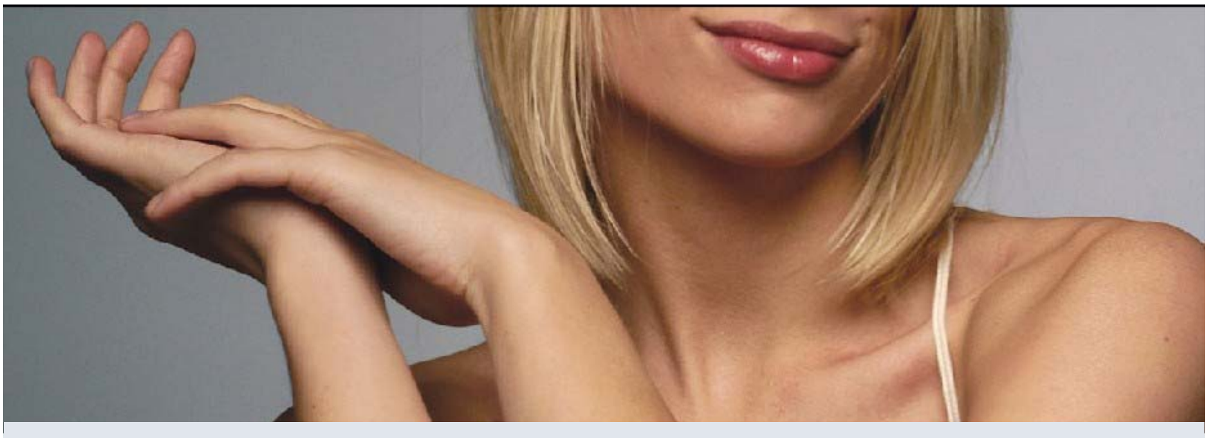
KLEMENTI



ANNUAL REPORT

Financial year: January 1, 2003 – December 31, 2003

(Translation of the Estonian original)

GENERAL INFORMATION

Corporate name:	AS Klementi
Commercial registry no:	10175491
Address	Akadeemia tee 33 TALLINN
Phone:	+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
Auditor:	PricewaterhouseCoopers

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MANAGEMENT REPORT

In 2003, AS Klementi continued operations in its main field of activity — design, manufacturing, and sale of womenswear, in addition to which it also provided subcontracting services.
The womenswear collections of AS Klementi were sold on the Estonian market, also in the Nordic countries, Latvia, Lithuania and Canada.

As of December 31, 2003 four wholly owned subsidiaries belonged to AS Klementi Group: Klementi Trading OY (apparel wholesale in Finland), UAB Klementi Vilnius (apparel retail in Lithuania), Klementi Trading AB (apparel wholesale in Sweden) and SIA Vision (apparel retail in Latvia).

The acquisition of trademarks and customer relations created an opportunity for AS Klementi, a fashion industry company, to significantly increase its export to the Nordic countries. Taking into account the time for product development and wholesale presale the full effect of the acquired trademarks was only reflected in the sales figures of autumn collection 2003.

PRODUCTS AND MARKETS

The consolidated net sales of AS Klementi of 2003 were EEK 133.6 million. Compared to the previous year the sales increase was 0.27%.

During the year the sales structure changed significantly. The share of apparel in net sales increased to 82.2% (in 2002 the respective figure was 74.1%). The growth compared to the previous year was 11.3%.

In Estonia and Latvia the development of the KLEMENTI retail chain was continued. In Lithuania co-operation was initiated with leading retailing company APRANGA and KLEMENTI shops were closed. In the Nordic countries Klementi entered the Norwegian market through wholesale activities in addition to its wholesale activities in Finland and Sweden.

PRODUCTION

Total production in standard minutes (SM) was 18,671 thousand SM, of which 365 thousand SM were outsourced from other sewing companies (in 2002 the respective figures were 23,159 thousand SM, outsourced 91 thousand SM). In January 2003 the number of apparel workers was 297. By the end of the year the number of apparel workers had decreased to 240.

PROCUREMENT POLICY

In purchasing fabrics and finished goods AS Klementi primarily uses suppliers from the European Union (incl. Italy, Germany and Portugal) and the Far East (mainly the PR of China).
The cost of raw materials and products was EEK 50,634 thousand, which forms 37.9% from net sales, the increase compared to the year 2002 was EEK 5,954 thousand, i.e. 13.3%, which is due to the increased share of finished goods in the total procurement.

PERSONNEL AND WAGE POLICY

As of January 1, 2003 AS Klementi employed 630 people, of whom 50 were on parental leave. During the year 54 people were hired in Klementi, of whom 26 were apparel workers. During the year 196 people were discharged from Klementi, of whom 87 were apparel workers. As of December 31, 2003 AS Klementi had 487 employees, of whom 455 were women and 32 were men. The number of piece workers accounted for 68.5%, support staff for 4.7%, warehouse staff for 3.6% and retail staff for 12.3% of the total personnel. The managers and specialists formed 10.9% of the total personnel. 53 people were on parental leave.

As of December 31, 2003 the subsidiary Klementi Vilnius UAB employed 2 people.
As of December 31, 2003 the subsidiary Klementi Trading OY employed 2 people.
As of December 31, 2003 the subsidiary Klementi Trading AB employed 1 person.
As of December 31, 2003 the subsidiary SIA Vision employed 10 people.

In 2003 the average number of employees in the Group was 576 people, the annual aggregated remuneration amounted to EEK 40,707 thousand.

In a year the decrease in personnel on average was 143 people, i.e. 22.6%.

EFFICIENCY

In 2003 the average net sales per employee was EEK 256 thousand. The respective figure for 2002 was EEK 230 thousand. Compared to 2002 the increase in net sales per employee was 11%.

INVESTMENTS

In 2003 the total investments amounted to EEK 2.59 million, of which EEK 2.48 million was invested into tangible fixed assets and EEK 0.11 million into intangible fixed assets (trademarks). Compared to 2002 the volume of investments decreased by EEK 9.81 million.

THE MANAGEMENT BOARD AND SUPERVISORY BOARD

One member of the supervisory board was paid a total of EEK 55 thousand for participating in the work of the board. The other members of the supervisory board did not receive any remuneration.

FINANCIAL RATIOS (Group)

		2003	2002
Increase in net sales compared to last year		0.3%	20%
Apparel sale share in net sales		82%	74%
Inventory turnover ratio	[net turnover / average inventory]	4.3	3.7
Receivable turnover	[(receivable - prepayments) / average daily net turnover]	39	32
Liquidity ratio	[(current assets-inventory) / current liabilities]	0.29	0.38
Current ratio	[current assets / current liabilities]	0.79	0.91
EBIT margin	[operating profit / net turnover]	-12.4%	-19.8%
Net margin	[net profit / net turnover]	-16.6%	-23.9%
Return on equity	[net profit / average equity]	-66.16%	-76.0%
Return on assets	[net profit / average cost of assets]	-17.68%	-26.4%

PLANS FOR THE YEAR 2004

The year 2004 is the first full year for Klementi, when the PTA trademark is represented both in the Baltic and Nordic countries.

In 2004 the Norwegian market will be entered with the PTA trademark. As of now the sales contract has been signed and the first sales have already taken place.

In the Lithuanian market retail co-operation started at the beginning of 2004 with the Lithuanian market leader Apranga.

The retailing aim is to increase the display density and sales efficiency. In 2004 two new retail outlets will be opened in Tallinn (in Viru and Ülemiste centres).

The wage system of the piece workers changed at the beginning of 2004. The change in the manufacturing staff wage system was due to the old system being complicated and not transparent. The new system should enable a fairer evaluation of an individual's contribution to the work process and reduce staff expenses arising from inefficiency.

For a more operational management of business activities the application of the new integrated business software Microsoft Axapta has been commenced.

Klementi trademark

The womenswear trademark Klementi is represented in all the Baltic States, Finland and Russia. Our retail outlets are in bigger cities positioned in locations with good access in a main thoroughfare.

The design of Klementi's collections is the result of a process, in which the clients' expectations and desires expressed in the shops and forwarded on to the development department, is of cardinal importance.

Klementi collections are based on a thorough knowledge of the clients' needs. Transforming those needs into tempting and reliable collections, the Klementi trademark can become successful with women belonging to different nations, generations and cultures, who despite their differences share an understanding of modern clothing.

When creating Klementi collections we envision a woman, who values comfort and femininity, who needs modern clothes for office and leisure time with her family and for whom a good price-quality ratio is important.

"Klementi's client values her family, she is romantic, feminine and reliable."
When creating models we take into account the clients' needs and provide innovative solutions for every season. Klementi's collections continue a long tradition in creating classical coat and costume collections. The quality of leisure time collections is guaranteed with the carefully selected international partners. A feminine and comfortable fit throughout different sizes is one of the strengths of Klementi's collections.

PTA trademark

The womenswear trademark PTA history dates back to 1978. The innovative collections boosted it to become one of the leading trademarks in the Nordic countries for young women. As of today the trademark is regaining its premier position in Finland, Sweden, Norway and Denmark. Currently the trademark is expanding into the Baltic countries and the more significant Eastern European cities.

The trademark, which has over 20 years of history, is primarily for successful independent modern women who value quality, naturalism and style. Being ambitious and self-opinionated she is interested in apparel that would best expose her sense of style and self-confident consumer culture. The strength of the PTA collections is the good fit of the apparel, the quality of materials and a reasonable price level. The idea behind PTA collections is to offer a perfect apparel selection for businesswomen – from trendy formal to classical smart casual.

PTA collections offer three product ranges:

PTA – sporty collection for leisure time, the models are easily combined with the classical products

PTA Signed – classical and chic costume collection

PTA Outdoor – outerwear collection that bears the values of the two previous ranges.

2003 FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION ON THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of AS Klementi (parent company) and Group 2003 financial statements presented on pages 8 to 34.

The management board confirms that:

- the accounting principles used in preparing the Financial Statements are in compliance with generally accepted accounting principles and International Financial Reporting Standards;
- the Financial Statements give a true and fair view of the financial position, the results of operations and cash flows of the parent company and the Group;
- AS Klementi is a going concern.

2004 May 21

Toomas Leis
Director

BALANCE SHEET

In thousand EEK

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02	Note
» Assets					
Cash and bank	2 916	4 485	2 100	3 780	1
Accounts receivables	14 862	12 537	5 649	11 249	2
Other receivables	1 097	868	16 527	3 738	3
Prepaid expenses	945	2 896	554	1 740	4
Inventories	33 284	29 002	24 474	26 057	5
Total current assets	**53 104**	**49 788**	**49 304**	**46 564**	
Subsidiaries and associated companies	-	10	2 493	21	6
Long-term financial investments	1 173	2 568	1 219	5 980	6
Tangible fixed assets	60 403	64 649	59 212	63 678	7
Intangible assets	7 306	5 771	5 208	5 771	8
Total non-current assets	**68 882**	**72 998**	**68 132**	**75 450**	
TOTAL ASSETS	**121 986**	**122 786**	**117 436**	**122 014**	
» Liabilities and Equity					
Debt obligations	47 604	34 792	47 604	34 725	9,10
Customer prepayments	470	952	470	952	
Accounts payable	9 745	10 567	7 551	10 339	11
Other payables	782	300	789	300	15
Tax liabilities	3 242	3 875	2 715	3 706	13
Accrued expenses and prepayments	5 064	3 917	3 228	3 675	13
Short-term provisions	12	12	12	12	14
Total short-term liabilities	**66 919**	**54 415**	**62 369**	**53 709**	
Long-term debt	21 283	27 467	21 283	27 401	9,10
Other long-term liabilities	4 204	4 928	4 204	4 928	15
Long-term provisions	68	68	68	68	14
Total long-term liabilities	**25 555**	**32 463**	**25 555**	**32 397**	
TOTAL LIABILITES	**92 474**	**86 878**	**87 924**	**86 106**	
Share capital (nominal value)	18 969	13 219	18 969	13 219	16
Share premium	40 294	30 863	40 294	30 863	
Revaluation reserve	15 578	15 578	15 578	15 578	
Statutory legal reserve	1 046	1 046	1 046	1 046	
Retained earnings	-24 798	7 083	-24 798	7 083	
Unrealised exchange rate differences	64	0	64	0	
Loss for the financial year	-21 641	-31 881	-21 641	-31 881	16,18
TOTAL EQUITY	**29 512**	**35 908**	**29 512**	**35 908**	
TOTAL LIABILITY AND EQUITY	**121 986**	**122 786**	**117 436**	**122 014**	

Accounting principles set on pages 13-18 and the notes to the financial statements set on pages 19-34 form an integral part of these Financial Statements.

INCOME STATEMENT

In thousand EEK

	Group 2003	Group 2002	Parent 2003	Parent 2002	Note
Net sales	133 630	133 258	127 874	131 108	17,21
Other operating income	2 254	1 598	2 261	1 654	22
TOTAL REVENUE	**135 884**	**134 856**	**130 135**	**132 762**	
Change in inventories	3 220	13 126	4 473	12 091	
Goods, raw material, services	50 634	44 680	50 016	46 199	
Operating expenses	35 504	35 137	35 670	36 209	23
Personnel expenses	52 720	58 688	46 938	54 551	24
Depreciation and amortisation	7 572	7 214	7 022	6 772	7,8
Other operating expenses	2 152	2 406	2 119	2 409	25
TOTAL EXPENSES	**151 802**	**161 251**	**146 238**	**158 231**	
OPERATING LOSS	**-15 918**	**-26 395**	**-16 103**	**-25 469**	
Financial expenses from subsidiaries	-	-	-394	-1 054	
Interest expenses	-5 754	-5 718	-5 314	-5 688	
Foreign exchange loss	45	-25	-158	-146	
Other financial income/expense	-14	257	328	476	
Total financial income/expense	**-5 723**	**-5 486**	**-5 538**	**-6 412**	
NET LOSS	**-21 641**	**-31 881**	**-21 641**	**-31 881**	
Basic earnings per share (EEK)	*-13.19*	*-31.03*	*-13.19*	*-31.03*	18
Diluted earnings per share (EEK)	*-13.19*	*-31.03*	*-13.19*	*-31.03*	18

Accounting principles set on pages 13-18 and the notes to the financial statements set on pages 19-34 form an integral part of these Financial Statements.

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Cash Flow Statement

In thousand EEK

	Group 2003	Group 2002	Parent 2003	Parent 2002	Note
Operating activities					
Net loss	-21 641	-31 881	-21 641	-31 881	
Depreciation and amortisation	7 572	7 214	7 022	6 772	7,8
Profit from sale of fixed assets	-105	-217	-105	-275	
Loss from write-off of fixed assets	197	425	197	405	
Change in receivables	-2 398	2 581	-5 262	7 814	
Change in inventory	-4 282	13 341	1 583	12 273	
Change in accounts payable	5 156	2 147	935	-2 596	
Interest paid	-5 911	-5 411	-5 471	-5 380	
Other financial income/expense	-814	-	-814	-	10
Unrealised exchange rate differences	64	-	64	-	
Profit from long-term financial investments	-4	-	-4	-278	6
Loss from long-term financial investments	7	-	1 095	1 332	6
Cash flow from operating activities	**-22 159**	**-11 801**	**-22 401**	**-11 814**	
Purchase and reconstruction of fixed assets	-3 310	-4 957	-2 626	-4 515	7,8
Proceeds from sale of fixed assets	541	459	541	761	
Proceeds from sale of associated company	14	-	14	-	6
Acquisition of associated company	-	-10	-	-10	6
Acquisition of subsidiaries	351	-	-219	-997	6
Acquisition of trademark	-	4 928	-	4 928	15
Repayment of trademark	-300	-	-300	-	15
Loans and guarantees issued	-136	-	-119	-327	
Receipt of loans issued	721	301	721	479	
Interest received	63	204	63	204	
Cash flow from investing activities	**-2 056**	**925**	**-1 925**	**523**	
Repayments of borrowings	-34 963	-14 704	-34 963	-14 704	10
Proceeds from borrowings	38 000	24 920	38 000	24 920	10
Finance lease principal payments	-1 535	-2 329	-1 535	-2 257	9
Proceeds from issue of shares	15 181	5 058	15 181	5 058	16
Proceeds from overdraft	6 863	4 464	6 863	4 464	10
Repayment of overdraft	-900	-5 973	-900	-5 973	10
Cash flow from financing activities	**22 646**	**11 436**	**22 646**	**11 508**	
TOTAL CASH FLOW	-1 569	560	-1 680	217	
Cash and cash equivalents at beginning of period	4 485	3 925	3 780	3 563	1
Cash and cash equivalents at end of period	2 916	4 485	2 100	3 780	1

Accounting principles set on pages 13-18 and the notes to the financial statements set on pages 19-34 form an integral part of these Financial Statements.

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Statement of Changes in Equity

In thousand EEK

	Number of shares	Share capital	Share premium	Revaluation reserve	Statutory legal reserve	Unrealised exchange rate difference	Retained earnings	**Total**
Balance as of 31.12.2001	**3 525 000**	**35 250**	**3 774**	**816**	**923**	**-**	**7 206**	**47 969**
Cancellation of shares	2 643 750	-26 437	26 437	-	-	-	-	**-**
Issue of share capital	440 625	4 406	652	-	-	-	-	**5 058**
Revaluation reserve	-	-	-	14 762	-	-	-	**14 762**
Transfer to statutory legal reserve	-	-	-	-	123	-	-123	**0**
Net loss for 2002 (adjusted with the effect of changes in accounting policies)	-	-	-	-	-	-	-31 881	**-31 881**
Balance as of 31.12.2002	**1 321 875**	**13 219**	**30 863**	**15 578**	**1 046**	**-**	**-24 798**	**35 908**
Issue of share capital	575 000	5 750	9 431	-	-	-	-	**15 181**
Unrealised exchange rate differences	-	-	-	-	-	64	-	**64**
Net loss for 2003	-	-	-	-	-	-	-21 641	**-21 641**
Balance as of 31.12.2003	**1 896 875**	**18 969**	**40 294**	**15 578**	**1 046**	**64**	**-46 439**	**29 512**

More detailed information on shareholders' equity is provided in notes 16 and 18.

Accounting principles set on pages 13-18 and the notes to the financial statements set on pages 19-34 form an integral part of these Financial Statements.

ACCOUNTING POLICIES ADOPTED IN THE PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of AS Klementi for the financial year ended on December 31, 2003 enfold parent company and its subsidiaries (hereinafter Group). The consolidated financial statements of the Group and the financial statements of AS Klementi (hereinafter parent) have been prepared in accordance with International Financial Reporting Standards (*IFRS*).

The financial statements are prepared in thousand of Estonian kroons, unless specifically referred otherwise.

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. The management estimates are mainly used for assessing the formation and revaluation of provisions, assessing the useful life of the fixed assets, impairment tests, valuation of accounts receivable and inventories. The effects of changes in the management estimates are recognized in the period of the change and future periods, if the change affects future periods.

» Comparability

The financial statements are prepared in accordance with the comparability and consistency principles, the nature and impact of any changes in accounting methods is explained in respective notes. When the presentation or classification of items in the financial statements is amended, comparative amounts for the previous period are also reclassified.

» Change in Accounting Policies

AS Klementi adopted IAS 27 (changed in 2003), which will come into force for periods beginning on or after January 1, 2005 but earlier application is allowed and encouraged. According to the standard the receivables from and loans granted to the subsidiaries are considered as a part of an investment. Pursuant to the change the comparative amounts of 2002 are also reclassified.
The change arises from the negative equity of UAB Klementi Vilnius in 2002 in the amount of EEK 2,565 thousand and the unrealised profit from the previous periods of UAB Klementi Vilnius in the amount of EEK 936 thousand, by which the receivables from UAB Klementi Vilnius in the total amount of EEK 3,501 thousand were reduced in the comparative data of 2002. In 2002 financial statements the adjustments were made in balance sheet lines *Retained earnings* and *Loss for the financial year* as follows:

	Parent 31.12.02	Change	Parent adjusted
Retained earnings	8 538	-1 455	7 083
Loss for financial year	-29 835	-2 046	-31 881
TOTAL CHANGE		**-3 501**	

Accordingly, *Other receivables* in the parent 2002 balance sheet were decreased by EEK 3,501 thousand and in the parent 2002 income statement *Operating expenses* were increased by EEK 2,046 thousand.

» Consolidated financial statements

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries are combined on a line-by-line basis. Intragroup balances and intragroup transactions and resulting unrealised profits and losses have been eliminated in full.

The 2003 consolidated financial statements include the financial statements of AS Klementi (parent company) and its subsidiaries UAB Klementi Vilnius, SIA Vision, Klementi Trading OY and Klementi Trading AB.

Accounting policies adopted by the Group companies are similar in all material respects.

In the parent's separate financial statements, investments in subsidiaries are accounted for using the equity method. Unrealised gains on transactions between parent company and its subsidiaries are eliminated to the extent of the parent company's interest in the investment.

» Subsidiaries

Subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. According to the purchase method the assets and liabilities of the subsidiary acquired are measured at their fair values and the difference between the cost of acquisition and the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

» Associates

Associate is an enterprise in which the Group has significant influence, but which it does not control. Generally significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the investee.

Investments in associates are accounted for by using the equity method of accounting. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of post-acquisition profits or losses of investee and also to recognise the amortisation of goodwill arising from acquisition.

» Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks (excl. overdraft), term deposits with original maturities of three months or less, and cash collected.

Indirect method has been used in preparing the cash flow statement.

» Investments

Investments in shares of other companies (except for investments in subsidiaries and associated companies) are initially recognised in the balance sheet at cost and subsequently carried at their fair value. Change in fair value is recorded as income or expense in the income statement.

» Foreign Currency Transactions and Assets and Liabilities Denominated in a Foreign Currency

(a) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Estonian kroon (EEK), which is the measurement currency of the parent.

(b) Transactions in Foreign Currencies

Foreign currency transactions are recorded in Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the transaction date. Gains and losses resulting from the settlement of such transactions are recorded in the income statement.

(c) Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in a foreign currency have been translated into Estonian kroons based on the exchange rates of the Bank of Estonia officially valid on the balance sheet date. Profits and losses from the translation are recorded in the income statement.

(d) Group Companies

Income statements and cash flows of foreign entities are translated into Estonian kroons at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Unrealised exchange differences arising from the translation are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

» Trade Receivables

Trade receivables are carried at original invoice amount less allowance made for impairment of these receivables. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

» Other Receivables

Other receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost.

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Short-term receivables are normally measured at original invoice amount less an allowance made for impairment of these receivables. Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently measured at amortised cost using the effective interest rate method. Receivables held for trade are measured at fair value.

» Factoring
Factoring is the sale of receivables. Depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within time agreed (factoring with recourse) or there is no right for resale and all the risks and benefits associated to the receivable are transferred from seller to purchaser (factoring without recourse).

Factoring with recourse is recorded as financing transaction (that is as a borrowing with a collateral): the amount is recognised in the balance sheet as a receivable until collection or until expiration of the recourse. The related liability is recorded similarly to other borrowings.

Factoring without recourse is recorded as the sale of receivable. Related cost is recognised as financial expense or as a cost related to impairment of receivables, depending whether the aim of the transaction was to manage the cash flows or to manage the credit risk.

» Inventory
Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using weighted average cost method.
Purchased goods and raw material are recorded in the balance sheet at cost, consisting of the cost, transportation costs and other direct costs related to the purchase. Work in progress and finished goods are recorded at production cost, consisting of the direct and indirect production costs.

» Tangible fixed assets
Tangible fixed assets are stated at historical cost less accumulated depreciation and any impairment (excl. land and buildings).
Assets with the useful life of over 1 year are considered to be tangible fixed assets.

Since the year 2002 the fixed asset group "Land and buildings" is recorded based on the revaluation method. The revaluation is carried out by independent real estate experts. The revaluation surplus is recorded in the revaluation reserve, and any impairment decrease (exceeding the earlier valuation surplus) is recorded in the expenses. In the course of revaluation, the earlier accumulated depreciation is eliminated and the revalued amount is considered as the "new acquisition cost". No distributions can be made from the revaluation reserve.

Tangible fixed assets are recorded at cost, comprising of purchase price (including import duties and non-refundable purchase taxes) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent expenditure relating to fixed assets is charged to the income statement during the financial period in which they are incurred. Expenditure is added to the cost of asset if it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Low-value items are fully expensed when the asset is taken into use.

Depreciation of tangible fixed assets is calculated using the straight-line depreciation method based on the following useful life expectations:

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.

Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

» Intangible assets
An intangible asset is measured initially at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over its estimated useful life.

Trademarks and licenses:
Product development expenditures (incl. design and development of trademarks) are expensed when incurred.
Purchased trademarks are depreciated using the straight-line method over 10 years.

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

Goodwill:
Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets in consolidated financial statements and in investments in subsidiaries in parent company's separate financial statements. Positive goodwill is amortised using the straight-line method over estimated useful life of the respective companies at the time of the acquisition (over a maximum period of 10 years). Estimated useful life is determined considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

Development costs:
Development costs are expenses that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case a schedule exists for utilising the project and the future revenues from the intangible asset can be determined.

» Leases
Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

The company is the lessee
Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Tangible fixed assets acquired under finance leases is depreciated similar to acquired assets over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

The company is the lessor
When assets are leased out under a finance lease, the amount equal to the net investment in the lease is recognised as a receivable (the aggregate of: the present value of the lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor). Each lease payment received is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in tangible fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned tangible fixed assets. Rental income is recognised on a straight-line basis over the lease term.

» Borrowings and securities
Borrowings and securities are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings and securities are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction

costs) and the redemption value is recognised in the income statement over the period of the borrowings.
The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the income statement together with the interest expenses.

Interest expenses are recognised on an accrual basis in the income statement. Accrued interests are recorded in the balance sheet under accrued expenses.

In case of convertible bonds the shareholders' equity and liabilities component are recorded separately, except for when the shareholders' equity component is immaterial.

» Borrowing Costs
Borrowing costs (e.g. interests) are expensed in the period when incurred.

» Provisions and Contingent Liabilities
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows.

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

» Financial Liabilities
All financial liabilities (supplier payables, accrued expenses, other short and long-term borrowings) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost. Amortised cost of the short-term liabilities normally equals to their nominal value, therefore the short-term liabilities are stated in the balance sheet in their redemption value. Long-term liabilities are subsequently stated at amortised cost using the effective interest rate method.

» Taxation
Corporate Income Tax
According to the Income Tax Act of the Republic of Estonia the annual profit earned by enterprises is not taxed. Thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax (26/74 of net dividend paid). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

Income Tax of Foreign Subsidiaries
Foreign subsidiaries are the subjects of corporate income tax, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. In the financial year the income tax rates applicable to the Group companies were as follows: UAB Klementi Vilnius (Lithuania) – 15%, Klementi Trading OY (Finland) – 29%, Klementi Trading AB (Sweden) - 28%, SIA Vision (Latvia) - 19%.

Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Main temporary differences arise from depreciation of fixed assets and tax losses carried forward. Deferred tax asset in respect of tax loss carry forwards are recognized in the balance sheet only if their realization is probable

» Statutory Legal Reserve
Statutory legal reserve is formed to comply with the requirements of the Commercial Code. During each financial year, at least one-twentieth of the net profit shall be entered in the statutory legal reserve, until the reserve reaches to one-tenth of the share capital. The statutory legal reserve can be used to offset losses from the prior periods or to increase share capital. No distributions can be made from the statutory legal reserve.

» Revenue Recognition
Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise. Revenue from rendering of services is recorded upon rendering of the service or when services are performed over a longer period of time, based on the stage of completion.

Revenue arising from interest and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except if the receipt of the interest is uncertain. In such cases the interest income is accounted for on a cash basis. Revenue arising from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividends are recognised when the right to receive payment is established.

» Segment Reporting

Retail trade segment as the primary segment is distinguished from the wholesale/production segment with the first comprising accordingly the goods and services provided through Group retail chain and the other the wholesale trade, contractor work and other services provided by Group.

Segment's assets are assets that are used in the business activities of the segment and the segment-related liabilities are recorded under the segment's liabilities.

Segment's assets include goodwill directly attributable to the segment and the segment's expenses include the associated depreciation of goodwill.

Segment's assets do not include assets that are used for the company in general or for the head office.

The Group's loans and accrued interests are recorded under indivisible liabilities. The indivisible expenses of the Group are the general management costs.

The secondary segment is a geographic segment based on the location of the sales network of the company.

» Earnings Per Share

Basic earnings per share is the amount that the company can pay out to shareholders, based on the weighted average number of shares outstanding during the year. The diluted earnings per share is calculated taking into account the weighted average number of potential ordinary shares.

» Subsequent Events

Material matters that have an effect on the evaluation of the assets and liabilities that became evident between the balance sheet date and the date of the annual report 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

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Cash in hand	262	511	220	449
Bank accounts in EEK	349	1 691	349	1 691
Bank accounts in foreign currency	2 305	2 283	1 531	1 640
Total	**2 916**	**4 485**	**2 100**	**3 780**

Note 2. Customer Receivables

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Customer receivables	14 862	12 591	5 649	11 303
Allowance for doubtful receivables	-	-54	-	-54
Total	**14 862**	**12 537**	**5 649**	**11 249**

In 2003 uncollectible receivables in the total amount of EEK 455 thousand were expensed and written off. In 2002 uncollectible receivables in the total amount of EEK 4,633 thousand were expensed, of which a total of EEK 4,589 thousand were written off. The receipt of receivables that have been written down in 2002 was EEK 10 thousand.

Note 3. Other Short-Term Receivables

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Receivable from sale of shares (note 6)	200	200	200	200
Loans to employees	-	43	-	43
Loans to other companies (note 6)	90	493	90	493
Other receivables	807	132	76	131
Receivable from UAB Klementi Vilnius	-	-	388	340
Receivable from Klementi Trading OY	-	-	2 168	2 531
Receivable from Klementi Trading AB	-	-	11 015	-
Receivable from SIA Vision	-	-	2 590	-
Total	**1 097**	**868**	**16 527**	**3 738**

Note 4. Prepayments

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Prepaid taxes	236	1 710	236	694
Other prepaid expenses	709	1 186	317	1 046
Total	**945**	**2 896**	**554**	**1 740**

Prepaid taxes in the 2003 consolidated financial statements of AS Klementi include VAT prepayment of EEK 236 thousand (in 2002 the VAT prepayment amounted to EEK 1,708 thousand and the tax interests prepayment amounted to EEK 2 thousand).

Other prepaid expenses include insurance and rental payments, subscription costs of publications, etc.

Note 5. Inventories

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Raw material and materials	5 175	6 298	5 175	6 294
Work in progress	4 011	5 188	4 011	5 188
Finished goods	17 507	15 725	9 495	12 791
Purchased goods	6 553	1 646	5 755	1 639
Prepayments to suppliers	38	145	38	145
Total	**33 284**	**29 002**	**24 474**	**26 057**

In 2003 the inventories were written down by EEK 2,957 thousand and written off by EEK 74 thousand. In 2002 the inventories were written down in the amount of EEK 10,273 thousand and written off in the amount of EEK 214 thousand. As of December 31, 2003 and December 31, 2002 no inventories were recorded that had been written down to the net realisation value.

Note 6. Subsidiaries, Associated Companies and Long-Term Financial Investments

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Subsidiaries and associated companies				
Shares in subsidiaries	-	-	2 493	11
Shares in associated companies	-	10	-	10
Total subsidiaries and associated companies	**-**	**10**	**2 493**	**21**
Long-term financial investments				
Other shares	-	7	-	7
Receivable from sale of shares*	1 100	1 300	1 100	1 300
Loans to other companies**	45	1 251	45	1 251
Klementi Trading OY (long-term part)	-	-	63	3 412
Loans to employees (long-term part)	11	10	11	10
Other long-term receivables	17	-	-	-
Total long-term financial investments	**1 173**	**2 568**	**1 219**	**5 980**

* The amount due from the sale of 100% shares of subsidiary AS Profline in 2000. Maturity is July 5, 2010; the interest rate is 6 month Euribor+1%. For short-term part see Note 3.

** Maturity of the loan granted to the former subsidiary AS Profline is July 5, 2005, the interest rate is 6 month Euribor+1%. For short-term part see Note 3.

» Subsidiaries:

Klementi Trading OY (ownership 100%; registered and operates in Finland; wholesale of AS Klementi's products in Finland). Nominal value of the share capital is EUR 8.4 thousand. The company was established in September 1998 and commenced its operations on October 1, 1998. As of December 31, 2003 the equity of Klementi Trading OY was EEK 119 thousand (as of December 31, 2002 EEK 73 thousand).

UAB Klementi Vilnius (ownership 100%; operates in Lithuania; retail sale of AS Klementi's products in Lithuania). Nominal value of the share capital is LTL

230 thousand — recorded in the parent's balance sheet at zero value. The company was established on April 17, 2000. As of December 31, 2003 the equity of UAB Klementi Vilnius was LTL −602 thousand, i.e. EEK −2,728 thousand (as of December 31, 2002 LTL -557 thousand, i.e. EEK −2,565 thousand). On September 5, 2003 the liquidation process of the company was commenced.

Klementi Trading AB

On July 31, 2003 100% ownership of a subsidiary in Sweden was acquired, it wholesales the products of AS Klementi in Sweden. The acquisition cost of the acquired investment was EEK 171 thousand. No goodwill arose in the acquisition. The investment is recorded at zero value on the parent's balance sheet. As of December 31, 2003 the equity of Klementi Trading AB was EEK 20 thousand. The subsidiary is consolidated since August 2003.

SIA Vision

On August 29, 2003 100% ownership was acquired in the Latvian retail company SIA Vision (retail sale of AS Klementi's production in Latvia). The subsidiary is consolidated since August 2003. As of December 31, 2003 the equity of SIA Vision was LVL 12,100, i.e. EEK 282 thousand.

Purchase Analysis:

In thousand EEK

	Klementi Trading AB 31.07.2003	**SIA Vision 31.07.2003**
The per cent of acquired voting shares	**100%**	**100%**
Acquisition cost	**171**	**48**
Paid in cash	171	48
Cash and cash equivalents in the acquired subsidiaries	171	399
Receivables and other current assets	-	1 437
Fixed assets	-	1 172
Liabilities	-	5 145
Net assets	**171**	**-2 137**
Positive goodwill on acquisition	**-**	**2 185**

In December 2003 the share capital of SIA Vision was increased with non-monetary contribution in the amount of EEK 2,445 thousand. The non-monetary contribution was a receivable from SIA Vision.

» Associated companies:

Pursuant to the agreement on August 11, 2003 one proportion, which formed 25% of the company's share capital, of OÜ Moe Mix was sold to the Estonian Academy of Arts at the sales price of EEK 14 thousand, of which EEK 4 thousand was profit from sale.

» Other investments:

OÜ Balti Rõivamess

AS Klementi owns one share, which forms 16.66% of the company's share capital. Nominal value of the share is EEK 6.7 thousand. As the activities of the company have been suspended, the investment is recorded at zero value on the balance sheet of AS Klementi.

OÜ Eesti Ettevõtjate Ärikeskus

AS Klementi owns 12.5% of the shares at the nominal value of EEK 50 thousand. As the activities of the company have been suspended, the investment is recorded at zero value on the balance sheet of AS Klementi.

Note 7. Tangible Fixed Assets

» Group		Land and buildings	Plant equipment	Other fixtures	Construction in progress	Total
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**
Additions		-	625	1 401	-	2 026
Acquired through business combinations**		-	-	1 168	-	1 168
Disposals		-	-244	-192	-	-436
Written off		-	-43	-59	-95	-197
Reclassification*		-	-884	513	-	-371
Depreciation charge		-1 284	-2 834	-2 318	-	-6 436
Acquisition cost	**31.12.03**	**44 640**	**27 128**	**16 179**	**-**	**87 947**
Accum. depreciation	31.12.03	-1 284	-16 360	-9 900	-	-27 544
Net book value	**31.12.03**	**43 356**	**10 768**	**6 279**	**-**	**60 403**

** The fixed assets acquired through the acquisition of the subsidiary SIA Vision.

» Parent		Land and buildings	Plant equipment	Other fixtures	Construction in progress	Total
Acquisition cost	**31.12.02**	**44 640**	**27 674**	**11 896**	**95**	**84 305**
Accum. depreciation	31.12.02	-	-13 526	-7 100	-	-20 626
Net book value	**31.12.02**	**44 640**	**14 148**	**4 796**	**95**	**63 679**
Additions		-	625	1 889	-	2 514
Disposals		-	-244	-192	-	-436
Written off		-	-43	-59	-95	-197
Reclassification*		-	-884	513	-	-371
Depreciation charge		-1 284	-2 834	-1 859	-	-5 977
Acquisition cost	**31.12.03**	**44 640**	**27 128**	**14 047**	**-**	**85 815**
Accum. depreciation	31.12.03	- 1 284	-16 360	-8 959	-	-26 603
Net book value	**31.12.03**	**43 356**	**10 768**	**5 088**	**-**	**59 212**

* The software of the cutting machine acquired in 2000 was reclassified from the tangible fixed assets to the intangible assets in 2003.

The Group's land and buildings were revalued on December 31, 2002. If land and buildings were stated on the historical cost basis, the net book value would amount to EEK 28,738 thousand (as of December 31, 2002 the net book value amounted to EEK 29,878 thousand, acquisition cost amounted to EEK 38,015 thousand and accumulated depreciation amounted to EEK 8,137 thousand).
The valuation was made by independent real estate valuers. The management estimates the fair value of land and buildings at 2003 year-end does not materially differ from their value on December 31, 2002.

The information regarding fixed tangible assets pledged as security is presented in Note 12.

For tangible assets leased under finance lease see Note 9.

Note 8. Intangible Fixed Assets

Group		Software	Purchased trademarks	Goodwill	Total
Acquisition cost	**31.12.02**	**3 937**	**5 717**	**-**	**9 654**
Accum. amortisation	31.12.02	-3 146	-737	-	-3 883
Net book value	**31.12.02**	**791**	**4 980**	**-**	**5 771**
Additions (Note 6)		112	-	2 185	2 297
Acquired through business combinations**		4	-	-	4
Reclassification *		370	-	-	370
Amortisation charge		-525	-520	-91	-1 136
Acquisition cost	**31.12.03**	**4 423**	**5 717**	**2 185**	**12 325**
Accum. amortisation	31.12.03	-3 671	-1 257	-91	-5 019
Net book value	**31.12.03**	**752**	**4 460**	**2 094**	**7 306**

** The intangible assets acquired through the acquisition of the subsidiary SIA Vision. The information regarding goodwill is presented in Note 6.

Parent		Software	Purchased trademarks	Total
Acquisition cost	**31.12.02**	**3 937**	**5 717**	**9 654**
Accum. amortisation	31.12.02	-3 146	-737	-3 883
Net book value	**31.12.02**	**791**	**4 980**	**5 771**
Additions		112	-	112
Reclassification*		370	-	370
Amortisation charge		-525	-520	-1 045
Acquisition cost	**31.12.03**	**4 419**	**5 717**	**10 136**
Accum. amortisation	31.12.03	-3 671	-1 257	-4 928
Net book value	**31.12.03**	**748**	**4 460**	**5 208**

* The software of the cutting machine acquired in 2000 was reclassified from the tangible fixed assets to the intangible assets in 2003.

Note 9. Finance and Operating Lease

Both the parent and UAB Klementi Vilnius have leased assets under finance lease. The tangible fixed assets leased under finance lease as of December 31, 2003 (parent and the Group) are as follows:

Group of tangible assets	Term of agreement	Interest rate	Acquisition cost	Accum. deprec.	Net book value 31.12.2003
Buildings	2003-07	9.4	4 449	341	4 108
incl. logistics centre	*2005*	*10.9*	*4 172*	*125*	*4 047*
Plant and equipment	2003-07	9.1	3 191	1 192	1 999
Other fixtures	2005	6.7	56	10	46
Total			**7 696**	**1 543**	**6 153**

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The tangible fixed assets leased under finance lease as of December 31, 2002 (parent and the Group) are as follows:

Group of tangible assets	Term of agreement	Interest rate	Acquisition cost	Accum. deprec.	Net book value 31.12.2002
Buildings	2003-07	10.3	5 556	785	4 771
incl. logistics centre	*2005*	*10.9*	*4 172*	*-*	*4 172*
Plant and equipment	2003-07	10.7	3 509	1 627	1 882
Other fixtures	2003-04	10.2	1 959	762	1 197
Total			**11 024**	**3 174**	**7 850**

The net book value of the tangible fixed assets leased under finance lease by subsidiary UAB Klementi Vilnius as of December 31, 2002 amounted to EEK 228 thousand. The remaining tangible fixed assets leased under finance lease belong to the parent company.

Finance lease liabilities:

	2003	2002
Finance lease liabilities - minimum lease payments		
Not later than 1 year	1 395	2 059
Later than 1 year and not later than 5 years	3 692	5 101
Total	**5 087**	**7 160**
Future finance charges on finance leases	563	1 077
Present value of finance lease liabilities		
Not later than 1 year	981	1 546
Later than 1 year and not later than 5 years	3 543	4 537
Total	**4 524**	**6 083**
Finance lease payments during the period	1 535	2 329
Interest paid during the period	437	668

The table reflects the data of the parent's and the Group's finance lease liabilities.

In 2003 AS Klementi made operating lease payments for equipment leased under operating lease from other entities in total of EEK 74.9 thousand. In 2002 operating lease payments were EEK 63 thousand. Based on the effective agreements the operating lease payments in 2004 will be in the same extent as in 2003. Binding longer-term operating lease agreements have not been signed.

Klementi AS leases out premises to 8 companies in the total of 462.6 m^2 at the address Akadeemia tee 33. The rental agreements of the premises are cancellable.

Note 10. Short- and Long-Term Debt Obligations

As of December 31, 2003 the Group's debt obligations were as follows (in thousand EEK):

	Short-term	Long-Term	Interest Rate	Maturity
» Secured debt obligations				
Eesti Ühispank's overdraft	9 167	-	8.5%	15.05.2004
Hansapank's overdraft	7 265	-	7.75%	15.05.2004
Hansapank's loan	3 190	14 620	EURIBOR+5.0%	15.07.2009
Eesti Ühispank's loan	10 000	-	6%	15.05.2004
Hansapank's loan	17 000	-	7%	30.05.2004
Convertible bonds – Bankruptcy estate of PTA Group Oy	-	1 200	5%	31.12.2005
» Unsecured debt obligations				
Finance lease liabilities	982	3 543	average 8.6%	2003-2007
Loan from Bankruptcy estate of PTA Group Oy	-	800	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	0%	31.12.2005
Total	**47 604**	**21 283**		

The overdraft limits in 2003 by banks were as follows:

- Hansapank EEK 8,000 thousand
- Eesti Ühispank EEK 9,333 thousand

As of December 31, 2002 the Group's debt obligations were as follows (in thousand EEK):

	Short-term	Long-Term	Interest Rate	Term
» Secured debt obligations				
Eesti Ühispank's overdraft	6 005	-	8.5%	15.05.2003
Hansapank's overdraft	4 464	-	10.0%	15.05.2003
Hansapank's loan	3 190	17 810	EURIBOR+5.0%	15.07.2009
EÜP's secured bills of exchange	18 000	-	average 6.5%	1.08.2003
EÜP's factoring	773	-	8.5%	04.09.2003
Convertible bonds – Bankruptcy estate of PTA Group Oy	-	1 200	5.0%	31.12.2005
» Unsecured debt obligations				
Finance lease liabilities	1 546	4 537	average 10.4%	2003-2007
Loan from Bankruptcy estate of PTA Group Oy	-	800	5.0%	31.12.2005
Alta Holding OÜ	-	3 120	0.0%	31.12.2005
Liability to Innovatsioonifond	814	-	0.0%	
Total	**34 792**	**27 467**		

The finance lease liabilities of subsidiary UAB Klementi Vilnius are short-term in the amount of EEK 67 thousand and long-term in the amount of EEK 66 thousand. The remaining debt obligations are parent's liabilities.

The overdraft limits in 2002 by banks were as follows:
- Hansapank EEK 8,000 thousand
- Eesti Ühispank EEK 9,333 thousand.

The potential ordinary shares are the convertible bonds belonging to the Bankruptcy estate of PTA Group Oy. According to the decision taken at the extraordinary shareholder's general meeting on July 31, 2002 it was agreed on August 12, 2002 to reduce the number of potential ordinary shares from 200,000 (at nominal value EEK 10) to 50,000 (at redemption price EEK 24). The owner of convertible bonds has the right to claim the convertible bonds to be changed for ordinary shares until December 20, 2005. In case the owner of convertible bonds has not filed a suitable application for the bonds to be changed for shares by that date, the convertible bonds are redeemed on December 31, 2005.
As of December 31, 2003 the company had 50,000 potential ordinary shares that can be issued out of the 200,000 convertible bonds.

The information concerning the assets pledged as security is in Note 12.

31.12.2003		***Debt obligations by repayment terms***		
	Balance 31.12.2003	***In 12 months***	***1-5 years***	***Over 5 years***
Short-term bank loans	27 000	27 000	-	-
incl. AS Hansapank	*17 000*	*17 000*	-	-
AS Eesti Ühispank	*10 000*	*10 000*	-	-
Long-term bank loans	17 810	3 190	14 620	-
Overdraft	16 432	16 432	-	-
incl. AS Hansapank	*7 265*	*7 265*	-	-
AS Eesti Ühispank	*9 167*	*9 167*	-	-
Finance lease liabilities	4 524	981	3 543	-
PTA convertible bonds	1 200	-	1 200	-
Loan from Bankruptcy estate of PTA Group Oy	800	-	800	-
Loan from Alta Holding	1 120	-	1 120	-
Total	**68 886**	**47 603**	**21 283**	**-**

31.12.2002	***Debt obligations by repayment terms***			
	Balance 31.12.2002	***In 12 months***	***1-5 years***	***Over 5 years***
EÜP secured bill of exchange	18 000	18 000	-	-
Long-term bank loans	21 000	3 190	15 950	1 860
Overdraft	10 469	10 469	-	-
incl. AS Hansapank	*4 464*	*4 464*	-	-
AS Eesti Ühispank	*6 005*	*6 005*	-	-
Factoring from EÜP	773	773	-	-
Finance lease liabilities	6 083	1 546	4 537	-
PTA convertible bonds	1 200	-	1 200	-
Loan from Bankruptcy estate of PTA Group Oy	800	-	800	-
Loan from Alta Holding	3 120	-	3 120	-
Other debt obligations	814	814	-	-
Total	**62 259**	**34 792**	**25 607**	**1 860**

Note 11. Payables to Suppliers

	Group 31.12.03	**Group 31.12.02**	**Parent 31.12.03**	**Parent 31.12.02**
Payables to suppliers from garment sales	9 607	10 054	7 406	9 826
Other payables to suppliers	138	513	138	513
Payable to subsidiary SIA Vision	-	-	7	-
Total	**9 745**	**10 567**	**7 551**	**10 339**

The line “Other payables to suppliers” reflects the payables to suppliers that are not related to the main activities of the company.

Note 12. Loan Collateral and Pledged Assets

The long-term loan and overdraft from Hansapank are 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 a short-term loan agreement in the amount of EEK 26,000 thousand from Hansapank, of which EEK 9,000 thousand has been repaid. The loan is secured by a third ranking commercial pledge in the amount of EEK 27,000 thousand.

The Eesti Ühispank’s overdraft 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 37,909 thousand as of December 31, 2003 (as of December 31, 2002 the respective figure was EEK 39,040 thousand).

Note 13. Other Short-Term Payables

Tax liabilities are recorded on the balance sheet as follows:

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Personal income tax	935	1 233	842	1 113
Social tax	1 649	1 913	1 604	1 866
Corporate Income tax	14	99	14	99
Unemployment insurance premium	81	78	61	78
Value added tax	482	530	157	530
Contributions to mandatory funded pension	81	19	37	19
Local taxes	-	3	-	1
Total	**3 242**	**3 875**	**2 715**	**3 706**

Accrued expenses are recorded on the balance sheet as follows:

	Group 31.12.03	Group 31.12.02	Parent 31.12.03	Parent 31.12.02
Payables to employees	3 067	3 483	2 890	3 254
incl. salary to employees	*1 545*	*1 909*	*1 506*	*1 835*
vacation pay liability	*1 509*	*1 559*	*1 376*	*1 404*
other obligations to employees	*13*	*15*	*8*	*15*
Interest expenses	255	318	255	307
Other accrued expenses	1 740	104	81	102
Prepaid income	2	12	2	12
Total	**5 064**	**3 917**	**3 228**	**3 675**

Note 14. Short- and Long-Term Provisions

The short- and long-term provision is a court order payments of a monthly benefit to a former AS Klementi employee for the loss of capacity to work, of which the short-term part is EEK 12 thousand and the long-term part has been recorded on the balance sheet as potential liability in the likely discounted present value in the amount of EEK 68 thousand.

Note 15. Other Long-Term Liabilities

Other long-term liabilities include payables to Bankruptcy estate PTA Group Oy for trademarks. The liabilities for the trademarks are recorded at the discounted present value and are payable in years 2004-2006. The discount rate is 8%.

The discounted value of trademarks	31.12.2003		31.12.2002	
	Principal debt	Interest	Principal debt	Interest
Total liability	4 986		5 228	
incl. payable in the next 12 months	782	58	300	-
over 1- 5 years	4 204	1004	4 928	1062

Note 16. Shareholders' Equity

The share capital of AS Klementi is EEK 18,969 thousand divided into 1,896,875 shares with the nominal value of EEK 10. All Klementi's shares are registered A-shares. An A-share gives one vote at the shareholders' general meeting. No share certificate is issued for registered shares. The share register is electronic and is maintained by the Estonian Central Depository for Securities. According to the Articles of Association the maximum share capital of AS Klementi is EEK 52,000 thousand and the minimum EEK 13,000 thousand.

On June 10, 2003 575,000 new A-shares were issued with the nominal value of EEK 10 and issue price of EEK 27.50 per share. A total of EEK 15,813 thousand was received, of which issue premium formed EEK 10,063 thousand.

Pursuant to the decision taken at the extraordinary shareholder's general meeting on July 31, 2002 the share capital was reduced by EEK 26,437 thousand through cancellation of shares and the share capital was increased by EEK 4,406 thousand through the issue of new shares.

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

The nominal value of issued shares was EEK 10 and the issue price was EEK 11.48 per share. A total of EEK 5,058 thousand was received, of which issue premium formed EEK 652 thousand.

As of December 31, 2003 the working capital of AS Klementi is negative to the amount of EEK 13 million. Major shareholder of AS Klementi, AS Alta Capital is willing to provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi's business operations.

As of December 31, 2003 AS Klementi had 582 shareholders.

AS Klementi shareholders, whose holding exceeded 1%, as of December 31, 2003:

Name	Number of Shares	Percentage in the Share Capital
Shares Owned by Major Shareholders	**1 653 742**	**87.18%**
OÜ ALTA INVESTMENTS I	462 731	24.40%
BRYUM ESTONIA AS	381 809	20.10%
NORDEA BANK FINLAND PLC CLIENTS	191 005	10.10%
ALTA CAPITAL AS	146 988	7.70%
HANSA BALTI KASVUFOND	126 473	6.70%
Skandinaviska Enskilda Banken AB Clients	94 812	5.00%
OÜ ALTA HOLDING	87 500	4.60%
FIREBIRD REPUBLICS FUND LTD	38 611	2.00%
AS HANSAPANK	38 447	2.00%
HANSAPANGA KINDLUSTUSE AS	35 274	1.90%
HEX Back Office and Custody Services OY Funds	29 296	1.50%
SA EESTI RAHVUSKULTUURI FOND	20 796	1.10%
Shares Owned by Minority Shareholders	**243 133**	**12.82%**
TOTAL NUMBER OF SHARES	**1 896 875**	**100.00%**

As of December 31, 2002 AS Klementi had 613 shareholders.

Shareholders of AS Klementi as of December 31, 2002

Name	**Number of Shares**	**Percentage in the Share Capital**
Shares Owned by Major Shareholders	**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%
Shares Owned by Minority Shareholders	**159 322**	**12.05%**
TOTAL NUMBER OF SHARES	**1 321 875**	**100%**

Note 17. Segment information

The retail segment reflects the retail outlets of AS Klementi in Estonia and the retailing subsidiaries. The production, wholesale and subcontracting segment reflects the assets, liabilities, income and expenses arising from apparel manufacturing, wholesale and other activities related to the main activities of the company.

The segment's assets and liabilities do not include financial assets and liabilities and the income and expenses of the segment do not include the income and expenses arising from the above-mentioned assets and liabilities.

On the segment statement the unallocated assets of the Group reflects the administrative building; the unallocated liabilities reflect long-term loans and accrued interests and the unallocated operating expenses reflect the administrative expenses.

Other major non-monetary expenses are the costs arising from inventory write-downs and uncollectible receivables.

Primary segment – business segment by business unit, 2003

	Retail	Production, wholesale and subcontracting	Inter-segment transactions	TOTAL
Sales to non-group entities	49 742	83 888	-	133 630
Inter-segment sales	-	24 044	-24 044	-
Total sales	49 742	107 932	-24 044	133 630
				0
Operating profit/-loss of the segment	-6 888	1 434	-	-5 454
Unallocated operating expenses				-10 464
Total operating loss				-15 918
Other financial income (-expenses)				-5 723
Net loss				-21 641
Assets and receivables	20 129	76 574	-	96 703
Unallocated assets of the Group				25 283
Total assets				121 986
Liabilities	2 733	20 771	-	23 504
Unallocated liabilities of the Group				68 970
Total liabilities				92 474
Acquisition of tangible and intangible fixed assets	2 569	741	-	3 310
Depreciation and amortisation	2 577	4 995	-	7 572
Other major non-monetary expenses	-533	-3 565	-	-4 098

Primary segment – business segment by business unit, 2002

	Retail	Production, wholesale and subcontracting	Inter-segment transactions	TOTAL
Sales to non-group entities	62 463	70 795		133 258
Inter-segment sales	-	51 020	-51 020	-
Total sales	62 463	121 815	-51 020	133 258
Operating loss of the segment	-10 475	-13 514	-	-23 989
Unallocated operating expenses				-2 406
Total operating loss				-26 395
Other financial income (-expenses)				-5 486
Net loss				-31 881
Assets	24 544	80 933	-	105 477
Unallocated assets of the Group				17 309
Total assets				122 786
Liabilities	349	19 250	-	19 599
Unallocated liabilities of the Group				67 279
Total liabilities				86 878
Acquisition of tangible and intangible fixed assets	3 525	9 182	-	12 707
Depreciation and amortisation	2 235	4 979	-	7 214
Other major non-monetary expenses	-4 828	-10 078	-	-14 906

Secondary segment – sales revenue, assets and capital expenditure by geographical segments

	Sales revenue		Assets		Capital expenditure	
	2003	2002	31.12.03	31.12.02	2003	2002
Estonia	51 725	59 944	117 436	122 014	2 626	12 289
Latvia	9 844	7 102	172	-	612	-
Lithuania	7 408	10 443	19	504	-	145
Finland	42 487	47 386	924	268	-	273
Sweden	21 547	7 916	3 435	-	72	-
Other markets	619	467	-	-	-	-
Total	**133 630**	**133 258**	**121 986**	**122 786**	**3 310**	**12 707**

The management is of the opinion that the prices used in inter segmental transactions do not substantially differ from market prices.

Note 18. Earnings Per Share

	Group 2003	Group 2002	Parent 2003	Parent 2002
Number of shares (th. pcs.) 01.01	1 322	3 525	1 322	3 525
Cancellation of shares (th. pcs.)	-	-2 644	-	-2 644
Issued shares (th. pcs.)	575	441	575	441
Number of shares (th. pcs.) 31.12	1 897	1 322	1 897	1 322
Net profit for the financial year	-21 641	-31 881	-21 641	-31 881
Weighted average number of ordinary shares (th. pcs.)	1 640	1 027	1 640	1 027
Basic earnings per share	**-13.19**	**-31.03**	**-13.19**	**-31.03**
Diluted earnings per share	**-13.19**	**-31.03**	**-13.19**	**-31.03**

As the company and the Group earned losses in 2003 and 2002, the diluted earnings per share equals to basic earnings per share.

Note 19. Off Balance Sheet Commitments

As of December 31, 2003 AS Klementi has guaranteed the future claims of the suppliers in the total amount of EEK 748 thousand and to the Customs Board import tax payments in the total amount of EEK 2,000 thousand.
As of December 31, 2002 AS Klementi had guaranteed the future claims of the suppliers in the total amount of EEK 1.3 million, the rental contract claim of SIA Vision shops and the Customs Board import tax payments in the total amount of EEK 2.5 million.

Note 20. Insured Assets

AS Klementi has insured the following assets:

Asset	**Insured value 2003**	**Insured value 2002**
Buildings	120 075	117 625
Equipment and cars	38 000	49 594
Office appliances and IT-equipment	5 715	5 715
Advertising constructions	10	10
Raw material and finished goods	49 500	52 500

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 the total insurance value of EEK 58,284 thousand (liability period 12 months and waiting period 72 hours).

Note 21. Net Sales

In 2003, the consolidated net sales of AS Klementi amounted to EEK 133,630 thousand (incl. export in the amount of EEK 81,905 thousand, i.e. 61.3%) and in 2002 the respective figure was EEK 133,258 thousand (incl. export in the amount of EEK 73,314 thousand, i.e. 55.0%).

	Group 2003	Group 2002	Parent 2003	Parent 2002
» Sales				
Apparel sales	109 922	98 680	104 166	96 496
Subcontracting and other services	21 076	32 433	21 076	32 433
Sale of materials	1 700	756	1 700	790

Canteen's sales	932	1 389	932	1 389
Total sales	**133 630**	**133 258**	**127 874**	**131 108**
» incl. Export Sales				
Apparel sales	63 876	44 972	59 056	42 788
Subcontracting and other services	17 428	28 328	17 428	28 328
Sale of materials	601	14	601	48
Total export sales	**81 905**	**73 314**	**77 085**	**71 164**
share of export sales	*61.3%*	*55.0%*	*60.3%*	*54.3%*

Note 22. Other Operating Income

	Group 2003	Group 2002	Parent 2003	Parent 2002
Rental income	654	604	654	604
Proceeds from sale of tangible assets	105	203	105	257
Proceeds from other sale	131	198	138	242
Compensation for damage	85	253	85	253
Foreign exchange gains	441	170	441	128
Other income	838	170	838	170
Total	**2 254**	**1 598**	**2 261**	**1 654**

Note 23. Operating Expenses

	Group 2003	Group 2002	Parent 2003	Parent 2002
Operating expenses of production and company	33 485	31 834	34 061	33 293
incl. *Bad and doubtful receivables*	*3 565*	*4 633*	*7 284*	*4 633*
Wholesale costs	*11 310*	*6 677*	*11 891*	*6 677*
Retail costs	*5 870*	*5 921*	*4 915*	*7 967*
Marketing costs in Estonia	*4 059*	*1 592*	*3 767*	*1 592*
Consultancy	*1 805*	*1 800*	*1 805*	*1 800*
Purchased sewing service	744	1 606	744	1 606
Duty assignment	1 052	1 352	642	965
Non-returnable taxes	223	345	223	345
Total	**35 504**	**35 137**	**35 670**	**36 209**

Note 24. Personnel Expenses

	Group 2003	Group 2002	Parent 2003	Parent 2002
Salaries	40 707	44 064	36 067	40 757
Social tax	11 858	14 424	10 716	13 594
Unemployment insurance premium	155	200	155	200
Total	**52 720**	**58 688**	**46 938**	**54 551**

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Note 25. Other Operating Expenses

	Group 2003	Group 2002	Parent 2003	Parent 2002
Foreign exchange loss	656	116	656	116
Membership fees	55	73	55	73
Contract fees	330	172	330	172
Sponsorship	40	595	40	595
Tax interests	179	309	179	309
Expenses of the previous periods	660	506	660	506
Loss from sale and w-o of fixed assets	77	425	77	405
Other	155	210	122	233
Total	**2 152**	**2 406**	**2 119**	**2 409**

Note 26. Related Party Transactions

In preparing the financial statement of the company, the following entities have been considered as related parties:
- owners;
- subsidiaries and associated companies;
- management and supervisory board;
- close relatives of the persons mentioned above and the companies related to them.

» Transactions with Shareholders:

In 2003, AS Klementi signed an agreement with AS Alta Capital for receiving stock exchange consultancy services in the amount of EEK 373 thousand.

On May 8, 2003, AS Klementi received short-term working capital loan from AS Alta Capital in the amount of EEK 2,000 thousand, which was returned on May 29, 2003.

During the financial year the long-term liabilities to Alta Holding OÜ decreased by EEK 2,000 thousand (see Note 10).

The company's management estimates the prices used in related party transactions do not materially differ from the market prices, except for the loans received with 0% interest rate.

Note 27. Income Tax

As of December 31, 2003 the deferred income tax assets of foreign subsidiaries amounted to EEK 478 thousand (as of December 31, 2002 the respective figure was EEK 362 thousand). The deferred income tax assets are not recorded as assets in the balance sheet as there is no reliable certainty that it can be used against future revenues. The expiry term for deferred income tax assets is 5-10 years depending on the legislation of the country.

Note 28. 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

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bears 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 50-500 thousand.

» Foreign Exchange Risk

In 2003, export accounted for 61.3% 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, 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 and LVL. The company is open to the fluctuations of exchange rate of SEK, USD and LVL 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).

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia
www.pwc.com/ee/

Telephone +372 6 141 800
Facsimile +372 6 141 900

AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Klementi

We have audited the financial statements of AS Klementi (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the year ended 31 December 2003 as set out on pages 8 to 34. These financial statements are the responsibility of the Parent Company's management board. 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 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 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 financial statements give a true and fair view of the financial position the Parent Company and the Group as at 31 December 2003 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Urmas Kaarlep
AS PricewaterhouseCoopers

Tiit Raimla
Authorised auditor

25 May 2004

Proposal for Covering the Loss of the Financial Year

As of 31.12.2003 the retained earnings and the loss of the financial year are as follows:

Retained earnings	EEK -24 798 thousand
Loss of the financial year	EEK -21 641 thousand
Total loss	EEK -46 439 thousand

The director of AS Klementi Toomas Leis makes a proposal to the shareholders general meeting to transfer the net loss of 2003 in the amount of EEK –21,641 thousand to the retained earnings.

Toomas Leis
Director

Signatures of the Management Board and Supervisory Board to the 2003 Annual Report

The Management Board has prepared the management report and the financial statements of the year 2003.
The Supervisory Board has reviewed the annual report prepared by the Management Board, consisting of the management report, financial statements, proposal for covering the loss and auditor's report and has approved it to be presented to the general meeting of the shareholders.

Toomas Leis Director ______________ 21.05.2004

Indrek Rahumaa Chairman of the Supervisory Board ______________ 28.06.2004

Andres Rätsep Member of the Supervisory Board ______________ 21.06.2004

Sven Mansberg Member of the Supervisory Board ______________ 21.06.2004

Sakari Sorri Member of the Supervisory Board ______________ 21.06.2004

Madis Võõras Member of the Supervisory Board ______________ 28.06.2004