

KLEMMENTI



ANNUAL REPORT

Financial year: 1 January 2004 – 31 December 2004
(Translation of the Estonian original)

GENERAL INFORMATION

Business name:	AS Klementi
Commercial Registry No.:	10175491
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Phone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
Internet homepage:	www.klementi.ee
Main activities	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Managing Director:	Toomas Leis
Financial Manager:	Marianne Paas
Auditor:	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

General information on the AS Klementi Group

The Klementi group is an international apparel trade group which is engaged in the design, manufacturing and marketing of women's apparel as well as the provision of sewing subcontracting services.

As of 31.12.2004, the Klementi Group whose parent company is AS Klementi consisted of four wholly owned subsidiaries: Klementi Trading OY, UAB Klementi Vilnius, Klementi Trading AB and SIA Vision. The subsidiaries are engaged in the retail and wholesale distribution of apparel in Finland, Sweden, Latvia and Lithuania.

The Klementi Group operates a retail store chain under the PTA trademark in Estonia and Latvia and owns factory stores in Estonia and Sweden. The company markets the trademarks PTA, Mallimari, Piretta and Mastercoat of the Klementi Group through its own retail chain as well as through wholesalers. The factory stores sell apparel from past seasons' collections. Apparel personally tailored for customers using expanded designs and fabrics is sold under the Avenue trademark.

Results of operations of AS Klementi for 2004

In 2004, the consolidated net sales of AS Klementi were 128.6 million kroons and the loss amounted to 11.9 million kroons. As compared to 2003, the net sales decreased by 3.7% (net sales in 2003: 133.6 million kroons) and the loss by 9.7 million kroons.

The composition of sales changed as compared to the year before. The apparel sales made up 78.2% of total sales (2003: 82.2%). The share of subcontracting products grew by 4.9% in 2004. Exports decreased by over 8% as compared to 2003. The decrease in sales was related to the decrease of the wholesale turnover in the Nordic countries, especially in Sweden and Finland.

As of 31.12.2004, the consolidated balance sheet total of the Klementi Group was 105.8 million kroons, decreasing by 16.1 million kroons as compared to the previous year-end. The decline of the balance sheet total was related to more aggressive sales of older inventories, better management of receivables and the reduction of the cost of non-current assets. Significantly improved cash flows enabled the company to reduce borrowings by 4.5 million kroons and supplier payables by 0.6 million kroons as compared to the beginning of the year.

Products and markets

A decision was made to start developing the PTA trademark beginning with the second half of 2004. In conjunction with this, the product development activities of the company were reorganised and the chain of stores was rearranged into the PTA retail chain. This change will lead to better procurement prices, reduction of product development costs, more optimal planning of inventories as well as more efficient usage of the marketing budget to support one brand.

In conjunction with this, the company made the expansion and development of its own retail store chain its strategic priority.

In the autumn of 2004, the retail store chain of AS Klementi was reorganised and it was turned into the stores operating under the PTA trademark.

The women's apparel of AS Klementi was marketed in addition to Estonia also in the Nordic countries, Latvia, Lithuania and Russia. In 2004, the largest sales growth occurred in Latvia where apparel sales more than doubled.

Retail sales

In 2004, the group's retail sales amounted to 60.7 million kroons, an increase of 22% as compared to the previous year. Retail revenue amounted to 60% (2003: 45%) of apparel sales revenue. Total retail sales revenue increased by 11.0 million kroons, most of which was related to the improvement of efficiencies of retail spaces. The average retail sales per square meter increased by almost 29% as compared to the previous year. Most of the sales occurred in Estonia whereas Latvia had the largest sales volume growth of almost 30%.

As of the year-end 2004, the Klementi Group had 10 stores with the sales space of 2744 square meters (31.12.2003: 10 stores with the sales space of 2689 square meters).

Wholesale distribution

Wholesale apparel sales decreased by over 30% in 2004. This is primarily related to lower sales in the Scandinavian countries, where the decline of the sales turnover resulted from inappropriate positioning of apparel marketed under the PTA trademark as well as the collection failing to meet the expectations. Since the second half of 2004, AS Klementi has changed the positioning of the PTA trademark, leading the company to expect higher sales in the Scandinavian countries beginning with 2006.

Subcontracting sales

Subcontracting sales volume increased by 26% in 2004. Last financial year, the number of subcontracting business partners who purchased the full service of manufacturing apparel instead of purchasing just the sewing service increased. Also, the manufacturing and sales of occupational apparel was begun in accordance with the customers' requests. Gradual transition from offering sewing services to offering the full service of manufacturing apparel (incl. the preparation and placement of products, increasing and decreasing of patterns, cutting, etc.) helped to increase net sales and made the provision of the subcontracting service more profitable.

Manufacturing

In 2004, the production volume of AS Klementi decreased by 0.8 million standard minutes. The improvement of sewing efficiencies of 7.6% ensured the need for making own products and enabled to significantly increase the volume of the subcontracting sewing service. The new wage system also helped to increase sewing efficiencies, increasing the motivation of employees and improving the contribution-based pay system.

In 2004, AS Klementi improved the production technologies by implementing new working methods and special equipment. Production technological improvements have enabled to improve cooperation with Scandinavian subcontracting clients.

Personnel and wage policy

As of 31.12.2004, Klementi employed 448 people (31.12.2003: 487 people), including 418 women and 30 men. During the year, 77 people started to work at Klementi, including 32 production workers; 116 people left the company, including 80 production workers. The number of employees decreased on average by 39 people or 6.7% in a year.

Of production workers, 65.7% worked on a piecework basis, 5% in ancillary positions, 4.2% at warehouses, 10.2% in retail trade. Managers and specialists made up 14.9% of all employees. Forty-six people were on maternity leave.

As of 31.12.2004, 18 people worked at the subsidiaries, including:

Subsidiary Klementi Vilnius UAB had no employees (the subsidiary is under liquidation proceedings);

Subsidiary Klementi Trading OY: 1 employee;

Subsidiary Klementi Trading AB: 4 employees;

Subsidiary SIA Vision: 13 employees.

The group employed 485 people on average in 2004, and their wages and salaries amounted to 34.4 million kroons.

Capital expenditures

In 2004, capital expenditures amounted to 2.6 million kroons, almost 97% of which was invested in property, plant and equipment. The volume of capital expenditures stayed at the same level as in 2003.

Management Board and Supervisory Board

In 2004, the members of the Supervisory Board received no remuneration. The members of the Management Board received 720 thousand kroons as remuneration.

Financial ratios (group)

		2004	2003
increase of net sales vs. last year		-3.7%	0.3%
share of apparel in net sales		78.3%	82.3%
inventory turnover	[net sales/average inventory]	4.2	4.3
receivable turnover	[(receivables – customer prepayments) / average daily net sales]	28	39
liquidity ratio	[(current assets-inventories) /current liabilities]	0.26	0.29
current ratio	[current assets/current liabilities]	0.72	0.79
EBIT margin	[operating profit/net sales]	-4.5%	-11.9%
net margin	[net profit/net sales]	-9.3%	-16.6%
return on equity	[net profit/average equity]	-50.4%	-66.16%
return on assets	[net profit/average cost of assets]	-10.4%	-17.68%

Plans for 2005

In 2005, the expansion of the chain of PTA stores will continue in Estonia and Latvia and the retail network will also be expanded to Russia and the Ukraine.

In 2005, a more modern and attractive interior design concept of PTA stores will be worked out. The first store with the new interior design will be opened in Riga in spring.

Next year, the number of PTA stores is planned to be doubled in Latvia and three stores will be renovated in Estonia.

The main focus of the retail trade is to improve the efficiencies of retail sales. The following activities have been planned to be implemented to achieve this:

- Grow the awareness of the PTA trademark
- Optimisation of the retail spaces of stores and search for new retail spaces
- improvement of the methods for managing retail inventories
- expansion of the range of products within collections

The range of products within the PTA collection is planned to be expanded. The main plan calls for the expansion of casual apparel in the apparel collection and increasing the range of accessories at the stores.

In 2005, the gradual transition from basic subcontracting sewing service will continue to be replaced with the full service of apparel manufacturing (so-called *full-price* products), creating additional value for the client and enabling the company to use its total resources more efficiently and profitably.

Beginning with 1 January 2005, new integrated economic software Microsoft Axapta, which significantly improves the quality of the company's management information thereby enabling better management of inventories and retail sales margins, will be implemented.

The volume of capital expenditures in 2005 is 2 million kroons.

Toomas Leis
Managing Director

2004 FINANCIAL STATEMENTS

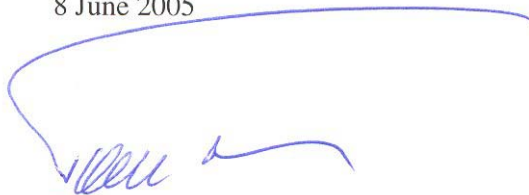
Management Board's confirmation of the financial statements

The Management Board of AS Klementi confirms the correctness and completeness of AS Klementi's (parent company) and the group's 2004 financial statements as presented on pages 8-35.

The Management Board confirms that:

- The financial statements have been prepared in accordance with the generally accepted accounting principles and International Financial Reporting Standards;
- the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the parent company and the group;
- AS Klementi is a going concern.

8 June 2005



Toomas Leis
Managing Director

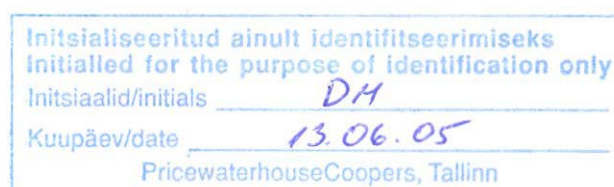
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Balance sheet

in thousands of kroons

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03	Note
<i>» Assets</i>					
Cash and bank	3 400	2 916	1 802	2 100	2
Trade receivables	9 906	14 862	7 807	5 649	3
Other receivables	1 706	1 097	12 430	16 527	4
Prepayments	1 141	945	404	554	5
Inventories	28 255	33 284	25 139	24 474	6
Total current assets	44 408	53 104	47 582	49 304	
Subsidiaries and associates	-	-	3 711	2 493	7
Long-term financial investments	955	1 173	1 018	1 219	7
Property, plant and equipment	52 896	60 403	51 854	59 212	8
Intangible assets	7 574	7 306	5 698	5 208	9
Total non-current assets	61 425	68 882	62 281	68 132	
TOTAL ASSETS	105 833	121 986	109 863	117 436	
<i>» Liabilities and equity</i>					
Borrowings	43 183	48 386	43 183	48 386	11
Customer prepayments	223	470	223	470	
Supplier payables	9 189	9 745	9 107	7 544	12
Other payables	-	-	4 563	7	13
Tax liabilities	1 399	2 255	1 340	1 728	14
Accrued expenses and prepayments	7 747	6 051	7 355	4 222	15
Short-term provisions	12	12	12	12	16
Total current liabilities	61 753	66 919	65 783	62 369	
Long-term borrowings	26 219	25 487	26 219	25 487	11
Other long-term payables	25	-	25	0	
Long-term provisions	148	68	148	68	16
Total non-current liabilities	26 392	25 555	26 392	25 555	
TOTAL LIABILITIES	88 145	92 474	92 175	87 924	
Share capital at nominal value	18 969	18 969	18 969	18 969	17
Share premium	40 294	40 294	40 294	40 294	
Revaluation reserve	13 876	15 578	13 876	15 578	
Statutory reserve capital	1 046	1 046	1 046	1 046	
Retained earnings	-44 735	-24 798	-44 735	-24 798	
Unrealised exchange rate differences	139	64	139	64	
Net loss for financial year	-11 901	-21 641	-11 901	-21 641	19
TOTAL EQUITY	17 688	29 512	17 688	29 512	
TOTAL LIABILITIES AND EQUITY	105 833	121 986	109 863	117 436	

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

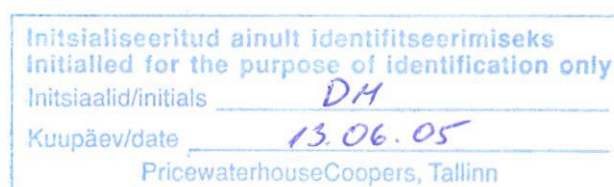


Income statement

in thousands of kroons

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
Net sales	128 606	133 630	116 572	127 874	18,21
Other operating income	4 233	2 254	4 215	2 261	22
TOTAL OPERATING INCOME	132 839	135 884	120 787	130 135	
Change in work-in-progress and inventories of finished goods	5 825	3 220	389	4 473	
Goods, raw materials and services	49 265	50 634	47 878	50 016	
Operating expenses	28 754	35 504	28 341	35 670	23
Staff costs	44 644	52 720	41 565	46 938	24
Depreciation and amortisation	7 610	7 572	7 009	7 022	8,9
Other operating expenses	2 564	2 152	2 564	2 119	25
TOTAL OPERATING EXPENSES	138 662	151 802	127 746	146 238	
OPERATING LOSS	-5 823	-15 918	-6 959	-16 103	
Net financial income and expenses from subsidiaries	-	-	1 096	-394	
Interest expenses	-5 922	-5 754	-5 938	-5 314	
Foreign exchange loss	-156	45	-100	-158	
Other financial income/expenses	-	-14	-	328	
Total financial income/expenses	-6 078	-5 723	-4 942	-5 538	
NET LOSS	-11 901	-21 641	-11 901	-21 641	
<i>Loss per ordinary share (kr)</i>	<i>-6.27</i>	<i>-13.19</i>	<i>-6.27</i>	<i>-13.19</i>	19
<i>Diluted loss per ordinary share (kr)</i>	<i>-6.27</i>	<i>-13.19</i>	<i>-6.27</i>	<i>-13.19</i>	19

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.



Cash flow statement

in thousands of kroons

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
Cash flow from operating activities					
Net loss	-11 901	-21 641	-11 901	-21 641	
Adjustments:					
Depreciation and amortisation	7 610	7 572	7 011	7 022	8,9
Profit from sale of property, plant and equipment	-1 701	-105	-1 701	-105	
Loss from write-off of property, plant and equipment	353	197	239	197	
Change in receivables and prepayments related to operating activities	2 957	-2 334	758	-5 198	
Change in inventories	5 029	-4 282	-665	1 583	
Change in liabilities and prepayments related to operating activities	6 144	5 156	14 713	935	
Interest paid	-4 787	-5 911	-4 777	-5 471	
Other financial income	-	-818	-	-818	
Profit (-loss) from long-term financial investments	-	7	-1 096	1 095	
Total cash flow from operating activities	3 704	-22 159	2 581	-22 401	
Cash flow from investing activities					
Purchase of property, plant and equipment and construction in progress	-3 325	-3 310	-2 990	-2 626	8,9
Proceeds from sale of property, plant and equipment	6 035	541	6 041	541	
Proceeds from sale of associate	-	14	-	14	
Acquisition of subsidiaries	-	351	-	-219	
Repayment of trademark	-626	-300	-626	-300	11
Loans and quarantees granted	-	-136	-	-119	
Receipt of loans granted	224	721	224	721	
Interest received	50	63	50	63	
Total cash flow from investing activities	2 358	-2 056	2 699	-1 925	
Cash flow from financing activities					
Repayments of borrowings	-21 920	-34 963	-21 920	-34 963	11
Proceeds from borrowings	18 700	38 000	18 700	38 000	11
Finance lease principal payments	-981	-1 535	-981	-1 535	10
Proceeds from issue of shares	-	15 181	-	15 181	
Change in balance of overdraft	-1 016	5 963	-1 016	5 963	11
Factoring payments	-361	-	-361	-	
Total cash flow from financing activities	-5 578	22 646	-5 578	22 646	
Total cash flow	484	-1 569	-298	-1 680	
Cash and cash equivalents at beginning of year	2 916	4 485	2 100	3 780	2
Cash and cash equivalents at end of year	3 400	2 916	1 802	2 100	2

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

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Statement of changes in equity

in thousands of kroons

	Number of shares	Share capital	Share premium	Revaluation reserve	Statutory reserve capital	Unrealised exchange rate differences	Retained earnings	Total
Balance as of 31.12.2002	1 321 875	13 219	30 863	15 578	1 046	-	-24 798	35 908
Increase of share capital	575 000	5 750	9 431	-	-	-	-	15 181
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
Amortisation of revaluation reserve to retained earnings	-	-	-	-1 702	-	-	1 702	-
Unrealised exchange rate differences	-	-	-	-	-	75	-	75
Net loss for 2004	-	-	-	-	-	-	-11 901	-11 901
Balance as of 31.12.2004	1 896 875	18 969	40 294	13 876	1 046	139	-56 636	17 688

More detailed information on share capital is provided in Notes 17 and 19.

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

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Note 1. Accounting policies used in the preparation of the financial statements

The consolidated financial statements of AS Klementi for the year ended on 31 December 2004 include the financial statements of the parent company and its subsidiaries (hereinafter the group). The consolidated financial statements of the group and the separate financial statements of AS Klementi have been prepared in accordance with International Financial Reporting Standards (*IFRS*).

The financial statements have been prepared in thousands of Estonian kroons, unless another currency is referred to.

The 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.

Preparation of the consolidated financial statements

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

The 2004 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.

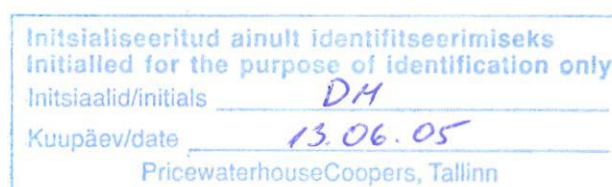
Accounting policies adopted by the Group companies are similar in all material respects.

In the parent's separate financial statements, investments in subsidiaries are accounted for under the equity method. Under the equity method, the effect of unrealised gains and losses arising from intragroup transactions has been eliminated based on the holding of the group or the parent company in the subsidiary.

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 entity over 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 under 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 the profits or losses of the investee after the date of acquisition and also to recognise the amortisation of goodwill arising from the acquisition.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are cash on hand, bank account balances (except for overdraft) and short-term deposits (up to 3 months) as well as cash collected. The indirect method has been used for the preparation of 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

The financial statements of the group companies have been prepared using the currency (*measurement currency*) which reflects the company's economic environment the best. The consolidated financial statements have been presented in Estonian kroons, which is the measurement currency of the parent company.

(b) Foreign currency transactions

Foreign currency transactions have been recorded based on foreign currency exchange rates of the Bank of Estonia prevailing on the transaction dates. In the case of differences in the transfer of cash and exchange rates on the transaction date, the exchange rate differences are recorded in the income statement.

(c) Assets and liabilities denominated in foreign currencies

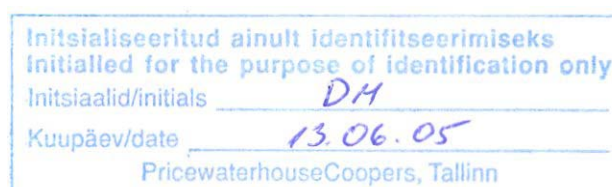
Assets and liabilities denominated in foreign currencies have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. Gains and losses on translation are recorded in the income statement.

(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 amortised cost (original invoice amount less allowance made for impairment of these receivables and discounts). 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.

Short-term receivables are normally measured at original invoice amount less a provision made for impairment of these receivables; therefore short-term receivables are carried in the balance sheet at the collectible amount.

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.

Inventories

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.

Property, plant and equipment

Property, plant and equipment is stated at historical cost (except for land and buildings) less accumulated depreciation and any impairment.

Assets with the useful life of over 1 year are considered to be property, plant and equipment.

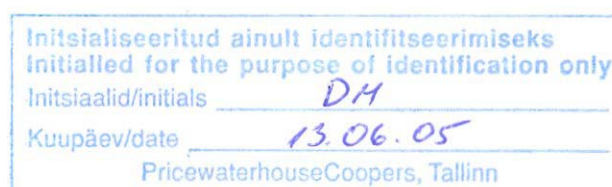
Since the year 2002 the fixed asset group "Land and buildings" is recorded based on the revaluation method. The revaluation is carried out by independent real estate experts. The revaluation surplus is recorded in the revaluation reserve, and any impairment decrease (exceeding the earlier valuation surplus) 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". Each year, the revaluation reserve is decreased by the difference of the depreciation charge arising from the difference in the cost of land and buildings and the revalued amount; and it is added to retained earnings. The revaluation reserve of non-current assets is part of restricted equity and no distributions can be made from it to the shareholders.

Property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location.

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 is calculated using the straight-line depreciation method based on the following estimated useful lives:

production facility	3%
other buildings	10%
sewing equipment	10-15%
other machinery	20%
computer equipment	30%



transport vehicles	20%
tools and fittings	25-30%
fittings of warehouses	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 for growth and other factors inherent in the acquired companies.

Development costs:

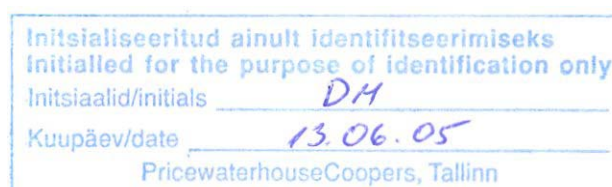
Development costs are expenses that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case a schedule exists for utilising the project and the future revenues from the intangible asset can be determined.

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 are depreciated similarly 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.

Loans 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 (then the whole amount is recorded as liability).

Provisions and contingent liabilities

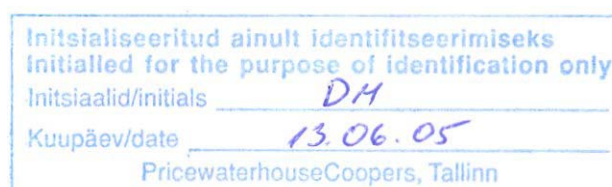
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's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

The amortised cost of short-term liabilities normally equals their nominal value; therefore 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.



Taxes

Corporate income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the tax rate of 24/76 (until 31.12.2004: 26/74) of the amount paid out as net dividends. 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.

Corporate 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 assets in respect of tax loss carry forwards are recognized in the balance sheet only if their realization is probable.

Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in the reserve capital, until the reserve capital reaches one-tenth of the share capital. Reserve capital may be used to cover a loss, or to increase share capital. No distributions can be made from the reserve capital.

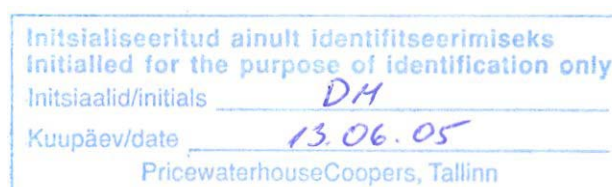
Revenue recognition

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 the 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, license fees 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 when the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Revenue arising from license fees 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.

Revenue recognition on service contracts

When the outcome of a service contract (contract revenue and costs) can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise, contract revenue from nonrecurring services to be performed over a longer period of time is recognised using the stage of completion method. Contract revenue and profits are recognised in the



proportion and in the accounting periods in which the contract costs associated with the service contract incurred.

The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract.

When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred when it is probable that these costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on service contracts, under accrued income.

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.

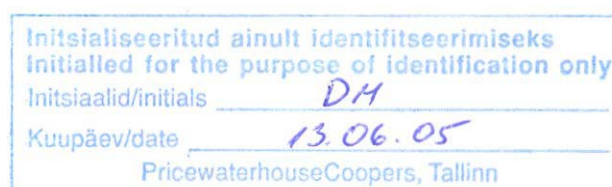
Earnings per share

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.

Events after the balance sheet date

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 2. Cash and bank

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Cash on hand	157	262	111	220
Bank accounts in kroons	102	349	102	349
Bank accounts in foreign currencies	2 952	2 305	1 420	1 531
Money in transit	189	-	169	-
Total	3 400	2 916	1 802	2 100

Note 3. Trade receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Trade receivables	10 283	14 862	8 184	5 649
Allowance for doubtful receivables	-377	-	-377	-
Total	9 906	14 862	7 807	5 649

In 2004 uncollectible receivables were expensed in the amount of 305 thousand kroons and receivables were deemed doubtful in the amount of 377 thousand kroons. In 2003 uncollectible receivables were expensed in the amount of 455 thousand kroons. The receipt of receivables that have been written down in 2003 was 10 thousand kroons.

Note 4. Other receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Receivable related to sale of shares (Note 7)	200	200	200	200
Loans to employees	7	-	7	-
Loans to other companies (Note 7)	68	90	68	90
Other receivables	231	807	79	76
Receivable from UAB Klementi Vilnius	-	-	278	388
Receivable from Klementi Trading OY	-	-	791	2 168
Receivable from Klementi Trading AB	-	-	9 260	11 015
Receivable from SIA Vision	-	-	547	2 590
Due from customers on service contracts	1 200	-	1 200	-
Total	1 706	1 097	12 430	16 527

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Note 5. Prepayments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Prepaid taxes	38	236	38	236
Total prepaid expenses	1 103	709	366	318
Total	1 141	945	404	554

Other prepaid expenses include insurance payments, rental prepayments, subscription of periodicals, etc.

Note 6. Inventories

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Raw materials and materials	9 138	5 175	9 138	5 175
Work-in-progress	3 796	4 011	3 796	4 011
Finished goods	12 361	17 507	9 320	9 495
Goods purchased for resale	2 889	6 553	2 814	5 755
Prepayments to suppliers	71	38	71	38
Total	28 255	33 284	25 139	24 474

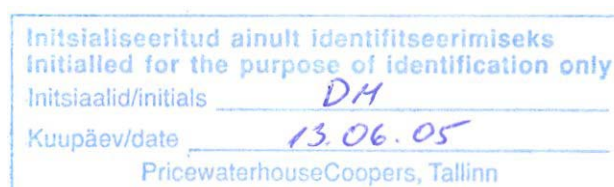
In 2004, inventories were written down in the amount of 258 thousand kroons and written off in the amount of 167 thousand kroons. In 2003, inventories were written down in the amount of 2 957 thousand kroons and written off in the amount of 74 thousand kroons. As of 31.12.2004 and 31.12.2003, no inventories were recorded that had been written down to their net realisable value.

Note 7. Long-term financial investments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Subsidiaries and associates				
Shares in subsidiaries (Note 9)	-	-	3 711	2 493
Total subsidiaries	-	-	3 711	2 493
Long-term financial investments				
Receivable related to sale of shares*	950	1 100	950	1 100
Loans to other companies**	-	45	-	45
Klementi Trading OY (long-term receivable)	-	-	63	63
Loans to employees (non-current portion)	5	11	5	11
Other long-term receivables	-	17	-	-
Total long-term financial investments	955	1 173	1 018	1 219

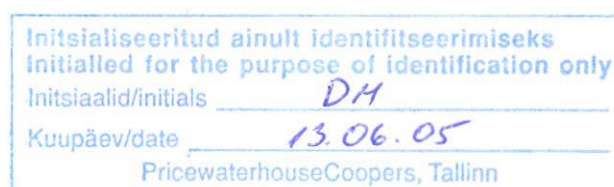
* Amount receivable related to the 100% sale of the subsidiary AS Proflin in 2000. The maturity is on 5.07.2010, the interest rate is 6-month Euribor+1%. For short-term part, please refer to Note 4.

** The maturity of the loan granted to the former subsidiary AS Proflin is on 5.07.2005, the interest rate is 6-month Euribor+5%. For short-term part, please refer to Note 4.



» **Subsidiaries:**

- Klementi Trading OY** (ownership 100%; is registered and operates in Finland; wholesale distribution of the AS Klementi's products in Finland). The nominal value of share capital of EUR 8.4 thousand is reported at nil value in the balance sheet of the parent company. The company was set up in September 1998 and it started its operating activities on 01.10.1998. As of 31.12.2004, the equity of Klementi Trading OY was 69 thousand kroons (31.12.2003: 119 thousand kroons).
- UAB Klementi Vilnius** (ownership 100%; operates in Lithuania; retail sales of AS Klementi's products in Lithuania). The share capital in the amount of LTL 230 thousand is reported at nil value in the balance sheet of the parent company. The company was set up on 17.04.2000. As of 31.12.2004, the equity of UAB Klementi Vilnius was – 2 854 thousand kroons (31.12.2003: -2 728 thousand kroons). The liquidation proceedings of the company were started on 5 September 2003.
- Klementi Trading AB** On 31 July 2003, a subsidiary with a 100% holding was acquired in Sweden, which engaged in the wholesale distribution of AS Klementi's products in Sweden. The acquisition cost of the acquired entity was 171 thousand kroons. No goodwill arose on the acquisition. It is reported at nil value in the balance sheet of the parent company. As of 31.12.2004, the equity of Klementi Trading AB was 92 thousand kroons (31.12.2003: 20 thousand kroons). The subsidiary has been consolidated since August 2003. In 2004, the share capital of the subsidiary was increased by a non-monetary contribution in the amount of 846 thousand kroons. The non-monetary contribution was a receivable from Klementi Trading AB.
- SIA Vision** On 29 August 2003, a 100% holding was acquired in the retail company SIA Vision in the Republic of Latvia (retail sales of AS Klementi's products in Latvia). The subsidiary has been consolidated since August 2003. As of 31.12.2004, the equity of SIA Vision was 1 831 thousand kroons (31.12.2003: LVL 12 100 or 282 thousand kroons).
- » **Other investments:**
- OÜ Balti Rõivamess** AS Klementi holds one share which makes up 16.66% of the company's share capital. The nominal value of the unit is 6.7 thousand kroons. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.
- OÜ Eesti Ettevõtjate Ärikeskus** AS Klementi holds 12.5% of the shares with the nominal value of 50 thousand kroons. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.



Note 8. Property, plant and equipment

» Group		Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
Acquisition cost	31.12.03	44 640	27 128	16 179	-	87 947
Accumulated 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
Additions		-	139	2 415	949	3 503
Disposals		-3 952	-108	-284	-	-4 344
Written off		-	-184	-149	-	-333
Depreciation charge		-1 245	-2 812	-2 276	-	-6 333
Acquisition cost	31.12.04	40 500	24 122	13 701	949	79 272
Accumulated depreciation	31.12.04	-2 341	-16 319	-7 716	-	-26 376
Net book value	31.12.04	38 159	7 803	5 985	949	52 896

» Parent company		Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
Acquisition cost	31.12.03	44 640	27 128	14 047	-	85 815
Accumulated 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
Additions		-	139	2 080	949	3 168
Disposals		-3 952	-108	-284	-	-4 344
Written of		-	-184	-45	-	-229
Depreciation charge		-1 245	-2 812	-1 896	-	-5 953
Acquisition cost	31.12.04	40 500	24 122	11 963	949	77 534
Accumulated depreciation	31.12.04	-2 341	-16 319	-7 020	-	-25 680
Net book value	31.12.04	38 159	7 803	4 943	949	51 854

On 31.12.2002, a revaluation of land and buildings was performed. If land and buildings were stated on the historical cost basis, the net book value would amount to 27 597 thousand kroons as of 31.12.2004 (31.12.2003: net book value of 28 738 thousand kroons, acquisition cost of 38 015 thousand kroons, accumulated depreciation of 9 277 thousand kroons).

The revaluation was performed by independent real estate valuers. The management estimates the fair value of land and buildings at the end of 2004 does not materially differ from their value as of 31.12.2002.

Information on assets pledged as collateral is provided in Note 29.

For non-current assets leased out under the finance lease terms, please refer to Note 10.

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Note 9. Intangible assets**» Group**

		Computer programmes	Acquired trademarks	Good-will	Unfinished projects	Total
Acquisition cost	31.12.03	4 423	5 717	2 185	-	12 325
Accumulated amortisation	31.12.03	-3 671	-1 257	-91	-	-5 019
Net book value	31.12.03	752	4 460	2 094	-	7 306
Acquired during period		86	-	-	1 469	1 555
Written down		-9	-	-	-	-9
Amortisation charge		-540	-519	-218	-	-1 277
Acquisition cost	31.12.04	4 506	5 717	2 185	1 469	13 877
Accumulated amortisation	31.12.04	-4 218	-1 776	-309	-	-6 303
Net book value	31.12.04	288	3 941	1 876	1 469	7 574

» Parent company

		Computer programmes	Acquired trademarks	Unfinished projects	Total
Acquisition cost	31.12.03	4 419	5 717	-	10 136
Accumulated amortisation	31.12.03	-3 671	-1 257	-	-4 928
Net book value	31.12.03	748	4 460	-	5 208
Acquired during period		86	-	1 469	1 555
Written down		-9	-	-	-9
Amortisation charge		-537	-519	-	-1 056
Acquisition cost	31.12.04	4 496	5 717	1 469	11 682
Accumulated amortisation	31.12.04	-4 208	-1 776	-	-5 984
Net book value	31.12.04	288	3 941	1 469	5 698

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Note 10. Finance and operating lease

Non-current assets acquired under the finance lease terms as of 31.12.2004 (parent company and group)

Group of non-current asset	Term of agreement	Interest rate	Acquisition cost	Accumul. Depreciation	Net book value on 31.12.2004
Buildings	2005-07	9.4	4 449	521	3 928
<i>incl. logistics centre</i>	<i>2005</i>	<i>10.9</i>	<i>4 172</i>	<i>250</i>	<i>3 922</i>
Machinery and equipment	2005-07	8.6	2 542	1 384	1 158
Other fixtures	2005	6.7	56	21	35
Total			7 047	1 926	5 121

Non-current assets acquired under the finance lease terms as of 31.12.2003 (parent company and group)

Group of non-current assets	Term of agreement	Interest rate	Acquisition cost	Accumul. depreciation	Net book value on 31.12.2003
Buildings	2005-07	9,4	4 449	341	4 108
<i>incl. logistics centre</i>	<i>2005</i>	<i>10,9</i>	<i>4 172</i>	<i>125</i>	<i>4 047</i>
Machinery and equipment	2004-07	9,1	3 191	1 192	1 999
Other fixtures	2005	6,7	56	10	46
Total			7 696	1 543	6 153

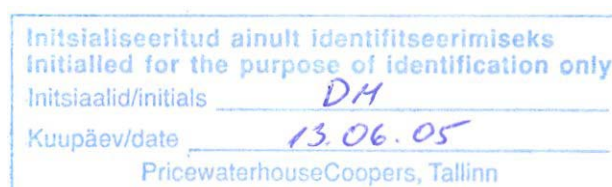
Finance lease liabilities

	2004	2003
<i>Minimum lease payments:</i>		
With maturity of up to one year	2 759	1 395
With maturity of between 1-5 years	914	3 692
Total	3 673	5 087
Future interest expense	131	563
<i>Present value of lease payments:</i>		
With maturity of up to one year	3 058	981
With maturity of between 1-5 years	485	3 543
Total	3 543	4 524
Payments made in financial year	981	1 535
Interest expense of financial year	414	437

The table includes both the finance lease payments of the parent company as well as those of the group.

In 2004, AS Klementi leased equipment and machinery from other persons under the operating lease terms, for which rental payments were made in the amount of 103 thousand kroons. In 2003, operating lease payments amounted to 75 thousand kroons. According to current agreements, operating lease payments shall be made in the same amount in 2005. Binding longer-term operating lease agreements have not been signed.

AS Klementi leases out office space located at Akadeemia tee 33 totalling 643.65 m² to 13 companies (2003: totalling 462.6 m² to 8 companies). The lease agreements for the office space are cancellable.



Note 11. Short and long-term borrowings

As of 31.12.2004, the group and the parent company had the following borrowings (in thousand kroons):

	Short-term	Long-term	Interest rate	Maturity	Change in maturity after balance sheet date
<i>» Secured borrowings</i>					
Overdraft from Eesti Ühispank	9 022	-	8.5%	31.01.2005	30.06.2005
Overdraft from Hansapank	6 395	-	7.75%	31.05.2005	30.06.2005
Loan from Hansapank	3 190	11 430	EURIBOR+	15.07.2009	
			5%		
Loan from Eesti Ühispank	4 912	-	6%	30.06.2005	
Loan from Hansapank	11 525	-	7%	30.01.2005	30.06.2005
Convertible bonds – bankruptcy estate of PTA Group	1 200	-	5%	31.12.2005	
<i>» Unsecured borrowings</i>					
Finance lease liabilities	3 058	485	Average	2005-2007	
			8.2%		
Loan from bankruptcy estate of PTA Group	800	-	5%	31.12.2005	
Loan from Alta Holding OÜ	1 120	-	0%	21.01.2005	
Loan from Alta Capital AS	-	10 533	8-25%	31.01.2006	
Factoring	866	506	7%	31.07.2006	
Payable for trademark	1 095	3 265	8%	15.01.2006	
Total	43 183	26 219			

In 2004, the overdraft limits by banks were as follows:

- Hansapank 8 000 thousand kroons.
- Eesti Ühispank 9 333 thousand kroons

As of 31.12.2003, the group and the parent company had the following borrowings (in thousand kroons):

	Short-term	Long-term	Interest rate	Maturity
<i>» Secured borrowings</i>				
Overdraft from Eesti Ühispank	9 167	-	8.5%	15.05.2004
Overdraft from Hansapank	7 265	-	7.75%	15.05.2004
Loan from Hansapank	3 190	14 620	EURIBOR+5.0%	15.07.2009
Loan of Eesti Ühispank	10 000	-	6%	15.05.2004
Loan from Hansapank	17 000	-	7%	30.05.2004
Convertible bonds – bankruptcy estate of PTA Group	-	1 200	5%	31.12.2005
<i>» Unsecured borrowings</i>				
Finance lease liabilities	982	3 543	average 8.6 %	2003-2007
Loan from bankruptcy estate of PTA Group	-	800	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	0%	31.12.2005
Payable for trademark	782	4 204	8%	20.01.2006
Total	48 386	25 487		

In 2003, overdraft limits by banks were as follows:

- Hansapank 8 000 thousand kroons.
- Eesti Ühispank 9 333 thousand kroons

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Payable for trademark

The payable for trademarks is to the bankruptcy estate of P.T.A. Group OY. The payable for trademarks is recorded at the discounted present value and is due in 2004-2006. The discount rate is 8%.

Discounted present value of trademarks	31.12.2004		31.12.2003	
	Principal debt	Interest	Principal debt	Interest
Total liability	4 360	1 004	4 986	1 062
Incl. payable in the next 12 months	1 095	156	782	58
over 1- 5 years	3 265	848	4 204	1 004

Convertible bonds

Fifty thousand convertible bonds belonging to the bankruptcy estate of PTA Group represent potential shares. The issue price of convertible bonds is 24 Estonian kroons and the redemption date is on 31 December 2005. Convertible bonds have an annualised interest rate of 5%. The holder of convertible bonds has the right to convert the convertible bonds for ordinary shares until 20.12.2005. Please also refer to Note 28.

Factoring

AS Hansa Liising Eesti, Columbus IT Partner Eesti AS and AS Klementi have concluded a factoring contract for the purchasing and implementation of financial software.

Finance lease liabilities are disclosed in Note 29.

For finance lease liabilities, please refer to Note 10.

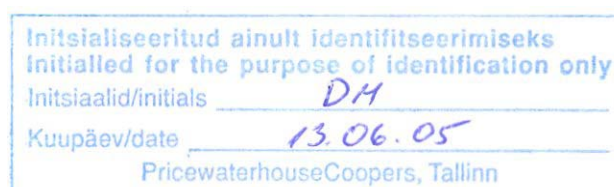
All long-term liabilities are denominated in Estonian kroons or euros.

Relevant terms of borrowings

The loan agreement for a short-term loan from Hansapank contains restrictions for repayment of the loan received from the shareholder of AS Klementi, Alta Capital AS. If this condition is violated, the bank has the right to demand premature repayment of the loan.

The loan agreements with AS Eesti Ühispank contain restrictions on making changes to the list of shareholders and the transfer of assets. If this condition is violated, the bank has the right to demand premature repayment of the loan.

31.12.2004	Borrowings by maturity dates		
	Balance as of 31.12.2004.	During 12 months	During 1-5 years
Short-term bank loans	16 437	16 437	-
incl. AS Hansapank	11 525	11 525	-
AS Eesti Ühispank	4 912	4 912	-
Long-term bank loans	14 620	3 190	11 430
Overdraft	15 417	15 417	-
incl. AS Hansapank	6 395	6 395	-
AS Eesti Ühispank	9 022	9 022	-
Finance lease liabilities	3 543	3 058	485
Payable for trademark	4 360	1 095	3 265
Factoring	1 372	866	506
Convertible bonds of bankruptcy estate of PTA Group	1 200	1 200	-
Loan from bankruptcy estate of PTA Group	800	800	-
Loan from Alta Holding	1 120	1 120	-
Loan from Alta Capital	10 533	-	10 533
Total	69 402	43 183	26 219



31.12.2003

Borrowings by maturity dates

	Balance as of	During 12 months	During 1-5 years
	31.12.2003		
Short-term bank loans	27 000	27 000	-
<i>incl. AS Hansapank</i>	<i>17 000</i>	<i>17 000</i>	<i>-</i>
<i>AS Eesti Ühispank</i>	<i>10 000</i>	<i>10 000</i>	<i>-</i>
Long-term bank loans	17 810	3 190	14 620
Overdraft	16 432	16 432	-
<i>incl. AS Hansapank</i>	<i>7 265</i>	<i>7 265</i>	<i>-</i>
<i>AS Eesti Ühispank</i>	<i>9 167</i>	<i>9 167</i>	<i>-</i>
Finance lease liabilities	4 524	981	3 543
Payable for trademark	4 986	782	4 204
Convertible bonds of bankruptcy estate of PTA Group	1 200	-	1 200
Loan from bankruptcy estate of PTA Group	800	-	800
Loan from Alta Holding	1 120	-	1 120
Total	73 872	48 385	25 487

Note 12. Supplier payables

	Group	Group	Parent	Parent
	31.12.04	31.12.03	31.12.04	31.12.03
Supplier payables for sales of apparel	9 015	9 607	8 933	7 406
Other supplier payables	174	138	174	138
Total	9 189	9 745	9 107	7 544

The line "Other supplier payables" includes supplier payables that are not related to the company's main activities.

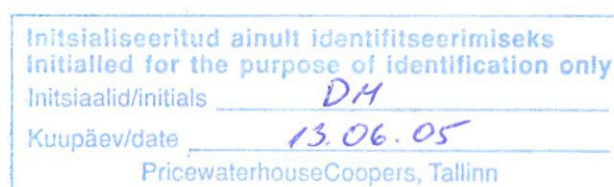
Note 13. Other payables

	Group	Group	Parent	Parent
	31.12.04	31.12.03	31.12.04	31.12.03
Payable to subsidiary Klementi Trading AB	-	-	4 563	-
Payable to subsidiary SIA Vision	-	-	-	7
Total	-	-	4 563	7

Note 14. Tax liabilities

Tax liabilities recorded in the balance sheet are as follows:

	Group	Group	Parent	Parent
	31.12.04	31.12.03	31.12.04	31.12.03
Personal income tax	214	602	185	509
Social security tax	877	1 039	833	994
Fringe benefit income tax	10	14	10	14
Unemployment insurance tax	-	56	-	36
Value added tax	251	482	265	157
Contributions to mandatory funded pension	-	62	-	18
Tax interest	47	-	47	-
Total	1 399	2 255	1 340	1 728



Note 15. Accrued income and prepayments

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Payables to employees	3 313	3 067	3 200	2 890
<i>Incl. employee wages and salaries</i>	<i>1 883</i>	<i>1 545</i>	<i>1 883</i>	<i>1 506</i>
<i>Vacation pay liability</i>	<i>1 420</i>	<i>1 509</i>	<i>1 307</i>	<i>1 376</i>
<i>Other payables to employees</i>	<i>10</i>	<i>13</i>	<i>10</i>	<i>8</i>
Interest liabilities	1 469	255	1 469	255
Tax liabilities	2 626	987	2 601	987
Other accrued expenses	42	1 740	17	88
Prepaid income	297	2	68	2
Total	7 747	6 051	7 355	4 222

Note 16. Short and long-term provisions

Short and long-term provisions consist of a monthly compensation paid to the former employee of AS Klementi for permanent incapacitation for work based on a court ruling, the short-term part of which is 12 thousand kroons (31.12.2003: 12 thousand kroons) and the long-term part has been recorded at the discounted present value in the amount of 148 thousand kroons (31.12.2003: 68 thousand kroons). The discount rate is 10%, the remaining balance of the liability is 10 years.

Note 17. Equity

The share capital of AS Klementi is 18 969 thousand kroons, which consists of 1 896 875 shares with the nominal value of 10 kroons each. All shares of AS Klementi are registered A shares which have one vote at the General Meeting of Shareholders. No share certificates have been issued for registered shares. The share register is electronic and it is kept at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 52 000 thousand kroons.

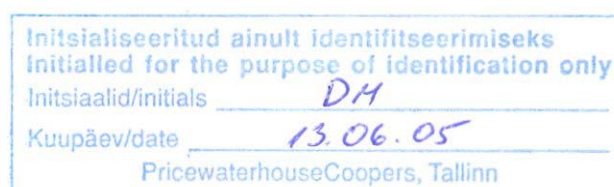
As of 31.12.2004, the working capital of AS Klementi is a negative 18 million kroons. The majority shareholder of AS Klementi, AS Alta Capital will provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi's business operations.

As of 31.12.2004, AS Klementi had 507 shareholders.

The shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2004:

Name	Number of shares	Holding in share capital
Share of majority shareholders	1 704 444	89.9%
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
ING Luxembourg S.A.	188 805	10.0%
Hansa Baltic Growth Fund	183 769	9.7%
Alta Capital AS	146 988	7.7%
Skandinaviska Enskilda Banken Ab Clients	94 812	5.0%
Firebird Avrora Fund LTD	68 611	3.6%
OÜ Alta Holding	67 500	3.6%
AS Hansa Elukindlustus	37 274	2.0%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pension Fund K3	22 849	1.2%
Peeter Larin	20 000	1.1%
Share of minority shareholders	192 431	10.1%
Total number of shares	1 896 875	100,0%

As of 31.12.2003, AS Klementi had 582 shareholders.



Shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2003:

ame	Number of shares	Holding in share capital
Share of majority shareholders	1 653 742	87.2%
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
Nordea Bank Finland PLC clients	191 005	10.1%
Alta Capital AS	146 988	7.8%
Hansa Baltic Growth Funds	126 473	6.7%
Skandinaviska Enskilda Banken AB Clients	94 812	5.0%
OÜ Alta Holding	87 500	4.6%
Firebird Republics Fund Ltd	38 611	2.0%
AS Hansapank	38 447	2.0%
Hansapanga Kindlustuse AS	35 274	1.9%
HEX Back Office and Custody Services OY Funds	29 296	1.5%
SA Eesti Rahvuskultuuri Fond	20 796	1.1%
Share of minority shareholders	243 133	12.8%
TOTAL NUMBER OF SHARES	1 896 875	100.0%

Note 18. Segments

The retail sector includes the stores of AS Klementi located in Estonia and subsidiaries engaged in retail trade. The production and wholesale trade segment includes the assets, liabilities, income and expenses of apparel manufacturing, wholesale trade and other related activities.

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

In the segment report, the unallocated assets of the group include the administrative building, the unallocated liabilities include long-term loans, dividend and interest payable and unallocated operating expenses include administrative costs.

Other major non-monetary expenses are those arising from the write-down of inventories and doubtful receivables.

Primary segment – business segment by business unit in 2004

	Retail	Production, wholesale and subcontracting	Intersegment transactions	TOTAL
Non-group sales	60 737	67 869		128 606
Intersegment sales		31 961	-31 961	0
Total sales	60 737	99 830	-31 961	128 606
Segment's operating profit	-619	5 175	-	4 556
Unallocated operating expenses				10 379
Total operating loss				-5 823
Other financial income (-expenses)				-6 078
Net loss				-11 901
Assets and receivables	7 753	76 074	-	83 827
Unallocated assets of group				22 006
Total assets				105 833
Liabilities	528	10 677	-	11 205
Unallocated liabilities of group				94 628
Total liabilities				105 833
Purchase of property, plant and equipment as well as intangible assets	2 149	2 909	-	5 058
Depreciation and amortisation	1 874	5 736	-	7 610

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Primary segment – business segment by business unit in 2003

	Retail	Production, wholesale and subcontracting	Intersegment transactions	Total
Non-group sales	49 742	83 888	-	133 630
Intersegment sales	-	24 044	-24 044	-
Total sales	49 742	107 932	-24 044	133 630
				0
Segment's operating profit	-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
Unallocable assets of group				25 283
Total assets				121 986
Liabilities	2 733	20 771	-	23 504
Unallocable liabilities of group				68 970
Total liabilities				92 474
Purchase of intangible 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

Secondary segment – net sales, total assets and capital expenditures by geographical segments

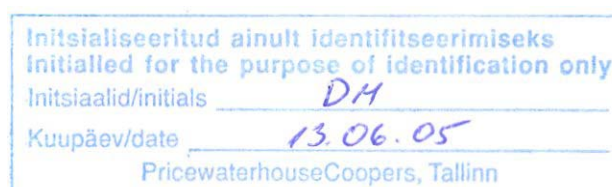
	Net sales		Assets		Capital expenditure	
	2004	2003	31.12.04	31.12.03	2004	2003
Estonia	53 647	51 725	98 226	117 436	4 723	2 626
Latvia	20 844	9 844	2 024	172	64	612
Lithuania	3 019	7 408	319	19	-	-
Finland	34 795	42 487	75	924	-	-
Sweden	12 426	21 547	5 189	3 435	271	72
Other markets	3 875	619	-	-	-	-
Total	128 606	133 630	105 833	121 986	5 058	3 310

According to the management', the prices used in intersegment transactions do not materially differ from market prices.

Note 19. Earnings per share (EPS)

	Group 2004	Group 2003	Parent 2004	Parent 2003
Number of shares (thousand pieces) 01.01	1 897	1 322	1 897	1 322
Reduction of number of shares(thousand pieces)	-	-	-	-
Shares issued (thousand pieces)	-	575	-	575
Number of shares (thousand pieces) 31.12	1 897	1 897	1 897	1 897
Net loss for financial year	-11 901	-21 641	-11 901	-21 641
Weighted average number of shares (thousand pieces)	1 897	1 640	1 897	1 640
Loss per ordinary share	-6.27	-13,19	-6.27	-13,19
Diluted loss per ordinary share	-6.27	-13,19	-6.27	-13,19

As the company and the group had a loss in 2004 and 2003, the diluted loss per ordinary share equals the loss per ordinary share.



Note 20. Off-balance sheet liabilities

As of 31.12.2004, AS Klementi has guaranteed future receivables from suppliers in the amount of 1 110 thousand kroons and import fee payments to the Customs Board in the amount of 900 thousand kroons.

As of 31.12.2003 AS Klementi had guaranteed future receivables from suppliers in the amount of 748 thousand kroons import fee payments to the Customs Board in the amount of 2 000 thousand kroons.

Note 21. Net sales

	Group 2004	Group 2003	Parent 2004	Parent 2003
<i>» Sales</i>				
Sales of apparel	100 641	109 922	88 556	104 166
Subcontracting and other services	26 671	21 076	26 671	21 076
Other sales	1 294	2 632	1 345	2 632
Total sales	128 606	133 630	116 572	127 874
<i>» incl. exports</i>				
Sales of apparel	53 114	63 876	37 128	59 056
Subcontracting and other services	20 710	17 428	21 546	17 428
Other sales	1 135	601	300	601
Total exports	74 959	81 905	58 974	77 085
<i>Percentage of exports of total sales</i>	<i>58,3%</i>	<i>61,3%</i>	<i>50,6%</i>	<i>60,3%</i>

Note 22. Other operating income

	Group 2004	Group 2003	Parent 2004	Parent 2003
Rental income	962	654	962	654
Profit from sale of non-current assets	1 716	105	1 716	105
Other sales	42	131	24	138
Compensation for losses	53	85	53	85
Foreign exchange gains	1 020	441	1 020	441
Other income	440	838	440	838
Total	4 233	2 254	4 215	2 261

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Note 23. Operating expenses

	Group 2004	Group 2003	Parent 2004	Parent 2003
Manufacturing and company's operating expenses	25 831	33 485	25 592	34 061
Incl. <i>irrecoverable and doubtful</i>				
<i>receivables</i>	682	3 565	596	7 284
<i>wholesale expenses</i>	8 584	11 310	8 003	11 891
<i>retail sales expenses</i>	12 462	5 870	9 175	4 915
<i>marketing</i>	2 839	4 059	2 489	3 767
<i>consulting fees</i>	630	1 805	630	1 805
Sewing service purchased	2 062	744	2 062	744
Business trips	638	1 052	509	642
Other expenses	223	223	178	223
Total	28 754	35 504	28 341	35 670

Note 24. Staff costs

	Group 2004	Group 2003	Parent 2004	Parent 2003
Wages and salaries	34 366	40 707	31 923	36 067
Social security tax	10 144	11 858	9 508	10 716
Unemployment insurance tax	134	155	134	155
Total	44 644	52 720	41 565	46 938

Note 25. Other operating expenses

	Group 2004	Group 2003	Parent 2004	Parent 2003
Foreign exchange loss	878	656	878	656
Membership fees	51	55	51	55
Contract fees	386	330	386	330
Sponsorship	18	40	18	40
Tax interest	157	179	157	179
Retained earnings	301	660	301	660
Loss from sales and write-off of non-current assets	239	77	239	77
Other	534	155	534	122
Total	2 564	2 152	2 564	2 119

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Note 26. Related party transactions

In compiling the Annual Report, the following entities have been considered as related parties:

- owners
- subsidiaries and associates;
- management and supervisory boards;
- close relatives of the persons mentioned above and the companies related to them.

The following transactions have been concluded with the related parties in 2004 and 2003:

	12 months 31.12.2004	12 months 31.12.2003
Purchased goods and services		
<i>Shareholders</i>		
Alta capital AS	7	-
Purchased goods and services		
<i>Shareholders</i>		
Alta Capital AS	-	373
<i>Management Board</i>		
Merona Holding OÜ	46	-
Loans received		
<i>Shareholders</i>		
Alta Capital AS (Note 11)	11 200	2 000
Loans paid off		
<i>Shareholders</i>		
Alta Capital AS	667	2 000

The company's management estimates that the prices used in related party transactions do not materially differ from market prices except for the loans received with the interest rate of 0% (loan balance of 1 120 thousand kroons) and interest rate of 25% (outstanding balance as of 31.12.2004: 333 thousand kroons).

Note 27. Corporate income tax

On 31.12.2004, the deferred income tax assets of a foreign subsidiary amounted to 460 thousand kroons (31.12.2003: 478 thousand kroons). Deferred income tax assets have not been recognised as assets in the balance sheet as there is no reliable certainty that it can be used against future taxable profits. The expiry term for deferred income tax assets is between 5 and 10 years depending on the legislation of the country of location.

Note 28. Events after the balance sheet date

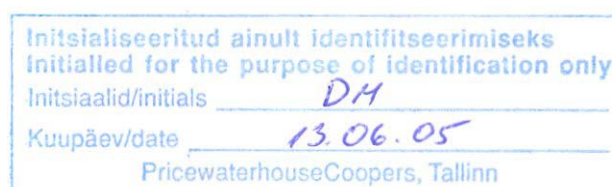
On 3 January 2005, the bankruptcy estate of PTA Group OY, the holder of 50 000 convertible bonds of AS Klementi, announced of its intention to prematurely convert the convertible bonds to the shares of AS Klementi at the ratio of 1 : 1. The issue of convertible bonds was determined with the resolution of the General Meeting of Shareholders from March 2000 and the terms of these bonds were changed with the resolution of the General Meeting of Shareholders from 28 August 2002. The issue price of convertible bonds was 24 Estonian kroons and the redemption date is on 31 December 2005. The convertible bonds have an annualised interest rate of 5%. The respective request and the documents for increasing the share capital were presented by the Management Board of AS Klementi to the Commercial Registry on 3 February 2005. As a result of the transaction, 50 000 new A-shares of Klementi with the nominal value of EEK 10 per share and the share premium of EEK 14 will be issued. Thus, the share capital of AS Klementi will increase by 0.5 million kroons.

Note 29. Loan collateral and pledged assets

In conjunction with the sale of real estate properties, loan collaterals were changed in 2004. The collateral for the long-term loan and the overdraft received from the public limited company Hansapank is the mortgage of the first order set on the administrative and production buildings in the amount of 26 200 thousand kroons, a joint mortgage in the amount of 13 000 thousand kroons, a commercial pledge agreement of the second order in the amount of 15 000 thousand kroons and of the third order in the amount of 27 000 thousand kroons.

Collateral for the long-term loan received from Eesti Ühispank is the registered immovables of the administrative and the production building is the joint mortgage of the second order in the amount of 7 000 thousand kroons and a commercial pledge agreement of the first order in the amount of 23 000 thousand kroons.

As of 31.12.2004, the residual value of non-current assets pledged as collateral for the liabilities is 31 852 thousand kroons (31.12.2003: 37 909 thousand kroons).



Note 30. Risks arising from the company's operations and the management's view on managing these risks.

» **Credit risk**

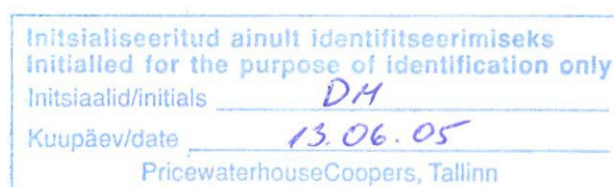
Credit risk arises from the inability of the company's business partners to fulfil their obligations. It has primarily to do with the ability of customers to pay on time for the goods. The company provides credit for its most trustworthy customers. The credit term is provided for 30-90 days and the limit is set at 50-500 thousand kroons.

» **Foreign currency risk**

In 2004, exports made up 58.3% of the consolidated net sales of AS Klementi. Most of the materials used in the production are purchased from abroad. The major currencies used in daily operating activities of the company are EUR, SEK, LVL and USD. When purchasing services and goods, foreign currency transactions are concluded mostly in the following currencies: EUR, SEK and USD, the sales-related foreign currency transactions are concluded mostly in EUR, SEK and LVL. The company is exposed to the exchange rate fluctuations of SEK, USD and LVL in relation to EEK. The company does not use forwards, options and other money market instruments for the management of foreign currency risk, because the management's analysis has shown that risks arising from foreign currency exposures do not exceed the expenses that would relate to the usage of these money market instruments.

» **Interest rate risk**

The interest rate risk of the company is dependent on the fluctuations of EURIBOR (Note 11).



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 financial year ended 31 December 2004 as set out on pages 8 to 35. 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 of the Parent Company and the Group as at 31 December 2004 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.



Urmas Kaarlep
AS PricewaterhouseCoopers



Tiit Raimla
Authorised Auditor

13 June 2005

PROPOSAL FOR COVERING THE LOSS FOR FINANCIAL YEAR

As of 31.12.2004, the accumulated loss and the loss for the financial year are as follows:

Accumulated loss -44 735 thousand kroons.

Loss for financial year 11 901 thousand kroons.

Total loss 56 636 thousand kroons.

The Managing Director of AS Klementi proposes to the General Meeting of Shareholders to allocate the net loss for 2004 in the amount of

-11 901 thousand kroons to the accumulated loss of previous periods.

Toomas Leis
Managing Director

SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE 2004 ANNUAL REPORT

The Management Board of AS Klementi has prepared the management report and the financial statements for 2004.

The Supervisory Board has reviewed the annual report consisting of the management report, the financial statements, the proposal for covering the loss for the financial year and the auditor's report prepared by the Management Board and approved it for the presentation at the General Meeting of Shareholders.

Toomas Leis


Managing Director



8.6.2005

Indrek Rahumaa

Chairman of the Supervisory Board



8.6.2005

Andres Rätsep

Member of the Supervisory Board



8.6.2005

Sven Mansberg

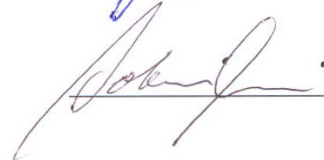
Member of the Supervisory Board



8.6.2005

Sakari Sorri

Member of the Supervisory Board



8.6.2005