                            |
| Social security contributions | 38,311                             | 32,890                             |
|                               | <u>187,777</u>                     | <u>157,318</u>                     |

Total personnel expense has been included in the statement of income as follows:

|                                    | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|------------------------------------|------------------------------------|------------------------------------|
| Cost of sales                      | 146,898                            | 133,459                            |
| Sales and distribution expense     | 32,500                             | 20,206                             |
| General and administrative expense | 8,379                              | 3,653                              |
|                                    | <u>187,777</u>                     | <u>157,318</u>                     |



## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**12. Personnel expense (cont'd)**

Total personnel expense for the period 1 July 2001 through 30 June 2002 includes vacation pay reserve in the amount of LVL 1,614 (LVL 7,837).

During the period 1 July 2001 through 30 June 2002, the average number of employees in the Company was 25 (20). During the reporting period, no compensation, other than remuneration for work, has been paid to the Board of Directors.

**13. Financial (expense), net**

|                         | <u>01/07/2001-<br/>30/06/2002</u> | <u>01/07/2000-<br/>30/06/2001</u> |
|-------------------------|-----------------------------------|-----------------------------------|
| Foreign exchange (loss) | (31,698)                          | (10,778)                          |
| Interest (expense)      | (15,253)                          | (17,151)                          |
| Foreign exchange gain   | 8,202                             | 7,952                             |
| Other financial income  | <u>-</u>                          | <u>18</u>                         |
|                         | <u><b>(38,749)</b></u>            | <u><b>(19,959)</b></u>            |

**14. Related party transactions**

During the period 1 July 2001 through 30 June 2002, the Company has received services, goods and fixed assets from the dominant company and other companies within the Group for LVL 369,290 and has delivered goods and provided services to the Dominant company and other companies within the Group for LVL 947,282 (during the period 1 July 2000 through 30 June 2001: LVL 196,945 and LVL 702,140, respectively).

Receivables from related parties as at 30 June 2002 and 30 June 2001 can be specified as follows:

|                                       | <u>30/06/2002</u>     | <u>30/06/2001</u>    |
|---------------------------------------|-----------------------|----------------------|
| SIA Fortech                           | 108,741               | 48,315               |
| UAB Fortek Informacines Technologijos | <u>40,553</u>         | <u>21,317</u>        |
|                                       | <u><b>149,294</b></u> | <u><b>69,632</b></u> |

## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**14. Related party transactions (cont'd)**

The Company's payables to related parties as at 30 June 2002 and 30 June 2001 can be specified as follows:

|                                          | <u>30/06/2002</u> | <u>30/06/2001</u> |
|------------------------------------------|-------------------|-------------------|
| MicroLink AS                             | 324,632           | -                 |
| SIA Fortech                              | 5,642             | 65,415            |
| A/s MicroLink ServIT (a/s VAR)           | 2,654             | -                 |
| SIA Connecto Latvija (SIA Linki)         | -                 | 5,310             |
| A/s "MicroLink Data" (a/s Delfi Interet) | -                 | 88,500            |
|                                          | <u>332,928</u>    | <u>159,225</u>    |

The Company has received loans from Normunds Bergs, Director of the Company and member of the Board of Directors of MicroLink AS (see Note 6).

**15. Corporate income tax**

The deferred corporate income tax arises from the differences between accounting and tax depreciation recognised in the financial statements.

The Company's corporate income tax can be specified as follows:

|                                 | <u>01/07/2001 –<br/>30/06/2002</u> | <u>01/07/2000 –<br/>30/06/2001</u> |
|---------------------------------|------------------------------------|------------------------------------|
| Corporate income tax            | 3,517                              | -                                  |
| Increase in deferred income tax | 6,407                              | 8,518                              |
|                                 | <u>9,924</u>                       | <u>8,518</u>                       |

The provision for corporate income tax is calculated as follows:

|                                              | <u>30/06/2002</u> | <u>30/06/2001</u> |
|----------------------------------------------|-------------------|-------------------|
| Profit before corporate income tax           | 52,026            | 54,292            |
| Statutory income tax rate                    | 25%               | 25%               |
| Expected corporate income tax expense        | 13,007            | 13,573            |
| Add/ (deduct) tax effect of:                 |                   |                   |
| Non-deductible provisions and accruals       | 374               | 14,878            |
| Other non-deductible items                   |                   | 482               |
| Tax allowances                               | (85)              | -                 |
| Prior year loss                              | (818)             | (20,415)          |
| Difference in next year tax rate utilisation | (2,554)           | -                 |
| Corporate income tax                         | <u>9,924</u>      | <u>8,518</u>      |

## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**16. Financial Instruments****(a) Credit risk**

Financial assets subject to concentration of credit risk include cash, trade receivables and loans to related parties. The Company's cash equivalents are placed with high quality financial institutions. Receivables are presented net of allowances for doubtful accounts receivable (see Note 4).

**(b) Foreign exchange risk**

Currency exchange risk as at 30 June 2002 may be specified as follows:

|                                             | <u>USD</u> | <u>EUR</u> |
|---------------------------------------------|------------|------------|
| Assets (receivables)                        | 192,266    | -          |
| Liabilities (loans, payables)               | (82,663)   | (544,684)  |
| Balance sheet position in original currency | 109,603    | (544,684)  |
| Balance sheet position in Latvian lats      | 66,310     | (324,632)  |

**(c) Fair values**

The carrying value of cash and cash equivalents, trade accounts receivable, trade accounts payable, other liabilities and long-term loans approximate to their fair value.

**17. Collaterals**

In accordance with the general agreement on the provision of the group's credit limit to MicroLink AS group companies, the Company has pledged all its assets as collateral with a/s Hansabanka. In accordance with the general agreement, the group's limit amounts to LVL 1,900,000 and interest rate is 3 months Rigibor plus 2.65% annually.

**18. Subsequent events**

On 1 July 2002, the depreciation rates for tangible fixed assets were changed according to the introduction of Microlink AS Group's accounting policy.

**19. Contingent liabilities**

As at 30 June 2002, the Company as a lessee had entered into operating lease agreements on the lease of premises. At the end of the reporting period, the total respective lease commitment was LVL 3,818.

As at 30 June 2002, the Company had issued guarantees to a/s Hansabanka in relation to the overdrafts used by the Company's employees in the amount of LVL 3,410.

## A/s SAF Tehnika

**Notes to the Financial Statements**  
(All amounts in LVL unless otherwise stated)

**16. Financial Instruments****(a) Credit risk**

Financial assets subject to concentration of credit risk include cash, trade receivables and loans to related parties. The Company's cash equivalents are placed with high quality financial institutions. Receivables are presented net of allowances for doubtful accounts receivable (see Note 4).

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|                                             | <u>USD</u> | <u>EUR</u> |
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| Liabilities (loans, payables)               | (82,663)   | (544,684)  |
| Balance sheet position in original currency | 109,603    | (544,684)  |
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**(c) Fair values**

The carrying value of cash and cash equivalents, trade accounts receivable, trade accounts payable, other liabilities and long-term loans approximate to their fair value.

**17. Collaterals**

In accordance with the general agreement on the provision of the group's credit limit to MicroLink AS group companies, the Company has pledged all its assets as collateral with a/s Hansabanka. In accordance with the general agreement, the group's limit amounts to LVL 1,900,000 and interest rate is 3 months Rigibor plus 2.65% annually.

**18. Subsequent events**

On 1 July 2002, the depreciation rates for tangible fixed assets were changed according to the introduction of MicroLink AS Group's accounting policy.

**19. Contingent liabilities**

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As at 30 June 2002, the Company had issued guarantees to a/s Hansabanka in relation to the overdrafts used by the Company's employees in the amount of LVL 3,410.