KLEMENTI

ANNUAL REPORT

Financial year: 1 January 2002 – 31 December 2002

THE COMPANY IN BRIEF

Business Name:	AS Klementi
Registry code:	10175491
Address	Akadeemia tee 33 TALLINN
Telephone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Main activity:	design, manufacturing, and sale of womenswear
Form of ownership:	public limited company
Director:	Toomas Leis
Financial Manager:	Liili Kaska
Chief accountant:	Airi Kamratov
Auditor:	KPMG Estonia

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MANAGEMENT REPORT

In 2002, AS Klementi continued operations on its main field of activity— design, manufacturing, and sale of womenswear, and in addition, provided subcontracting services.
The company markets its womenswear collections on the Estonian market, and also in the Nordic countries, Latvia, Lithuania, and Canada.

On 31 December 2002 AS Klementi had two wholly owned subsidiaries: Klementi Trading OY (wholesale of AS Klementi's products in Finland) and UAB Klementi Vilnius (retail sale of AS Klementi's products in Lithuania).

On 21 April 2002 bankruptcy of AS Klementi's main client and parent company P.T.A. Group OY was declared. That had significant negative effect on the activities of AS Klementi.
On 12 July 2002 an Estonian venture capital company Alta Capital and its co-investors acquired P.T.A. Group OY's shareholding in AS Klementi. As part of the transaction, AS Klementi acquired internationally recognised trademarks of P.T.A. Group OY (PTA, MasterCoat, Piretta, Avenue, Clubline, and Mallimari).

As the result of acquiring trademarks and client relationships, AS Klementi, a fashion industry company, was able to considerably increase its export to the Nordic countries. Taking into consideration the time needed for product development and presale, the effect of the acquired trademarks will be fully reflected in the results of 2003 fall collection sale.

Change of AS Klementi's main shareholder of was accompanied with the changes in business philosophy and strategy. Changes in supervisory and management boards and in management were made to achieve the new objectives and turnaround of the company was initiated.

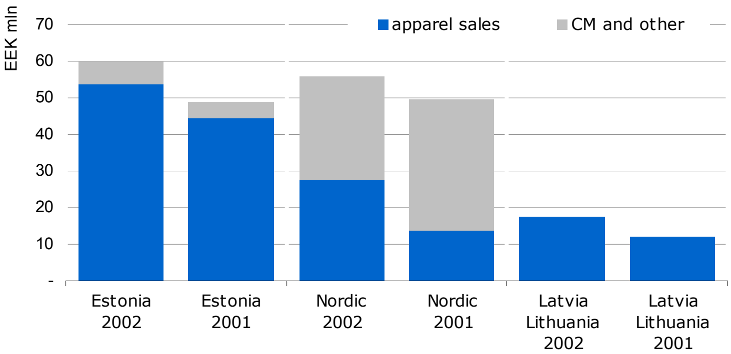
As a part of the turnaround, revaluation of the assets as of 31 December 2002 and business operations of Klementi group was made according to generally accepted accounting practices, principles of conservatism, and the actual situation. As a result of the revaluation, the balance sheet as of 31 December 2002 reflects more fairly and objectively the actual financial situation of the company.

PRODUCTS AND MARKETS

The consolidated net revenue was EEK 133.3 million in 2002, an increase of 20.5% over that of 2001.

In 2002, the revenue structure changed considerably. The share of apparel in net revenue increased to 74.1% (63.6% in 2001). Compared with the previous year, the increase was 40.4%. In the Nordic countries sale of apparel increased 2.1 times.

» Revenue breakdown by markets and activities



In Estonia, Latvia, and Lithuania continued development of the chain of KLEMENTI shops. In the Nordic countries, taking into consideration the established traditions of the apparel market, the main emphasis was turned to wholesalers and well-known trademarks. Therefore, operations of Klementi Trading OY in Finland were resumed in August 2002.

PRODUCTION

The total production in standard minutes (SM) was 23 159 thousand, of which 91 thousand SM were bought from other manufacturers (in 2001, 24 710 thousand SM, 429 thousand SM were bought). In January 2002 the company had 326 apparel workers. The number of apparel workers had decreased to 296 at the end of the year. The weighted average number of the apparel workers was 308 in 2002 (326 in 2001).

The annual production per worker increased by 3.6% over that of the previous year.

PROCUREMENT POLICY

Over the years good relationships have been formed with a number of trustworthy raw material suppliers in several locations of Europe. Using raw materials of European origin enables customs-free import to the Member States of European Union but also to Latvia and Lithuania.
AS Klementi has ca. 40 raw material suppliers. Klementi is mainly using products manufactured by the companies in leading textile manufacturing countries Italy and France. Fabric suppliers from Germany and Spain are also important partners.
Cost of goods, materials and services was EEK 44 680 thousand, constituting 33.5% of the net revenue. The costs decreased by EEK 1 666 thousand, 3.6% over that of 2001.

PERSONNEL AND WAGE POLICY

As of 1 January 2002 AS Klementi employed 665 people, of which 63 were on parental leave. 114 persons were hired during the year, of which 56 were apparel workers. During the year, 147 persons, of which 93 apparel workers, were discharged. As of 31 December 2002 AS Klementi had 630 employees, of which 593 females and 37 males. The number of piece workers accounted for 60.6% of the total personnel, support staff 4.9%, warehouse staff 2.8%, and retail staff 10.9%. The managers and specialists accounted for 12.7% of the total personnel. 50 people were on parental leave.
As of 31 December 2002 the subsidiary Klementi Vilnius UAB employed 21 people.
As of 31 December 2002 the subsidiary Klementi Trading OY employed 7 people.

Average number of persons employed by the group was 684; annual aggregated remuneration was EEK 44 064 thousand.

INVESTMENTS

In 2002 the total investments amounted to EEK 12.4 million, of which EEK 7.2 million was invested into tangible fixed assets and EEK 5.2 million into intangible assets (trademarks). Total investments increased by EEK 2.7 million over that of 2001.

THE MANAGEMENT AND SUPERVISORY BOARDS

The management board of AS Klementi was changed four times during 2002.

» Changes in the Management Board

since 1 Jan 2002	since 6 Feb 2002	since 19 March 2002	since 2 Sep 2002	since 28 Nov 2002
Madis Võõras *managing director*	Madis Võõras *managing director*	Madis Võõras *managing director*	Madis Võõras *managing director*	Toomas Leis *director*
Mare-Ann Perkmann *production manager*	Mare-Ann Perkmann *production manager*	Mare-Ann Perkmann *production manager*		
Liisa Rentola *procurement manager*	Liisa Rentola *procurement manager*	Liisa Rentola *procurement manager*		
	Tarmo Maasikamäe *IT and financial manager*	Tarmo Maasikamäe *IT and financial manager*		
		Valentina Liinsoo *marketing manager*		

Since 2 September 2002 the management board has one member.

On 28 November director of AS Klementi changed. Toomas Leis, replacing Madis Võõras, was designated as new director.

During 2002 13 management board meetings were held.

Annual aggregate remuneration to the Estonian members of the management board was EEK 1 359 thousand, including EEK 130 thousand as remuneration for work as a member of the management board.

» Changes in the Supervisory Board

since 1 Jan 2002	since 27 March 2002	since 31 Jul 2002	since 28 Nov 02
Kari Mattsson	Kari Mattsson	Indrek Rahumaa	Indrek Rahumaa
Risto Wartiovaara	Risto Wartiovaara	Andres Rätsepp	Andres Rätsepp
Heikki Mäntynen	Heikki Mäntynen	Sven Mansberg	Sven Mansberg
Henri Aljand		Sakari Sorri	Sakari Sorri
Peeter Kross		Toomas Leis	Madis Võõras

On 31 July 2002 all members of the supervisory board resigned due to the change of the majority shareholder.

During 2002 seven meetings of the supervisory board were held.

Annual aggregate remuneration to the members of the supervisory board with Estonian citizenship was EEK 40 thousand. The members of the supervisory board with Finnish citizenship waived their remuneration for work as members of the supervisory board.

Remuneration is not paid to the new members of the supervisory board.

FINANCIAL RATIOS (group)

		2002	2001
revenue growth y-o-y		20%	-3%
apparel sales-to-total sales		74%	64%
inventory turnover	[sales/average inventory]	3.7	3.2
receivable turnover	[(receivables - prepayments) / average daily sales]	32	52
quick ratio	[(current assets - inventory) / current liabilities]	0.38	0.41
current ratio	[current assets / current liabilities]	0.91	1.17
operating margin	[operating profit / sales]	-19.8%	5.1%
net margin	[net profit / sales]	-23.9%	0.9%
return on equity	[net profit / average equity]	-76.0%	2.1%
return on assets	[net profit / average total assets]	-26.4%	0.9%

PLANS FOR 2003

The main objective of AS Klementi is to replace the current production-driven management and business philosophy with client-driven approach.

The focus is on development of two strong trademarks, i.e., PTA and Klementi. Klementi trademark targets the Baltic market and main distribution channel is retail outlets. PTA trademark's target markets are both the Nordic and the Baltic countries and distribution channel is wholesale.

» KLEMENTI TRADEMARK

Corporate trademark Klementi that is best-known Klementi's trademarks in Estonia will retain its respectable name and will develop into viable retail chain in the Baltic.

The collections will be changed radically as a result of getting to know the needs of the people thoroughly. In developing Klementi's collections a woman who prefers to wear comfortable and feminine apparel, who needs modern clothing for office and leisure time with the family and who values good price/quality ratio is envisioned.

Klementi's classical coat and costume collections will retain their renowned quality. As an innovation, Klementi will launch leisurewear collection for women — Klementi Weekend. The collection will include comfortable denim and cotton products, broad selection of knits, tops, and weatherproof sporty outerwear.

Trademark Klementi aims to offer real pleasure of shopping — the best ratio of price, quality, and fashionability.

Our client is a woman with secondary or higher education and with average income that assumes practicality in making purchasing decisions. Her personal taste, lifestyle, and profession require stylish and correct look and therefore she has to choose her wardrobe very carefully — price, quality, and fashionability are of equal importance. Our clients include representatives of different professions — teachers and hairdressers, accountants and saleswomen, clerks and chefs. The common characteristic of these women is the desire to look young, stylish, and beautiful.

» PTA TRADEMARK

The history of PTA trademark dates back to 1978. As of today the trademark is re-establishing its onetime position in the Nordic countries.

The content of the collections has been modernized — PTA is again going to be trend making apparel collection. The new content has been accompanied with the change in visual identity of the trademark.

The trademark consists of three subcollections:

PTA

Modern, stylish, and sporty collection for young woman. The buyer of PTA values her freedom and youth and prefers PTA trademark because then she does not need to make any compromises between fashionability and comfort.

PTA signed

Collection for cosmopolitan fashion conscious city woman. This woman values her independence and freedom. She favours PTA signed collections because of unique design inspired from different cultures in the world and northern aesthetics.

PTA outdoor

Offers fashionable and functional collection of outerwear. The design of the broad selection of items takes into account active lifestyle and demand for trendiness and comfort.

The real estate currently owned by AS Klementi has total area of 17 500 square meters, of which approximately 60% is needed by the company. Real estate management and development is not among the main activities of AS Klementi and therefore it is planned that the real estate will be sold in 2003 and the premises necessary for production and administration will be rented in the same real estate.

Since 2003 the company has been divided into three separate profit centres: Retail, Fashion, and Production. These profit centres are coordinated and serviced by General Management. The main objective of the new organization structure, which is based on the profit centres, is to increase the flexibility and business efficiency of the company.

The objective of the Retail profit centre is to develop and launch new retail concept. The new concept is positioned towards a client with lower and average income. The critical factors include: location and size of the shops and a match between the collection and interior. In the last quarter of 2002 the optimization of the shops was started. Currently, four inefficient shops have been closed and one new shop has been opened. During the first quarter of 2003 entering the Latvian market is planned through a new subsidiary. The objective is to establish retail network in all Baltic countries. By the end of 2003 the sales area of shops should be 3650 square meters. The emphasis will be on more aggressive pricing policy and more optimal management of inventories.

The objectives of the Fashion profit centre are to regain wholesale clients of PTA trademark on the Nordic countries and expansion to the Baltic wholesale market. Wholesale contracts have been signed with strategically most important clients: Åhlens, NK, MQ, and SAKS in Sweden and Stockmann, Sokos, Halonen, Alexi 13, and Tradeka in Finland. Since the fall 2003 over 200 shops in Nordic countries will be selling womenswear with AS Klementi's trademarks.

The main objective of the Production profit centre is improvement of speed and efficiency of the production process and more active sales. The new strategy envisions gradual replacement of simplistic subcontracting or CMT (cutting, making, trimming) with more complex full-service (from product design and material procurement to logistics of finished goods).

In 2003 the biggest challenge of the General Management is development of new information system that enables more flexible and operative management accounting.

The priority of the new Klementi is to be more open, transparent, and client friendly.

FINANCIAL STATEMENTS 2002

DECLARATION OF THE MANAGEMENT BOARD

The Management Board of AS Klementi declares its liability for the correctness of financial statements of the parent company and the group presented on the pages 9 to 26 and confirms in its best knowledge, that:

- the accounting principles used in compiling the financial statements conform with the generally accepted accounting practice;
- the financial statements reflect the financial position and results of the parent company and the group truly and fairly;
- all significant circumstances that have become evident before the date of the financial statements of 15 March 2003 have been taken into account in the financial statements and presented duly;
- the parent company and the group are going concerns.

Tallinn, 15 March 2003

Toomas Leis
Director

Balance Sheet

in thousand EEK

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
» Assets					
Cash and bank accounts	4 485	3 925	3 780	3 563	1
Accounts receivable	12 537	15 847	11 249	14 749	2
Miscellaneous receivables	868	739	7 239	8 342	3
Accrued income	-	29	-	29	
Prepaid expenses	2 896	2 264	1 740	1 421	4
Inventories	29 002	42 343	26 057	38 330	5
Total current assets	**49 788**	**65 147**	**50 065**	**66 434**	
Long-term financial investments	2 578	2 856	6 001	3 274	6
Tangible fixed assets	64 649	50 067	63 678	49 320	7
Intangible assets	5 771	906	5 771	906	8
Total non-current assets	**72 998**	**53 829**	**75 450**	**53 500**	
TOTAL ASSETS	**122 786**	**118 976**	**125 515**	**119 934**	
» Liabilities and Equity					
Debt obligations	34 792	38 730	34 725	38 641	10
Customer prepayments	952	6	952	6	
Accounts payable	10 867	9 802	10 639	9 609	
Miscellaneous payables	-	1 035	-	1 035	
Tax liabilities	3 875	2 951	3 706	2 892	12
Accrued expenses	3 905	3 125	3 663	3 085	12
Unearned revenue	12	12	12	12	
Short-term provisions	12	12	12	12	13
Total short-term liabilities	**54 415**	**55 673**	**53 709**	**55 292**	
Long-term debt	27 467	15 266	27 401	15 150	10
Other long-term liabilities	4 928	-	4 928	-	14
Long-term provisions	68	68	68	68	13
Total long-term liabilities	**32 463**	**15 334**	**32 397**	**15 218**	
TOTAL LIABILITIES	**86 878**	**71 007**	**86 106**	**70 510**	
Share capital (par value)	13 219	35 250	13 219	35 250	
Share premium	30 863	3 774	30 863	3 774	
Revaluation reserve	15 578	816	15 578	816	
Mandatory legal reserve	1 046	923	1 046	923	
Retained profit	7 083	6 202	8 538	6 202	
Profit for the financial year	-31 881	1 004	-29 835	2 459	
TOTAL EQUITY	**35 908**	**47 969**	**39 409**	**49 424**	15
TOTAL LIABILITIES AND EQUITY	**122 786**	**118 976**	**125 515**	**119 934**	

Notes presented on pages 14-26 are integral parts of the financial statements.

Income Statement

in thousand EEK

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
Net sales	133 258	110 591	131 108	112 967	19
Other revenue	1 598	2 391	1 654	2 392	21
Change in inventories	-13 126	14 658	-12 091	10 689	20
TOTAL REVENUE	**121 730**	**127 640**	**120 671**	**126 048**	
Goods, raw material, services	44 680	46 346	46 199	46 093	22
Miscellaneous operating expenses	35 137	18 436	34 163	16 518	23
Personnel expenses	58 688	49 915	54 551	49 058	24
Depreciation	7 214	6 084	6 772	6 048	7
Other operating expenses	2 406	1 249	2 409	1 162	25
TOTAL EXPENSES	**148 125**	**122 030**	**144 094**	**118 879**	
OPERATING PROFIT	**-26 395**	**5 610**	**-23 423**	**7 169**	
Income from subsidiaries	-	-	278	2	
Foreign exchange gain	121	96	-	-	
Other interest and financial income	257	256	476	287	
Total financial income	**378**	**352**	**754**	**289**	
Loss from subsidiaries	-	-	1 332	45	
Interest expenses	5 718	4 791	5 688	4 789	
Foreign exchange loss	146	114	146	114	
Other financial expenses	-	53	-	51	
Total financial expenses	**5 864**	**4 958**	**7 166**	**4 999**	
NET PROFIT	**-31 881**	**1 004**	**-29 835**	**2 459**	
basic earnings per share (EEK)	*-12.06*	*0.28*	*-11.29*	*0.70*	16
diluted earnings per share (EEK)	*-11.42*	*0.27*	*-10.69*	*0.66*	16

Notes presented on pages 14-26 are integral parts of the financial statements.

Cash Flow Statement

in thousand EEK

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
Net profit adjustments					
Net profit	-31 881	1 004	-29 835	2 459	
Depreciation of fixed assets	7 214	6 084	6 772	6 048	
Income from long-term fin. investments	-	-	-278	-2	
Loss from long-term fin. investments	-	-	1 332	45	
Profit from sale of fixed assets	-217	-174	-275	-174	
Interest expense	5 718	4 791	5 688	4 789	
Interest income	-5 411	-4 560	-5 380	-4 559	
Loss from write-off of fixed assets	425	45	405	45	
Total	**-24 152**	**7 190**	**-21 571**	**8 651**	
Working capital adjustments					
Change of current assets	15 702	-19 090	16 093	-20 717	
Change of short-term liabilities	2 373	5 573	2 027	5 297	
Total	**18 075**	**-13 517**	**18 120**	**-15 420**	
Cash flow from operating activities	**-6 077**	**-6 327**	**-3 451**	**-6 769**	
Purchase of tangible fixed assets	-4 957	-3 447	-4 515	-2 962	
Proceeds from sale of fixed assets	459	764	761	764	
Receipt of long-term receivable	200	330	200	330	
Acquisition of associated companies	-10	-	-10	-	
Share capital increase of subsidiary	-	-	-997	-	
Loans granted	-	-323	-2 811	-673	
Interest collected	204	237	204	237	
Receipt of repayment of loans	101	380	124	380	
Reconstruction of fixed assets	-795	-2 902	-795	-2 902	
Cash flow from investing activities	**-4 798**	**-4 961**	**-7 862**	**-4 826**	
Repayment of debt	-58 047	-15 394	-58 047	-15 394	
Proceeds from debt	68 262	26 098	68 262	26 098	
Change in credit line	-1 509	3 483	-1 509	3 483	
Repayment under finance lease	-2 329	-2 038	-2 257	-1 946	
Proceeds from share issue	5 058	-	5 058	-	
Cash flow from financing activities	**11 435**	**12 149**	**11 530**	**12 241**	
TOTAL CASH FLOW	**560**	**861**	**217**	**646**	
Cash at beginning of year	3 925	3 064	3 563	2 917	
Cash at end of year	4 485	3 925	3 780	3 563	

Notes presented on pages 14-26 are integral parts of the financial statements.

Statement of Changes in Equity – the Group

in thousand EEK

	31.12.00	change	31.12.01	change	31.12.02
Share capital	35 250	-	35 250	-26 437 (2)	13 219
				4 406 (2)	
Share premium	3 774	-	3 774	26 437 (2)	30 863
				652 (2)	
Revaluation reserve	816	-	816	14 762 (3)	15 578
Mandatory legal reserve	863	60 (1)	923	123 (4)	1 046
Retained earnings	4 983	1 219 (1)	6 202	881 (4)	7 083
Profit for the financial year	1 279	-1 279 (1)	1 004	-1 004 (4)	-31 881
		1 004		-31 881	
Total equity	46 965	1 004	47 969	-12 061	35 908
Number of shares	3 525 000		3 525 000		1 321 875

Statement of Changes in Equity – the Parent

in thousand EEK

	31.12.00	change	31.12.01	change	31.12.02
Share capital	35 250	-	35 250	-26 437 (2)	13 219
				4 406 (2)	
Share premium	3 774	-	3 774	26 437 (2)	30 863
				652 (2)	
Revaluation reserve	816	-	816	14 762 (3)	15 578
Mandatory legal reserve	863	60 (1)	923	123 (4)	1 046
Retained earnings	5 067	1 135 (1)	6 202	2 336 (4)	8 538
Profit for the financial year	1 195	-1 195 (1)	2 459	-2 459 (4)	-29 835
		2 459		-29 835	
Total equity	46 965	2 459	49 424	-10 015	39 409
Number of shares	3 525 000		3 525 000		1 321 875

(1) General meeting of shareholders decided distribution of 2000 net profit of EEK 1 195 thousand as follows: EEK 60 thousand into mandatory legal reserve and EEK 1 135 thousand into retained earnings.

(2) According to the resolution of the extraordinary general meeting of 31 July 2002 the share capital was decreased by the cancellation of shares in the value of EEK 26 437 thousand, and increased by issuing new shares in the value of EEK 4 406 thousand.

Number of shares	01.01.2002	3 525 000
Cancellation of shares	12.08.2002	2 643 750
Issue of shares	02.09.2002	440 625
Number of shares	31.12.2002	1 321 875

Par value of the issued shares was EEK 10 and issue price EEK 11.48 per share. The total proceeds were EEK 5 058 thousand, including share premium of EEK 652 thousand.

(3) Revaluation reserve was increased by EEK 14 762 thousand due to revaluation of buildings at market value.

(4) General meeting of shareholders decided distribution of 2001 net profit of EEK 2459 thousand as follows: EEK 123 thousand into mandatory legal reserve and EEK 2 336 thousand into retained profit.

Additional information about equity is provided in Note 15.

ACCOUNTING POLICIES

AS Klementi's consolidated financial statements for financial year ended on 31 December comprise of parent company and its subsidiaries (thereafter the Group). The consolidated financial statements of the Group and the financial statements of AS Klementi are prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared in thousand Estonian kroons (EEK), unless indicated otherwise.

» Principles of Consolidation

An entity is considered as a subsidiary if parent company possesses adequate control to determine its financial and operational principles and to collect financial gains from its activities. Control has been assumed if the parent company holds directly or indirectly over 50% of shares. The results of subsidiary are included only from the date control was commenced up to the date the control ceased.

In the consolidated financial statements the financial statements of the parent and subsidiaries are consolidated line by line, and receivables, liabilities, profits, losses, and unearned revenue resulting from intra-group operations have been eliminated.

An entity is considered as an associated company if parent company possesses significant influence, but not control, over determining financial and operational principles. The significant influence has been assumed if ownership is at least 25%.

In the balance sheet and income statement of the parent company the investments into subsidiaries have been reported by using equity method.

» Investments

Investments into shares of other companies have been recorded on the time of acquisition at the acquisition value and thereafter at the fair value. Changes in the fair value have been recorded as income or loss for the period in the income statement.

» Cash and Cash Equivalents

In the cash flow statement cash in hand, bank account balances (excluding overdraft), short-term deposits, and cash collected are recorded as cash and cash equivalents. Indirect method has been used in preparing the cash flow statement.

» Foreign Exchange

The transactions in foreign currency are converted into EEK at the rate of exchange quoted by the Bank of Estonia on the transaction date. On the balance sheet date monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange quoted by the Bank of Estonia on that date. The profits and losses from the conversion are recognised in the income statement.

The balance sheets of foreign subsidiaries are recorded at the rate of exchange quoted by the Bank of Estonia on the balance sheet date (31.12.2002: 1 LTL = 4.53158 EEK and 1 EUR = 15.64664 EEK; 31.12.2001: 1 LTL = 4.52236 EEK and 1 EUR = 15.64664 EEK).

» Receivables

In the balance sheet the customer receivables are recorded according to the likelihood of receipts. The doubtful customer receivables have been recorded as expenses of the period and have been recorded in the balance sheet with the minus sign.
Receivables, the collection of which is not feasible or economically justified, are considered to be uncollectible and are written off.

» Inventories

The goods purchased, raw materials, and other materials are recorded at acquisition cost which consists of purchase price, transportation expenses, and other expenses directly related to the acquisition. Inventories are recorded by using the average acquisition cost method. Work in progress and finished goods are recorded in production price, which is comprised of direct and indirect production costs.
On the balance sheet the inventories are recorded at the lower of acquisition cost or net realizable value.

» Tangible assets

On the balance sheet tangible fixed assets are recorded at residual value and in the notes acquisition cost and accumulated depreciation are presented separately. Assets with acquisition cost of over EEK 5 000 and useful life of over 1 year are considered to be tangible fixed assets.

Since 2002 "Land and buildings", a subgroup of tangible fixed assets, is recorded using revaluation method. The valuation is carried out by independent real estate experts. Revaluation increment is recorded in the revaluation reserve and revaluation decrement in excess over revaluation reserve in respect of that property is charged as an expense. Prior accumulated depreciation is eliminated during revaluation and the adjusted value is considered as the "new acquisition cost".

Depreciation of tangible fixed assets is calculated using the straight-line depreciation method based on the estimated useful life. The depreciation rates used in 2002 were as follows:

- production building	3%
- other buildings	10%
- sewing equipment	10-15%
- other equipment	20%
- computer hardware	30%
- transport vehicles	20%
- tools and fittings	25-30%
- warehouse equipment	5%

The subsidiaries use the parent's depreciation rates.

Expenditures on repairs or maintenance are recorded as an expense or are capitalized in the balance sheet as tangible fixed assets if repairs increase future economic benefits expected from the assets.
Inferior assets are recorded as an expense at the time the asset is taken into use.

» Intangible Assets

Trademarks and Licences:
Product development expenditures (incl. design and development of trademarks) are recorded as expense when incurred.
Purchased trademarks are amortized using straight-line method over the estimated useful life. In 2002 annual amortization rate of 10% was used.

Software:
Software acquisition expenditures are capitalized in the balance sheet as intangible asset and are amortized over five years using straight-line method. If the acquired software is necessary for operating hardware then the acquisition cost of software is capitalized as part of the acquisition cost of hardware and is amortized with hardware based on the hardware's estimated useful life.

» Accounting for Leases

Under finance lease all substantial risks and benefits accompanying ownership will be assumed by the lessee. Ownership of the assets may, but does not have to, be passed to the lessee upon expiration.
A rental agreement is considered as a finance lease, if:

- ownership is passed at the end of the rental period;
- lessee has the right to acquire the asset substantially below market value and it is highly probable that he will use that right;
- rental agreement covers substantial part of the useful life of the asset;
- present value of rental payments is almost equal to the market value of the rented asset;
- rented asset is so unique that only the current owner can use the asset without substantial modifications.

All other lease agreements are reported as operating leases.

Assets rented under finance lease agreements are recorded in the balance sheet at the present value of minimum sum of rental payments. The respective liability is recorded in the balance sheet as short- and long-term debt obligation based on the schedule of rental payments. Interest of the finance lease is recorded as an expense when incurred. The tangible fixed assets rented under finance lease are depreciated over the estimated useful life similarly to other fixed tangible assets.

Rental payments deriving from assets rented under operating lease agreements are recorded as an expense of the period. Assets rented under operating lease are not recorded in the balance sheet and depreciation is not calculated.

The assets rented to other persons under operating lease are recorded in the lessor's balance sheet as tangible fixed assets and are depreciated based on their estimated useful life. Rental income is recorded when incurred.

» Taxation

In 2002 the income tax rates applicable to the companies in the Group were as follows: AS Klementi (parent, Estonia) – 0%, UAB Klementi Vilnius (Lithuania) – 15%, Klementi Trading OY (Finland) – 29%.
According to the effective income tax law the corporate income taxation in Estonia is since 1 January 2000 replaced with dividend taxation at the rate of 26/74 of the net dividends paid. Because of the specific character of taxation principles, the term *tax base of assets and liabilities* has lost its substance and deferred income tax liabilities and assets cannot arise.

Foreign subsidiaries account for deferred income tax liability and assets using the balance sheet liability method, which accounts for deferred tax expense arising from temporary differences in the balance sheet. Temporary differences arise when asset and liability amounts differ between tax base and financial reporting. Deferred tax expense should be measured at the tax rates expected when the assets are realized or the liabilities are settled. The tax rate is based on the effective tax rate on the balance sheet date.
In the financial statements the deferred income tax assets are accounted for from all deductible temporary differences in the extent that it is probable that the taxable profit will be available to offset deductible temporary differences. Foreign subsidiaries have deferred income tax assets that are recorded as off-balance sheet items based the management's suggestion.

» Mandatory Legal Reserve

Mandatory legal reserve is formed from annual net profit transfers. During each financial year one-twentieth of the net profit is entered in the reserve capital until the reserve capital reaches at least one-tenth of the share capital.

» Net Revenue

Revenue from sales of goods is recognized when all material risks and rewards of economic benefits related to ownership have been transferred from seller to buyer.
Revenues from subcontracting and other services are generally recognized upon actually rendering the service.

» Borrowing Costs

The loans are initially recognized in the total amount borrowings received, net of transaction cost incurred. The balance of loan is subsequently stated at amortized value using the effective interest rate. The differences of accruals and redemption prices are charged to income over the period covered by the loan term.

» Financial Assets

Financial assets and liabilities are recognized in the balance sheet on the date of the transaction at the acquisition cost. The profits and losses from the financial instruments are recorded in the income statement as income or expense. The financial assets and liabilities of the company are recorded at amortized value using effective interest rate.

» Subsequent Events

Material matters that have an effect to the evaluation of the assets and liabilities that became evident between the balance sheet date and the date of the annual accounts but are related to the transactions that took place during the reporting period or earlier periods have been reported in the annual report.
The subsequent events that have not been taken into consideration in evaluation of the assets and liabilities, but which have material effect on the financial results of the next financial year, have been disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Cash and Bank Accounts

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Cash in hand	511	685	449	613
Bank accounts in EEK	1 691	634	1 691	634
Bank accounts in foreign currency	2 283	2 606	1 640	2 316
Total	**4 485**	**3 925**	**3 780**	**3 563**

Note 2. Accounts Receivable

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Accounts receivable	12 591	16 217	11 303	15 119
Allowance for doubtful receivables	-54	-370	-54	-370
Total	**12 537**	**15 847**	**11 249**	**14 749**

In 2002 uncollectible receivables in the total amount of EEK 4 633 thousand were expensed, of which total of EEK 4 589 thousand were written off (incl. EEK 2 866 thousand due to bankruptcy of P.T.A. Group OY). In 2002 total of EEK 10 thousand receivables expensed during previous periods were collected.

Note 3. Miscellaneous Short-Term Receivables

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Receivable from sale of shares (short-term part)	200	200	200	200
Loans to employees	43	66	43	66
Loans to other companies (short-term part)	493	252	493	252
Other receivables	132	221	131	221
UAB Klementi Vilnius	-	-	3 841	6 743
Klementi Trading OY	-	-	2 531	860
Total	**868**	**739**	**7 239**	**8 342**

Note 4. Other Receivables

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Prepaid taxes	1 710	1 462	694	783
Other prepaid expenses	1 186	802	1 046	638
Total	**2 896**	**2 264**	**1 740**	**1 421**

Prepaid taxes in the consolidated financial statements of AS Klementi include VAT prepayment of EEK 1 708 thousand and prepayment of tax interests of EEK 2 thousand. In 2001 under prepaid taxes VAT prepayment of EEK 1 438 thousand and unused balance of 1 999 corporate income tax on taxation of dividends in the total amount of EEK 24 thousand were recorded.
Other prepaid expenses include insurance and rental expenses, ordering costs of publications, etc.

Note 5. Inventories

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Raw material and materials	6 298	4 944	6 294	4 902
Work in progress	5 188	9 838	5 188	9 838
Finished goods	15 725	24 201	12 791	20 232
Purchased goods	1 646	2 785	1 639	2 783
Prepayments to suppliers	145	575	145	575
Total	**29 002**	**42 343**	**26 057**	**38 330**

In 2002 the parent company wrote down the inventories in the cost price of EEK 10 273 thousand and wrote off EEK 214 thousand. In 2001 the inventories were written down by EEK 1 373 thousand and written off by EEK 43 thousand.

On 31 December 2002 the balance of the inventories of the old collections (spring 2002 and earlier) was EEK 0.7 million, accounting for 4% of the balance of the finished and purchased goods inventories. The average cost price of the old products was EEK 137. On 31 December 2001 the balance of the inventories of the old collections (spring 2001 and earlier) was EEK 5.9 million, accounting for 22% of the balance of the finished and purchased goods inventories. The average cost price of the old products was EEK 320.

Note 6. Long-Term Financial Investments

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Shares in subsidiaries	-	-	11	68
Shares in associated companies	10	0	10	0
Other shares	7	7	7	7
Receivable from sale of shares (long-term part)	1 300	1 500	1 300	1 500
Loans to other companies (long-term part)	1 251	1 325	1 251	1 325
Loans to subsidiaries (long-term part)	-	-	3 412	350
Loans to employees (long-term part)	10	24	10	24
Total	**2 578**	**2 856**	**6 001**	**3 274**

» Subsidiaries:

Klementi Trading OY (ownership 100%; registered and operates in Finland; wholesale of AS Klementi's products in Finland) Par value of the share capital is EUR 8.4 thousand — recorded in the parent's balance sheet at the value of EEK 11 thousand. The company was established in September 1998 and commenced operations on 1 October 1998. On 31 December 2002 equity of Klementi Trading OY was EUR 5 thousand; EEK 73 thousand

UAB Klementi Vilnius (ownership 100%; operates in Lithuania; retail sale of AS Klementi's products in Lithuania). Par value of the share capital is LTL 230 thousand — recorded in the parent's balance sheet at zero value. The company was established on 17 April 2002. On 31 December 2002 equity of UAB Klementi Vilnius was LTL –557 thousand; EEK -2 565 thousand

» Associated Companies:

OÜ Moe Mix AS Klementi owns one share which represents 25% of the share capital of the company. The par value of the share is EEK 10 thousand and it is recorded in the balance sheets of AS Klementi and the Group at acquisition cost. The main activities of the company are production and sale of design collections, arranging conferences, trade fairs, and fashion shows, fashion consultancy, and publishing of fashion publications.

» Other Investments:

OÜ Eesti Ettevõtjate Ärikeskus AS Klementi owns 12.5% of shares with par value of EEK 50 thousand. The company is dormant and therefore is recorded in AS Klementi's balance sheet at zero value.

OÜ Balti Rõivamess AS Klementi owns one share which represents 16.66% of the share capital of the company. The par value of the share is EEK 6.7 thousand and it is recorded in the balance sheets of AS Klementi and the Group at acquisition cost. The main activity of the company is arranging fashion fairs in Estonia.

Note 7. Tangible Fixed Assets

» Group		Land and Buildings	Plant, Equipment	Other Fixtures	Constr. in Progr.	Pre-payments	Total
Acquisition cost	31.12.01	38 795	24 856	10 603	57	5	74 316
Accum. depreciation	31.12.01	-7 731	-11 099	-5 419	-	-	-24 249
Net book value	31.12.01	**31 064**	**13 757**	**5 184**	**57**	**5**	**50 067**
Acquired during the period		89	3 335	2 817	890	91	7 222
Sold during the period		-	-1 328	-10	-	-	-1 338
Written off during the period		-	-853	-67	-57	-	-977
Commissioned during the period		795	-	5	-795	-96	-91
Revaluation	31.12.02	6 625	-	-	-	-	6 625
Revaluation (depreciation)		8 137	-	-	-	-	8 137
Regrouping		-1 664	1 664	-	-	-	-
Regrouping (depreciation)		1 072	-1 072	-	-	-	-
Sale/write-off (depreciation)		-	1 556	72	-	-	1 628
Depreciation		-1 478	-2 911	-2 235	-	-	-6 624
Acquisition cost	31.12.02	44 640	27 674	13 348	95	-	85 757
Accum. depreciation	31.12.02	-	-13 526	-7 582	-	-	-21 108
Net book value	31.12.02	**44 640**	**14 148**	**5 766**	**95**	**-**	**64 649**

On 31 December 2002 revaluation of properties was made. Without revaluation of properties the net book value of the buildings and constructions under the line "Land and Buildings" would have been EEK 29 878 thousand (acquisition cost EEK 38 015 thousand, accumulated depreciation EEK 8 137 thousand).

» Parent		Land and Buildings	Plant, Equipment	Other Fixtures	Constr. in Progr.	Pre-payments	Total
Acquisition cost	31.12.01	38 795	24 856	9 816	57	5	73 529
Accum. depreciation	31.12.01	-7 731	-11 099	-5 379	-	-	-24 209
Net book value	31.12.01	**31 064**	**13 757**	**4 437**	**57**	**5**	**49 320**
Acquired during the period		89	3 335	2 399	890	91	6 804
Sold during the period		-	-1 328	-303	-	-	-1 631
Written off during the period		-	-853	-22	-57	-	-932
Commissioned during the period		795	-	5	-795	-96	-91
Revaluation	31.12.02	6 625	-	-	-	-	6 625
Revaluation (depreciation)		8 137	-	-	-	-	8 137
Regrouping		-1 664	1 664	-	-	-	-
Regrouping (depreciation)		1 072	-1 072	-	-	-	-
Sale/write-off (depreciation)		-	1 556	72	-	-	1 628
Depreciation		-1 478	-2 911	-1 793	-	-	-6 182
Acquisition cost	31.12.02	44 640	27 674	11 896	95	-	84 304
Accum. depreciation	31.12.02	-	-13 526	-7 100	-	-	-20 626
Net book value	**31.12.02**	**44 640**	**14 148**	**4 796**	**95**	**-**	**63 678**

Note 8. Intangible Assets

		Soft-ware	Purchased Trademarks	Total
Acquisition cost	31.12.01	3 680	520	4 200
Accum. amortization	31.12.01	-2 793	-501	-3 294
Net book value	31.12.01	**887**	**19**	**906**
Acquired during the period		257	5 228	5 485
Written off during the period		-	-31	-31
Amortization		-353	-237	-590
Acquisition cost	31.12.02	3 937	5 717	9 654
Accum. amortization	31.12.02	-3 146	-737	-3 883
Net book value	31.12.02	**791**	**4 979**	**5 770**

Intangible assets of the Group and intangible assets of AS Klementi are equivalent. Intangible assets increased mainly due to acquisition of trademarks from the bankruptcy estate of PTA Group OY.

Note 9. Finance and Operating Lease

Both parent and UAB Klementi Vilnius have rented assets under finance lease. The movements in the tangible fixed assets rented under finance lease are recorded in the table below:

The tangible fixed assets rented under finance lease in 2002 (the Group)

						Paid in 2002		Balance at 31.12.02	
Group of Tangible assets	Term of Agreement	Interest Rate	Acquisition Cost	Accum. Depr.	Depr. 2002	Rental Charge	Interest	Rental Charge	Short-term Liability
Buildings	2003-07	10.3	5 556	1 425	513	569	371	3 500	480
incl. logistics centre	*2005*	*10.0*	*4 172*	*410*	*200*	*274*	*323*	*3 195*	*306*
Plant and equipment	2003-07	10.7	4 480	1 379	650	1 071	203	2 157	706
Other fixtures	2002-04	10.2	2 256	1 026	480	689	94	426	360
Total			**12 292**	**3 830**	**1 643**	**2 329**	**668**	**6 083**	**1 546**

	2002	2001
Future Finance Lease Payments (liability + future interest)		
Up to 1 year	2 059	2 365
1-5 years	5 101	5 577
Total	**7 160**	**7 942**
Future interest expense	1 077	1 415
Present Value of Finance Lease Payments (i.e., liability in the balance sheet)		
Up to 1 year	1 546	1 788
1-5 years	4 537	4 739
Total	**6 083**	**6 527**
Payments of the financial year	2 329	2 038
Interest expense of the financial year	668	708

In 2002 AS Klementi rented under operating lease from other entities equipment and paid total rent of EEK 63 thousand. In 2001 operating lease payments were EEK 39 thousand. Based on the current agreements the operating lease payments are EEK 36 thousand in 2003. Binding longer-term operating lease agreements have not been signed.

Note 10. Short- and Long-Term Debt

The Group's debt obligations on 31 December 2002 were as follows:

	Short-Term	Long-Term	Interest Rate	Term
» Secured obligations				
Eesti Ühispank's credit line	6 005	-	8.5%	
Hansapank's credit line	4 464	-	10.0%	
Hansapank's loan	3 190	17 810	EURIBOR + 5.0%	15.07.2009
EÜP's secured bills of exchange	18 000	-	average 6.5%	
EÜP's factorings	773	-	8.5%	
Convertible bonds — P.T.A. Group OY bankruptcy estate	-	1 200	5.0%	31.12.2005
» Unsecured obligations				
Leases	1 546	4 537	average 10.4%	2003-2007
Loan - P.T.A. Group OY bankruptcy estate	-	800	5.0%	31.12.2005
Alta Holding OÜ	-	3 120	0.0%	31.12.2005
Innovatsioonifond's liability	814	-	0.0%	
Total	**34 792**	**27 467**		

Lease obligations of the subsidiary UAB Klementi Vilnius are short-term liability of EEK 67 thousand and long-term EEK 66 thousand. Remaining debt obligations are parent's liabilities.

The Group's debt obligations on 31 December 2001 were as follows:

	Short-Term	Long-Term	Interest Rate	Term
» Secured obligations				
Eesti Ühispank's credit line	7 045	-	9.0%	
Sampo Pank's credit line	4 933	-	9.0%	
Sampo Pank's loan	2503	8 527	EURIBOR + 5.0%	01.12.2004
EÜP's secured bills of exchange	18 000	-	average 7.8%	
EÜP's factorings	3 647	-	10.0%	
Convertible bonds — P.T.A. Group OY	-	2 000	5.0%	20.01.2010
» Unsecured obligations				
Leases	1 788	4 739	average 10.8%	2002-2007
Innovatsioonifond's liability	814	-	0.0%	
Total	**38 730**	**15 266**		

Note 11. Loan Guarantees and Pledged Assets

The long-term loan from Hansapank is secured by a first ranking mortgage on the registered immovable property of administrative building, production building, and shop's building in the amount of EEK 27 000 thousand with collateral claim of EEK 5 400 thousand and by a second ranking commercial pledge in the amount of EEK 15 000 thousand. The purpose of the loan was refinancing of the loan from AS Sampo Pank and financing of working capital. Due to the seasonality of the company's main activities additional working capital was involved by loan agreement.

The Eesti Ühispank's credit line is secured by a first ranking commercial pledge in the amount of EEK 23 000 thousand, contract for the establishment of a second ranking mortgage on the properties mentioned above in the amount of EEK 10 000 thousand with collateral claim of EEK 1 800 thousand.

The net book value of the pledged assets was EEK 39 040 thousand as of 31 December 2002.

Note 12. Other Short-Term Payables

Tax liabilities are recorded in the balance sheet as follows:

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Personal income tax	1 233	1 107	1 113	1 083
Social tax	1 913	1 779	1 866	1 748
Corporate income tax	99	28	99	28
Unemployment insurance premium	78	32	78	32
Value-added tax	530	-	530	-
Contributions to funded pensions	19	-	19	-
Local taxes	3	5	1	1
Total	**3 875**	**2 951**	**3 706**	**2 892**

Accrued expenses are recorded in the balance sheet as follows:

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Payables to employees	3 483	2 893	3 254	2 853
incl. salaries to employees	*1 909*	*1 747*	*1 835*	*1 707*
vacation reserves	*1 559*	*1 121*	*1 404*	*1 121*
other payables to employees	*15*	*25*	*15*	*25*
Interest payable	318	231	307	231
Other accrued expenses	104	1	102	1
Total	**3 905**	**3 125**	**3 663**	**3 085**

Note 13. Short- and Long-Term Provisions

The short- and long-term provision is court order payments of a monthly benefit. The short-term part is EEK 12 thousand and the long-term part has been recorded in the balance sheet as potential liability in the likely discounted present value in the amount of EEK 68 thousand.

Note 14. Other Long-Term Liabilities

Other long-term liabilities include payables to suppliers for trademarks and are payable in years 2004-2006 in the discounted present value of EEK 4 928 thousand. The discount rate is 8%.

Note 15. Owners' Equity

Share capital of AS Klementi is EEK 13 219 thousand divided into 1 321 875 shares with par value of EEK 10. All Klementi's shares are registered A-shares. An A-share gives in the shareholders' meeting one vote. No share certificate is issued for registered shares. Share register is electronic and is maintained by Estonian Central Depository for Securities. According to the Articles of Association the maximum share capital of AS Klementi is EEK 52 000 thousand and minimum EEK 13 000 thousand.
On 31 December 2002 AS Klementi had 613 shareholders.

Shareholders of AS Klementi as of 31 December 2002:

Name	Number of Shares	Percentage in the Share Capital
Share of main shareholder	**1 162 553**	**87.95%**
OÜ Alta Holding	698 678	52.86%
Bryum Estonia AS	440 625	33.33%
Ühispanga Varahalduse AS	23 250	1.76%
Share of minority shareholders	**159 322**	**12.05%**
TOTAL NUMBER OF SHARES	**1 321 875**	**100.00%**

» Profit for the Financial Year

The AS Klementi Group's profit for the financial year differs from the parent company's profit by the negative owners' equity of UAB Klementi Vilnius (investment into the subsidiary is by the parent recorded at zero value) and unrealized profits/losses on the intra-group sales.

Note 16. Earnings per Share

		Group 2002	Group 2001	Parent 2002	Parent 2001
Number of shares (th. pcs.)	01.01.02	3 525	3 525	3 525	3 525
Cancellation of shares (th. pcs.)	12.08.02	-2 644	-	-2 644	-
Issued shares (th. pcs.)	02.09.02	441	-	441	-
Number of shares (th. pcs.)	31.12.02	1 322	3 525	1 322	3 525
Profit for the financial year		-31 881	1 004	-29 835	2 459
Weighted average no. of shares (th. pcs.)		2 643	3 525	2 643	3 525
Basic earnings per share (in EEK)		-12.06	0.28	-11.29	0.70
Diluted earnings per share (in EEK)		-11.42	0.27	-10.69	0.66

Earnings per share have been calculated according to the International Accounting Standards (IAS 33).

Potential ordinary shares are convertible bonds owned by P.T.A. Group OY bankruptcy estate. On 31 July 2002 extraordinary meeting of shareholders decided to decrease the number of potential ordinary shares from 200 000 (par value EEK 10) to 50 000 (par value EEK 24) on 12 August 2002. The owner of convertible bonds is entitled to demand exchange of the convertible bonds for ordinary shares until 20 December 2005. If the owner of convertible bonds has not submitted responsive application for exchanging the convertible bonds to shares, then redemption of the convertible bonds will take place on 31 December 2005.

In 2001, 200 000 convertible bonds were to be potentially issued as ordinary shares.

Note 17. Off-Balance Sheet Commitments

As of 31 December 2002 AS Klementi has guaranteed employees' loans from Hansapank in the total amount of EEK 50 thousand.
AS Klementi has also guaranteed the future claims of the suppliers in the total amount of EEK 1.3 million, Klementi Trading OY's lease obligations in the total amount of EEK 149 thousand and in the amount of rental contract claim of SIA Vision shop, and to Customs Board import tax payments in the total amount of EEK 2.5 million.

Note 18. Insured Assets

AS Klementi has insured the following assets:

Asset	Insured value 2002	Insured value 2001
Buildings	117 625	121 075
Equipment and cars	49 594	41 534
Office appliances and IT-equipment	5 715	9 819
Advertising constructions	10	10
Raw material and finished goods	52 500	49 100

In addition to property insurance, AS Klementi has business interruption insurance to cover damage caused as a result of fire, water leakage, theft, and machinery breakdown in total insurance value of EEK 58 284 thousand (liability period 12 months and waiting period 72 hours).

Note 19. Net Sales

In 2002 consolidated net sales of AS Klementi were EEK 133 258 thousand (incl. export EEK 73 314 thousand or 55.02%) and in 2001 EEK 110 591 thousand (incl. export EEK 61 657 thousand or 55.73%).

	Group 2002	Group 2001	Parent 2002	Parent 2001
» Net Sales				
Apparel sales	98 680	70 301	96 496	72 664
Subcontracting and other services	32 433	38 315	32 433	38 315
Sale of materials	756	663	790	676
Canteen's sale	1 389	1 312	1 389	1 312
Total net sales	**133 258**	**110 591**	**131 108**	**112 967**
» incl. Export Sales				
Apparel sales	44 972	25 801	42 788	28 163
Subcontracting and other services	28 328	35 825	28 328	35 828
Sale of materials	14	11	48	25
Total export sales	**73 314**	**61 637**	**71 164**	**64 013**
share of export sales	*55.0%*	*55.7%*	*54.3%*	*56.7%*

The main export countries are as follows:

Country	2002	2001
Finland	47 386	42 709
Sweden	7 916	5 836
Lithuania	10 443	4 107
Latvia	7 102	7 942
Other	467	1 043
Total	**73 314**	**61 637**

Note 20. Change in Inventories of Finished Goods and Work in Progress

In 2002, the parent's balance of finished goods decreased by EEK 8 476 thousand, caused primarily by revaluation of the balance of the previous periods and faster realisation.

In 2002, the balance of work in progress decreased by EEK 4 650 thousand, whilst the costs of materials in the cost of semi-finished goods was EEK 3 147 thousand or 60.65%. The decrease in the balance of work in progress was caused by the vacation of apparel workers in December.

Note 21. Other Revenue

	Group 2002	Group 2001	Parent 2002	Parent 2001
Rental income	604	953	604	953
Proceeds from sale of tangible fixed assets	203	190	257	190
Proceeds from other sales	198	278	242	279
Compensation for damage	253	59	253	59
Gain from change in spread	170	628	128	628
Other revenue	170	283	170	283
Total	**1 598**	**2 391**	**1 654**	**2 392**

Note 22. Costs of Raw Materials, Materials, and Goods Purchased

	Group 2002	Group 2001	Parent 2002	Parent 2001
Raw material and materials	36 437	38 657	36 058	38 656
incl. devaluation and write-offs	2 635	174	2 635	174
Goods	5 711	5 255	7 609	5 003
incl. canteen's goods	942	861	942	861
Electricity and heating	2 532	2 434	2 532	2 434
Total	**44 680**	**46 346**	**46 199**	**46 093**

Note 23. Miscellaneous Operating Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Operating expenses of production and company	31 834	16 342	31 247	14 458
incl. *Irrecoverable claims*	*4 633*	*553*	*4 633*	*553*
Nordic marketing costs	*6 677*	*883*	*6 677*	*883*
Retail costs	*5 921*	*3 785*	*5 921*	*3 785*
Marketing costs in Estonia	*1 592*	*419*	*1 592*	*419*
Consultancy	*1 800*	*-*	*1 800*	*-*
Purchased sewing service	1 606	916	1 606	916
Business travel	1 352	944	965	910
Non-returnable taxes	345	234	345	234
Total	**35 137**	**18 436**	**34 163**	**16 518**

Note 24. Personnel Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Salaries	44 064	37 959	40 757	37 295
Social tax	14 424	11 936	13 594	11 743
Unemployment insurance premium	200	20	200	20
Total	**58 688**	**49 915**	**54 551**	**49 058**

Note 25. Other Operating Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Foreign exchange loss	116	349	116	262
Membership fees	73	67	73	67
Contract fees	172	170	172	170
Sponsorship	595	323	595	323
Tax interests	309	188	309	188
Expenses of the previous periods	506	16	506	16
Fixed assets' sales and write-off loss	425	109	405	109
Other	210	27	233	27
Total	**2 406**	**1 249**	**2 409**	**1 162**

Note 26. Related Party Transactions

» Transactions with Employees:

AS Klementi sold tangible fixed assets to its employees at market value in the total amount of EEK 29 thousand and the gain from the sale was EEK 26 thousand. AS Klementi sold used sewing machines that were registered as expensed assets to its employees in the total amount of EEK 13 thousand.

A passenger car that was registered as tangible fixed asset was transferred to a former employee as severance pay and tax on fringe benefit was paid based on the market value of the car. Also, a passenger car was sold to a former employee as severance pay below the market value, the loss from the sales was EEK 147 thousand. Fringe benefit tax was paid based on the difference of the sales price and the market value.

» Transactions with Shareholders:

On 1 September 2002 AS Klementi signed with AS Alta Capital an agreement with the objective to receive consultancy services with regard to developing company's new retail concept and internal financial system, in the total amount of EEK 300 thousand. The term of the agreement was 31 December 2002.

» Transactions with Parent Company:

With P.T.A. Group OY until 12 July 2002.
During the first half of 2002 P.T.A. Group OY bought from AS Klementi sewing services, support materials, etc in the total amount of EEK 6 611 thousand and logistics services EEK 1 145 thousand. Logistics services were sold to PTA Group OY bankruptcy estate in the total amount of EEK 286 thousand. Telephone services were sold to P.T.A. Group OY in the total amount of EEK 11 thousand and to PTA Group OY bankruptcy estate EEK 5 thousand.

During the first half of 2002 AS Klementi bought from P.T.A. Group OY goods purchased and fabrics in the total amount of EEK 787 thousand and returned to the parent company purchased goods in the total amount of EEK 1 104 thousand and tangible fixed assets EEK 111 thousand.
Interest cost of convertible bonds paid to P.T.A. Group OY was EEK 31 thousand and to PTA Group OY bankruptcy estate EEK 27 thousand.

In the transactions with the related parties ordinary prices have been used.

Note 27. The Risks Related to the Company's Operations and the Management Board's Vision on Managing the Risks

» Credit Risk

Credit risk is a potential loss accompanying the failure of business partners to fulfil their obligations. Foremost, the ability of large clients to pay on time for goods supplied has importance here. The company gives credit to all trustworthy clients. The term of the credit is 30-90 days and the credit limit is EEK 300-1000 thousand. In 2002, the exceptions were Lithuanian company Taimesta UAB and Latvian companies SIA Vision and Neo Prim, who are importers of AS Klementi products and wholesalers and retail sellers in Lithuania and Latvia and to whom more credit has been extended.
Assessment of accounts receivable has been described in Note 2.

» Foreign Exchange Risk

In 2002, export accounted for 55.02% of AS Klementi's consolidated sales. Majority of the production materials are bought from abroad. The more important currencies used in everyday business include EUR, SEK, LVL, LTL, and USD. Foreign currency transactions for purchasing services and goods are mainly in EUR, SEK, and USD, and for sale of goods mainly in EUR, SEK, LVL, and LTL. The company is open to the fluctuations of exchange rate of SEK, USD, LVL, and LTL against EEK. The company is not using forwards, options, or other money market instruments, because the management's analysis has indicated that the risks arising from open currency positions do not exceed the costs accompanying the costs related to using the money market instruments referred to above.

» Interest Rate Risk

The company's interest rate risk is dependent on the fluctuations of EURIBOR (see also Note 10).

» Fair Value

The fair values of cash, accounts payable, loans and debt obligations do not differ considerably from their book values.

AUDITOR'S REPORT

KPMG Estonia

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10151 Tallinn
Estonia
Telephone +372 6 268 700
Fax +372 6 268 777

Auditor's report

To the shareholders of AS Klementi

(Translation from the Estonian language)

We have audited the accompanying consolidated financial statements of AS Klementi (the "Company") as of 31 December 2002. These consolidated financial statements, as set out on pages 9 to 26, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Tallinn, 15 March 2003

KPMG Estonia

(signature)

Marek Sukk
Authorised Public Accountant

(signature)

Made Tamm
Authorised Public Accountant

Proposal for Profit Distribution

As of 31 December 2002 the retained profit and loss of the financial year are as follows:

Parent company's retained profit	EEK 8 538 thousand
Parent company's loss of the financial year	EEK -29 835 thousand
Total loss	EEK -21 297 thousand

Based on the above, the director makes proposal to use the retained profit to cover the loss of the financial year.

Toomas Leis
Director

Signatures of the Management and Supervisory Boards to the 2002 Annual Report

The Management Board has prepared management report and financial statements of the year 2002.
The Supervisory Board has reviewed and approved the annual report prepared by the Management Board, consisting of management report, financial statements, proposal for profit distribution, and auditor's report for presenting to the general meeting of the shareholders.

Toomas Leis	Director	______________________	___.___.2003
Indrek Rahumaa	Chairman of the Supervisory Board	______________________	___.___.2003
Andres Rätsepp	Member of the Supervisory Board	______________________	___.___.2003
Sven Mansberg	Member of the Supervisory Board	______________________	___.___.2003
Sakari Sorri	Member of the Supervisory Board	______________________	___.___.2003
Madis Võõras	Member of the Supervisory Board	______________________	___.___.2003