

KLEMENTI



Consolidated interim report for the
4th quarter of the year 2004

GENERAL INFORMATION ON THE COMPANY

Business name:	AS Klementi
Commercial Register code:	10175491
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E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Principal activity:	design, manufacturing and sale of apparel
Form of ownership:	public limited company
Chief Executive Officer:	Toomas Leis
Chief Financial Officer:	Marianne Paas
Auditor:	PricewaterhouseCoopers

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Explanatory memorandum to interim report for the 4th quarter of 2004

AS Klementi is a company operating in Estonia in the field of design, manufacturing, retail sales and wholesale of apparel. The company has been registered and operates in Tallinn. The head office of the company is located at Akadeemia tee 33, Tallinn.

Results for twelve months of the year 2004

The unaudited consolidated net sales of the AS Klementi group in the year 2004 amounted to EEK 129.2 million (€8.3 million) and the net loss was EEK 9.8 million (€0.6 million). The sales of the previous year amounted to EEK 133.6 million (€8.5 million) and the net loss was EEK 21.6 million (€1.4 million). The sales decreased in the year 2004 by 3.3% compared to the previous year.

In comparison with the previous year, the structure of sales has changed to some extent. Apparel sales made up 79.2% of the total sales (82.2% in the year 2003). The percentage of subcontracted production in the sales structure increased by 3.4% over the year 2004 and the net sales of subcontracted production grew by EEK 3.8 million or 18%. Export sales decreased by EEK 3.3 million (€0.4 million) over the year 2004.

Retail sales accounted for 59% of apparel sales in 2004. In 2003 the share of retail sales was 37%. Compared to the previous year, the average retail sales per square metre increased by nearly 29%. As of the end of the year 2004, Klementi was using 2744 square metres of sales area (compared to 2689 square metres of retail sales area a year ago).

As the development of retail trade has been positive for AS Klementi in 2004, the primary goals for the year 2005 include continuing the expansion of the retail trade network under the PTA trademark in the Baltic States and continuous improvement of the efficiency ratios of retail trade of a calibre comparable to the year 2004.

As a result of the inappropriate positioning of apparel marketed under the PTA trademark and the unsatisfactory results of sales of the collection, wholesale in the Scandinavian countries declined by almost 30%. By now, AS Klementi has adjusted the positioning of the PTA trademark and expects higher sales of the new collections of the company in the Scandinavian countries starting from the year 2006.

Compared to the year 2003, the company's cash flow from operating activities has improved by EEK 27.8 million (€1.8 million) and external finance has decreased by more than twice.

The group employed 458 people as of 31 December 2004 (487 in the year 2003), i.e. 6% less than at the end of the year 2003.

Profit analysis

Operating profit for the year 2004 before depreciation of fixed assets amounted to EEK 4.0 million (€0.3 million) representing an increase by EEK 12.4 million (€0.8 million) when compared to the previous year. Loss decreased in 2004 by EEK 11.9 million (€0.8 million) when compared to the year 2003. In 2004, staff costs and operating expenses decreased by 15.3% and 18%, respectively, by the aggregate amount of EEK 14.5 million (€0.9 million).

The operating profit for the 4th quarter of 2004 amounted to EEK 0.05 million (€0.003 million). An accounting error representing EEK 1.3 million (€0.08 million), which was made in the recognition of semi-finished products in the first half of the year 2004, had a negative impact on the results for the 4th quarter and was corrected in the report for the 4th quarter of the year 2004.

Balance Sheet and ratios

The consolidated Balance Sheet total of AS Klementi was EEK 108.0 million (€6.9 million) as of 31 December 2004. The Balance Sheet total has decreased by EEK 14.0 million (€0.9 million) since the beginning of the year.

Trade receivables have decreased by EEK 3.8 million (€0.2 million) as of the end of the year due to the decreased wholesale to Scandinavian customers. The group's inventories totalled EEK 30.4 million (€1.9 million) as of the end of 2004. The decrease of inventories by EEK 2.9 million (€0.2 million) since the beginning of the year is related to the adjustment of the cost of semi-finished products in the 4th quarter and the active sales of inventories of the previous season. Accounts payable have decreased by EEK 0.3 million (€0.02 million) as of the end of the year. Net variation in debts amounted to EEK 4.4 million (€0.3 million) in the year 2004.

The main financial indicators and ratios that characterise the consolidated data of the AS Klementi group for the twelve months of the year 2004 are as follows:

Main financial indicators	12 months 2004	12 months 2003	Variation
Operating income, EEK thousand	133,509	135,884	-1.7%
Operating profit/loss before depreciation of fixed assets (EBITDA), EEK thousand	4010	-8346	12,356
Margin, %	3%	-6%	-
Operating loss (EBIT), EEK thousand	-3,587	-15,918	12,331
EBIT to net sales, %	-3%	-12%	-
Loss for the period, EEK thousand	-9,774	-21,641	11,867
ROA, %	-8.5%	-24.2%	-
ROE, %	-39.7%	-66.2%	-
Earnings per share (EPS), EEK	-5.15	-9.85	4.70
Increase (decrease) of sales, %	-3.3%	39.9%	-
Share of apparel sales in total sales, %	79.2%	82.3%	-
Current ratio	0.75	0.79	-
Quick ratio	0.26	0.30	-
Inventory turnover	4.06	4.01	-

The ratios were calculated as follows:

Return on assets (ROA): Net income / average total assets

Return on equity (ROE): Net income / average owners' equity

Earnings per share (EPS): net income / average number of ordinary shares

Current ratio: Current assets / current liabilities

Quick ratio: (Current assets – inventories) / current liabilities

Inventory turnover: Net sales / average inventory for the period

Toomas Leis
CEO of AS Klementi

Balance Sheet

Consolidated, unaudited

	Notes	31 December 2004 EEK thousand	31 December 2003 EEK thousand	31 December 2004 EUR thousand	31 December 2003 EUR thousand
ASSETS					
Current assets					
Cash at bank and in hand		3399	2916	217	186
Trade receivables	1	11,082	14,862	708	950
Other short-term receivables		411	1097	26	70
Prepaid expenses		1280	945	82	60
Inventories	2	30,392	33,284	1943	2127
Total current assets		46,564	53,104	2976	3393
Fixed assets					
Long-term financial investments		954	1173	61	75
Tangible assets	3	52,905	60,403	3381	3861
Intangible assets	3	7574	7306	484	467
Total fixed assets		61,433	68,882	3926	4403
TOTAL ASSETS		107,997	121,986	6902	7796
LIABILITIES AND OWNERS' EQUITY					
Current liabilities					
Debts	4	42,088	47,604	2690	3042
Prepayments received for goods and services		56	470	4	30
Trade creditors		9469	9745	605	623
Other payables		1095	782	0	50
Taxes payable		4186	3242	267	207
Accrued expenses		4970	5064	318	324
Short-term provisions		12	12	71	1
Total current liabilities		61,876	66,919	3955	4277
Long-term liabilities					
Long-term debt	4	22,953	21,283	1467	1360
Other long-term payables		3317	4204	212	269
Long-term provisions		68	68	4	4
Total long-term liabilities		26,338	25,555	1683	1633
Total liabilities		88,214	92,474	5638	5910
Owners' equity					
Share capital	5	18,969	18,969	1212	1212
Share premium account		40,294	40,294	2575	2575
Revaluation reserve		13,876	15,578	887	996
Other reserves		1046	1046	67	67
Retained earnings		-44,737	-24,798	-2859	-1585
Unrealised exchange-rate differences		109	64	7	4
Net profit for the financial year		-9774	-21,641	-625	-1383
Total owners' equity		19,783	29,512	1264	1886
TOTAL LIABILITIES AND OWNERS' EQUITY		107,997	121,986	6902	7796

Income Statement – 4th quarter

Consolidated, unaudited

	Notes	2004 4 th quarter EEK thousand	2003 4 th quarter EEK thousand	2004 4 th quarter EUR thousand	2003 4 th quarter EUR thousand
Operating revenue					
Net sales	6	24,482	27,987	1565	1789
Other operating revenue		1042	4596	66	294
Total operating revenue		25,524	32,583	1631	2083
Operating expenses					
Change in inventories		2985	-2285	191	-146
Goods, raw materials and services		4543	9219	290	589
Other operating expenses		6336	15,292	405	977
Staff costs		10,703	11,775	684	753
Other operating charges		910	492	58	31
Total operating expenses		25,477	34,493	1628	2204
EBITDA		47	-1910	3	-121
Depreciation		1878	1961	120	125
Operating profit		-1831	-3871	-117	-246
Financial income and expenses					
Interest expense		-1857	-1738	-119	-111
Gains (losses) on conversion of foreign currencies		-145	-182	-9	-12
Other financial income and expenses		0	53	0	3
Total financial income and expenses		-2002	-1867	-128	-120
Net profit (loss)		-3833	-5738	-245	-366
Earnings per share					
Basic earnings per share (EEK/EUR)	7	-2.02	-3.02	-0.13	-0.19
Diluted earnings per share (EEK/EUR)	7	-2.02	-3.02	-0.13	-0.19

Income Statement – 12 months
Consolidated, unaudited

	Notes	2004 12 months EEK thousand	2003 12 months EEK thousand	2004 12 months EUR thousand	2003 12 months EUR thousand
Operating revenue					
Net sales	6	129,208	133,630	8258	8541
Other operating revenue		4301	2254	275	144
Total operating revenue		133,509	135,884	8533	8685
Operating expenses					
Change in inventories		3757	3220	240	206
Goods, raw materials and services		49,527	50,634	3165	3236
Other operating expenses		29,102	35,504	1860	2269
Staff costs		44,650	52,720	2854	3369
Other operating charges		2463	2152	157	138
Total operating expenses		129,499	144,230	8276	9218
EBITDA		4010	-8346	257	-533
Depreciation		7597	7572	486	484
Operating loss		-3587	-15,918	-229	-1017
Financial income and expenses					
Interest expense		-5916	-5754	-379	-368
Gains (losses) on conversion of foreign currencies		-265	45	-17	3
Other financial income and expenses		-6	-14	0	-1
Total financial income and expenses		-6187	-5723	-396	-366
Net profit (loss)		-9774	-21,641	-625	-1383
Earnings per share					
Basic earnings per share (EEK/EUR)	7	-5.15	-9.85	-0.33	-0.63
Diluted earnings per share (EEK/EUR)	7	-5.15	-9.85	-0.33	-0.63

Cash Flow Statement
Consolidated, unaudited

	31 December 2004 12 months EEK thousand	31 December 2003 12 months EEK thousand	31 December 2004 12 months EUR thousand	31 December 2003 12 months EUR thousand
Cash flow from operating activities				
Net loss	-9774	-21,641	-625	-1383
Adjustments:				
Loss on long-term financial investments	0	3	0	0
Loss on write-offs of fixed assets	236	197	15	13
Depreciation of fixed assets	7597	7572	486	484
Gains on disposals of fixed assets	-1701	-105	-109	-7
Variation in receivables and prepayments relating to operations	4131	-2398	264	-153
Variation in inventories	2892	-4282	185	-274
Variation in payables and prepayments relating to operations	683	5156	44	330
Interest calculated	5967	0	381	0
Interest paid	-4400	-5911	-281	-378
Other financial income/expenses	0	-814	0	-52
Unrealised exchange-rate differences	45	64	3	4
Total cash flow from operating activities	5676	-22,159	363	-1416
Cash flow from investment activities				
Gains on sales of subsidiary's shares	0	14	0	1
Acquisition of subsidiary's shares	0	351	0	22
Acquisition of tangible assets	-5937	-3310	-379	-211
Sales of tangible assets	6829	541	437	35
Trademark payments made	-782	-300	50	-19
Loans and collateral granted	0	-136	0	-9
Repayments of loans granted	225	721	14	46
Interest received	50	63	3	4
Total cash flow from investing activities	385	-2056	25	-131
Cash flow from financing activities				
Loans received	18,700	38,000	1195	2429
Loans repaid	-21,921	-34,963	-1401	-2235
Financial lease principal repayments	-981	-1535	-63	-98
Factoring paid	-361	0	-23	0
Increase in long-term trade creditors	0	0	0	0
Overdraft received	901	6863	58	439
Overdraft paid	-1916	-900	-123	-58
Gains on share issue	0	15,181	0	970
Total cash flow from financing activities	-5578	22,646	-357	1447
Increase/decrease in cash and equivalents of cash	483	-1569	31	-100
Cash and equivalents of cash at the beginning of the period	2916	4485	186	286
Cash and equivalents of cash at the end of the period	3399	2916	217	186

Statement of changes in owners' equity

Consolidated, unaudited

EEK thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained earnings	Loss for the financial year	Total
Balance as of 31.12.2002	13,219	30,863	15,578	1046	-	7083	-31,881	35,908
Allocation of loss for 2002 to retained earnings								
Share capital issued	5750	9431	-	-	-	-31,881	31,881	-
Loss for the accounting period	-	-	-	-	-	-	-21,641	-21,641
Unrealised exchange-rate differences	-	-	-	-	64	-	-	64
Balance as of 31.12.2003	18,969	40,294	15,578	1046	64	-24,798	-21,641	29,512
Balance as of 31.12.2003	18,969	40,294	15,578	1046	64	-24,798	-21,641	29,512
Allocation of loss for 2003 to retained earnings								
Allocation of the fixed assets revaluation reserve to retained earnings	-	-	-1702	-	-	1702	-	-
Unrealised exchange-rate differences	-	-	-	-	45	-	-	45
Loss for the accounting period	-	-	-	-	-	-	-9774	-9774
Balance as of 31.12.2004	18,969	40,294	13,876	1046	109	-44,737	-9774	19,783

Statement of Changes in Owners' Equity

Consolidated, unaudited

EUR thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained earnings	Loss for the financial year	Total
Balance as of 31.12.2002	845	1973	996	67	-	453	-2038	2296
Allocation of loss for 2002 to retained earnings								
	-	-	-	-	-	-2038	2038	-
Share capital issued	367	602	-	-	-	-	-	969
Loss for the accounting period	-	-	-	-	-	-	-1383	-1383
Unrealised exchange-rate differences	-	-	-	-	4	-	-	4
Balance as of 31.12.2003	1212	2575	996	67	4	-1585	-1383	1886
Balance as of 31.12.2003	1212	2575	996	67	4	-1585	-1383	1886
Allocation of loss for 2003 to retained earnings								
	-	-	-	-	-	-1383	1383	-
Allocation of the fixed assets revaluation reserve to retained earnings	-	-	-109	-	-	109	-	-
Unrealised exchange-rate differences	-	-	-	-	3	-	-	3
Loss for the accounting period	-	-	-	-	-	-	-625	-625
Balance as of 31.12.2004	1212	2575	887	67	7	-2859	-625	1264

Accounting methods and principles of valuation used in preparing the interim report

The consolidated interim report of AS Klementi (group) for the year 2004 has been prepared in accordance with the Republic of Estonia Accounting Act and the IFRS requirements for summarised interim reports. The same accounting methods have been used in the preparation of interim reports as in the Annual Report for the financial year that ended on 31 December 2003.

This interim report indicates results in thousands of Estonian kroons and thousands of euros. The Estonian kroon is pegged to the euro at the rate of 1 EUR = 15.64664 EEK.

Consolidated financial statements contain the financial results of all the subsidiaries controlled by the parent company. In the consolidated financial statements of the group, the financial statements of the parent and its subsidiaries have been combined on a line-by-line basis. Receivables, payables, revenue, expenses, unrealised profits and losses arising from intra-group transactions have been eliminated.

The consolidated financial statements for the 4th quarter of the year 2004 reflect the financial indicators of AS Klementi (the parent company) and its subsidiaries: UAB Klementi Vilnius, Klementi Trading OY, Klementi Trading AB and SIA Vision.

The financial indicators of subsidiaries registered in foreign countries are consolidated by revaluation based on the applicable Bank of Estonia exchange rate. Upon the acquisition of a subsidiary, the parent company's holding in the subsidiary's net assets is established based on the exchange rate on the date of acquisition. The Balance Sheets of subsidiaries, translated into Estonian kroons, indicate the components of the subsidiaries' equity capital based on valuation on the date of acquisition. The income and expenses of subsidiaries are evaluated on the basis of the weighted average exchange rate. The exchange rate differences that arise from revaluation are recorded in the consolidated Balance Sheet under "Unrealised exchange-rate differences" within the owners' equity.

Foreign currency transactions are recorded at the Bank of Estonia exchange rate applicable on the date of a transaction. Currency-based monetary assets and liabilities are revaluated in the Balance Sheet using the Bank of Estonia exchange rate on the Balance Sheet date. Gains or losses arising from revaluation of foreign currency transactions are recorded in the Income Statement for the accounting period.

Subsidiaries are deemed to include companies over which the parent company has sufficient control to determine their financial and operating principles, and gain from their operations. Control requires that the parent company has a holding of more than 50%, directly or indirectly.

As of the end of the 4th quarter of 2004, AS Klementi has 100% holdings in the following subsidiaries:

- Klementi Trading OY (registered in Finland)
- UAB Klementi Vilnius (registered in Lithuania; in liquidation)
- SIA Vision (registered in Latvia)
- Klementi Trading AB (registered in Sweden)

The acquisition of subsidiaries is recorded in the Balance Sheet using the purchase method of accounting, according to which the assets and liabilities of the subsidiary acquired are measured at their fair value. The difference between the cost of acquisition of the holding and the fair value of the net assets acquired is recorded as goodwill.

Tangible assets are deemed to include assets with a useful life of over one year and a value of at least EEK 5000. Fixed assets are recorded at the acquisition cost, which comprises the purchase price, other non-recoverable duties and taxes, and expenses directly related to putting the fixed asset into use. The acquisition cost of fixed assets produced for the company's own use includes the actual production expenses.

Tangible assets are recorded in the Balance Sheet at the acquisition cost (except for land), less accumulated depreciation and any write-downs arising from decreases in the value of the assets.

Depreciation is calculated using the straight-line method. The following depreciation rates apply:

- Buildings -3-10% per annum
- Warehouse fixtures -5% per annum
- Equipment -10-20% per annum
- Means of transport -20% per annum
- Fixtures, fittings and tools -25-30% per annum
- Computing appliances -30% per annum

Depreciation of assets starts from the acquisition date; in the case of fixed assets produced for the company's own use, from the moment of their completion and putting into use.

Expenses incurred in repairs and improvement of fixed assets are, as a rule, recorded as periodic expenses. Improvements of tangible assets are capitalised if the properties of the specific assets are brought to a qualitatively new level or if it can be proved that revenue corresponding to the expenses incurred is largely to be received in future periods.

Intangible assets are recorded at the acquisition cost, which comprises the purchase price and expenses directly related to acquisition. Intangible assets are recorded in the Balance Sheet at the acquisition cost, less accumulated depreciation and any write-downs arising from decreases in the value of the assets. Amortisation is calculated using the straight-line method based on the expected useful life of the asset.

Inventories (raw material, materials, goods purchased for resale, etc.) are recorded at the acquisition cost, which comprises the purchase price, production expenses and other expenses needed to take the inventories into their current location and condition.

Inventories are valued on the basis of the lower of the acquisition cost or net realisable value. Tangible inventories are accounted for, using the method of the weighted average acquisition cost. Work in progress and finished goods are recorded at cost price comprising direct and indirect production costs.

Trade receivables are recorded at the adjusted acquisition cost. Trade receivables are recorded in the Balance Sheet based on sums likely to be received as of the Balance Sheet date. Accounts receivable the collection of which is unlikely are included in the expenses of the period under review. Accounts receivable whose collection is not possible or financially reasonable are regarded as bad debts and removed from the Balance Sheet. The company has formed a reserve for uncollectible accounts, which is presented on the row "*Less: Allowance for uncollectible accounts*" of the Balance Sheet.

Financial obligations (trade creditors, accrued expenses, other short-term and long-term debts) are initially recorded at their acquisition cost, which includes all direct expenses accompanying the acquisition. Thereafter the financial obligations are recorded pursuant to the adjusted acquisition cost method.

The adjusted acquisition cost of short-term financial obligations is generally equal to the nominal value of the financial obligations and therefore short-term financial obligations are reported in the Balance Sheet in the amounts that are subject to payment.

Debts (loans and bonds) are recorded at the value of the sum received, less transaction costs. Loans and bonds are thereafter recorded at the adjusted acquisition cost, i.e. the initial acquisition cost is adjusted by the principal repayments and cumulative depreciation of the difference between the initial acquisition cost and the redemption value. An effective interest rate, calculated by discounting future cash flow to the Balance Sheet value, is used to arrive at the adjusted acquisition cost. The amortisation of transaction costs is recorded in the Income Statement with the interest expenses.

Interest expenses are recognised on an accrual basis in the Income Statement. Accrued interests outstanding as of the Balance Sheet date are recorded in the Balance Sheet under accrued expenses.

Taxation

According to applicable law, the annual profit earned by companies is not taxed in Estonia and thus no deferred income tax assets or liabilities arise within the meaning of IAS 12 (*Income Taxes*). Income tax

is applied to dividends paid out of retained earnings at the rate of 26/74 of the sum paid out as net dividends and to other payments which by their nature constitute distribution of profits. The corporate income tax arising from the payment of dividends is accounted for in the Income Statement as an income tax expense in the period when the dividends are declared or actually paid.

Revenue recognition

Sales revenue is recorded on an accrual basis at the moment of sales.

Revenue from the sale of goods is recognised when all essential risks related to ownership have transferred to the buyer and the sales revenue and the expenses related to the transaction can be measured reliably and the accrual of the income to be received from the transaction is likely.

Revenue from the sale of services is recorded after the provision of the service or – if the service is provided during a longer period – in accordance with the stage of completion method.

Revenue arising from interest, licence fees and dividends is recorded when the receipt of the revenue is likely and the amount of the revenue can be measured reliably. Interest income is calculated on an accrual basis, unless receipt is unlikely. Revenue arising from licence fees is recorded on an accrual basis, taking into account the terms and conditions of the relevant contracts. Dividends are recognised when the right to receive payment is established.

Report forms

The Balance Sheet and Income Statement of the AS Klementi group have been prepared in compliance with the report layouts established by the Republic of Estonia Accounting Act. For improved presentation, some of the entries have been summarised; detailed information on entries is available in the notes to the interim report.

Cash flow from operating activities is presented using the indirect method. Cash flow from investing and financing activities is presented as gross receipts and disbursements during the accounting period.

According to the assessment of the Management Board, the consolidated interim report of AS Klementi for 12 months of the year 2004 presents a true and fair view of the economic results of the company in accordance with the going concern assumption. This interim report has not been audited or otherwise reviewed by auditors.

Notes to the consolidated interim report

Note no. 1 Trade receivables

	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Trade receivables	11,082	14,862	708	950
Total	11,082	14,862	708	950

During the year 2004, accounts receivable to the amount of EEK 377 thousand (€24.1 thousand) were evaluated as uncollectible accounts. Bad debts of EEK 305 thousand (€19.5 thousand) were written off the Balance Sheet in 2004.

Note no. 2 Inventories

	31 December 2004	31 December 2003	31 December 2004	31 December 2003
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Raw materials	9138	5175	584	330
Work in progress	4932	4011	315	257
Finished goods	13,313	17,507	851	1119
Goods for resale	2938	6553	188	419
Prepayments to suppliers	71	38	5	2
Total	30,392	33,284	1943	2127

During the year 2004, inventories were written down by an amount of EEK 258 thousand (€16.5 thousand) and written off by an amount of EEK 167 thousand (€10.7 thousand).

Note no. 3 Tangible and intangible assets

	Tangible assets EEK thousand	Intangible assets EEK thousand	Tangible assets EUR thousand	Intangible assets EUR thousand
<u>Acquisition cost</u>				
As of 31.12.2002	85,757	9654	5481	617
Acquisition	3194	2301	204	147
Sales and write-offs (-)	-633	0	-40	0
Reclassification of fixed assets	-371	370	-24	24
As of 31.12.2003	87,947	12,325	5621	788
As of 31.12.2003	87,947	12,325	5621	788
Acquisition	2618	86	167	5
Sales and write-offs (-)	-12,212	-2127	-781	-136
Construction-in-progress	949	1469	61	94
As of 31.12.2004	79,302	11,753	5068	751
<u>Accumulated depreciation</u>				
As of 31.12.2002	21,108	3883	1349	248
Depreciation	6436	1136	411	73
Depreciation of fixed assets sold and written off (-)		0		0
Reclassification of the depreciation of fixed assets				
As of 31.12.2003	27,544	5019	1760	321

As of 31.12.2003	27,544	5019	1760	321
Depreciation	6319	1278	404	82
Depreciation of fixed assets sold and written off (-)	-7466	-2118	-477	-136
As of 31.12.2004	26,397	4179	1687	267

Net carrying amount

As of 31.12.2003	60,403	7306	3861	467
As of 31.12.2004	52,905	7574	3381	484

Sales of registered immovables

In July and August 2004, registered immovables at Akadeemia tee 33B (store building) and Kadaka tee 179B (auxiliary production building) were sold for EEK 5450 thousand (€348 thousand). With the proceeds of the sales transactions, loan obligations to AS Hansapank and AS Eesti Ühispank were reduced by EEK 975 thousand (€62 thousand) and EEK 3802 thousand (€243 thousand), respectively.

Construction-in-progress

An investment of EEK 1469 thousand in the acquisition and implementation of finance software, and expenses amounting to EEK 949 thousand related to the construction of the Avenue showroom and the reconstruction of the factory outlet have been disclosed as construction-in-progress.

Note no. 4 Short-term and long-term debts

The group had the following debts as of 31 December 2004:

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Guaranteed debts						
Overdraft from Eesti Ühispank	9022	-	577	-	7%	30.06.2005
Overdraft from Hansapank	6394	-	409	-	7.75%	30.06.2005
Loan from Hansapank	3190	11,430	204	731	EURIBOR+5%	15.07.2009
Loan from Eesti Ühispank	4912	-	314	-	6%	30.06.2005
Loan from Hansapank	11,525	-	736	-	7%	30.06.2005
Convertible bonds – PTA Group bankruptcy estate	1200	-	77	-	5%	31.12.2005
Non-guaranteed debts						
Financial lease liabilities	3058	485	195	31	Average 8.6%	2003-2007
Factoring	867	505	55	32	7%	31.07.2006
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.2005
Loan from Alta Holding OÜ	1120	-	72	-	0%	31.12.2005
Loan from Alta Capital AS	-	10,533	-	673	Weighted average 12.8%	31.01.2006
Total	42,088	22,953	2690	1467		

The group had the following debts as of 31 December 2003:

	Short-term EEK thousand	Long-term EEK thousand	Short-term EUR thousand	Long-term EUR thousand	Interest rate	Due
Guaranteed debts						
Overdraft from Eesti Ühispank	9167	-	586	-	8.5%	15.05.2004
Overdraft from Hansapank	7265	-	464	-	7.75%	15.05.2004
Loan from Hansapank	3190	14,620	204	934	EURIBOR+5%	15.07.2009

Loan from Eesti Ühispank	10,000	-	639	-	6%	15.05.2004
Loan from Hansapank	17,000	-	1086	-	7%	30.05.2004
Convertible bonds – PTA Group bankruptcy estate	-	1200	-	77	5%	31.12.2005
Non-guaranteed debts						
Financial lease liabilities	982	3543	63	226	Average 8.6%	2003-2007
Loan from PTA bankruptcy estate	-	800	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	1120	-	72	0%	31.12.2005
Total	47,604	21,283	3042	1360		

Loan collateral

Loan collateral was altered in connection with the sales of registered immovables. The long-term loan and the overdraft from Hansapank are secured by a mortgage of the first ranking established on the administrative building and production building to the amount of EEK 26,200 thousand (€1674 thousand), a combined mortgage to the amount of EEK 13,000 thousand (€831 thousand), a commercial pledge contract of the second ranking to the amount of EEK 15,000 thousand (€959 thousand) and a commercial pledge contract of the third ranking to the amount of EEK 27,000 thousand (€1726 thousand).

The long-term loan from AS Eesti Ühispank is secured by a combined mortgage of the second ranking established on the registered immovables of the administrative building and production building to the amount of EEK 7000 thousand (€447 thousand) and a commercial pledge contract of the first ranking to the amount of EEK 23,000 thousand (€1470 thousand).

As of 31 December 2004, the residual value of the fixed assets pledged as security for obligations amounted to EEK 31,852 thousand (€2035 thousand).

Factoring

AS Hansa Liising Eesti, Columbus IT Partner Eesti and AS Klementi have entered into a factoring contract for purchase and implementation of finance software.

Note no. 5 Owners' equity

a) Shares

The share capital of AS Klementi amounts to EEK 18,969 thousand (€1212 thousand) and is divided into 1,896,875 shares with a nominal value of EEK 10 (€0.64) each. All the shares of AS Klementi are Class A registered shares. Each Class A share grants its holder one vote at the general meeting of shareholders. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. According to the Articles of Association, the maximum share capital of AS Klementi is EEK 52,000 thousand (€3323 thousand) and the minimum share capital is EEK 13,000 thousand (€831 thousand).

AS Klementi had 507 shareholders as of 31 December 2004.

The shareholders of AS Klementi with a holding exceeding 1% as of 31 December 2004:

Name	Number of shares	Shareholding
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 Balti Kasvufond	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 Pensionifond 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%

b) Reserves

The following have been recorded as reserves:

- The legal reserve prescribed by the Commercial Code, which may be used to cover losses by a resolution of the general meeting of shareholders, unless the losses cannot be covered from available owners' equity, as well as to increase the share capital.
- Issue premium – the difference between the price and nominal value of the shares issued.

Revaluation reserve

In 2004, the fixed assets revaluation reserve was reduced by reducing the retained loss in an amount of EEK 1,702,535 (€109,000).

c) Information about shares

The shares of AS Klementi are listed on the main list of the HEX Tallinn Stock Exchange.

During the year 2004, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 32.08 (€2.05) and EEK 27.38 (€1.75), respectively. The average price of the share was EEK 29.44 (€1.87).

Note no. 6 Net sales

The consolidated net sales of AS Klementi for twelve months of the year 2004 amounted to EEK 129,208 thousand (€8258 thousand), including exports amounting to EEK 75,561 thousand (€4829 thousand) or 58.5%, while the net sales for twelve months of the year 2003 amounted to EEK 133,630 thousand (€8541 thousand), including exports amounting to EEK 81,905 thousand (€5234 thousand) or 61.3%, broken down as follows:

	2004 12 months EEK thousand	2003 12 months EEK thousand	2004 12 months EUR thousand	2003 12 months EUR thousand
Sales				
Apparel sales	102,394	109,922	6544	7025
Subcontracting and services	24,862	21,076	1589	1347
Sales of materials	607	1700	39	109
Other sales	1345	932	86	60
Total sales	129,208	133,630	8258	8541
Incl. Exports				
Apparel sales	53,716	63,876	3433	4082
Subcontracting and services	20,710	17,428	1324	1114
Sales of materials	835	601	53	38
Other sales	300	-	19	-
Total exports	75,561	81,905	4829	5234
<i>Percentage of exports</i>	<i>58.5%</i>	<i>61.3%</i>	<i>58.5%</i>	<i>61.3%</i>

The main export destinations were as follows:

Country	2004	2003	2004	2003
	12 months EEK thousand	12 months EEK thousand	12 months EUR thousand	12 months EUR thousand
Finland	34,795	42,487	2224	2715
Sweden	13,028	21,547	832	1377
Lithuania	3019	7408	193	473
Latvia	20,844	9844	1332	629
Other	3875	619	248	40
Total	75,561	81,905	4829	5234

Note no. 7 Net earnings per share (EPS)

Basic and diluted earnings per share for the 4th quarter were as follows:

	2004 4 th quarter	2003 4 th quarter
Number of shares on 1 October, thousand pieces	1897	1322
Issued shares as of 13 June 2003, thousand pieces	-	575
Number of shares on 31 December, thousand pieces	1897	1897
Weighted average number of ordinary shares, thousand pieces	1897	1897
Net loss for the accounting period, EEK thousand	-3833	-5738
Net loss for the accounting period, EUR thousand	-245	-367
Basic earnings per share, EEK	-2.02	-3.02
Basic earnings per share, EUR	-0.13	-0.19
Diluted earnings per share, EEK	-2.02	-3.02
Diluted earnings per share, EUR	-0.13	-0.19

Basic and diluted earnings per share for 12 months were as follows:

	2004 12 months	2003 12 months
Number of shares on 1 January, thousand pieces	1897	1322
Issued shares as of 13 June 2003, thousand pieces	-	575
Number of shares on 31 December, thousand pieces	1897	1897
Weighted average number of ordinary shares, thousand pieces	1897	2196
Net loss for the accounting period, EEK thousand	-9774	-21,641
Net loss for the accounting period, EUR thousand	-625	-1383
Basic earnings per share, EEK	-5.15	-9.85
Basic earnings per share, EUR	-0.33	-0.63
Diluted earnings per share, EEK	-5.15	-9.85
Diluted earnings per share, EUR	-0.33	-0.63

The basic earnings per share were calculated as a ratio of net loss to the weighted average number of ordinary shares.

Convertible bonds belonging to the bankruptcy estate of the PTA Group are potential ordinary shares. The extraordinary general meeting held on 31 July 2002 resolved to reduce the number of potential ordinary shares on 12 August 2002 from 200,000 shares of par value EEK 10 (€0.64) to 50,000 shares of par value EEK 24 (€1.53).

Note no. 8 Related parties

Transactions with shareholders, subsidiaries, associated companies, members of the Management Board or Supervisory Board, their close relatives, or companies in which they have a majority holding are deemed to be transactions with related parties.

a) Remuneration of members of the Management Board and the Supervisory Board

	12 months 2004	12 months 2003	12 months 2004	12 months 2003
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Wages	525	570	34	36
Total	525	570	34	36

b) Transactions with related parties

The following transactions with related parties have been recorded for the years 2004 and 2003:

	12 months 31 December 2004	12 months 31 December 2003	12 months 31 December 2004	12 months 31 December 2003
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
1. Goods and services sold				
Shareholders				
Alta Capital AS	7	-	0	-
2. Goods and services bought				
Shareholders				
Alta Capital AS	-	373	-	24
Management Board				
Merona Holding OÜ	46		3	
3. Loans received				
Shareholders				
Alta Capital AS	11,200	2000	716	128
4. Loans repaid				
Shareholders				
Alta Capital AS	667	2000	43	128

The pricing of transactions with related parties is based on market conditions.

Note no. 9 Segments

a) Primary segment – business segment by area of activity

	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total
	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004	12 months 2004 31 December 2004
	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Non-group sales	60,737	68,471	-	129,208	3882	4376	-	8258
Inter-segment sales	-	17,120	-17,120	-	-	1094	-1094	-
Total sales	60,737	85,591	-17,120	129,208	3882	5470	-1094	8258
Operating profit/loss of segment	-4432	10,488	-	4308	-283	670	-	275
Unallocated operating charges				7895				505
Total operating loss				-3587				-230
Other financial income and expenses				6187				395
Net loss				-9774				-625
Assets and receivables	7801	86,184	-	93,985	499	5508	-	6007
Unallocated assets of the group				14,012				895
Total assets				107,997				6902
Liabilities	931	17,702	-	18,633	60	1131	-	1191
Unallocated liabilities of the group				89,364				5711
Total liabilities				107,997				6902
Tangible and intangible assets acquired	177	2441	-	2704	11	162	-	173
Depreciation and amortisation	808	6789	-	7597	52	434	-	486

	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total
	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003	12 months 2003 31 December 2003
	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Non-group sales	49,742	83,888	-	133,630	3179	5361	-	8541
Inter-segment sales	-	24,044	-24,044	-	-	1537	-1537	-
Total sales	49,742	107,932	-24,044	133,630	3179	6898	-1537	8541
Operating profit/loss of segment	-6888	1434	-	-5454	-440	92	-	-348
Unallocated operating charges				-10,464				-669
Total operating loss				-15,918				-1017
Other financial income and expenses				-5723				-366
Net loss				-21,641				-1383
Assets and receivables	20,129	76,574	-	96,703	1286	4894	-	6180
Unallocated assets of the group				25,283				1616
Total assets				121,986				7796
Liabilities	2733	20,771	-	23,504	175	1328	-	1502
Unallocated liabilities of the group				68,970				4408
Total liabilities				92,474				5910
Tangible and intangible assets acquired	2569	741	-	3310	164	47	-	212
Depreciation and amortisation	2577	4995	-	7572	165	319	-	484

b) Secondary segment – sales revenue, total assets and investments in fixed assets

	Sales revenue	Sales revenue	Assets	Assets	Investments in fixed assets	Investments in fixed assets	Sales revenue	Sales revenue	Assets	Assets	Investme nts in fixed assets	Investme nts in fixed assets
	12 months 2004	12 months 2003	31 December 2004	31 December 2003	12 months 2004	12 months 2003	12 months 2004	12 months 2003	31 Decemb er 2004	31 Decemb er 2003	12 months 2004	12 months 2003
	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EEK thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Estonia	53,647	51,725	95,697	117,436	2250	2626	3429	3307	6116	7505	144	168
Latvia	20,844	9844	1421	172	18	612	1332	629	91	11	1	39
Lithuania	3019	7408	319	19	-	-	193	473	20	1	-	-
Finland	34,795	42,487	860	924	-	-	2224	2715	55	59	-	-
Sweden	13,028	21,547	9700	3435	-	72	832	1377	620	220	-	5
Other countries	3875	619	-	-	-	-	248	40	-	-	-	-
Total	129,208	133,630	107,997	121,986	2268	3310	8258	8541	6902	7796	145	212

According to the management's estimation, the prices used in inter-segment transactions do not materially differ from market prices.

Note no. 10 Events occurring after the Balance Sheet date

On 3 January 2005, the bankruptcy estate PTA Group OY, the holder of 50,000 convertible bonds of AS Klementi, announced its wish to prematurely convert the issued bonds to the shares of AS Klementi at a ratio of 1:1.

The resolution to issue convertible bonds was adopted at the annual general meeting of AS Klementi on 24 March 2000 and the terms of the bonds were amended by a resolution of the extraordinary general meeting of AS Klementi on 28 August 2002.

The issue price of the convertible bonds was EEK 24 each and the final redemption date is 31 December 2005. The convertible bonds carried an annualised interest of 5%.

The Management Board of AS Klementi filed the application and documents for increasing the share capital with the Commercial Register on 3 February 2005. As a result of the transaction, 50,000 new Class A shares of Klementi will be issued with a nominal value of EEK 10 each and an issue premium of EEK 14 per share. Thus, the share capital of AS Klementi will be increased by EEK 0.5 million.